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 March 31, 2020

OR

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

For the transition period from ______ to

Commission file number: 001-39085

HBT Financial, Inc.

(Exact name of registrant as specified in its charter)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	HBT	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of April 30, 2020, there were 27,457,306 shares outstanding of the registrant's common stock, $0.01 par value.

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

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2020	December 31, 2019
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 34,782	$ 22,112
Interest-bearing deposits with banks	230,654	261,859
Cash and cash equivalents	265,436	283,971
Interest-bearing time deposits with banks	—	248
Debt securities available-for-sale, at fair value	615,565	592,404
Debt securities held-to-maturity (fair value of $83,564 in 2020 and $90,529 in 2019)	79,741	88,477
Equity securities	4,759	4,389
Restricted stock, at cost	2,425	2,425
Loans held for sale	4,805	4,531
Loans, net of allowance for loan losses of $26,087 in 2020 and $22,299 in 2019	2,106,865	2,141,527
Bank premises and equipment, net	54,135	53,987
Bank premises held for sale	121	121
Foreclosed assets	4,469	5,099
Goodwill	23,620	23,620
Core deposit intangible assets, net	3,713	4,030
Mortgage servicing rights, at fair value	6,347	8,518
Investments in unconsolidated subsidiaries	1,165	1,165
Accrued interest receivable	12,096	13,951
Other assets	27,847	16,640
Total assets	$ 3,213,109	$ 3,245,103
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 676,341	$ 689,116
Interest-bearing	2,053,962	2,087,739
Total deposits	2,730,303	2,776,855
Securities sold under agreements to repurchase	40,811	44,433
Subordinated debentures	37,599	37,583
Other liabilities	64,583	53,314
Total liabilities	2,873,296	2,912,185
COMMITMENTS AND CONTINGENCIES (Notes 7 and 17)		
Stockholders' Equity		
Preferred stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value; 125,000,000 shares authorized; 27,457,306 shares issued and outstanding	275	275
Surplus	190,591	190,524
Retained earnings	136,378	134,287
Accumulated other comprehensive income	12,569	7,832
Total stockholders' equity	339,813	332,918
Total liabilities and stockholders' equity	$ 3,213,109	$ 3,245,103

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(dollars in thousands, except per share amounts)	
INTEREST AND DIVIDEND INCOME		
Loans, including fees:		
Taxable	$ 26,941	$ 30,063
Federally tax exempt	674	710
Securities:		
Taxable	3,334	3,922
Federally tax exempt	1,028	1,552
Interest-bearing deposits in bank	729	687
Other interest and dividend income	14	15
Total interest and dividend income	32,720	36,949
INTEREST EXPENSE		
Deposits	1,595	1,983
Securities sold under agreements to repurchase	20	14
Borrowings	—	3
Subordinated debentures	443	497
Total interest expense	2,058	2,497
Net interest income	30,662	34,452
PROVISION FOR LOAN LOSSES	4,355	776
Net interest income after provision for loan losses	26,307	33,676
NONINTEREST INCOME		
Card income	1,792	1,832
Service charges on deposit accounts	1,834	1,763
Wealth management fees	1,814	1,747
Mortgage servicing	724	729
Mortgage servicing rights fair value adjustment	(2,171)	(1,002)
Gains on sale of mortgage loans	536	525
Gains (losses) on securities	(52)	79
Gains (losses) on foreclosed assets	35	(17)
Gains (losses) on other assets	(3)	905
Title insurance activity	—	129
Other noninterest income	743	797
Total noninterest income	5,252	7,487
NONINTEREST EXPENSE		
Salaries	12,754	12,522
Employee benefits	2,434	1,244
Occupancy of bank premises	1,828	1,837
Furniture and equipment	603	789
Data processing	1,586	1,162
Marketing and customer relations	1,044	933
Amortization of intangible assets	317	376
FDIC insurance	36	219
Loan collection and servicing	348	742
Foreclosed assets	89	164
Other noninterest expense	2,268	2,224
Total noninterest expense	23,307	22,212
INCOME BEFORE INCOME TAX EXPENSE	8,252	18,951
INCOME TAX EXPENSE	2,031	215
NET INCOME	$ 6,221	$ 18,736
EARNINGS PER SHARE - BASIC	$ 0.23	$ 1.04
EARNINGS PER SHARE - DILUTED	$ 0.23	$ 1.04
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	27,457,306	18,027,512
UNAUDITED PRO FORMA C CORP EQUIVALENT INFORMATION (Note 1)		
Historical income before income tax expense		$ 18,951
Pro forma C Corp equivalent income tax expense		4,915
Pro forma C Corp equivalent net income		$ 14,036
PRO FORMA C CORP EQUIVALENT EARNINGS PER SHARE - BASIC		$ 0.78
PRO FORMA C CORP EQUIVALENT EARNINGS PER SHARE - DILUTED		$ 0.78

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
NET INCOME	$ 6,221	$ 18,736
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains (losses) on debt securities available-for-sale	7,602	5,656
Reclassification adjustment for accretion of net unrealized gain on debt securities transferred to held-to-maturity	(9)	(82)
Unrealized losses on derivative instruments	(970)	(244)
Reclassification adjustment for net settlements on derivative instruments	2	(30)
Total other comprehensive income (loss), before tax	6,625	5,300
Income tax expense	1,888	—
Total other comprehensive income (loss)	4,737	5,300
TOTAL COMPREHENSIVE INCOME	$ 10,958	$ 24,036

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		
	Voting	Series A	Surplus	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	(dollars in thousands, except per share data)						
Balance, December 31, 2019	$ 275	$ —	$ 190,524	$ 134,287	$ 7,832	$ —	$ 332,918
Net income	—	—	—	6,221	—	—	6,221
Other comprehensive income	—	—	—	—	4,737	—	4,737
Stock-based compensation	—	—	67	—	—	—	67
Cash dividends ($0.15 per share)	—	—	—	(4,130)	—	—	(4,130)
Balance, March 31, 2020	$ 275	$ —	$ 190,591	$ 136,378	$ 12,569	$ —	$ 339,813
Balance, December 31, 2018	$ 3	$ 178	$ 32,288	$ 315,234	$ (4,288)	$ (3,019)	$ 340,396
Net income	—	—	—	18,736	—	—	18,736
Other comprehensive income	—	—	—	—	5,300	—	5,300
Cash dividends ($1.99 per share)	—	—	—	(35,839)	—	—	(35,839)
Balance, March 31, 2019	$ 3	$ 178	$ 32,288	$ 298,131	$ 1,012	$ (3,019)	$ 328,593

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,221	$ 18,736
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	690	703
Provision for loan losses	4,355	776
Net amortization of debt securities	790	932
Amortization of unrealized gain on dedesignated cash flow hedge	(32)	—
Deferred income tax benefit	(678)	—
Stock-based compensation	67	—
Net accretion of discount and deferred loan fees on loans	(922)	(1,699)
Net unrealized loss (gain) on equity securities	52	(79)
Net loss (gain) on sales of bank premises and equipment	3	(30)
Net gain on sales of bank premises held for sale	—	(79)
Net gain on sales of foreclosed assets	(75)	(89)
Write-down of foreclosed assets	47	125
Amortization of intangibles	317	376
Decrease in mortgage servicing rights	2,171	1,002
Amortization of subordinated debt purchase accounting adjustment	16	16
Mortgage loans originated for sale	(32,156)	(21,780)
Proceeds from sale of mortgage loans	32,418	22,609
Net gain on sale of mortgage loans	(536)	(525)
Gain on sale of First Community Title Services, Inc.	—	(498)
Decrease in accrued interest receivable	1,855	44
Decrease in other assets	887	437
Increase in other liabilities	(2,971)	(1,302)
Net cash provided by operating activities	12,519	19,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing time deposits with banks	248	—
Proceeds from paydowns, maturities, and calls of debt securities	48,305	41,784
Purchase of securities	(56,349)	(34,149)
Net decrease (increase) in loans	31,210	(38,777)
Purchases of bank premises and equipment	(841)	(298)
Proceeds from sales of bank premises and equipment	—	176
Proceeds from sales of bank premises held for sale	—	620
Proceeds from sales of foreclosed assets	677	511
Cash received from sale of First Community Title Services, Inc.	—	114
Net cash provided by (used in) investing activities	23,250	(30,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(46,552)	25,473
Net decrease in repurchase agreements	(3,622)	(5,667)
Cash dividends paid	(4,130)	(35,839)
Net cash used in financing activities	(54,304)	(16,033)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,535)	(26,377)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	283,971	186,879
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 265,436	$ 160,502

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 2,166	$ 2,182
Cash paid for income taxes	$ 985	$ 880
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES		
Transfers of loans to foreclosed assets	$ 19	$ 1,408
Sales of foreclosed assets through loan origination	$ —	$ 269

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

NOTE 1 – ACCOUNTING POLICIES

Basis of Presentation

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

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

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

The Company qualifies as an "emerging growth company" as defined by the Jumpstart Our Business Startups Act (JOBS Act). Under the JOBS Act, emerging growth companies may also elect to delay adoption of new or revised accounting standards until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards and, therefore, the Company will not be subject to certain new or revised accounting standards as other public companies.

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported results of operations for the periods then ended.

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

Income Taxes

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

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

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

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

Unaudited Pro Forma Income Statement Information

The unaudited pro forma C Corp equivalent income tax expense information gives effect to the income tax expense had the Company been a C Corporation during the three months ended March 31, 2019. The unaudited pro forma C Corp equivalent net income information, therefore, includes an adjustment for income tax expense as if the Company had been a C Corporation during the three months ended March 31, 2019.

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

Segment Reporting

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

Goodwill

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

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

Reclassifications

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

Subsequent Events

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

Recent Accounting Pronouncements

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

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

NOTE 2 – SECURITIES

The carrying balances of the securities were as follows:

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Debt securities available-for-sale	$ 615,565	$ 592,404
Debt securities held-to-maturity	79,741	88,477
Equity securities:		
Readily determinable fair value	3,207	3,241
No readily determinable fair value	1,552	1,148
Total securities	$ 700,065	$ 685,270

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

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

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

March 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:	(dollars in thousands)			
U.S. government agency	$ 48,983	$ 2,192	$ —	$ 51,175
Municipal	164,853	3,577	(185)	168,245
Mortgage-backed:				
Agency residential	184,507	5,015	(904)	188,618
Agency commercial	128,583	4,050	(116)	132,517
Corporate	73,140	1,928	(58)	75,010
Total available-for-sale	600,066	16,762	(1,263)	615,565
Held-to-maturity:				
Municipal	32,780	1,198	—	33,978
Mortgage-backed:				
Agency residential	17,989	471	(16)	18,444
Agency commercial	28,972	2,173	(3)	31,142
Total held-to-maturity	79,741	3,842	(19)	83,564
Total debt securities	$ 679,807	$ 20,604	$ (1,282)	$ 699,129

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

As of March 31, 2020 and December 31, 2019, the Banks had debt securities with a carrying value of $286,716,000 and $284,895,000, respectively, which were pledged to secure public and trust deposits, securities sold under agreements to repurchase, and for other purposes required or permitted by law.

The Company has no direct exposure to the State of Illinois, but approximately 42% of the obligations of local municipalities portfolio consists of debt securities issued by municipalities located in Illinois as of March 31, 2020. Approximately 87% of such debt securities were general obligation issues as of March 31, 2020.

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

The amortized cost and fair value of debt securities by contractual maturity, as of March 31, 2020, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Due in 1 year or less	$ 47,084	$ 47,237	$ 750	$ 755
Due after 1 year through 5 years	93,864	95,997	17,243	17,745
Due after 5 years through 10 years	120,398	124,689	13,896	14,551
Due after 10 years	25,630	26,507	891	927
Mortgage-backed:				
Agency residential	184,507	188,618	17,989	18,444
Agency commercial	128,583	132,517	28,972	31,142
Total	$ 600,066	$ 615,565	$ 79,741	$ 83,564

There were no sales of securities were as follows during the three months ended March 31, 2020 and 2019. Gains (losses) on securities were as follows during the three months ended March 31:

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
Net realized gains (losses) on sales	$ —	$ —
Net unrealized gains (losses) on equities:		
Readily determinable fair value	(52)	79
No readily determinable fair value	—	—
Gains (losses) on securities	$ (52)	$ 79

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

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 March 31, 2020 and December 31, 2019:

	Investments in a Continuous Unrealized Loss Position					
	Less than 12 Months		12 Months or More		Total	
March 31, 2020	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Available-for-sale:			(dollars in thousands)			
Municipal	$ (185)	$ 5,049	$ —	$ —	$ (185)	$ 5,049
Mortgage-backed:						
Agency residential	(648)	34,061	(256)	8,442	(904)	42,503
Agency commercial	—	—	(116)	14,322	(116)	14,322
Corporate	(58)	6,942	—	—	(58)	6,942
Total available-for-sale	(891)	46,052	(372)	22,764	(1,263)	68,816
Held-to-maturity:						
Mortgage-backed:						
Agency residential	—	—	(16)	1,549	(16)	1,549
Agency commercial	—	—	(3)	534	(3)	534
Total held-to-maturity	—	—	(19)	2,083	(19)	2,083
Total debt securities	$ (891)	$ 46,052	$ (391)	$ 24,847	$ (1,282)	$ 70,899

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

As of March 31, 2020, there were 17 debt securities in an unrealized loss position for a period of twelve months or more, and 53 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.

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

NOTE 3 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major categories of loans are summarized as follows:

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Commercial and industrial	$ 299,266	$ 307,175
Agricultural and farmland	228,701	207,776
Commercial real estate - owner occupied	229,608	231,162
Commercial real estate - non-owner occupied	540,515	579,757
Multi-family	177,172	179,073
Construction and land development	232,311	224,887
One-to-four family residential	313,925	313,580
Municipal, consumer, and other	111,454	120,416
Loans, before allowance for loan losses	2,132,952	2,163,826
Allowance for loan losses	(26,087)	(22,299)
Loans, net of allowance for loan losses	$ 2,106,865	$ 2,141,527

The following tables detail activity in the allowance for loan losses for the three months ended March 31:

Three Months Ended March 31, 2020	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Allowance for loan losses:					(dollars in thousands)				
Balance, December 31, 2019	$ 4,441	$ 2,766	$ 1,779	$ 3,663	$ 1,024	$ 2,977	$ 2,540	$ 3,109	$ 22,299
Provision for loan losses	538	254	(97)	820	450	237	777	1,376	4,355
Charge-offs	(809)	(27)	—	(56)	—	(1)	(104)	(224)	(1,221)
Recoveries	54	—	440	5	—	10	71	74	654
Balance, March 31, 2020	$ 4,224	$ 2,993	$ 2,122	$ 4,432	$ 1,474	$ 3,223	$ 3,284	$ 4,335	$ 26,087

Three Months Ended March 31, 2019	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land	Residential Real Estate	Consumer and Other	Total
Allowance for loan losses:					(dollars in thousands)				
Balance, December 31, 2018	$ 3,748	$ 2,650	$ 2,506	$ 2,644	$ 912	$ 4,176	$ 2,782	$ 1,091	$ 20,509
Provision for loan losses	222	598	(107)	74	60	(290)	211	8	776
Charge-offs	(256)	—	(65)	—	—	—	(37)	(175)	(533)
Recoveries	48	—	19	4	—	11	111	68	261
Balance, March 31, 2019	$ 3,762	$ 3,248	$ 2,353	$ 2,722	$ 972	$ 3,897	$ 3,067	$ 992	$ 21,013

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

The following tables present the recorded investments in loans and the allowance for loan losses by category as of March 31, 2020 and December 31, 2019:

March 31, 2020	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Loan balances:				(dollars in thousands)					
Collectively evaluated for impairment	$ 287,998	$ 214,328	$ 210,206	$ 522,305	$ 175,874	$ 225,768	$ 292,250	$ 97,603	$ 2,026,332
Individually evaluated for impairment	9,122	13,303	11,171	3,367	—	3,120	11,394	13,762	65,239
Acquired with deteriorated credit quality	2,146	1,070	8,231	14,843	1,298	3,423	10,281	89	41,381
Total	$ 299,266	$ 228,701	$ 229,608	$ 540,515	$ 177,172	$ 232,311	$ 313,925	$ 111,454	$ 2,132,952
Allowance for loan losses:									
Collectively evaluated for impairment	$ 2,260	$ 2,832	$ 1,618	$ 4,354	$ 1,467	$ 2,771	$ 2,524	$ 899	$ 18,725
Individually evaluated for impairment	1,859	90	261	68	—	323	719	3,435	6,755
Acquired with deteriorated credit quality	105	71	243	10	7	129	41	1	607
Total	$ 4,224	$ 2,993	$ 2,122	$ 4,432	$ 1,474	$ 3,223	$ 3,284	$ 4,335	$ 26,087

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

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

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

March 31, 2020	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(dollars in thousands)		
With an allowance recorded:			
Commercial and industrial	$ 3,458	$ 3,458	$ 1,859
Agricultural and farmland	569	565	90
Commercial real estate - owner occupied	824	824	261
Commercial real estate - non-owner occupied	98	98	68
Multi-family	—	—	—
Construction and land development	3,014	3,014	323
One-to-four family residential	3,184	3,171	719
Municipal, consumer, and other	12,441	12,414	3,435
Total	$ 23,588	$ 23,544	$ 6,755
With no related allowance:			
Commercial and industrial	$ 5,665	$ 5,664	$ —
Agricultural and farmland	12,753	12,738	—
Commercial real estate - owner occupied	10,348	10,347	—
Commercial real estate - non-owner occupied	3,263	3,269	—
Multi-family	—	—	—
Construction and land development	107	106	—
One-to-four family residential	8,257	8,223	—
Municipal, consumer, and other	1,361	1,348	—
Total	$ 41,754	$ 41,695	$ —
Total			
Commercial and industrial	$ 9,123	$ 9,122	$ 1,859
Agricultural and farmland	13,322	13,303	90
Commercial real estate - owner occupied	11,172	11,171	261
Commercial real estate - non-owner occupied	3,361	3,367	68
Multi-family	—	—	—
Construction and land development	3,121	3,120	323
One-to-four family residential	11,441	11,394	719
Municipal, consumer, and other	13,802	13,762	3,435
Total	$ 65,342	$ 65,239	$ 6,755

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

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

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

The following table presents the average recorded investment and interest income recognized for loans individually evaluated for impairment by category of loans during the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:	(dollars in thousands)			
Commercial and industrial	$ 3,486	$ 49	$ 3,122	$ 35
Agricultural and farmland	573	4	1,733	20
Commercial real estate - owner occupied	828	11	6,450	69
Commercial real estate - non-owner occupied	99	2	103	2
Multi-family	—	—	1,359	18
Construction and land development	3,064	41	2,892	44
One-to-four family residential	3,261	27	3,034	22
Municipal, consumer, and other	12,487	83	241	2
Total	$ 23,798	$ 217	$ 18,934	$ 212
With no related allowance:				
Commercial and industrial	$ 5,941	$ 58	$ 11,251	$ 93
Agricultural and farmland	12,520	161	9,562	101
Commercial real estate - owner occupied	10,432	131	13,024	133
Commercial real estate - non-owner occupied	3,340	41	8,242	87
Multi-family	—	—	—	—
Construction and land development	324	4	123	1
One-to-four family residential	8,344	62	9,641	69
Municipal, consumer, and other	1,370	56	146	1
Total	$ 42,271	$ 513	$ 51,989	$ 485
Total				
Commercial and industrial	$ 9,427	$ 107	$ 14,373	$ 128
Agricultural and farmland	13,093	165	11,295	121
Commercial real estate - owner occupied	11,260	142	19,474	202
Commercial real estate - non-owner occupied	3,439	43	8,345	89
Multi-family	—	—	1,359	18
Construction and land development	3,388	45	3,015	45
One-to-four family residential	11,605	89	12,675	91
Municipal, consumer, and other	13,857	139	387	3
Total	$ 66,069	$ 730	$ 70,923	$ 697

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

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

March 31, 2020	Current	Accruing Interest 30 - 89 Days Past Due	Accruing Interest 90+ Days Past Due	Nonaccrual	Total Loans
	(dollars in thousands)				
Commercial and industrial	$ 295,114	$ 244	$ —	$ 3,908	$ 299,266
Agricultural and farmland	222,877	—	—	5,824	228,701
Commercial real estate - owner occupied	227,160	1,642	—	806	229,608
Commercial real estate - non-owner occupied	539,807	485	—	223	540,515
Multi-family	177,172	—	—	—	177,172
Construction and land development	232,142	—	—	169	232,311
One-to-four family residential	307,003	2,416	264	4,242	313,925
Municipal, consumer, and other	111,040	214	—	200	111,454
Total	$ 2,112,315	$ 5,001	$ 264	$ 15,372	$ 2,132,952

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

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

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

March 31, 2020	Pass	Watch	Substandard	Doubtful	Total
	(dollars in thousands)				
Commercial and industrial	$ 262,646	$ 25,831	$ 10,789	$ —	$ 299,266
Agricultural and farmland	202,195	12,409	14,097	—	228,701
Commercial real estate - owner occupied	197,131	20,884	11,593	—	229,608
Commercial real estate - non-owner occupied	490,549	48,008	1,958	—	540,515
Multi-family	175,824	1,348	—	—	177,172
Construction and land development	225,022	3,765	3,524	—	232,311
One-to-four family residential	289,942	11,406	12,577	—	313,925
Municipal, consumer, and other	97,404	293	13,757	—	111,454
Total	$ 1,940,713	$ 123,944	$ 68,295	$ —	$ 2,132,952

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

There were no troubled debt restructurings during the three months ended March 31, 2020. The following tables present the financial effect of troubled debt restructurings for the three months ended March 31, 2019:

		Recorded Investment		Charge-offs and Specific
Three Months Ended March 31, 2019	Number	Pre-Modification	Post-Modification	Reserves
		(dollars in thousands)		
Agricultural and farmland	1	$ 285	$ 285	$ 30
Total	1	$ 285	$ 285	$ 30

During the three months ended March 31, 2019, all troubled debt restructurings were the result of a payment concession.

Of the troubled debt restructurings entered into during the last 12 months, there were none which had subsequent payment defaults during the three months ended March 31, 2020 and $672,000 which had subsequent payment defaults during the three months ended March 31, 2019. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal or were on nonaccrual status subsequent to restructuring.

As of March 31, 2020 and December 31, 2019, the Company had $8,805,000 and $9,315,000 of troubled debt restructurings, respectively. Restructured loans are evaluated for impairment quarterly as part of the Company's determination of the allowance for loan losses. There were no material commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings.

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

Changes in the accretable yield for loans acquired with deteriorated credit quality were as follows for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
Beginning balance	$ 1,662	$ 2,101
Reclassification from non-accretable difference	8	136
Accretion income	(160)	(527)
Ending balance	$ 1,510	$ 1,710

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others, not included in the accompanying consolidated balance sheets, amounted to $1,127,059,000 and $1,152,535,000 as of March 31, 2020 and December 31, 2019, respectively. Activity in mortgage servicing rights is as follows for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
Beginning balance	$ 8,518	$ 10,918
Capitalized servicing rights	214	160
Fair value adjustment:		
Attributable to payments and principal reductions	(403)	(306)
Attributable to changes in valuation inputs and assumptions	(1,982)	(856)
Total fair value adjustment	(2,385)	(1,162)
Ending balance	$ 6,347	$ 9,916

NOTE 5 – FORECLOSED ASSETS

Foreclosed assets activity is as follows for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
Beginning balance	$ 5,099	$ 9,559
Transfers from loans	19	1,408
Proceeds from sales	(677)	(511)
Sales through loan origination	—	(269)
Net gain (loss) on sales	75	89
Direct write-downs	(47)	(125)
Ending balance	$ 4,469	$ 10,151

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

Gains (losses) on foreclosed assets includes the following for the three months ended March 31, 2020 and 2019.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(dollars in thousands)	
Direct write-downs	$ (47)	$ (125)
Net gain (loss) on sales	75	89
Guarantee reimbursements	7	19
Gains (losses) on foreclosed assets	$ 35	$ (17)

The carrying value of foreclosed one-to-four family residential real estate property as of March 31, 2020 and December 31, 2019, was $980,000 and $1,037,000, respectively. As of March 31, 2020, there were 8 one-to-four family residential real estate loans in the process of foreclosure totaling approximately $564,000. As of December 31, 2019, there were 10 residential real estate loans in the process of foreclosure totaling approximately $588,000.

NOTE 6 – DEPOSITS

The Company's deposits are summarized below:

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Noninterest-bearing deposits	$ 676,341	$ 689,116
Interest-bearing deposits:		
Interest-bearing demand	810,074	814,639
Money market	472,532	477,765
Savings	444,137	438,927
Time	327,219	356,408
Total interest-bearing deposits	2,053,962	2,087,739
Total deposits	$ 2,730,303	$ 2,776,855

Money market deposits include $24,510,000 and $14,309,000 of reciprocal transaction deposits as of March 31, 2020 and December 31, 2019, respectively. Time deposits include $3,679,000 and $3,538,000 of reciprocal time deposits as of March 31, 2020 and December 31, 2019, respectively.

The aggregate amounts of time deposits in denominations of $250,000 or more amounted to $28,060,000 and $44,754,000 as of March 31, 2020 and December 31, 2019, respectively. The aggregate amounts of time deposits in denominations of $100,000 or more amounted to $110,055,000 and $130,293,000 as of March 31, 2020 and December 31, 2019, respectively.

The components of interest expense on deposits for the three months ended March 31, 2020 and 2019 are as follows:

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
Interest-bearing demand	$ 251	$ 417
Money market	394	370
Savings	70	68
Time	880	1,128
Total interest expense on deposits	$ 1,595	$ 1,983

NOTE 7 – BORROWINGS

There were no Federal Home Loan Bank of Chicago (FHLB) borrowings outstanding as of March 31, 2020 and December 31, 2019. Available borrowings from the FHLB are secured by FHLB stock held by the Company and pledged security in the form of qualifying loans. The total amount of loans pledged as of March 31, 2020 and December 31, 2019 was $534,220,000 and $548,229,000, respectively. As of March 31, 2020 and December 31, 2019, loans pledged also served as collateral for credit exposure of approximately $355,000 associated with the Banks' participation in the FHLB's Mortgage Partnership Finance Program.

The Banks also have available a line of credit from the FHLB with available borrowings based on the collateral pledged. There was no outstanding balance under the line of credit as of March 31, 2020 and December 31, 2019. The line, when drawn upon, is due on demand and bears interest at a variable rate.

State Bank of Lincoln also has available a line of credit from the Federal Reserve Bank of Chicago (FRB) with available borrowings based on the collateral pledged. As of March 31, 2020 and December 31, 2019, the carrying value of debt securities pledged amounted to $531,000 and $515,000, respectively. There was no outstanding balance under the line of credit as of March 31, 2020 and December 31, 2019. The line, when drawn upon, is due on demand and bears interest at a variable rate.

NOTE 8 – SUBORDINATED DEBENTURES

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

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

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

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

The carrying value of subordinated debentures are summarized as follows:

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Heartland Bancorp, Inc. Capital Trust B	$ 10,310	$ 10,310
Heartland Bancorp, Inc. Capital Trust C	10,310	10,310
Heartland Bancorp, Inc. Capital Trust D	5,155	5,155
FFBI Capital Trust I	7,217	7,217
National Bancorp Statutory Trust I	4,607	4,591
Total	$ 37,599	$ 37,583

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

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

	Variable Interest Rate	Interest Rate at March 31, 2020	Interest Rate at December 31, 2019	Maturity Date
Heartland Bancorp, Inc. Capital Trust B	LIBOR plus 2.75 %	4.58 %	4.74 %	April 6, 2034
Heartland Bancorp, Inc. Capital Trust C	LIBOR plus 1.53	2.27	3.42	June 15, 2037
Heartland Bancorp, Inc. Capital Trust D	LIBOR plus 1.35	2.09	3.24	September 15, 2037
FFBI Capital Trust I	LIBOR plus 2.80	4.63	4.79	April 6, 2034
National Bancorp Statutory Trust I	LIBOR plus 2.90	3.64	4.79	December 31, 2037

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

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

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are negotiated contracts entered into by two issuing counterparties containing specific agreement terms, including the underlying instrument, amount, exercise price, and maturities. The derivatives accounting guidance requires that the Company recognize all derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheets. The Company utilizes 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 are reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

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

	March 31, 2020		December 31, 2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Designated as cash flow hedges:	(dollars in thousands)			
Fair value recorded in other liabilities	$ 17,000	$ (1,612)	$ 17,000	$ (676)

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

During the three months ended March 31, 2019, the Company had an interest rate swap contract with a notional amount of $10,000,000 designated as a cash flow hedge on variable-rate loans. Beginning April 1, 2019, this hedging relationship was no longer considered highly effective, and the Company discontinued hedge accounting. In accordance with hedge accounting guidance, the net unrealized gain associated with the discontinued hedging relationship, recorded within accumulated other comprehensive income, will be reclassified into earnings through April 7, 2020, the period the hedged forecasted transactions affect earnings. On June 25, 2019, the Company cancelled the interest rate swap agreement and received $174,000 to settle the financial instrument. As of March 31, 2020, the remaining unrealized gain recognized as a component of accumulated other comprehensive income was $29,000.

For the three months ended March 31, 2020 and 2019, the effect of interest rate swap agreements designated as cash flow hedges on the consolidated statements of income are summarized as follows:

Location of gross gain (loss) reclassified from accumulated other comprehensive income to income	Amounts of gross gain (loss) reclassified from accumulated other comprehensive income	
	Three Months Ended March 31,	
	2020	2019
Designated as cash flow hedges:	(dollars in thousands)	
Taxable loan interest income	$ 32	$ 30
Subordinated debentures interest expense	(34)	—
Total	$ (2)	$ 30

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

Interest Rate Swaps Not Designated as Hedging Instruments

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

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

	March 31, 2020		December 31, 2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Not designated as hedging instruments:	(dollars in thousands)			
Fair value recorded in other assets:				
Interest rate swaps with commercial borrower counterparties	$ 137,216	$ 21,946	$ 114,140	$ 8,532
Interest rate swaps with financial institution counterparty	—	—	24,216	110
Total fair value recorded in other assets	$ 137,216	$ 21,946	$ 138,356	$ 8,642
Fair value recorded in other liabilities:				
Interest rate swaps with commercial borrower counterparties	$ —	$ —	$ 24,216	$ (110)
Interest rate swaps with financial institution counterparty	137,216	(21,946)	114,140	(8,532)
Total fair value recorded in other liabilities	$ 137,216	$ (21,946)	$ 138,356	$ (8,642)

As of March 31, 2020, the interest rate swap agreements not designated as hedging instruments had contractual maturities between 2022 and 2042. As of March 31, 2020 and December 31, 2019, the Company had $10,618,000 and $8,713,000, respectively, of debt securities pledged and held in safekeeping at the financial institution counterparty.

For the three months ended March 31, 2020 and 2019, the effect of interest rate contracts not designated as hedging instruments recognized in other noninterest income on the consolidated statements of income are summarized as follows:

	Three Months Ended March 31,	
	2020	2019
Not designated as hedging instruments:	(dollars in thousands)	
Gross gains	$ 13,571	$ 1,169
Gross losses	(13,571)	(1,169)
Net gains (losses)	$ —	$ —

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

NOTE 10 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the activity and accumulated balances for components of other comprehensive income (loss) for the three months ended March 31, 2020 and 2019:

	Unrealized Gains (Losses) on Debt Securities			
	Available-for-Sale	Held-to-Maturity	Derivatives	Total
	(dollars in thousands)			
Three Months Ended March 31, 2020				
Balance, December 31, 2019	$ 8,659	$ (131)	$ (696)	$ 7,832
Other comprehensive income (loss) before reclassifications	7,602	—	(970)	6,632
Reclassifications	—	(9)	2	(7)
Other comprehensive income (loss), before tax	7,602	(9)	(968)	6,625
Income tax expense (benefit)	2,166	(2)	(276)	1,888
Other comprehensive income (loss), after tax	5,436	(7)	(692)	4,737
Balance, March 31, 2020	$ 14,095	$ (138)	$ (1,388)	$ 12,569
Three Months Ended March 31, 2019				
Balance, December 31, 2018	$ (4,561)	$ 122	$ 151	$ (4,288)
Other comprehensive income (loss) before reclassifications	5,656	—	(244)	5,412
Reclassifications	—	(82)	(30)	(112)
Other comprehensive loss	5,656	(82)	(274)	5,300
Balance, March 31, 2019	$ 1,095	$ 40	$ (123)	$ 1,012

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

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

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

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

NOTE 11 – INCOME TAXES

Effective October 11, 2019, the Company voluntarily revoked its S Corporation status and became a taxable entity (C Corporation). As such, any periods prior to October 11, 2019 will only reflect an effective state replacement tax rate. The consolidated statements of income present unaudited pro forma C Corp equivalent information for the three months ended March 31, 2019.

Allocation of income tax expense between current and deferred portions for the three months ended March 31 is as follows:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(dollars in thousands)	
Current		
Federal	$ 1,721	$ —
State	988	215
Total current	2,709	215
Deferred		
Federal	(457)	—
State	(221)	—
Total deferred	(678)	—
Income tax expense	$ 2,031	$ 215

Income tax expense differs from the statutory federal rate for the three months ended March 31 due to the following:

	2020 Amount	2020 Percentage	2019 Amount	2019 Percentage
	(dollars in thousands)			
Federal income tax, at statutory rate	$ 1,733	21.0 %	$ —	— %
Increase (decrease) resulting from:				
Federally tax exempt interest income	(357)	(4.3)	—	—
State taxes, net of federal benefit	631	7.6	215	1.1
Other	24	0.3	—	—
Income tax expense	$ 2,031	24.6 %	$ 215	1.1 %

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

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

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 7,378	$ 6,309
Compensation related	5,482	5,859
Nonaccrual interest	631	858
Foreclosed assets	74	574
Goodwill	482	531
Other	1,460	1,282
Total deferred tax assets	15,507	15,413
Deferred tax liabilities		
Fixed asset depreciation	4,146	4,201
Mortgage servicing rights	1,809	2,428
Other purchase accounting adjustments	1,327	1,356
Intangible assets	773	841
Prepaid assets	425	504
Net unrealized gain on debt securities available-for-sale	4,418	2,251
Other	413	426
Total deferred tax liabilities	13,311	12,007
Net deferred tax asset	$ 2,196	3,406

NOTE 12 – EARNINGS PER SHARE

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

Diluted earnings per share is computed using the treasury stock and reflects the potential dilution that could occur if the Company's outstanding restricted stock units were vested. At March 31, 2020, 14,880 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents. There were no restricted stock units outstanding during the three months ended March 31, 2019.

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

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

	Three Months Ended March 31, 2020	2019
	(dollars in thousands)	
Numerator:		
Net income	$ 6,221	$ 18,736
Earnings allocated to unvested restricted stock units	(15)	—
Numerator for earnings per share - basic and diluted	$ 6,206	$ 18,736
Denominator:		
Weighted average common shares outstanding	27,457,306	18,027,512
Dilutive effect of outstanding restricted stock units	—	—
Weighted average common shares outstanding, including all dilutive potential shares	27,457,306	18,027,512
Earnings per share - Basic	$ 0.23	$ 1.04
Earnings per share - Diluted	$ 0.23	$ 1.04

NOTE 13 – DEFERRED COMPENSATION

The Company maintained a supplemental executive retirement plan (the SERP) for certain key executive officers. The SERP benefit payments were scheduled to be paid in equal monthly installments over 30 years. In June 2019, the Company approved termination of the SERP agreements, and each participant will receive a lump sum payment equal to the present value of any remaining installment payments, payable in June 2020. As of March 31, 2020 and December 31, 2019, the deferred compensation liability for the SERP was $13,589,000 and $12,789,000, respectively. During the three months ended March 31, 2020 and 2019, the Company recognized deferred compensation expense for the SERP of $970,000 and $125,000, respectively.

NOTE 14 – STOCK-BASED COMPENSATION PLANS

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

The following is a summary of stock-based compensation expense (benefit) during the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020	2019
	(dollars in thousands)	
Restricted stock units	$ 67	$ —
Stock appreciation rights	(335)	(115)
Total stock-based compensation expense (benefit)	$ (268)	$ (115)

Restricted Stock Units

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

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

The following is a summary of outstanding restricted stock unit activity during the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,			
	2020		2019	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Beginning balance	—	$ —	—	$ —
Granted	73,150	19.03	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Ending balance	73,150	$ 19.03	—	$ —

A further summary of outstanding restricted stock units as of March 31, 2020, is as follows:

Range of Grant Date Fair Values	Outstanding	Weighted Average Remaining Contractual Term
$ 19.03	73,150	3.7 years

As of March 31, 2020, unrecognized compensation cost related to non-vested restricted stock units was $1,325,000.

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

Stock Appreciation Rights

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

The following is a summary of outstanding stock appreciation rights activity during the three months ended March 31, 2020 and 2019, is as follows:

	Three Months Ended March 31,			
	2020		2019	
	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value
Beginning balance	110,160	$ 16.32	91,800	$ 5.73
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Ending balance	110,160	$ 16.32	91,800	$ 5.73

A further summary of outstanding stock appreciation rights as of March 31, 2020, is as follows:

Range of Grant Date Assigned Values	Outstanding	Exercisable	Weighted Average Remaining Contractual Term
$ 16.32	110,160	79,560	9.4 years

As of March 31, 2020, unrecognized compensation cost related to non-vested stock appreciation rights was $23,000.

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

As of March 31, 2020 and December 31, 2019, the liability recorded for outstanding stock appreciation rights was $74,000 and $409,000, respectively. As of March 31, 2020 and December 31, 2019, the Company used an option pricing model to value the stock appreciation rights, using the assumptions in the following table. Expected volatility is derived from the historical volatility of the Company's stock price and a selected peer group of industry-related companies.

	March 31, 2020	December 31, 2019
Risk-free interest rate	0.67 %	1.90 %
Expected volatility	32.47 %	28.83 %
Expected life (in years)	9.4	9.7
Expected dividend yield	5.70 %	3.16 %

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

NOTE 15 – REGULATORY MATTERS

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

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

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

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

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

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

March 31, 2020	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 363,205	15.03 %	$ 193,326	8.00 %	N/A	N/A
Heartland Bank	322,026	14.54	177,196	8.00	$ 221,495	10.00 %
State Bank of Lincoln	35,356	17.74	15,944	8.00	19,930	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 337,118	13.95 %	$ 144,995	6.00 %	N/A	N/A
Heartland Bank	298,547	13.48	132,897	6.00	$ 177,196	8.00 %
State Bank of Lincoln	32,863	16.49	11,958	6.00	15,944	8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 300,684	12.44 %	$ 108,746	4.50 %	N/A	N/A
Heartland Bank	298,547	13.48	99,673	4.50	$ 143,972	6.50 %
State Bank of Lincoln	32,863	16.49	8,969	4.50	12,955	6.50
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 337,118	10.70 %	$ 125,991	4.00 %	N/A	N/A
Heartland Bank	298,547	10.55	113,149	4.00	$ 141,436	5.00 %
State Bank of Lincoln	32,863	10.32	12,735	4.00	15,919	5.00

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

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

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Additional information on fair value measurements are summarized in Note 1 to the Company's annual consolidated financial statements included in the Annual Report on Form 10-K filed with the SEC on March 27, 2020. There were no transfers between levels during the three months ended March 31, 2020 and 2019. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

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

The following tables present the balances of the assets measured at fair value on a recurring basis as of March 31, 2020 and December 31, 2019:

March 31, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Debt securities available-for-sale:				
U.S. government agency	$ —	$ 51,175	$ —	$ 51,175
Municipal	—	168,245	—	168,245
Mortgage-backed:				
Agency residential	—	188,618	—	188,618
Agency commercial	—	132,517	—	132,517
Corporate	—	75,010	—	75,010
Equity securities with readily determinable fair values	3,207	—	—	3,207
Mortgage servicing rights	—	—	6,347	6,347
Derivative financial assets	—	21,946	—	21,946
Derivative financial liabilities	—	23,558	—	23,558

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

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

Investment Securities

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

Derivative Financial Instruments

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

Mortgage Servicing Rights

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

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

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

March 31, 2020	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 6,347	Discounted cash flows	Constant pre-payment rates (CPR)	7.0% to 59.1% (15.7%)
			Discount rate	9.0% to 11.0% (9.0%)

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

Nonrecurring Basis

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

The following tables present the balances of the assets measured at fair value on a nonrecurring basis as of March 31, 2020 and December 31, 2019:

March 31, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Loans held for sale	$ —	$ 4,805	$ —	$ 4,805
Collateral-dependent impaired loans	—	—	16,789	16,789
Bank premises held for sale	—	—	121	121
Foreclosed assets	—	—	4,469	4,469

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

Loans Held for Sale

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

Collateral-Dependent Impaired Loans

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

Bank Premises Held for Sale

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

Foreclosed Assets

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

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

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

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

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

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

March 31, 2020	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 16,789	Appraisal of collateral	Appraisal adjustments	Not meaningful
Bank premises held for sale	121	Appraisal	Appraisal adjustments	7% (7%)
Foreclosed assets	4,469	Appraisal	Appraisal adjustments	7% (7%)

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

Other Fair Value Methods

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

Cash and Cash Equivalents

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

Interest-bearing Time Deposits with Banks

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

Restricted Stock

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

Loans

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

Investments in Unconsolidated Subsidiaries

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

Time Deposits

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

Securities Sold Under Agreements to Repurchase

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

Subordinated Debentures

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Limitations

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

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

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

The following table provides summary information on the carrying amounts and estimated fair values of the Company's financial instruments as of March 31, 2020 and December 31, 2019:

	Fair Value Hierarchy Level	March 31, 2020 Carrying Amount	March 31, 2020 Estimated Fair Value	December 31, 2019 Carrying Amount	December 31, 2019 Estimated Fair Value
		(dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 265,436	$ 265,436	$ 283,971	$ 283,971
Interest-bearing time deposits with banks	Level 1	—	—	248	248
Debt securities held-to-maturity	Level 2	79,741	83,564	88,477	90,529
Restricted stock	Level 3	2,425	2,425	2,425	2,425
Loans, net	Level 3	2,106,865	2,134,424	2,141,527	2,181,103
Investments in unconsolidated subsidiaries	Level 3	1,165	1,165	1,165	1,165
Accrued interest receivable	Level 2	12,096	12,096	13,951	13,951
Financial liabilities:					
Time deposits	Level 3	327,219	328,587	356,408	355,340
Securities sold under agreements to repurchase	Level 2	40,811	40,811	44,433	44,433
Subordinated debentures	Level 3	37,599	31,431	37,583	31,959
Accrued interest payable	Level 2	1,024	1,024	1,132	1,132

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Financial Instruments

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

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

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

Such commitments and conditional obligations were as follows as of March 31, 2020 and December 31, 2019:

	Contractual Amount	
	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Commitments to extend credit	$ 502,244	$ 542,705
Standby letters of credit	9,474	8,991

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

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

Legal Contingencies

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

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

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

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

OVERVIEW

HBT Financial, Inc. is headquartered in Bloomington, Illinois and is the holding company for Heartland Bank and State Bank of Lincoln. The Banks provide a comprehensive suite of business, commercial, wealth management and retail banking products and services to individuals, businesses, and municipal entities throughout Central and Northeastern Illinois through 64 branches. As of March 31, 2020, the Company had total assets of $3.2 billion, total loans held for investment of $2.1 billion, total deposits of $2.7 billion and stockholders' equity of $340 million. HBT Financial, Inc. is a longstanding Central Illinois company, with banking roots that can be traced back 100 years.

Market Area

We currently operate 61 full-service and three limited-service branch locations across 18 counties in Central and Northeastern Illinois. We hold a leading deposit share in many of our markets in Central Illinois, which we define as a top three deposit share rank, providing the foundation for our strong deposit base. The stability provided by this low-cost funding is a key driver of our strong track record of financial performance.

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

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Loans, before allowance for loan losses		
Bloomington-Normal	$ 508,101	$ 552,787
Champaign-Urbana	210,254	209,317
Chicago	1,038,953	1,020,524
Lincoln	113,484	107,162
Ottawa-Peru	97,631	103,665
Peoria	164,529	170,371
Loans, before allowance for loan losses	$ 2,132,952	$ 2,163,826
Total deposits		
Bloomington-Normal	$ 692,635	$ 694,519
Champaign-Urbana	149,284	152,108
Chicago	916,405	911,916
Lincoln	172,070	194,784
Ottawa-Peru	298,047	290,138
Peoria	501,862	533,390
Total deposits	$ 2,730,303	$ 2,776,855

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

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Conditions

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

COVID-19 Response and Impact Overview

The COVID-19 pandemic has presented significant health and economic disruption throughout the U.S. and the communities we serve. We have taken a number of steps to support our employees and customers while maintaining the health and safety of all involved, including, but not limited to:

- Enabling work from home for many employees and social distancing employees who need to report to the office;
- Maintaining regular business hours at branches for drive-up services and the call center to serve customers;
- Limiting branch lobby service to appointment only with only four out of 64 branch locations closed temporarily;
- Offering loan payment modifications to customers experiencing financial hardship due to COVID-19;
- Waiving or refunding overdraft and ATM fees, as well as time deposit early withdrawal penalties, to customers experiencing financial hardship due to COVID-19;
- Participating in the Small Business Administration’s (SBA) Paycheck Protection Program (PPP) with $147.2 million of PPP loans for 1,225 businesses in our communities approved and funded subsequent to March 31, 2020 through April 30, 2020.

While the COVID-19 pandemic has not materially impacted our operations as of March 31, 2020, it has caused significant economic disruption throughout the United States as state and local governments issued “shelter at home” orders along with the closing of non-essential businesses. While the length, duration and ultimate impact of these actions are unknown at this time, if these actions are sustained, they may adversely impact the businesses we serve and impair the ability of our customers to fulfill their contractual obligations to us. This could adversely affect our asset valuations, financial condition, liquidity and results of operations, and the impacts may be material. Adverse impacts of the COVID-19 pandemic to our results of operations may include, but are not limited to:

- Decrease in net interest income and net interest margin, as a result of the lower interest rate environment;
- Increase in provision for loan losses due to increased net charge-offs and deterioration in the loan portfolio’s credit quality, as a result of the economic slow-down caused by the COVID-19 pandemic;
- Decrease in debit and credit card interchange income, as a result of a lower level of consumer activity and lower associated volume of debit and credit card transactions;
- Decrease in service charge income on deposit accounts, such as overdraft fees, as a result of an increase in waived or refunded fees and federal economic stimulus payments received by customers;
- Decrease in wealth management fees, as a result of decreases in values of assets held under management or administration;
- Increase in loan servicing, collection, and other administrative costs, as a result of loan modifications granted to customers experiencing financial hardship due to COVID-19 or an increase in the level of non-performing assets; and
- Decrease in demand for loans, as a result of the economic slow-down caused by the COVID-19 pandemic.

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

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

Interest Rates

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

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the Federal Reserve Board's actions. The yields generated by our loans and securities are typically driven by short-term and long-term interest rates, which are set by the market and, to some degree, by the Federal Reserve Board's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. During 2019, overall market interest rates started to decline. The Federal Open Markets Committee lowered Federal Funds target rates for the first time in 11 years on July 31, 2019 and then again in September 2019 and October 2019, for a combined decrease of 75 basis points during 2019. In March 2020, the Federal Open Markets Committee lowered Federal Funds target rates twice, for a combined decrease of 150 basis points in response to recent economic downturn related to the COVID-19 pandemic. We expect these rate cuts, and potential future decreases in interest rates and increases in nonperforming loans as a result of the recent economic downturn related to the COVID-19 pandemic, to continue to put downward pressure on our net interest margin. In general, we believe that rate increases will lead to improved net interest margins while rate decreases will result in lower net interest margins.

Credit Trends

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

Competition

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

Regulatory Environment / Trends

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

FACTORS AFFECTING COMPARABILITY OF FINANCIAL RESULTS

S Corp Status

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

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

The following table illustrates the impact of being taxed as a C Corporation for the three months ended March 31, 2019:

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands, except per share amounts)	
As Reported		
Income before income tax expense	$ 8,252	$ 18,951
Income tax expense	2,031	215
Net income	$ 6,221	$ 18,736
Earnings per share - Basic	$ 0.23	$ 1.04
Earnings per share - Diluted	$ 0.23	$ 1.04
Effective tax rate	24.6 %	1.1 %
Unaudited Pro Forma C Corp Equivalent		
Historical income before income tax expense	N/A	$ 18,951
C Corp equivalent income tax expense	N/A	4,915
C Corp equivalent net income	N/A	$ 14,036
C Corp equivalent earnings per share - Basic	N/A	$ 0.78
C Corp equivalent earnings per share - Diluted	N/A	$ 0.78
Effective tax rate	N/A	25.9 %

N/A Not applicable.

The C Corp equivalent effective rate reflects a federal income tax rate of 21% and state income tax rate of 9.5% for the three months ended March 31, 2019.

Public Company Costs

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

RESULTS OF OPERATIONS

Overview of Recent Financial Results

The following table presents selected financial results and measures for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020	2019
	(dollars in thousands, except per share amounts)	
Statement of Income Information		
Total interest and dividend income	$ 32,720	$ 36,949
Total interest expense	2,058	2,497
Net interest income	30,662	34,452
Provision for loan losses	4,355	776
Net income after provision for loan losses	26,307	33,676
Total noninterest income	5,252	7,487
Total noninterest expense	23,307	22,212
Income before income tax expense	8,252	18,951
Income tax expense	2,031	215
Net income	$ 6,221	$ 18,736
C Corp equivalent net income [(1)]	N/A	$ 14,036
Adjusted net income [(2)]	$ 8,379	14,359
Net interest income (tax-equivalent basis) [(2)]	$ 31,125	$ 35,062
Share and Per Share Information		
Earnings per share - Diluted	$ 0.23	$ 1.04
C Corp equivalent earnings per share - Diluted [(1)]	N/A	0.78
Adjusted earnings per share - Diluted [(2)]	0.30	0.80
Weighted average number shares of common stock outstanding	27,457,306	18,027,512
Summary Ratios		
Net interest margin *	4.00 %	4.44 %
Net interest margin (tax-equivalent basis) * [(2)]	4.06	4.52
Yield on loans *	5.16	5.69
Yield on interest-earning assets *	4.27	4.76
Cost of interest-bearing liabilities *	0.39	0.45
Cost of total deposits *	0.23	0.29
Efficiency ratio	64.01 %	52.07 %
Efficiency ratio (tax-equivalent basis) [(2)]	63.20	51.32
Return on average assets *	0.78 %	2.32 %
Return on average stockholders' equity *	7.29	21.59
Return on average tangible common equity * [(2)]	7.92	23.55
C Corp equivalent return on average assets * [(1)]	N/A	1.74 %
C Corp equivalent return on average stockholders' equity * [(1)]	N/A	16.17
C Corp equivalent return on average tangible common equity * [(1) (2)]	N/A	17.64
Adjusted return on average assets * [(2)]	1.05 %	1.78 %
Adjusted return on average stockholders' equity * [(2)]	9.81	16.54
Adjusted return on average tangible common equity * [(2)]	10.67	18.05

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

Comparison of the Three Months Ended March 31, 2020 to the Three Months Ended March 31, 2019

For the three months ended March 31, 2020, net income was $6.2 million decreasing by $12.5 million, or 66.8%, when compared to net income for the three months ended March 31, 2019, or a decrease of $7.8 million, or 55.7%, when compared to C Corp equivalent net income for the three months ended March 31, 2019. Net income declined primarily due to lower net interest income, higher provision for loan losses, and a larger negative mortgage servicing rights adjustment. Net interest income declined by $3.8 million, primarily as a result of a lower interest rate environment. Provision for loan losses increased by $3.6 million, primarily due to the economic weakness resulting from the COVID-19 pandemic. The $1.2 million larger decline in the mortgage servicing rights fair value adjustment was primarily attributable to faster expected prepayment rates within the serviced loan portfolio as a result of increased refinance activity driven by the low interest rate environment. Also contributing to lower earnings were a charge of $0.8 million associated with the termination of the supplemental executive retirement plan (SERP) included in the employee benefits expense, and net earnings from First Community Title Services, Inc. and HBT Insurance of $0.6 million, including gains on sales, which were sold during the three months ended March 31, 2019.

Net Interest Income

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

The following tables sets forth average balances, average yields and costs, and certain other information for the three months ended March 31, 2020 and 2019. Average balances are daily average balances. Nonaccrual loans are included in the computation of average balances but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and costs, discounts and premiums, as well as purchase accounting adjustments that are accreted or amortized to interest income or expense.

	Three Months Ended					
	March 31, 2020			March 31, 2019		
	Average Balance	Interest	Yield/Cost *	Average Balance	Interest	Yield/Cost *
	(dollars in thousands)					
ASSETS						
Loans	$ 2,141,031	$ 27,615	5.16 %	$ 2,164,330	$ 30,773	5.69 %
Securities	668,572	4,362	2.61	806,504	5,474	2.71
Deposits with banks	251,058	729	1.16	131,663	687	2.09
Other	2,425	14	2.37	2,719	15	2.24
Total interest-earning assets	3,063,086	$ 32,720	4.27 %	3,105,216	$ 36,949	4.76 %
Allowance for loan losses	(22,474)			(20,441)		
Noninterest-earning assets	148,131			148,518		
Total assets	$ 3,188,743			$ 3,233,293		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest-bearing deposits:						
Interest-bearing demand	$ 811,866	$ 251	0.12 %	$ 826,456	$ 417	0.20 %
Money market	464,124	394	0.34	442,520	370	0.33
Savings	434,276	70	0.06	424,986	68	0.06
Time	341,770	880	1.03	432,877	1,128	1.04
Total interest-bearing deposits	2,052,036	1,595	0.31	2,126,839	1,983	0.37
Securities sold under agreements to repurchase	41,968	20	0.19	42,089	14	0.13
Borrowings	221	—	0.52	557	3	2.56
Subordinated debentures	37,589	443	4.72	37,528	497	5.30
Total interest-bearing liabilities	2,131,814	$ 2,058	0.39 %	2,207,013	$ 2,497	0.45 %
Noninterest-bearing deposits	670,714			650,630		
Noninterest-bearing liabilities	44,696			28,493		
Total liabilities	2,847,224			2,886,136		
Stockholders' Equity	341,519			347,157		
Total liabilities and stockholders' equity	$ 3,188,743			3,233,293		
Net interest income/Net interest margin [3]		$ 30,662	4.00 %		$ 34,452	4.44 %
Tax-equivalent adjustment [2]		463	0.06		610	0.08
Net interest income (tax-equivalent basis)/ Net interest margin (tax-equivalent basis) [1] [2]		$ 31,125	4.06 %		$ 35,062	4.52 %
Net interest rate spread [4]			3.88 %			4.31 %
Net interest-earning assets [5]	$ 931,272			$ 898,203		
Ratio of interest-earning assets to interest-bearing liabilities	1.44			1.41		
Cost of total deposits			0.23 %			0.29 %

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

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

	Three Months Ended March 31,			
	2020		2019	
	Interest	Yield Contribution *	Interest	Yield Contribution *
	(dollars in thousands)			
Contractual interest	$ 26,022	4.86 %	$ 28,581	5.28 %
Loan fees	1,164	0.22	799	0.15
Accretion of acquired loan discounts	397	0.07	1,363	0.25
Net cash flow hedge earnings	32	0.01	30	0.01
Total loan interest income	$ 27,615	5.16 %	$ 30,773	5.69 %

* Annualized measure.

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

	Three Months Ended March 31,			
	2020		2019	
	Interest	Net Interest Margin Contribution *	Interest	Net Interest Margin Contribution *
	(dollars in thousands)			
Interest income:				
Contractual interest on loans	$ 26,022	3.40 %	$ 28,581	3.68 %
Contractual interest on securities	5,151	0.67	6,406	0.82
Contractual interest on deposits with banks	729	0.09	687	0.09
Loan fees	1,164	0.15	799	0.10
Accretion of loan discounts	397	0.05	1,363	0.18
Securities amortization, net	(790)	(0.10)	(932)	(0.12)
Other	47	0.01	45	0.01
Total interest income	32,720	4.27	36,949	4.76
Interest expense:				
Contractual interest on deposits	1,588	0.21	2,001	0.26
Contractual interest on other interest-bearing liabilities	413	0.05	498	0.06
Other	57	0.01	(2)	—
Total interest expense	2,058	0.27	2,497	0.32
Net interest income	30,662	4.00	34,452	4.44
Tax equivalent adjustment (1)	463	0.06	610	0.08
Net interest income (tax equivalent) (1) (2)	$ 31,125	4.06 %	$ 35,062	4.52 %

* Annualized measure.
(1) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.
(2) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Rate/Volume Analysis

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

	Three Months Ended March 31, 2020 vs. Three Months Ended March 31, 2019		
	Increase (Decrease) Due to		
	Volume	Rate	Total
	(dollars in thousands)		
Interest-earning assets:			
Loans	$ (328)	$ (2,830)	$ (3,158)
Securities	(913)	(199)	(1,112)
Deposits with banks	437	(395)	42
Other	(2)	1	(1)
Total interest-earning assets	(806)	(3,423)	(4,229)
Interest-earning liabilities:			
Interest-bearing deposits:			
Interest-bearing demand	(7)	(159)	(166)
Money market	19	5	24
Savings	1	1	2
Time	(235)	(13)	(248)
Total interest-bearing deposits	(222)	(166)	(388)
Securities sold under agreements to repurchase	—	6	6
Borrowings	(1)	(2)	(3)
Subordinated debentures	1	(55)	(54)
Total interest-bearing liabilities	(222)	(217)	(439)
Change in net interest income	$ (584)	$ (3,206)	$ (3,790)

Comparison of the Three Months Ended March 31, 2020 to the Three Months Ended March 31, 2019

Net interest income for the three months ended March 31, 2020 decreased $3.8 million, or 11.0%, to $30.7 million from $34.5 million for the three months ended March 31, 2019. The decrease is primarily attributable to declines in benchmark interest rates, which drove lower yields on interest-earning assets, and a lower level of interest-earning assets. Partially offsetting these declines were a lower average balance in time deposits and a lower cost of interest-bearing demand deposits. Net interest margin decreased as well to 4.00% for the three months ended March 31, 2020 compared to 4.44% for the three months ended March 31, 2019. The contribution of acquired loan discount accretion to net interest income declined to $0.4 million or 5 basis points of the net interest margin, for the three months ended March 31, 2020 from $1.4 million or 18 basis points of the net interest margin, for the three months ended March 31, 2019.

The quarterly net interest margins were as follows:

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

During 2019, overall market interest rates started to decline. The Federal Open Markets Committee lowered Federal Funds target rates for the first time in 11 years on July 31, 2019 and then again in September 2019 and October 2019, for a combined decrease of 75 basis points during 2019. In March 2020, the Federal Open Markets Committee lowered Federal Funds target rates twice, for a combined decrease of 150 basis points in response to recent economic downturn related to the COVID-19 pandemic. We expect these rate cuts, and potential future decreases in interest rates and increases in nonperforming loans as a result of the recent economic downturn related to the COVID-19 pandemic, to continue to put downward pressure on our net interest margin. In general, we believe that rate increases will lead to improved net interest margins while rate decreases will result in lower net interest margins.

Provision for Loan Losses

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

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

Comparison of the Three Months Ended March 31, 2020 to the Three Months Ended March 31, 2019

The provision for loan losses was $4.4 million and $0.8 million for the three months ended March 31, 2020 and 2019, respectively. The increase in provision for loan losses was primarily due to $3.3 million reserve build related to adjustments to qualitative factors to reflect the economic weakness resulting from the COVID-19 pandemic. The remaining $1.1 million of the provision was primarily due to a $1.3 million increase in a specific reserve related to one credit offset by a decrease in specific reserves related to several other credits.

Noninterest Income

The following table outlines the amount of and changes to the various noninterest income line items as of the dates indicated.

	Three Months Ended March 31,		
	2020	2019	$ Change
	(dollars in thousands)		
Card income	$ 1,792	$ 1,832	$ (40)
Service charges on deposit accounts	1,834	1,763	71
Wealth management fees	1,814	1,747	67
Mortgage servicing	724	729	(5)
Mortgage servicing rights fair value adjustment	(2,171)	(1,002)	(1,169)
Gains on sale of mortgage loans	536	525	11
Gains (losses) on securities	(52)	79	(131)
Gains (losses) on foreclosed assets	35	(17)	52
Gains (losses) on other assets	(3)	905	(908)
Title insurance activity	—	129	(129)
Other noninterest income	743	797	(54)
Total noninterest income	$ 5,252	$ 7,487	$ (2,235)

Comparison of the Three Months Ended March 31, 2020 to the Three Months Ended March 31, 2019

Total noninterest income for the three months ended March 31, 2020 decreased by $2.2 million, or 29.9%, to $5.3 million from $7.5 million for the three months ended March 31, 2019. The decrease is primarily attributable to a $1.2 million larger negative mortgage servicing rights fair value adjustment and nonrecurring gains on sales of First Community Title Services, Inc. and HBT Insurance of $0.8 million during the three months ended March 31, 2019. Partially offsetting these decreases were higher service charges on deposit accounts and higher wealth management fees.

Noninterest Expense

The following table outlines the amount of and changes to the various noninterest expense line items as of the dates indicated.

	Three Months Ended March 31,		
	2020	2019	$ Change
	(dollars in thousands)		
Salaries	$ 12,754	$ 12,522	$ 232
Employee benefits	2,434	1,244	1,190
Occupancy of bank premises	1,828	1,837	(9)
Furniture and equipment	603	789	(186)
Data processing	1,586	1,162	424
Marketing and customer relations	1,044	933	111
Amortization of intangible assets	317	376	(59)
FDIC insurance	36	219	(183)
Loan collection and servicing	348	742	(394)
Foreclosed assets	89	164	(75)
Other noninterest expense	2,268	2,224	44
Total noninterest expense	$ 23,307	$ 22,212	$ 1,095

Comparison of the Three Months Ended March 31, 2020 to the Three Months Ended March 31, 2019

Total noninterest expense for the three months ended March 31, 2020 increased by $1.1 million, or 4.9%, to $23.3 million from $22.2 million for the three months ended March 31, 2019. The increase is primarily due to higher employee benefits expense driven by a $0.8 million charge during the three months ended March 31, 2020 related to the termination of the SERP. The SERP liability varies inversely with interest rates and is payable in June 2020. In addition, an increase in medical benefit expenses were partially offset by a decrease in the cash-settled stock appreciation rights (SAR) liability due primarily to changes in the Company's stock price. The employee benefits expense related to the cash-settled SAR liability resulted in a benefit of $0.3 million and a benefit of $0.1 million during the three months ended March 31, 2020 and 2019, respectively.

Routine salary increases were offset by a reduction in employee count as a result of the sale of First Community Title Services, Inc. and HBT Insurance during the first quarter of 2019. Salaries and employee benefits expenses for First Community Title Services, Inc. and HBT Insurance was $0.3 million for the three months ended March 31, 2019. There was no salaries and employee benefits expenses for First Community Title Services, Inc. or HBT Insurance during the three months ended March 31, 2020. The decrease in FDIC insurance expense was due in part to the impact of the application of small bank assessment credits during the three months ended March 31, 2020. We expect that the small bank assessment credits were fully utilized as of March 31, 2020.

Income Taxes

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

We recorded income tax expense of $2.0 million, or 24.6% effective tax rate, during the three months ended March 31, 2020 compared to $0.2 million, or 1.1% effective tax rate, on a historical basis and $4.9 million, or 25.9% effective tax rate, on a C Corp equivalent basis during the three months ended March 31, 2019. The effective income tax rate was lower than the combined federal and state statutory rate of approximately 28.5% primarily due to tax exempt interest income. Relative to the C Corp equivalent effective tax rate, the effective income tax rate decreased primarily due to tax exempt interest income making up a larger portion of pre-tax net income during the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

FINANCIAL CONDITION

	March 31, 2020	December 31, 2019	$ Change	% Change
	(dollars in thousands, except per share amounts)			
Balance Sheet Information				
Cash and cash equivalents	$ 265,436	$ 283,971	$(18,535)	(6.5)%
Securities available-for-sale, at fair value	615,565	592,404	23,161	3.9
Securities held-to-maturity	79,741	88,477	(8,736)	(9.9)
Equity securities	4,759	4,389	370	8.4
Loans held for sale	4,805	4,531	274	6.0
Loans, before allowance for loan losses	2,132,952	2,163,826	(30,874)	(1.4)
Less: allowance for loan losses	26,087	22,299	3,788	17.0
Loans, net of allowance for loan losses	2,106,865	2,141,527	(34,662)	(1.6)
Goodwill	23,620	23,620	—	—
Core deposit intangible assets, net	3,713	4,030	(317)	(7.9)
Other assets	108,605	102,154	6,451	6.3
Total Assets	$ 3,213,109	$ 3,245,103	(31,994)	(1.0)
Total deposits	$ 2,730,303	$ 2,776,855	$(46,552)	(1.7)%
Securities sold under agreements to repurchase	40,811	44,433	(3,622)	(8.2)
Subordinated debentures	37,599	37,583	16	—
Other liabilities	64,583	53,314	11,269	21.1
Total Liabilities	2,873,296	2,912,185	(38,889)	(1.3)
Total Stockholders' Equity	339,813	332,918	6,895	2.1
Total Liabilities and Stockholders' Equity	$ 3,213,109	$ 3,245,103	(31,994)	(1.0)
Tangible assets (1)	$ 3,185,776	$ 3,217,453	$(31,677)	(1.0)%
Tangible common equity (1)	312,480	305,268	7,212	2.4
Core deposits (1)	$ 2,702,243	$ 2,732,101	$(29,858)	(1.1)%
Share and Per Share Information				
Book value per share	$ 12.38	$ 12.12		
Tangible book value per share (1)	11.38	11.12		
Ending number shares of common stock outstanding	27,457,306	27,457,306		
Balance Sheet Ratios				
Loan to deposit ratio	78.12 %	77.92 %		
Core deposits to total deposits (1)	98.97	98.39		
Stockholders' equity to total assets	10.58	10.26		
Tangible common equity to tangible assets (1)	9.81	9.49		

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

Total assets were $3.21 billion at March 31, 2020, a decrease of $32.0 million, or 1.0%, from December 31, 2019, which was primarily a result of a decline in total deposits. The asset mix remained almost unchanged with decreases in loans and cash and cash equivalents partially offset by an increase in debt securities, primarily due to purchases exceeding proceeds from paydowns, maturities, and calls and a $7.6 million increase in the fair value of debt securities available-for-sale.

Total deposits were $2.73 billion at March 31, 2020, a decrease of $46.6 million, or 1.7%, from December 31, 2019. This decrease is primarily due to expected outflows from a small number of retail deposit accounts that had increased by $40.2 million in the fourth quarter 2019.

Core deposits to total deposits remained very high at 99.0% at March 31, 2020 compared to 98.4% at December 31, 2019, as we managed our deposit portfolio to retain higher value core deposit relationships and maintain the lowest practicable cost of funds. The loan to deposit ratio was 78.1% at March 31, 2020, increasing from 77.9% at December 31, 2019.

Loan Portfolio

The Company focuses on originating loans with appropriate risk / reward profiles. The Company has a detailed loan policy that guides the overall loan origination philosophy and a well-established loan approval process that requires experienced credit officers to approve larger loan relationships. The Company also has an active Credit Department that underwrites and prepares annual reviews for larger and more complex loan relationships.

Management monitors credit quality closely with a series of monthly reports and a quarterly Credit Committee meeting where performance and trends within the loan portfolio are reviewed. Portfolio diversification at the borrower, industry, and product levels is actively managed to mitigate concentration risk. In addition, credit risk management 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.

Loans by Type

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

	March 31, 2020		December 31, 2019	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Commercial and industrial	$ 299,266	14.0 %	$ 307,175	14.2 %
Agricultural and farmland	228,701	10.7	207,776	9.6
Commercial real estate - owner occupied	229,608	10.8	231,162	10.7
Commercial real estate - non-owner occupied	540,515	25.4	579,757	26.8
Multi-family	177,172	8.3	179,073	8.3
Construction and land development	232,311	10.9	224,887	10.4
One-to-four family residential	313,925	14.7	313,580	14.5
Municipal, consumer, and other	111,454	5.2	120,416	5.5
Loans, before allowance for loan losses	2,132,952	100.0 %	2,163,826	100.0 %
Allowance for loan losses	(26,087)		(22,299)	
Loans, net of allowance for loan losses	$2,106,865		$2,141,527	
Loans, before allowance for loan losses (originated) (1)	$1,982,067	92.9 %	$1,998,496	92.4 %
Loans, before allowance for loan losses (acquired) (1)	150,885	7.1	165,330	7.6
Loans, before allowance for loan losses	$2,132,952	100.0 %	$2,163,826	100.0 %

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

Loans, before allowance for loan losses decreased by $30.9 million, or 1.4%, to $2.13 billion as of March 31, 2020 from $2.16 billion as of December 31, 2019. The decline was primarily due to a $39.2 million reduction in CRE – non-owner occupied balances, a $9.0 million decline in municipal, consumer and other loans, and a $7.9 million reduction in commercial and industrial balances. Partially offsetting these declines was a $20.9 million increase in agricultural and farmland loans, primarily due to the addition of a new senior lender in one of our markets at the beginning of the year, and a $7.4 million increase in construction and land development loans

Loan Portfolio Maturities

The following table summarizes the scheduled maturities of the loan portfolio as of March 31, 2020. Demand loans (loans having no stated repayment schedule or maturity) and overdraft loans are reported as being due in one year or less.

	As of March 31, 2020			
	One Year or Less	One Year Through Five Years	After Five Years	Total
	(dollars in thousands)			
Scheduled Maturities of Loans:				
Commercial and industrial	$ 199,864	$ 71,888	$ 27,514	$ 299,266
Agricultural and farmland	118,199	84,853	25,649	228,701
Commercial real estate - owner occupied	36,966	128,185	64,457	229,608
Commercial real estate - non-owner occupied	79,052	357,950	103,513	540,515
Multi-family	15,868	122,815	38,489	177,172
Construction and land development	141,331	87,024	3,956	232,311
One-to-four family residential	75,348	107,031	131,546	313,925
Municipal, consumer, and other	19,846	24,892	66,716	111,454
Total	$ 686,474	$ 984,638	$ 461,840	$ 2,132,952
Loans Maturing After One Year:				
Floating interest rates:				
Repricing within one year or less				$ 383,158
Repricing in more than one year				104,095
Total floating interest rates				487,253
Predetermined (fixed) interest rates				959,225
Total loans maturing after one year				$ 1,446,478

Nonperforming Assets

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

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

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

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
NONPERFORMING ASSETS		
Nonaccrual	$ 15,372	$ 19,019
Past due 90 days or more, still accruing [(1)]	—	30
Total nonperforming loans	15,372	19,049
Foreclosed assets	4,469	5,099
Total nonperforming assets	$ 19,841	$ 24,148
NONPERFORMING ASSETS (Originated) [(2)]		
Nonaccrual	$ 10,041	$ 10,811
Past due 90 days or more, still accruing	—	30
Total nonperforming loans (originated)	10,041	10,841
Foreclosed assets	965	1,022
Total nonperforming (originated)	$ 11,006	$ 11,863
NONPERFORMING ASSETS (Acquired) [(2)]		
Nonaccrual	$ 5,331	$ 8,208
Past due 90 days or more, still accruing [(1)]	—	—
Total nonperforming loans (acquired)	5,331	8,208
Foreclosed assets	3,504	4,077
Total nonperforming assets (acquired)	$ 8,835	$ 12,285
Allowance for loan losses	$ 26,087	$ 22,299
Loans, before allowance for loan losses	$ 2,132,952	$ 2,163,826
Loans, before allowance for loan losses (originated) [(2)]	1,982,067	1,998,496
Loans, before allowance for loan losses (acquired) [(2)]	150,885	165,330
CREDIT QUALITY RATIOS		
Allowance for loan losses to loans, before allowance for loan losses	1.22 %	1.03 %
Allowance for loan losses to nonperforming loans	169.70	117.06
Nonperforming loans to loans, before allowance for loan losses	0.72	0.88
Nonperforming assets to total assets	0.62	0.74
Nonperforming assets to loans, before allowance for loan losses and foreclosed assets	0.93	1.11
CREDIT QUALITY RATIOS (Originated) [(2)]		
Nonperforming loans to loans, before allowance for loan losses	0.51 %	0.54 %
Nonperforming assets to loans, before allowance for loan losses and foreclosed assets	0.56	0.59
CREDIT QUALITY RATIOS (Acquired) [(2)]		
Nonperforming loans to loans, before allowance for loan losses	3.53 %	4.96 %
Nonperforming assets to loans, before allowance for loan losses and foreclosed assets	5.72	7.25

(1) Excludes loans acquired with deteriorated credit quality that are past due 90 or more days totaling $0.3 million and $0.1 million as of March 31, 2020 and December 31, 2019, respectively.
(2) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Total nonperforming assets decreased by $4.3 million, or 17.8%, to $19.8 million as of March 31, 2020 from $24.1 million as of December 31, 2019. The decline in nonperforming loans was primarily attributable to payoffs and paydowns.

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.

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Commercial and industrial	$ 363	$ 867
Agricultural and farmland	—	—
Commercial real estate - owner occupied	5,667	5,746
Commercial real estate - non-owner occupied	1,409	1,427
Multi-family	—	—
Construction and land development	—	—
One-to-four family residential	556	517
Municipal, consumer, and other	—	—
Total accrual troubled debt restructurings	7,995	8,557
Commercial and industrial	233	135
Agricultural and farmland	283	283
Commercial real estate - owner occupied	149	149
Commercial real estate - non-owner occupied	—	—
Multi-family	—	—
Construction and land development	—	—
One-to-four family residential	145	191
Municipal, consumer, and other	—	—
Total nonaccrual troubled debt restructurings	810	758
Total troubled debt restructurings	$ 8,805	$ 9,315

TDRs have remained a small portion of our loan portfolio as loan modifications to borrowers with deteriorating financial condition are generally offered only as part of an overall workout strategy to minimize losses to the Company. The $0.5 million reduction in TDRs balances from December 31, 2019 to March 31, 2020 is primarily due to the payoff of one $0.4 million TDR.

Payment Modifications Related to COVID-19

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

	Cumulative Through April 30, 2020		Cumulative Through March 31, 2020	
	Number	Balance	Number	Balance
	(dollars in thousands)			
Commercial and industrial	84	$ 26,366	55	$ 21,529
Agricultural and farmland	6	3,621	1	143
Commercial real estate - owner occupied	72	50,849	43	35,179
Commercial real estate - non-owner occupied	108	131,446	48	64,822
Multi-family	24	26,344	8	2,981
Construction and land development	8	5,320	2	612
One-to-four family residential	120	14,225	29	3,806
Municipal, consumer, and other	16	347	5	69
Total	438	$ 258,518	191	$ 129,141
Secondary market one-to-four family residential	146	$ 18,031	47	$ 6,758

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 watch, substandard, doubtful, or loss.

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

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

An asset classified as doubtful has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted; such balances are promptly charged-off as required by applicable federal regulations.

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

March 31, 2020	Pass	Watch	Substandard	Doubtful	Total
			(dollars in thousands)		
Commercial and industrial	$ 262,646	$ 25,831	$ 10,789	$ —	$ 299,266
Agricultural and farmland	202,195	12,409	14,097	—	228,701
Commercial real estate - owner occupied	197,131	20,884	11,593	—	229,608
Commercial real estate - non-owner occupied	490,549	48,008	1,958	—	540,515
Multi-family	175,824	1,348	—	—	177,172
Construction and land development	225,022	3,765	3,524	—	232,311
One-to-four family residential	289,942	11,406	12,577	—	313,925
Municipal, consumer, and other	97,404	293	13,757	—	111,454
Total	$ 1,940,713	$ 123,944	$ 68,295	$ —	$ 2,132,952

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

Net Charge-offs and Recoveries

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(dollars in thousands)	
Balance, beginning of period	$ 22,299	$ 20,509
Charge-offs:		
Commercial and industrial	(809)	(256)
Agricultural and farmland	(27)	—
Commercial real estate - owner occupied	—	(65)
Commercial real estate - non-owner occupied	(56)	—
Multi-family	—	—
Construction and land development	(1)	—
One-to-four family residential	(104)	(37)
Municipal, consumer, and other	(224)	(175)
Total charge-offs	(1,221)	(533)
Recoveries:		
Commercial and industrial	54	48
Agricultural and farmland	—	—
Commercial real estate - owner occupied	440	19
Commercial real estate - non-owner occupied	5	4
Multi-family	—	—
Construction and land development	10	11
One-to-four family residential	71	111
Municipal, consumer, and other	74	68
Total recoveries	654	261
Net charge-offs	(567)	(272)
Provision for loan losses	4,355	776
Balance, end of period	$ 26,087	$ 21,013
Net charge-offs	$ 567	$ 272
Net charge-offs - (originated) [1]	172	196
Net charge-offs - (acquired) [1]	395	76
Average loans, before allowance for loan losses	$ 2,141,031	$ 2,164,330
Average loans, before allowance for loan losses (originated) [1]	1,984,066	1,946,035
Average loans, before allowance for loan losses (acquired) [1]	156,965	218,295
Net charge-offs to average loans, before allowance for loan losses *	0.11 %	0.05 %
Net charge-offs to average loans, before allowance for loan losses (originated) * [1]	0.03	0.04
Net charge-offs to average loans, before allowance for loan losses (acquired) * [1]	1.01	0.14

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

Net charge-offs to average total loans before allowance for loan losses have remained low during each of the three months ended March 31, 2020 and 2019. This ratio has remained low for several years, due primarily to the favorable economic conditions prior to the economic weakness resulting from the COVID-19 pandemic and our continuous credit monitoring and collection efforts.

Allocation of Allowance for Loan Losses

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

	March 31, 2020		December 31, 2019	
	Allowance for Loan Losses	Loan Balances	Allowance for Loan Losses	Loan Balances
	(dollars in thousands)			
Commercial and industrial	$ 4,224	$ 299,266	$ 4,441	$ 307,175
Agricultural and farmland	2,993	228,701	2,766	207,776
Commercial real estate - owner occupied	2,122	229,608	1,779	231,162
Commercial real estate - non-owner occupied	4,432	540,515	3,663	579,757
Multi-family	1,474	177,172	1,024	179,073
Construction and land development	3,223	232,311	2,977	224,887
One-to-four family residential	3,284	313,925	2,540	313,580
Municipal, consumer, and other	4,335	111,454	3,109	120,416
Total	$ 26,087	$ 2,132,952	$ 22,299	$ 2,163,826

Securities

The Company's investment policy is established by management and approved by the board of directors. The policy emphasizes safety of the investment, liquidity requirements, potential returns, cash flow targets and consistency with our interest rate risk management strategy. As of March 31, 2020, the Company did not have any non-U.S. Treasury or non-U.S. government agency debt securities that exceeded 10% of the Company's total stockholders' equity.

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

	March 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Available-for-sale:				
U.S. government agency	$ 48,983	$ 51,175	$ 49,113	$ 49,615
Municipal	164,853	168,245	131,241	133,738
Mortgage-backed:				
Agency residential	184,507	188,618	198,184	200,678
Agency commercial	128,583	132,517	133,730	134,954
Corporate	73,140	75,010	72,239	73,419
Total available-for-sale	600,066	615,565	584,507	592,404
Held-to-maturity:				
Municipal	32,780	33,978	45,239	46,579
Mortgage-backed:				
Agency residential	17,989	18,444	19,072	19,063
Agency commercial	28,972	31,142	24,166	24,887
Total held-to-maturity	79,741	83,564	88,477	90,529
Total debt securities	$ 679,807	$ 699,129	$ 672,984	$ 682,933

We evaluate securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired. There were no other-than-temporary impairments during the three months ended March 31, 2020 and 2019.

Portfolio Maturities and Yields

The composition and maturities of the debt securities portfolio as of March 31, 2020 are summarized in the following tables. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Security yields have not been adjusted to a tax-equivalent basis.

	March 31, 2020									
	One Year or Less		More Than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(dollars in thousands)									
Available-for-sale:										
U.S. government agency	$ —	— %	$ 4,553	2.20 %	$ 44,430	2.51 %	$ —	— %	$ 48,983	2.48 %
Municipal	29,235	2.55	54,491	2.62	55,497	2.39	25,630	2.43	164,853	2.50
Mortgage-backed:										
Agency residential	4	3.90	4,706	2.27	79,276	2.40	100,521	2.13	184,507	2.25
Agency commercial	7,249	2.20	63,354	2.57	19,939	2.56	38,041	2.73	128,583	2.59
Corporate	17,849	2.74	34,820	2.84	20,471	4.88	—	—	73,140	3.39
Total available-for-sale	54,337	2.57	161,924	2.62	219,613	2.66	164,192	2.32	600,066	2.55
Held-to-maturity:										
Municipal	750	2.34	17,243	3.29	13,896	3.61	891	3.76	32,780	3.42
Mortgage-backed:										
Agency residential	—	—	—	—	—	—	17,989	2.32	17,989	2.32
Agency commercial	—	—	5,386	2.51	12,224	2.89	11,362	2.87	28,972	2.81
Total held-to-maturity	750	2.34	22,629	3.11	26,120	3.27	30,242	2.57	79,741	2.95
Total debt securities	$ 55,087	2.56 %	$ 184,553	2.68 %	$ 245,733	2.73 %	$ 194,434	2.36 %	$ 679,807	2.60 %

Deposits

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

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

	Three Months Ended March 31,						Percent Change in Average Balance
	2020			2019			
	Average Balance	Percent of Total Deposits	Weighted Average Cost *	Average Balance	Percent of Total Deposits	Weighted Average Cost *	
	(dollars in thousands)						
Noninterest-bearing	$ 670,714	24.6 %	— %	$ 650,630	23.4 %	— %	3.1 %
Interest-bearing demand	811,866	29.8	0.12	826,456	29.8	0.20	(1.8)
Money market	464,124	17.0	0.34	442,520	15.9	0.33	4.9
Savings	434,276	16.0	0.06	424,986	15.3	0.06	2.2
Total non-maturity deposits	2,380,980	87.4	0.12	2,344,592	84.4	0.15	1.6
Time	341,770	12.6	1.03	432,877	15.6	1.04	(21.0)
Total deposits	$ 2,722,750	100.0 %	0.23 %	$ 2,777,469	100.0 %	0.29 %	(2.0)%

* Annualized measure.

The average balances of non-maturity deposits increased 1.6% from the three months ended March 31, 2019 to the three months ended March 31, 2020, with the increase primarily attributable to increases in the money market and noninterest-bearing categories. Offsetting the increase in non-maturity deposits was a 21.0% decline in the average balances of time deposits, which resulted in a 2.0% decline in average balances of total deposits from the three months ended March 31, 2019 to the three months ended March 31, 2020.

The following table sets forth time deposits by remaining maturity as of March 31, 2020.

	3 Months or Less	Over 3 through 6 Months	Over 6 through 12 Months	Over 12 Months	Total
	(dollars in thousands)				
Time deposits:					
Amounts less than $100,000	$ 49,131	$ 40,025	$ 64,962	$ 63,046	$ 217,164
Amounts of $100,000 but less than $250,000	17,049	16,302	23,825	24,819	81,995
Amounts of $250,000 or more	5,212	6,149	12,125	4,574	28,060
Total time deposits	$ 71,392	$ 62,476	$ 100,912	$ 92,439	$ 327,219

IMPACT OF INFLATION

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

LIQUIDITY

Bank Liquidity

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

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

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

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

As of March 31, 2020, management believed adequate liquidity existed to meet all projected cash flow obligations of the Banks. As of March 31, 2020, the Banks had no material commitments for capital expenditures.

Holding Company Liquidity

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

Due to state banking laws, neither Bank may declare dividends in any calendar year in an amount that would exceed the accumulated retained earnings of such Bank after giving effect to any unrecognized losses and bad debts without the prior approval of the Illinois Department of Financial and Professional Regulation. In addition, dividends paid by a Bank to the Company would be prohibited if the effect thereof would cause a Bank's capital to be reduced below applicable minimum capital requirements. During the three months ended March 31, 2020 and 2019, the Banks paid $4.4 million and $37.4 million, in dividends to the Company, respectively.

The liquidity needs of the Company on an unconsolidated basis consist primarily of operating expenses, dividends to stockholders and interest payments on the subordinated debentures. During the three months ended March 31, 2020 and 2019, holding company operating expenses consisted of interest expense of $0.4 million and $0.5 million, respectively, and other operating expenses of $0.5 million and $0.3 million, respectively, respectively. As of March 31, 2020, management was not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material impact on the Company's liquidity.

As of March 31, 2020, the Company had no material commitments for capital expenditures. As of March 31, 2020, management believed adequate liquidity existed to meet all projected cash flow obligations of the Company.

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.

The actual and required capital amounts and ratios of the Company (on a consolidated basis) and the Banks are listed below. Management believed that, as of March 31, 2020 and December 31, 2019, the Company and the Banks met all capital adequacy requirements to which we were subject. As of those dates, the Banks were "well capitalized" under regulatory prompt corrective action provisions. For additional information, see "Note 15 – Regulatory Matters" to the consolidated financial statements.

The following table presents the capital ratios of the Company (on a consolidated basis) and the Banks as well as the minimum ratios to be well capitalized under regulatory prompt corrective action provisions.

	March 31, 2020	December 31, 2019	To Be Well Capitalized Under Prompt Corrective Action Provisions
Total Capital (to Risk Weighted Assets)			
Consolidated HBT Financial, Inc.	15.03 %	14.54 %	N/A
Heartland Bank	14.54	14.02	10.00 %
State Bank of Lincoln	17.74	17.58	10.00
Tier 1 Capital (to Risk Weighted Assets)			
Consolidated HBT Financial, Inc.	13.95 %	13.64 %	N/A
Heartland Bank	13.48	13.12	8.00 %
State Bank of Lincoln	16.49	16.50	8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets)			
Consolidated HBT Financial, Inc.	12.44 %	12.15 %	N/A
Heartland Bank	13.48	13.12	6.50 %
State Bank of Lincoln	16.49	16.50	6.50
Tier 1 Capital (to Average Assets)			
Consolidated HBT Financial, Inc.	10.70 %	10.38 %	N/A
Heartland Bank	10.55	10.25	5.00 %
State Bank of Lincoln	10.32	9.82	5.00

Cash Dividends

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

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

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

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

On January 30, 2020, the Company announced a quarterly cash dividend of $0.15 per share.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

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

JOBS ACT ACCOUNTING ELECTION

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

NON-GAAP FINANCIAL INFORMATION

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

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

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

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

	Three Months Ended March 31,	
	2020	2019
Net income	$ 6,221	$ 18,736
C Corp equivalent adjustment [(2)]	—	(4,700)
C Corp equivalent net income [(2)]	6,221	14,036
Adjustments:		
Net earnings (losses) from closed or sold operations, including gains on sale [(1)]	—	550
Charges related to termination of certain employee benefit plans	(848)	—
Mortgage servicing rights fair value adjustment	(2,171)	(1,002)
Total adjustments	(3,019)	(452)
Tax effect of adjustments	861	129
Less adjustments after tax effect	(2,158)	(323)
Adjusted net income	$ 8,379	$ 14,359
Average assets	$ 3,188,743	$ 3,233,293
Return on average assets *	0.78 %	2.32 %
C Corp equivalent return on average assets * [(2)]	N/A	1.74
Adjusted return on average assets *	1.05	1.78

* Annualized measure.
(1) Closed or sold operations include HB Credit Company, HBT Insurance, and First Community Title Services, Inc.
(2) Reflects adjustment to our historical net income for each period to give effect to the C Corp equivalent provision for income tax for such period. No such adjustment is necessary for periods subsequent to 2019.
N/A Not applicable.

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Numerator:		
Net income	$ 6,221	$ 18,736
Earnings allocated to unvested restricted stock units [1]	(15)	—
Numerator for earnings per share - basic and diluted	$ 6,206	$ 18,736
C Corp equivalent net income [3]	N/A	$ 14,036
Earnings allocated to unvested restricted stock units [1][3]	N/A	—
Numerator for C Corp equivalent earnings per share - basic and diluted [3]	N/A	$ 14,036
Adjusted net income	$ 8,379	$ 14,359
Earnings allocated to unvested restricted stock units [1]	(19)	—
Numerator for adjusted earnings per share - basic and diluted	$ 8,360	$ 14,359
Denominator:		
Weighted average common shares outstanding	27,457,306	18,027,512
Dilutive effect of outstanding restricted stock units [2]	—	—
Weighted average common shares outstanding, including all dilutive potential shares	27,457,306	18,027,512
Earnings per share - Basic	$ 0.23	$ 1.04
Earnings per share - Diluted	$ 0.23	$ 1.04
C Corp equivalent earnings per share - Basic [3]	N/A	$ 0.78
C Corp equivalent earnings per share - Diluted [3]	N/A	$ 0.78
Adjusted earnings per share - Basic	$ 0.30	$ 0.80
Adjusted earnings per share - Diluted	$ 0.30	$ 0.80

(1) The Company has granted restricted stock units that contain non-forfeitable rights to dividend equivalents. Such restricted stock units are considered participating securities. As such, we have included these restricted stock units in the calculation of basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

(2) Restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents during the three months ended March 31, 2020. There were no restricted stock units outstanding during the three months ended March 31, 2019.

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

N/A Not applicable.

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

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

	Three Months Ended March 31, 2020	2019
Net interest income (tax equivalent basis)		
Net interest income	$ 30,662	$ 34,452
Tax-equivalent adjustment (1)	463	610
Net interest income (tax equivalent basis) (1)	$ 31,125	$ 35,062
Net interest margin (tax equivalent basis)		
Net interest margin *	4.00 %	4.44 %
Tax-equivalent adjustment * (1)	0.06	0.08
Net interest margin (tax equivalent basis) * (1)	4.06 %	4.52 %
Average interest-earning assets	$ 3,063,086	$ 3,105,216

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

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

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

	Three Months Ended March 31, 2020	2019
Efficiency ratio (tax equivalent basis)		
Total noninterest expense	$ 23,307	$ 22,212
Less: amortization of intangible assets	317	376
Adjusted noninterest expense	$ 22,990	$ 21,836
Net interest income	$ 30,662	$ 34,452
Total noninterest income	5,252	7,487
Operating revenue	35,914	41,939
Tax-equivalent adjustment (1)	463	610
Operating revenue (tax-equivalent basis) (1)	$ 36,377	$ 42,549
Efficiency ratio	64.01 %	52.07 %
Efficiency ratio (tax equivalent basis) (1)	63.20	51.32

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

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

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

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Tangible Common Equity		
Total stockholders' equity	$ 339,813	$ 332,918
Less: Goodwill	23,620	23,620
Less: Core deposit intangible assets, net	3,713	4,030
Tangible common equity	$ 312,480	$ 305,268
Tangible Assets		
Total assets	$ 3,213,109	$ 3,245,103
Less: Goodwill	23,620	23,620
Less: Core deposit intangible assets, net	3,713	4,030
Tangible assets	$ 3,185,776	$ 3,217,453
Total stockholders' equity to total assets	10.58 %	10.26 %
Tangible common equity to tangible assets	9.81	9.49
Ending number shares of common stock outstanding	27,457,306	27,457,306
Book value per share	$ 12.38	$ 12.12
Tangible book value per share	11.38	11.12

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

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

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

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

	Three Months Ended March 31,	
	2020	2019
Average Tangible Common Equity		
Total stockholders' equity	$ 341,519	$ 347,157
Less: Goodwill	23,620	23,620
Less: Core deposit intangible assets, net	3,898	5,301
Average tangible common equity	$ 314,001	$ 318,236
Net income	$ 6,221	$ 18,736
C Corp equivalent net income [(1)]	N/A	14,036
Adjusted net income	8,379	14,359
Return on average stockholders' equity *	7.29 %	21.59 %
C Corp equivalent return on average stockholders' equity * [(1)]	N/A	16.17
Adjusted return on average stockholders' equity *	9.81	16.54
Return on average tangible common equity *	7.92 %	23.55 %
C Corp equivalent return on average tangible common equity * [(1)]	N/A	17.64
Adjusted return on average tangible common equity *	10.67	18.05

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

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

Reconciliation of Non-GAAP Financial Measure - Core Deposits

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Core Deposits		
Total deposits	$ 2,730,303	$ 2,776,855
Less: time deposits of $250,000 or more	28,060	44,754
Less: brokered deposits	—	—
Core deposits	$ 2,702,243	$ 2,732,101
Core deposits to total deposits	98.97 %	98.39 %

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

The Asset/Liability Management Committee (ALCO), which is authorized by the Company's board of directors, monitors our interest rate sensitivity and makes decisions relating to that process. The ALCO's goal is to structure our asset/liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital in either a rising or declining interest rate environment. Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings because the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis.

We monitor the impact of changes in interest rates on our net interest income and economic value of equity, or EVE, using rate shock analysis. Net interest income simulations measure the short-term earnings exposure from changes in market rates of interest in a rigorous and explicit fashion. Our current financial position is combined with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. EVE measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time. A decrease in EVE due to a specified rate change indicates a decline in the long-term earnings capacity of the balance sheet assuming that the rate change remains in effect over the life of the current balance sheet.

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

	Estimated Increase (Decrease) in EVE		Increase (Decrease) in Estimated Net Interest Income			
			Year 1		Year 2	
Change in Interest Rates (basis points)	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
March 31, 2020						
+400	$ 250,209	69.0 %	$ 25,043	24.5 %	$ 32,285	33.2 %
+300	208,476	57.5	19,393	19.0	25,445	26.2
+200	155,560	42.9	13,312	13.0	17,958	18.5
+100	84,819	23.4	6,786	6.6	9,611	9.9
Flat	—	—	—	—	—	—
-100	7,110	2.0	(7,141)	(7.0)	(9,882)	(10.2)
December 31, 2019						
+400	$ 200,797	37.8 %	$ 28,585	23.5 %	$ 35,711	30.0 %
+300	165,809	31.2	22,265	18.3	28,128	23.7
+200	122,859	23.1	15,413	12.6	19,788	16.6
+100	68,303	12.8	8,061	6.6	10,550	8.9
Flat	—	—	—	—	—	—
-100	(106,615)	(20.1)	(12,878)	(10.6)	(17,568)	(14.8)

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

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

Credit Risk

Credit risk is the risk that borrowers or counterparties will be unable or unwilling to repay their obligations in accordance with the underlying contractual terms. We manage and control credit risk in the loan and lease 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

(a) 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 March 31, 2020, the end of the period covered by this report, the Company’s disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is: (i) accumulated and communicated to the Company’s management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

(b) 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 March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

Unregistered Sales of Equity Securities

None.

Repurchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

SIGNATURES

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

HBT FINANCIAL, INC.

May 12, 2020

By: /s/ Matthew J. Doherty
Matthew J. Doherty
Chief Financial Officer
(on behalf of the registrant and as principal financial officer)

EXHIBIT 31.1

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

I, Fred L. Drake, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2020

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

EXHIBIT 31.2

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

I, Matthew J. Doherty, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2020

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of HBT Financial, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

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

/s/ Fred L. Drake
Fred L. Drake
Chairman and Chief Executive Officer
(Principal Executive Officer)
May 12, 2020

EXHIBIT 32.2

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

In connection with the Quarterly Report of HBT Financial, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

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

/s/ Matthew J. Doherty
Matthew J. Doherty
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
May 12, 2020