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

FORM 10-K

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

For the fiscal year ended December 31, 2022

OR

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

For the transition period from _____ to _____

Commission file number: 001-39085

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

Delaware **(State or other jurisdiction of incorporation or organization)**	**37-1117216** **(I.R.S. Employer Identification No.)**
401 North Hershey Road **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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates on the last business day of the registrant's most recently completed second fiscal quarter was $177.6 million, determined using a per share closing price for the registrant's common stock on that date of $17.87, as quoted on The Nasdaq Global Select Market.

As of February 15, 2023, there were 32,145,546 shares outstanding of the registrant's common stock, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive Proxy Statement for the 2023 Annual Meeting of Stockholders of HBT Financial, Inc. to be filed within 120 days of December 31, 2022.

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HBT Financial, Inc.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K are forward-looking statements. Forward-looking statements may include statements relating to our plans, strategies and expectations, near-term loan growth, net interest margin, mortgage banking profits, wealth management fees, expenses, asset quality, capital levels, continued earnings and liquidity. Forward looking statements are generally identifiable by use of the words "believe," "may," "will," "should," "could," "expect," "estimate," "intend," "anticipate," "project," "plan" or similar expressions. Forward looking statements are frequently based on assumptions that may or may not materialize and are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that could cause actual results to differ materially from the results anticipated or projected and which could materially and adversely affect our operating results, financial condition or prospects include, but are not limited to:

- the strength of the local, state, national and international economies (including effects of inflationary pressures and supply chain constraints);
- the economic impact of any future terrorist threats and attacks, widespread disease or pandemics (including the COVID-19 pandemic in the United States), acts of war or other threats thereof, or other adverse external events that could cause economic deterioration or instability in credit markets, and the response of the local, state and national governments to any such adverse external events;
- our asset quality and any loan charge-offs;
- the composition of our loan portfolio;
- environmental liability associated with our lending activities;
- the effects of changes in interest rates on our net interest income, net interest margin, our investments, our loan originations, and our modeling estimates relating to interest rate changes;
- changes in and uncertainty related to benchmark interest rates used to price our loans, including the elimination of the London Interbank Offered Rate (“LIBOR”);
- our access to sources of liquidity and capital to address our liquidity needs;
- our inability to receive dividends from the Bank, pay dividends to our common stockholders or satisfy obligations as they become due;
- the effects of problems encountered by other financial institutions;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- our ability to attract and retain skilled employees or changes in our management personnel;
- any failure or interruption of our information and communications systems;
- our ability to identify and address cybersecurity risks;
- the effects of the failure of any component of our business infrastructure provided by a third party;
- our ability to keep pace with technological changes;
- our ability to successfully develop and commercialize new or enhanced products and services;
- current and future business, economic and market conditions in the United States (“U.S.”) generally or in the States of Illinois and Iowa in particular;
- the geographic concentration of our operations in the States of Illinois and Iowa;
- our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;
- our ability to attract and retain customer deposits;
- our ability to maintain the Bank’s reputation;
- possible impairment of our goodwill and other intangible assets;
- the impact of, and changes in applicable laws, regulations and accounting standards and policies;
- unexpected outcomes of existing or new litigation involving the Company, including the proposed settlement of the legal actions discussed in “Note 23 – Commitments and Contingencies – Legal Contingencies” to the consolidated financial statements;
- our prior status as an S corporation;
- possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations;
- the effectiveness of our risk management and internal disclosure controls and procedures;

- market perceptions associated with certain aspects of our business;
- our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002;
- damage to our reputation from any of the factors described above;
- our success at managing the risks involved in the foregoing items; and
- the factors discussed in Part I, Item 1A “Risk Factors”, Part II, Item 7 "Management’s Discussion and Analysis of Financial Condition and Results of Operations", or elsewhere in this Annual Report on Form 10-K.

These risks and uncertainties, as well as the factors discussed in Part I, Item 1A "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

ITEM 1. BUSINESS

COMPANY OVERVIEW

HBT Financial, Inc. (the “Company”), a Delaware corporation incorporated in 1982, is a bank holding company headquartered in Bloomington, Illinois that has elected to be regulated as a financial holding company. As of December 31, 2022, we had total assets of $4.3 billion, loans held for investment of $2.6 billion, and total deposits of $3.6 billion. Through our bank subsidiary, Heartland Bank and Trust Company (“Heartland Bank” or the “Bank”), we provide a comprehensive suite of business, commercial and retail banking products and services to consumers, businesses, and municipal entities throughout Central and Northeastern Illinois and Eastern Iowa. The Company’s common stock is traded on the Nasdaq Global Select Market under the symbol “HBT.”

The roots of our Company can be traced back to 1920 when M.B. Drake, the grandfather of our current Chairman and CEO, Fred Drake, helped found a community bank in Cornland, Illinois. The Drake family operated several banks throughout Central Illinois, and eventually, in 1982, George Drake (M.B.'s son and Fred's father) incorporated the Company as one of the first multi-bank holding companies in Illinois. Since that time, we have grown both organically and through the successful integration of more than a dozen community bank acquisitions.

The foundation for our success has been built upon a steadfast commitment to our core operating principles:

- **Prioritize safety and soundness.** We engage in safe and sound banking practices that preserve the asset quality of our balance sheet and protect our deposit base.

- **Maintain strong profitability.** We have produced consistently strong earnings even through challenging times such as the 2008-2009 financial crisis as well as the COVID-19 pandemic.

- **Continue disciplined growth.** We have a strong track record of organic and acquisitive growth with our seasoned senior management team.

- **Uphold our Midwestern values.** We convey the values of the Midwest through hard work, perseverance and doing the right things. We serve our customers well; provide employment, development opportunities, and rewards for our staff; and generate good returns for our stockholders.

TOWN AND COUNTRY FINANCIAL CORPORATION ACQUISITION

On February 1, 2023, HBT Financial completed its acquisition of Town and Country Financial Corporation (“Town and Country”), the holding company for Town and Country Bank. The acquisition of Town and Country further enhanced HBT Financial’s footprint in Central Illinois and expanded our footprint into metro-east St. Louis. At the time of acquisition, Town and Country Bank operated ten full-service branch locations which began operating as branches of Heartland Bank. The core system conversion is expected to occur in April 2023.

As of December 31, 2022, Town and Country Bank had total assets of $923.1 million, total loans of $662.0 million, and total deposits of $762.2 million. This acquisition is a subsequent event and the financial results of Town and Country are not recognized in this Form 10-K.

Total consideration consisted of 3.4 million shares of HBT Financial’s common stock and $38.0 million in cash. Based upon the closing price of HBT Financial common stock of $21.12 on February 1, 2023, the aggregate consideration was approximately $109.4 million.

NXT BANCORPORATION, INC. ACQUISITION

On October 1, 2021, HBT Financial completed its acquisition of NXT Bancorporation, Inc. (“NXT”), the holding company for NXT Bank. The acquisition expanded our footprint into Eastern Iowa with four locations that began operating as branches of Heartland Bank following the merger and systems conversion of NXT Bank into Heartland Bank in December 2021. After considering business combination accounting adjustments, NXT added total assets of $234 million, total loans of $195 million, and total deposits of $182 million.

Total consideration consisted of 1.8 million shares of HBT Financial’s common stock and $10.6 million in cash. Based upon the closing price of HBT Financial common stock of $16.27 on October 1, 2021, the aggregate consideration was approximately $39.9 million. Goodwill of $5.7 million was recorded in the acquisition. Acquisition-related expenses totaled $1.4 million during 2021 and consisted primarily of investment banker fees, legal fees, and data processing expenses.

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

MERGER OF STATE BANK OF LINCOLN INTO HEARTLAND BANK

On October 20, 2020, Heartland Bank and State Bank of Lincoln, both wholly-owned bank subsidiaries of the Company on that date, entered into a Bank Merger Agreement providing for the merger of State Bank of Lincoln into Heartland Bank. The merger was consummated on December 31, 2020, resulting in Heartland Bank being our sole bank subsidiary, with the branch locations in Lincoln, Illinois operating as “State Bank of Lincoln, a division of Heartland Bank and Trust Company.”

PRODUCTS AND SERVICES

Our products and services are primarily deposit, lending, and ancillary products that offer a broad range of options to meet the needs of consumers, businesses, and municipal entities. We continue to enhance our digital banking suite of products so that all consumer and commercial customers can do their banking at their convenience, through their channels of choice.

Additionally, we provide traditional trust and investment services, farmland management, and farmland sales through our Wealth Management division.

Lending Products and Services

We offer a broad range of lending products with a focus on regulatory commercial real estate ("CRE"), which includes non-owner occupied CRE, construction and land development (“C&D”) and multi-family; commercial and industrial ("C&I") and owner-occupied CRE; agricultural and farmland; and one-to-four family residential loans. We also provide municipal, consumer and other loans.

We have a strong credit culture that is prudent, favors asset quality first, and balances local lenders' knowledge of their marketplace with a strong centralized credit process. We maintain a well-diversified portfolio of loans and control concentrations related to loan types and specific industries or businesses.

Regulatory CRE

We provide financing for a wide variety of property types including multi-family, retail, warehouse, office, senior living, and hotel/motel. Our C&D portfolio includes both ground up construction projects and renovation projects in addition to some developed and undeveloped land. We focus on borrowers with successful backgrounds in owning, managing, and developing real estate projects.

C&I and Owner-occupied CRE

We make loans to a wide variety of businesses with no material concentration in any one industry. C&I loans primarily include loans for working capital and equipment needs. Owner-occupied CRE primarily includes amortizing first mortgage loans on properties occupied by our C&I customers. We focus on small and middle market businesses in the communities that we serve.

Agriculture and Farmland

With our roots in smaller communities throughout Central Illinois and Eastern Iowa, we have a long history of financing agriculture production and land. We originate loans to agriculture producers for input costs, equipment, and land. Most of our agriculture loans are to family farms growing corn and soybeans.

One-to-Four Family Residential

These loans include both owner-occupied and non-owner occupied one-to-four family homes and condominiums. They consist of first mortgage amortizing loans, second mortgage amortizing loans, and home equity lines of credit. These loans primarily consist of loans originated by our lenders through our branch network on properties in the communities that we serve.

Deposit Products and Services

We offer traditional bank deposit account services as well as digital banking services tailored to meet the needs of today's deposit consumers. Our deposit accounts consist of noninterest-bearing demand deposits, interest-bearing transaction accounts, money market accounts, savings accounts, certificates of deposits, HSA, and IRA accounts. Our digital banking services include online banking, mobile banking, digital payments, and personal financial management tools. We also provide commercial checking accounts and related services such as treasury management.

Wealth Management

Our wealth management division provides financial planning to consumers, trusts, and estates; trustee and custodial services; investment management; corporate retirement plan consulting and administration; and retail brokerage services. Further, our agriculture services department operates under our wealth management division and provides farm management services and brokers farmland sales and crop insurance throughout our markets.

Residential Mortgage Origination and Servicing

We originate one-to-four family residential mortgage loans and generally sell those loans in the secondary market. Loans are originated by our mortgage lenders within our branch network. To a lesser extent, we purchase loans originated by other banks that are in turn sold into the secondary market. We sell conventional loans to both Freddie Mac and Fannie Mae and retain the servicing for substantially all those loans. We also originate FHA, VA, and Rural Development loans, which are typically sold servicing released.

MARKET AREA

As of December 31, 2022, our branch network included 54 full-service branch locations in Central and Northeastern Illinois and four in Eastern Iowa. We hold a leading deposit market 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. Our long history of providing relationship-based, personal banking services; the successful integration of several strategic in-market acquisitions; and a relatively small presence of money center and super-regional banks in our mid-sized markets has enabled us to maintain meaningful market share in these markets.

Our management team believes our diverse footprint in both urban and rural markets positions us well relative to our competition in terms of access to both high quality, stable funding sources and loan growth opportunities in attractive markets. We consider ourselves to be well positioned to meet the needs of commercial and retail customers through our branch network, comprehensive suite of banking and wealth management products, and our commitment to high-touch customer service.

BUSINESS STRATEGY

We intend to pursue the following strategies that we believe will continue to drive growth while maintaining our high levels of asset quality and profitability:

Preserve Strong Ties to our Communities

Our community banking approach stems from our Midwestern values—hard work; perseverance; and doing the right things for our customers, staff, stockholders, and communities. Our senior management team lives and works in the communities we serve, and our commitment to delivering banking products and services that support the needs of our target customers enables us to preserve and grow share in our markets. The quality of our comprehensive suite of products and services coupled with our relationship-based approach to banking contribute meaningfully to our growth and success.

Deploy Excess Deposit Funding into Loan Growth Opportunities

Our strong market share in our core mid-sized markets provides a stable source of attractive funding. Our management believes our scale in these mid-sized markets and the relative scarcity of money center banking institutions operating in them creates a highly defensible market position whereby we can continue to maintain our funding cost advantage relative to our peer groups. We believe the Chicago MSA provides significant opportunities for loan growth. Many competitors in this market are money center or super-regional banks, and we believe our responsive, local decision-making provides a competitive advantage over these larger, more bureaucratic institutions. Further, we expect to continue to benefit from continued market disruption in the Chicago MSA, caused by recent significant bank acquisitions, by acquiring talent and customers experiencing displacement.

Maintain a Prudent Approach to Credit Underwriting

Robust underwriting and pricing standards have been a hallmark of the Company and continue to serve as a central tenet of our banking strategy even as we grow our loan portfolio in newer markets. We intend to prudently deploy our excess funding and liquidity into assets that optimize risk-adjusted returns with minimal losses. Further, we believe our history of maintaining strong asset quality and minimal levels of problem assets even through the Great Recession confirms the effectiveness of our strong credit underwriting.

Pursue Strategic Acquisitions

Our management team has a history of successfully integrating strategic acquisitions over several decades. We believe this track record will position the Company to be an attractive acquirer for many potential partners. We continue to opportunistically seek acquisitions that are either located within our market footprint, in adjacent markets or provide a new growth opportunity that is strategically and financially compelling and consistent with our culture.

HUMAN CAPITAL RESOURCES

Employees

At December 31, 2022, we had 711 full-time equivalent employees. Our employees are not represented by a collective bargaining unit, and we consider our working relationship with our employees to be good. At December 31, 2022, our average tenure was 8.5 years.

Employee Engagement and Retention

We recognize that the fulfillment of our mission requires attracting, developing, and retaining a diverse group of highly qualified employees. To support these objectives, our human resources programs are designed to identify, reward, and recognize excellent performance and loyalty. We utilize regular employee engagement surveys to seek feedback on a variety of topics, including but not limited to, confidence in Company leadership, competitiveness of compensation and benefits, career growth opportunities, corporate culture, and communications. We provide a variety of employee recognition programs and an open, social work environment that encourages employees to be engaged and inclusive.

We understand the importance of offering employees a career path and career development opportunities. By doing so, we are well-positioned to retain our talent, support our communities, and produce needed results. We provide required and self-directed job and career development training to cultivate talent throughout the Company, from entry-level to leadership.

Compensation & Benefits

To attract and retain high-performing, skilled individuals, we offer competitive base pay and benefits. Utilizing various industry specific compensation surveys and member associations, we analyze pay practices for jobs and job families on a regular basis to ensure we remain competitive in the markets we operate and to maintain internal pay equity.

To support the well-being of our employees and their families, we provide access to a variety of flexible and convenient healthcare programs for physical and mental health, long-term and short-term disability, paid time off, and a Company-matched 401(k) plan.

COMPETITION

Our profitability and growth are affected by the highly competitive nature of the financial services industry. We compete with community banks in all of 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.

Our competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, the U.S. Government, credit unions, leasing companies, insurance companies, real estate conduits and other companies that provide financial services to businesses and individuals.

Our most direct competition for deposits has historically come from commercial banks and credit unions. We face increasing competition for deposits from online financial institutions and non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

Financial technology companies are becoming a more direct threat to traditional financial institutions as they begin to offer deposit accounts insured by the Federal Deposit Insurance Corporation (the “FDIC”) alongside their core product offerings.

We seek to meet this competition by emphasizing personalized service, efficient decision-making tailored to individual needs, and offering robust digital functionality. We do not rely on any individual, group, or entity for a material portion of our loans or our deposits.

We continue to see strong competition for new loan production, including competitive pressures on loan rates and terms. Competition for deposit customers was minimal in 2020 and 2021, given the excess liquidity at most financial institutions, but increased substantially during 2022, as the Federal Reserve started to raise short-term interest rates. Continued loan and deposit pricing pressure may affect our financial results in the future.

COMPANY WEBSITE

The Company maintains a website at ir.hbtfinancial.com. The contents of this website are not a part of this report. All periodic and current reports of the Company and amendments to these reports filed with the Securities and Exchange Commission ("SEC") can be accessed, free of charge, through this website and at www.sec.gov as soon as reasonably practicable after these materials are filed with the SEC.

SUPERVISION AND REGULATION

General

FDIC-insured institutions, their holding companies, and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes, and by the regulations and policies of various bank regulatory agencies, including the Illinois Department of Financial and Professional Regulation (the "IDFPR"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the FDIC, and the Consumer Financial Protection Bureau (the "CFPB"). Furthermore, taxation laws administered by the Internal Revenue Service (the "IRS") and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (the "FASB"), securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (the "Treasury") have an impact on our business. The effect of these statutes, regulations, regulatory policies, and accounting rules are significant to our operations and results.

We are subject to federal and state banking laws that impose a comprehensive system of supervision, regulation, and enforcement on our operations that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of our business, the kinds and amounts of investments that the Company and the Bank may make, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with the Company's and the Bank's insiders and affiliates, and our payment of dividends.

In reaction to the global financial crisis, and particularly following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), we experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused our compliance and risk management processes, and the costs thereof, to increase. The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("Regulatory Relief Act") eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving us of any requirement to engage in mandatory stress tests, maintain a risk committee or comply with the Volcker Rule's complicated prohibitions on proprietary trading and ownership of private funds. These reforms have been favorable to our operations.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available, and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and our subsidiary bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

The Role of Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions generally are required to hold more capital than other businesses, which directly affects our earnings capabilities. Although capital historically has been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress.

Capital Levels

Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of “capital” divided by “total assets.” The capital guidelines for U.S. banks beginning in 1989 have been based upon international capital accords (known as “Basel” rules) adopted by the Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accords recognized that bank assets, for the purpose of the capital ratio calculations, needed to be risk weighted (the theory being that riskier assets should require more capital), and that off-balance sheet exposures needed to be factored in the calculations. Following the global financial crisis, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule

The U.S. bank regulatory agencies adopted the Basel III regulatory capital reforms, and, at the same time, effected changes required by the Dodd-Frank Act, in regulations that were effective (with certain phase-ins) in 2015 (the “Basel III Rule”). Basel III established capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously - it increased the required quantity and quality of capital; and it required a more complex, detailed, and calibrated assessment of risk in the calculation of risk weightings.

The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to most bank and savings and loan holding companies. The Company and the Bank are each subject to the Basel III Rule.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but, in requiring that forms of capital be of higher quality to absorb loss, it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital, and it required deductions from Common Equity Tier 1 Capital in the event that such assets exceeded a percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule requires **minimum** capital ratios as follows:

- A ratio of Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- A ratio of Tier 1 Capital equal to 6% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock), and pay discretionary bonuses to executive officers without restriction, also must maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

Well-Capitalized Requirements

The ratios described above are minimum standards for banking organizations to be considered "adequately capitalized." Bank regulatory agencies uniformly encourage banks to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over, or renew brokered deposits. Higher capital levels also could be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities, or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the Federal Reserve, in order to be well capitalized, a banking organization must maintain:

- A ratio of Common Equity Tier 1 Capital to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more;
- A ratio of Total Capital to total risk-weighted assets of 10% or more; and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2022: (i) the Bank was not subject to a directive from the FDIC to increase its capital; and (ii) the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2022, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the requirements to be well-capitalized. The Company also is in compliance with the capital conservation buffer.

Prompt Corrective Action

The concept of an institution being "well-capitalized" is part of a regulatory enforcement regime that provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of depository institutions based on the capital level of each particular institution. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending on the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Community Bank Capital Simplification

Community banks have long raised concerns with bank regulators about the regulatory burden, complexity, and costs associated with certain provisions of the Basel III Rule. In response, Congress provided an "off-ramp" for institutions, like the Company, with total consolidated assets of less than $10 billion. Section 201 of the Regulatory Relief Act instructed the federal banking regulators to establish a single "Community Bank Leverage Ratio" ("CBLR") of between 8 and 10%. Under the final rule, a community banking organization is eligible to elect the new framework if it has less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9%. The Company may elect the CBLR framework at any time, but has not currently determined to do so.

Supervision and Regulation of the Company

General

As the sole shareholder of the Bank, we are a bank holding company. As a bank holding company, we are registered with, and are subject to regulation supervision and enforcement by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). We are legally obligated to act as a source of financial strength to the Bank, and to commit resources to support the Bank in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve. We are required to file with the Federal Reserve periodic reports of our operations, and such additional information regarding us and our subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Financial Holding Company Election

The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company, or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "-The Role of Capital" above.

The BHCA generally prohibits us from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank, and from engaging in any business other than that of banking, managing and controlling banks, or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking ... as to be a proper incident thereto.” This authority permits the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking, and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity, or that the Federal Reserve determines by order to be complementary to any such financial activity, as long as the activity does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. The Company has elected to operate as a financial holding company. To maintain its status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and the Bank must have a least a satisfactory CRA rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the Federal Reserve will provide a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the Company that it deems to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company’s subsidiary bank has not received a satisfactory CRA rating, that company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Change in Control

Federal law prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements

Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see “—The Role of Capital” above.

Dividend Payments

The Company’s ability to pay dividends to its stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Delaware corporation, the Company is subject to the limitations of the Delaware General Corporation Law (“DGCL”), which allow the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the company’s net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company’s capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "—The Role of Capital" above.

Incentive Compensation

There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that are the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices.

The interagency guidance recognized three core principles. Effective incentive plans should: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures, and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Company that use incentive compensation arrangements are expected to be less extensive, formalized, and detailed than those of the larger banks.

Monetary Policy

The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, and changes in the discount rate on bank borrowings. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation

The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended ("Securities Act"), and the Securities Exchange Act of 1934, as amended ("Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading, and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance

The Dodd-Frank Act addressed many investor protection, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a nonbinding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow shareholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Supervision and Regulation of the Bank

General

The Bank is an Illinois-chartered bank. The deposit accounts of the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") to the maximum extent provided under federal law and FDIC regulations, currently $250,000 per insured depositor category. As an Illinois-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting, and enforcement requirements of the IDFPR, the chartering authority for Illinois banks. Because the Bank is not a member of the Federal Reserve System, it is subject to the examination, supervision, reporting, and enforcement requirements of the FDIC, as the Bank's primary federal regulator.

Deposit Insurance

As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system, whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Bank that are not considered large and highly complex banking organizations, assessments are now based on examination ratings and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking.

The reserve ratio is the DIF balance divided by estimated insured deposits. In response to the global financial crisis, the Dodd-Frank Act increased the minimum reserve ratio from 1.15% to 1.35% of the estimated amount of total insured deposits. Prior to the COVID-19 pandemic, the reserve ratio briefly exceeded the statutory threshold, but because of extraordinary insured deposit growth caused by an unprecedented inflow of deposits during the COVID-19 pandemic, the reserve ratio fell below 1.35% and continues to be below the threshold. The FDIC staff closely monitors the factors that affect the reserve ratio, and, in order to raise the reserve ratio to 1.35% by September 30, 2028, the FDIC increased the initial deposit insurance rates by two basis points, beginning with the first quarterly assessment period of 2023. As a result of this change, the Bank's FDIC insurance assessment will increase beginning in 2023.

The DIF balance was $125.5 billion on September 30, 2022, up $1.0 billion from the end of the second quarter. The reserve ratio remained at 1.26%, as growth in the fund balance kept pace with growth in insured deposits. The FDIC staff continues to closely monitor the factors that affect the reserve ratio, and any change could impact FDIC assessments.

Supervisory Assessments

All Illinois-chartered banks are required to pay supervisory assessments to the IDFPR to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2022, the Bank paid supervisory assessments to the IDFPR totaling $0.4 million.

Capital Requirements

Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—The Role of Capital" above.

Liquidity Requirements

Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio ("LCR") is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the net stable funding ratio ("NSFR") is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source, and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. Although these rules do not, and will not, apply to the Bank, it continues to review its liquidity risk management policies in light of developments.

Dividend Payments

Our primary source of funds is dividends from the Bank. Under Illinois banking law, Illinois-chartered banks generally may pay dividends only out of undivided profits. The IDFPR may restrict the declaration or payment of a dividend by an Illinois-chartered bank, such as the Bank. Moreover, the payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and an FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. Notwithstanding the availability of funds for dividends, however, the FDIC and the IDFPR may prohibit the payment of dividends by the Bank if either or both determine that such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay unrestricted dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "—The Role of Capital" above.

State Bank Investments and Activities

The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Insider Transactions

The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between the Bank and its "affiliates." We are an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to us, investments in our stock or other securities, and the acceptance of our stock and other securities as collateral for loans made by the Bank. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements also are placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the

Company, and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms on which any person who is a director or officer of the Company or the Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management

The federal banking agencies have adopted operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The standards apply to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality, and earnings.

In general, the safety and soundness standards prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. Although regulatory standards do not have the force of law, if an institution operates in an unsafe and unsound manner, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates that the institution pays on deposits, or require the institution to take any action that the regulator deems appropriate under the circumstances. Noncompliance with safety and soundness also may constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions that they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Privacy and Cybersecurity

The Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require the Bank to periodically disclose its privacy policies and practices relating to sharing such information, and permit consumers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact the Bank's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, the Bank is required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures are in effect across all businesses and geographic locations.

Branching Authority

Illinois banks, such as the Bank, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or acquire individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger.

Transaction Account Reserves

Federal law requires FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts) to provide liquidity. The amount of reserves is determined by the Federal Reserve based on tranches of zero, three and ten percent of a bank's transaction account deposits. However, in March 2020, in an unprecedented move, the Federal Reserve announced that the banking system had ample reserves, and, as reserve requirements no longer played a significant role in this regime, it reduced all reserve tranches to zero percent, thereby freeing banks from the legally mandated reserve maintenance requirement. The action permits the Bank to loan or invest funds that previously were unavailable. The Federal Reserve has indicated that it expects to continue to operate in an ample reserves regime for the foreseeable future.

Community Reinvestment Act Requirements

The CRA requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank's record of meeting the credit needs of its communities. Applications for acquisitions also would be affected by the evaluation of the Bank's effectiveness in meeting its CRA requirements.

In May 2022, the bank regulatory agencies issued a notice of proposed rulemaking called the Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations (the "CRA Proposal"). The CRA Proposal is designed to update how CRA activities qualify for consideration, where CRA activities are considered, and how CRA activities are evaluated. More specifically, the bank regulatory agencies described the goals of the CRA Proposal as follows: (i) to expand access to credit, investment, and basic banking services in low and moderate income communities; (ii) to adapt to changes in the banking industry, including mobile and internet banking by modernizing assessment areas while maintaining a focus on branch based areas; (iii) to provide greater clarity, consistency, and transparency in the application of the regulations through the use of standardized metrics as part of CRA evaluation and clarifying eligible CRA activities focused on low and moderate income communities and under–served rural communities; (iv) to tailor CRA rules and data collection to bank size and business model; and (v) to maintain a unified approach among the regulators. A final rule has not yet been issued.

In 2022, the Bank, like all Illinois chartered banks, became subject to state level CRA standards, following passage of the Illinois Community Reinvestment Act (the "Illinois CRA"). This means that, in addition to the federal CRA review, Bank will be reviewed by the IDFPR to assess the Bank's record of meeting the credit needs of its communities. Like the potential impact under the federal CRA, applications for additional acquisitions or activities would be affected by the evaluation of the Bank's effectiveness in meeting its Illinois CRA requirements.

Anti-Money Laundering

The USA PATRIOT Act, the Bank Secrecy Act ("BSA") and other similar laws are designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and have significant implications for FDIC-insured institutions and other businesses involved in the transfer of money. These laws mandate financial services companies to have policies and procedures with respect to measures designed to address the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Federal Home Loan Bank Membership

The Bank is a member of the Federal Home Loan Bank ("FHLB") System, an organization created under the Federal Home Loan Bank Act of 1932 to serve as a central credit facility for its members through eleven U.S. government-sponsored banks, including the FHLB of Chicago. The FHLB of Chicago makes loans to member banks in the form of advances, all of which are required to be fully collateralized, as determined by the FHLB of Chicago. In the event that a member financial institution fails, the right of the FHLB of Chicago to seek repayment of funds loaned to that institution will take priority (a super lien) over the rights of all other creditors. To qualify for membership in the FHLB System, and to be eligible to borrow funds from such Federal Home Loan Bank under the FHLB System's advance program, the Bank is required to hold a certain amount of common stock in one of the Federal Home Loan Banks. There is no secondary market for the FHLB of Chicago's common stock, but additional purchases from, or repurchases by, the FHLB of Chicago may occur under prescribed circumstances. Specifically, the board of directors of the FHLB of Chicago can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase the level of investment in the FHLB of Chicago depends entirely upon the occurrence of future events, we are unable to determine the extent of future required potential payments to the FHLB of Chicago at this time.

Residential Mortgage Lending

As required by the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 amending Regulation Z, implementing the Truth in Lending Act, which requires mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a residential mortgage loan has a reasonable ability to repay the loan according to its terms. These final rules prohibit creditors from extending residential mortgage loans without regard for the consumer's ability to repay and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and restrict compensation practices relating to residential mortgage loan origination. Mortgage lenders are required to determine consumers' ability-to-repay in one of two ways. The first alternative requires the mortgage lender to consider eight underwriting factors when making the credit decision. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a qualified mortgage is a residential mortgage loan that does not have certain high-risk features, such as negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount, and the borrower's total debt-to-income ratio must be no higher than 43% (subject to certain limited exceptions for loans eligible for purchase, guarantee or insurance by a government sponsored enterprise or a federal agency).

Concentrations in Commercial Real Estate

Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate ("CRE") Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) CRE loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of CRE lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk. As of December 31, 2022, the Bank did not exceed these guidelines.

Consumer Financial Services

The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the global financial crisis, many rules issued by the CFPB, as required by the Dodd-Frank Act, addressed mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act and the CFPB's enabling rules imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." The CFPB's rules have not had a significant impact on the Bank's operations, except for higher compliance costs.

ITEM 1A. RISK FACTORS

The material risks and uncertainties that management believes affect us are described below. You should carefully consider these risks, together with all of the information included herein. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition or results of operations.

SUMMARY

Risk Factor	Description
• Credit Risks	Borrowers or counterparties may be unable or unwilling to repay their obligations to us in accordance with the underlying contractual terms which could lead to unexpected losses.
• Interest Rate Risks	Fluctuations in interest rates may reduce our earnings or the value of our financial instruments.
• Reference Rate Reform	We have financial instruments – including loans, securities, debt, and interest rate swaps – that include LIBOR as a “benchmark” or “reference rate”. The phase-out of LIBOR may adversely impact the value of, return on, and market for our LIBOR-based financial instruments or lead to disputes or litigation with counterparties.
• Liquidity Risks	An inability to obtain liquid funds at a reasonable price to timely meet our financial obligations may have a material adverse impact on our operations and jeopardize our business.
• Technology and Cybersecurity Risks	Our business is highly dependent upon secure and uninterrupted information technology systems. A disruption or breach to these systems may have a material adverse impact on our business.
• Legal and Regulatory Compliance Risks	The banking industry is highly regulated. Failure to comply with the laws and regulations to which we are subject, or changes in them, may adversely impact us.
• Business Strategy	Our strategy of pursuing growth via suitable acquisitions exposes us to heightened operational risks and could have a material adverse impact on our financial condition, results of operations, and growth prospects.
• Ownership of Our Common Stock	Our principal stockholder, Heartland Bancorp, Inc. Voting Trust U/A/D 5/4/2016, has significant influence over us, and its interests could conflict with those of our other stockholders.
• External Risks	Adverse changes in the economic conditions, particularly such changes in the Illinois and Iowa markets we operate, may adversely impact our borrowers and our business.

CREDIT RISKS

We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.

Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that the principal of, or interest on, a loan will not be repaid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual loans and borrowers. The creditworthiness of a borrower is affected by many factors including local market conditions and general economic conditions. If the overall economic climate in the U.S., generally, or our market areas, specifically, experience a material disruption, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in value or become illiquid, and the level of nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for credit losses. In general, these risks have increased as a result of the recent increases in prevailing interest rates and uncertainties associated with inflation, which have potentially increased the risk of a near-term decline in growth or an economic downturn.

Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval, review and administrative practices may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. A failure to effectively measure and limit the credit risk associated with our loan portfolio may result in loan defaults, foreclosures and additional charge-offs, and may necessitate that we significantly increase our allowance for credit losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have an adverse effect on our business, financial condition and results of operations.

Our allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio.

As of and prior to December 31, 2022, the Company estimated and established an allowance for loan losses using an incurred loss method which considered historical losses and qualitative adjustments for current conditions. Effective January 1, 2023 and after, with the adoption of ASU 2016-13 which is commonly referred to as the current expected credit losses (“CECL”) model, our allowance for credit losses will be estimated using a lifetime expected loss method which considers historical losses, qualitative adjustments for current conditions, and reasonable and supportable forecasts. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The CECL model also requires that an allowance for credit losses be established for any unfunded loan commitments that are not cancelable. The measurement of expected credit losses requires significant use of management judgments and is based on information from past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model previously required under accounting principles generally accepted in the United States of America (“GAAP”), which delayed recognition until it is probable a loss has been incurred. Accordingly, the adoption of the CECL model materially affected how we determine our allowance for credit losses and could require us to significantly increase our allowance in future periods. Moreover, the CECL model may create more volatility in the level of the allowance for credit losses.

Although management believes that its credit loss estimates are appropriate, such estimates may prove to be insufficient. As a result, we may be required to recognize additional provisions for credit losses in the future to further supplement the allowance for credit losses, either due to management's decision or because our banking regulators require us to do so. These adjustments may adversely affect our business, financial condition and results of operations.

The small to midsized businesses to which we lend may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to mid-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, can have less access to capital sources and loan facilities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete, and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate or any of our borrowers otherwise are affected by adverse business developments, our small to mid-sized borrowers may be disproportionately affected and their ability to repay outstanding loans may be negatively affected, resulting in an adverse effect on our results of operations and financial condition.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, and in evaluating and monitoring our loan portfolio on an ongoing basis, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers or counterparties or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial statements, credit reports or other financial or business information, or the failure to receive such information on a timely basis, could result in credit losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition or results of operations.

The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, foreclosed real estate and other repossessed assets may not accurately describe the fair value of the asset.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty). Therefore, this estimate may not accurately describe the fair value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property.

We also rely on appraisals and other valuation techniques to establish the value of real estate and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our foreclosed assets, and our allowance for credit losses may not be accurate. This could have a material adverse effect on our business, financial condition or results of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is, and is expected to be, secured by real property and during the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In addition, we own the vast majority of our branch properties. If hazardous or toxic substances are found on our foreclosed or branch properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

The majority of our loan portfolio consists of commercial and regulatory CRE loans, which have a higher degree of risk than other types of loans.

Commercial and regulatory CRE loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. For example, the cumulative effects of decreased economic activity, changes in the economy and overall business environment, and labor availability shortages have adversely affected some of our commercial and regulatory CRE loans. This trend may continue or worsen for certain portions of our loan portfolio, depending on the strength of the economy and other factors. Accordingly, a downturn in the real estate market or a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our commercial operating loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial or regulatory CRE loans could have a material adverse impact on our financial condition and results of operations. Additionally, as a result of the recent increase in interest rates and other factors, we have started to observe a decline in the value of some commercial real estate securing these loans.

Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Real estate construction lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

We provide loans and services to the agriculture industry and the health of this industry is impacted by factors outside our control and the control of our customers.

Our loan portfolio includes loans to agricultural producers and loans secured by farmland. In addition, our commercial loan portfolio includes loans to farm implement dealerships, grain elevators and other businesses that provide products and services to agricultural producers. The success of our agricultural loans, and commercial loans serving the agriculture industry, may be adversely affected by many factors outside the control of the borrower, including:

- adverse weather conditions, adverse impacts of climate change, restrictions on water supply or other conditions that prevent the planting of a crop or limit crop yields, or that affect crop harvesting;
- loss of crops or livestock due to disease or other factors;
- declines in the market prices or demand for agricultural products (both domestically and internationally), for any reason;
- increases in production costs (such as the costs of labor, rent, feed, fuel and fertilizer);
- adverse changes in interest rates, currency exchange rates, agricultural land values or other factors that may affect delinquency levels and credit losses on agricultural loans;
- the impact of government policies and regulations (including changes in price supports, subsidies, government-sponsored crop insurance, minimum ethanol content requirements for gasoline, tariffs, trade barriers and health and environmental regulations);
- access to technology and the successful implementation of production technologies; and
- changes in the general economy that could affect the availability of off-farm sources of income and prices of real estate for borrowers.

Although we attempt to account for the possibility of such factors in underwriting, structuring and monitoring our agriculture loans, there is no guarantee that our efforts will be successful. As a result, we may experience increased delinquencies or defaults in this portfolio or be required to increase our provision for credit losses, which could have an adverse effect on our business, financial condition and results of operations.

Additionally, we provide farm management advice, engage in farmland sale services, and arrange for crop insurance as part of our wealth management services. Decreases in commodity prices or lower crop yields may result in a decrease in wealth management fees collected for our agricultural services.

INTEREST RATE RISKS

Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and are subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income.

Additionally, an increase in interest rates may, among other things, reduce the demand for loans, increase the cost of deposit and wholesale funding, reduce our ability to originate loans and decrease prepayments on our loan and securities portfolio. A decrease in the general level of interest rates may, among other things, decrease our net interest margin and increase prepayments on our loan and securities portfolios. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

We may seek to mitigate our interest rate risk by entering into interest rate swaps and other interest rate derivative contracts from time to time with counterparties. Our hedging strategies rely on assumptions and projections regarding interest rates, asset levels and general market factors and subject us to counterparty risk. There is no assurance that our interest rate mitigation strategies will be successful and if our assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that could adversely affect our earnings.

The value of the financial instruments we own may decline in the future.

An increase in market interest rates may affect the fair value of our securities portfolio, potentially reducing accumulated other comprehensive income and/or earnings. The fair value of these investments may also be affected by factors other than the underlying performance of the issuer of the securities or the mortgages underlying the securities, such as changes in the interest rate environment, negative trends in the residential and commercial real estate markets, ratings downgrades, adverse changes in the business climate and a lack of liquidity for certain investment securities. In addition, we may determine to sell securities in our available-for-sale investment securities portfolio, and any such sale could cause us to realize currently unrealized losses that resulted from the recent increases in the prevailing interest rates.

Additionally, an increase in market interest rates may reduce the value of our loan portfolio, although, in accordance with GAAP, such a decline in value may not be reflected in the carrying balance of our loans in the same manner as our debt securities available-for-sale.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U.S. government securities, adjustments to the federal funds target rate, and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

In the current environment, economic and business conditions are significantly affected by U.S. monetary policy, particularly the actions of the Federal Reserve in its effort to fight elevated levels of inflation. The Federal Reserve is mandated to pursue the goals of maximum employment and price stability, and beginning in March 2022 it made a series of significant increases to the target Federal Funds rate as part of an effort to combat elevated levels of inflation affecting the U.S. economy. This has helped drive a significant increase in prevailing interest rates and, while this increased our net interest income, it also lead to $105.5 million of unrealized losses in the available-for-sale debt securities portfolio during the year ended December 31, 2022, which has negatively affected our tangible book value per share. Higher interest rates can also negatively affect our customers' businesses and financial condition, and the value of collateral securing loans in our portfolio.

Given the complex factors affecting the strength of the U.S. economy, including uncertainties regarding the persistence of inflation, geopolitical developments such as the war in Ukraine and resulting disruptions in the global energy market, the effects of the pandemic in China, and tight labor market conditions and supply chain issues, there is a meaningful risk that the Federal Reserve and other central banks may raise interest rates too much, thereby limiting economic growth and potentially causing an economic recession. As noted above, this could decrease loan demand, harm the credit characteristics of our existing loan portfolio and decrease the value of collateral securing loans in the portfolio.

RISKS RELATED TO REFERENCE RATE REFORM

We may be adversely impacted by the transition from LIBOR as a reference rate.

The United Kingdom Financial Conduct Authority (the “FCA”), the authority that regulates LIBOR, ceased to publish the 1-week and 2-month U.S. dollar LIBOR at the end of 2021, with the remaining U.S. dollar LIBOR rates ceasing at the end of June 2023. The transition away from LIBOR to alternative reference rates could have a negative impact on the value of, return on, and trading market for the LIBOR-based loans and securities in our portfolio and an adverse impact on the availability and cost of hedging instruments and borrowings. In addition, we may incur expenses if we are required to renegotiate the terms of existing agreements that govern LIBOR-based products as a result of the transition away from LIBOR, and could be subject to disputes or litigation with counterparties regarding the interpretation and enforceability of provisions in existing LIBOR-based products regarding fallback language or other related provisions, as the economics of various alternative reference rates differ from LIBOR. The impact on the valuation, pricing, and operation of our LIBOR-based financial instruments and the cost of transitioning to the use of alternative reference rates is not yet known and could have an adverse effect on our results of operations.

We have issued fixed-to-floating subordinated notes which include the Secured Overnight Financing Rate (“SOFR”) as the reference rate during the floating rate period. SOFR differs fundamentally from, and may not be a comparable substitute for, LIBOR.

The Alternative Reference Rates Committee (the "ARRC") has selected SOFR as its recommended alternative to LIBOR. However, because SOFR is a broad U.S. Treasury repo financing rate that represents overnight secured funding transactions, it differs fundamentally from LIBOR. For example, SOFR is a secured overnight rate, while LIBOR is an unsecured rate that represents interbank funding over different maturities. In addition, because SOFR is a transaction-based rate, it is backward-looking, whereas LIBOR is forward-looking. Because of these and other differences, there can be no assurance that SOFR will perform in the same way as LIBOR would have done at any time, and there is no guarantee that it is a comparable substitute for LIBOR.

LIQUIDITY RISKS

Liquidity risks could affect operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

In addition to our deposit base, our liquidity is provided by cash from operations and investment maturities, redemptions and sales as well as cash flow from loan prepayments and maturing loans that are not renewed. When needed, additional liquidity is sometimes provided by our ability to borrow from the Federal Reserve Bank of Chicago and the Federal Home Loan Bank of Chicago (the "FHLB"), through federal funds lines with our correspondent banks, and through other wholesale funding sources including brokered certificates of deposits or deposits placed with the Certificate of Deposit Account Registry Service. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. In addition, increased competition with the largest banks and Fintechs for retail deposits may impact our ability to raise funds through deposits and could have a negative effect on our liquidity. For example, as customer deposit levels have decreased over the past year, we have observed that the sensitivity of market deposit rates to changes in prevailing interest rates has increased.

Any decline in available funding could adversely impact our ability to continue to implement our business plan, including originating loans, investing in securities, meeting our expenses or fulfilling obligations such as repaying our borrowings and meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital, in the form of debt or equity securities, in the future to have sufficient capital resources to meet our commitments and our regulatory requirements, and to fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. We may not be able to obtain capital on acceptable terms or at all. Any occurrence that may limit our access to capital, such as a decline in the confidence of debt purchasers, depositors of the Bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. In particular, if we were required to raise additional capital in the current interest rate environment, we believe the pricing and other terms investors may require in such an offering may not be attractive to us. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition or results of operations.

We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

Financial institutions are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries with which we interact on a daily basis or key funding providers such as the FHLB, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations.

Loss of customer deposits could increase our funding costs.

We rely on deposits as a low cost and stable source of funding. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs could reduce our net interest margin and net interest income and could have a material adverse effect on our business, financial condition, and results of operations.

TECHNOLOGY AND CYBERSECURITY RISKS

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition or results of operations.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our customers, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our customers, denial or degradation of service attacks, and malware or other cyber-attacks. There continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Moreover, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our customers may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us.

We also face risks related to cyber-attacks and other security breaches in connection with debit card and credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including retailers and payment processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could affect us through no fault of our own. In some cases, we may have exposure and suffer losses for breaches or attacks relating to them, including costs to replace compromised debit and credit cards and to address fraudulent transactions.

We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition.

Our business is highly dependent on the secure and uninterrupted functioning of our information technology and telecommunications systems, third-party servicers, accounting systems, digital banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as digital banking and card processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. In addition, failure of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation.

It may also be difficult for us to replace some of our third-party vendors, particularly vendors providing our core banking, debit card and credit card services and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason and even if we are able to replace them, it may be at higher cost or result in the loss of customers. Any such events could have a material adverse effect on our business, financial condition or results of operations.

Our operations rely heavily on the secure processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break-ins and other cybersecurity breaches described above or herein, and the cybersecurity measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate.

As a result of financial entities and technology systems becoming more interdependent and complex, a cyber-incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. Although we review business continuity and backup plans for our vendors and take other safeguards to support our operations, such plans or safeguards may be inadequate. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact.

Our use of third-party vendors and our other ongoing third-party business relationships is subject to increasing regulatory requirements and attention.

Our use of third-party vendors for certain information systems is subject to increasingly demanding regulatory requirements and attention by our bank regulators. Regulatory guidance requires us to enhance our due diligence, ongoing monitoring and control over our third-party vendors and other ongoing third-party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. Our regulators may hold us responsible for deficiencies in our oversight and control of our third-party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third-party vendors or other ongoing third-party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition or results of operations.

We continually encounter technological change and may have fewer resources than many of our larger competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We also may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

The widespread adoption of new technologies, including internet services, cryptocurrencies and payment systems, could require us in the future to make substantial expenditures to modify or adapt our existing products and services as we grow and develop new products to satisfy our customers’ expectations and comply with regulatory guidance.

In addition, we expect that new technologies and business processes applicable to the banking industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. The implementation of technological changes and upgrades to maintain current systems and integrate new ones may cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

LEGAL AND REGULATORY COMPLIANCE RISKS

The banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our business, financial condition, results of operations and future prospects.

As a bank holding company, we and our subsidiaries are subject to extensive examination, supervision and comprehensive regulation under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, the DIF and the overall financial stability of the United States, not for the protection of our stockholders and creditors. We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the FDIC and the IDFPR. The banking laws and regulations applicable to us govern a variety of matters, including, among other things, the types of business activities in which we and our subsidiaries can engage; permissible types, amounts and terms of loans and investments we may make; the maximum interest rate that we may charge; the amount of reserves we must hold against deposits we take; the types of deposits we may accept; maintenance of adequate capital and liquidity; changes in the control of us and the Bank; restrictions on dividends or other capital distributions; and establishment of new offices or branches. These requirements may constrain our operations or require us to obtain approval from our regulators before engaging in certain activities, with no assurance that such approvals may be obtained, either in a timely manner or at all. Also, the burden imposed by those federal and state regulations may place banks in general at a competitive disadvantage compared to their non-bank competitors.

Applicable banking laws, regulations, interpretations, enforcement policies, and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. In addition, regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for bank holding companies in a manner that impacts our ability to implement our strategy and could affect us in substantial and unpredictable ways. Compliance with existing and any potential new or changed regulations, as well as regulatory scrutiny, may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner. Our failure to comply with banking laws, regulations and policies, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, the commencement of informal or formal enforcement actions against us, and other negative consequences, including reputational damage, any of which could adversely affect our business, financial condition, results of operations, capital base and the price of our securities.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve (with respect to us) and the FDIC and the IDFPR (with respect to the Bank) periodically examine our business, including our compliance with applicable laws and regulations. These regulatory agencies have extremely broad discretion in their interpretation of regulations and laws, and in their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, lending practices, investment practices, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition, results of operations and growth prospects.

Prior to October 11, 2019, we were treated as an S Corp, and claims of taxing authorities related to our prior status as an S Corp could harm us.

Effective October 11, 2019, the Company revoked its S Corp status and became a taxable entity that is subject to U.S. federal income tax. If the unaudited, open tax years in which we were an S Corp are audited by the IRS and we are determined not to have qualified for, or to have violated, our S Corp status, we will be obligated to pay back taxes, interest and penalties. The amounts that we would be obligated to pay could include tax on all of our taxable income while we were an S Corp. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition.

We could become obligated to make payments to the pre-IPO stockholders for any additional federal, state or local income taxes assessed against such pre-IPO stockholder for tax periods prior to the completion of the IPO.

Prior to October 11, 2019, we were treated as an S Corp for U.S. federal income tax purposes. Because we had been an S Corp, our pre-IPO stockholders had been taxed on our income as individuals. Therefore each pre-IPO stockholder has received certain distributions ("tax distributions") from us that were generally intended to equal the amount of tax such was required to pay with respect to our income. In connection with the IPO, our S Corp status was terminated and we are now subject to federal and increased state income taxes. In the event of an adjustment to our reported taxable income for periods prior to termination of our S Corp status, it is possible that each pre-IPO stockholder will be liable for additional income taxes for those prior periods. Pursuant to the Amended Restated Stockholder Agreement, upon our filing any tax return (amended or otherwise), in the event of any restatement of our taxable income or pursuant to a determination by, or a settlement with, a taxing authority, for any period during which we were an S Corp, depending on the nature of the adjustment we may be required to make a payment to each of the pre-IPO stockholders in an amount equal to such pre-IPO stockholder's incremental tax liability, which amount may be material. In addition, we agreed to indemnify each pre-IPO stockholder with respect to unpaid income tax liabilities to the extent that such unpaid income tax liabilities are attributable to an adjustment to our taxable income for any period after our S Corp status terminates. In both cases, the amount of the payment would assume that such pre-IPO stockholder is taxed at the highest rate applicable to individuals for the relevant periods. We also agreed to indemnify each pre-IPO stockholder for any interest, penalties, losses, costs or expenses arising out of any claim under the agreement. However, each pre-IPO stockholder agreed to indemnify us with respect to our unpaid tax liabilities (including interest and penalties) to the extent that such unpaid tax liabilities are attributable to a decrease in the shareholder's taxable income for any for tax period and a corresponding increase in the Company's taxable income for any period.

We are subject to capital adequacy requirements and may be subject to more stringent capital requirements and, if we fail to meet these requirements, we will be subject to restrictions on our ability to make capital distributions and other restrictions.

The Basel III Rule require us to maintain a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum total Tier 1 capital ratio of 6%, a minimum total capital ratio of 8% and a minimum Tier 1 leverage ratio of 4%, and a capital conservation buffer of greater than 2.5% of risk-weighted assets (the "Capital Conservation Buffer"). Failure to maintain the Capital Conservation Buffer would result in increasingly stringent restrictions on our ability to make dividend payments and other capital distributions and to pay discretionary bonuses to our executive officers. See "Supervision and Regulation—The Role of Capital" for more information on the capital adequacy standards that we must meet and maintain.

While we currently meet the requirements of the Basel III Rule, we may fail to do so in the future and may be unable to raise additional capital to remediate any capital deficiencies. The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities or restricting the commencement of new activities, including our growth initiatives, and could affect customer and investor confidence, our costs of funds and level of required deposit insurance assessments to the FDIC, our ability to pay dividends on our capital stock, our ability to make acquisitions, and our business, results of operations and financial conditions generally.

Future legislative or regulatory change could impose higher capital standards on us or the Bank. The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Federal Reserve may require us to commit capital resources to support the Bank.

Federal law requires a bank holding company to act as a source of financial and managerial strength to its subsidiary banks, and to commit resources to support such subsidiary banks. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the Company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection into the Bank could be more difficult and expensive to obtain and could have an adverse effect on our business, financial condition and results of operations.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances or that it will adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

Future consumer legislation or regulation could harm our performance and competitive position.

The Dodd-Frank Act established the CFPB as an independent federal agency that has broad rulemaking authority over consumer financial products and services for all financial institutions, including deposit products, residential mortgages, home-equity loans and credit cards. In addition, the CFPB also has exclusive supervisory and examination authority and primary enforcement authority with respect to various federal consumer financial laws and regulations for insured depository institutions with more than $10 billion in total consolidated assets. The Bank is not subject to the examination and supervisory authority of the CFPB because it has less than $10 billion in total assets, but it is required to comply with the rules and regulations issued by the CFPB. The FDIC has the primarily responsibility for supervising and examining the Bank's compliance with federal consumer financial laws and regulations, including CFPB regulations. See "Supervision and Regulation—Supervision and Regulation of the Bank—Consumer Financial Services" for additional information.

In addition to the enactment of the Dodd-Frank Act, various state and local legislative bodies have adopted or have been considering augmenting their existing framework governing consumers' rights. These considerations could also be impacted by the recent changes in federal administration. Such legislative or regulatory changes to consumer financial laws and regulations could result in changes to our pricing, practices, products and procedures; increases in our costs related to regulatory oversight, supervision and examination; or result in remediation efforts and possible penalties. We may be required to add additional compliance personnel or incur other significant compliance-related expenses to meet the demands of these consumer protection laws. We cannot predict whether new legislation or regulation will be enacted and, if enacted, the effect that it would have on our activities, financial condition, or results of operations.

We are subject to numerous laws and regulations designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act of 1977 ("CRA") requires the Bank, consistent with safe and sound operations, to ascertain and meet the credit needs of their entire communities, including low and moderate income areas. The Bank's failure to comply with the CRA could, among other things, result in the denial or delay of certain corporate applications filed by us or the Bank, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. In addition, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution's compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects. See "Supervision and Regulation—Supervision and Regulation of the Bank—Community Reinvestment Act Requirements".

The expanding body of federal, state and local regulations and/or the licensing of loan servicing, collections or other aspects of our business and our sales of loans to third parties may increase the cost of compliance and the risks of noncompliance and subject us to litigation.

Loan servicing is subject to extensive regulation by federal, state and local governmental authorities as well as to various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur significant additional costs to comply with such requirements which may adversely affect us. In addition, were we to be subject to regulatory investigation or regulatory action regarding our loan modification and foreclosure practices, our financial condition and results of operation could be adversely affected. We have also sold loans to third parties. In connection with these sales, we, or certain of our subsidiaries, make or have made various representations and warranties, breaches of which may result in a requirement that we repurchase the loans or otherwise make whole or provide other remedies to counterparties. These aspects of our business or our failure to comply with applicable laws and regulations could possibly lead to, among other things, civil and criminal liability, loss of licensure, damage to our reputation in the industry or with customers, fines and penalties, litigation (including class action lawsuits) and administrative enforcement actions. Any of these outcomes could materially and adversely affect us.

Non-compliance with the USA PATRIOT Act, the Bank Secrecy Act (the "BSA"), or other laws and regulations could result in fines or sanctions.

Financial institutions are required under the USA PATRIOT Act of 2001 and the BSA to develop programs to prevent financial institutions from being used for money-laundering, terrorist financing and other illicit activities. Financial institutions are also obligated to file suspicious activity reports with the Office of Financial Crimes Enforcement Network ("FinCEN") of the Treasury if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators and costly litigation or expensive additional controls and systems. In recent years, several banking institutions have received large fines for non-compliance with these laws and regulations. In addition, FinCEN requires financial institutions to enhance their customer due diligence programs, including verifying the identity of beneficial owners of qualifying business customers. We have developed policies and continue to augment procedures and systems designed to assist in compliance with these laws and regulations, but these policies may not be effective to provide such compliance. If we violate these laws and regulations, or our policies, procedures and systems are deemed deficient, we could face severe consequences, including sanctions, fines, regulatory actions and reputational consequences. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Regulation in the areas of privacy and data security could increase our costs.

We are subject to various regulations related to privacy and data security, and we could be negatively impacted by these regulations. For example, we are subject to the safeguards guidelines under the Gramm-Leach-Bliley Act ("GLBA"). The safeguards guidelines require that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution’s size and complexity, the nature and scope of the financial institution’s activities and the sensitivity of any customer information at issue. Further, there are various other statutes and regulations relevant to the direct email marketing, debt collection and text-messaging industries including the Telephone Consumer Protection Act.

In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring varying levels of consumer notification in the event of a security breach and/or requirements to disclose to consumers information collected about them. Also, federal legislators and regulators are increasingly pursuing new guidelines, laws and regulations that, if adopted, could further restrict how we collect, use, share and secure consumer information, which could impact some of our current or planned business initiatives. The interpretation of many of these statutes and regulations is evolving in the courts and administrative agencies and an inability or failure to comply with them may have an adverse impact on our business.

Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory enforcement risks due to a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has intensified in recent years, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure, overdraft fees, compliance with applicable consumer protection laws, and compliance with anti-money laundering statutes, the BSA and sanctions administered by the Office of Foreign Assets Control of the Treasury.

In the normal course of business, from time to time, we have in the past and may in the future be named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our current and/or prior business activities. Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In addition, while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be successful in enforcing our arbitration clause in the future. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our current and/or prior business activities. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, whether tangential or otherwise and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could be material to our business, results of operations, financial condition and cash flows depending on, among other factors, the level of our earnings for that period, and could have a material adverse effect on our business, financial condition or results of operations.

See "Note 23 – Commitments and Contingencies – Legal Contingencies" to the consolidated financial statements for additional information regarding certain legal actions and litigation to which we are subject, including a discussion of potential losses and related accruals.

The preparation of our consolidated financial statements requires us to make estimates and judgments, which are subject to an inherent degree of uncertainty and which may differ from actual results.

Our consolidated financial statements are prepared in accordance with GAAP, which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Some accounting policies, such as those pertaining to our allowance, require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ from these estimates and judgments under different assumptions or conditions, which may have a material adverse effect on our financial condition or results of operations in subsequent periods.

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. In addition, trends in financial and business reporting, including environmental social and governance ("ESG") related disclosures, could require us to incur additional reporting expense. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations.

RISKS RELATED TO OUR BUSINESS STRATEGY

We may not be able to continue growing our business, particularly if we cannot make acquisitions or increase loans through organic loan growth, either because of an inability to find suitable acquisition candidates, constrained capital resources or otherwise.

We anticipate that much of our future growth will be dependent on our ability to successfully implement our acquisition growth strategy because certain of our market areas are comprised of mature, rural communities with limited population growth. A risk exists, however, that we will not be able to identify suitable additional candidates for acquisitions. In addition, even if suitable targets are identified, we expect to compete for such businesses with other potential bidders, which may have greater financial resources than we have, which may adversely affect our ability to make acquisitions at attractive prices. In light of the foregoing, our ability to continue to grow successfully will depend to a significant extent on our capital resources. It also will depend, in part, upon our ability to attract deposits, identify favorable loan and investment opportunities, and maintain cost controls and asset quality, as well on other factors beyond our control, such as national, regional and local economic conditions and interest rate trends.

Our strategy of pursuing growth via acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial position, results of operations and growth prospects.

We have been pursuing a strategy of leveraging our human and financial capital by acquiring other financial institutions in our target markets, including acquisitions of failed insured depository institutions with the assistance of the FDIC. We continue to opportunistically seek acquisitions that are either located within our market footprint, in adjacent markets or provide a new growth opportunity that is strategically and financially compelling and consistent with our culture.

Our acquisition activities could require us to use a substantial amount of cash, other liquid assets, and/or issue debt or additional equity. In addition to the general risks associated with any growth plans, acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- the time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;
- inaccuracies in the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to the target institution. If the actual results fall short or exceed our estimates, our earnings, capital and financial condition may be materially and adversely affected;
- the ability to finance an acquisition and possible dilution to existing stockholders;
- the failure to realize some or all of the anticipated transaction benefits within the expected time frame, or ever;
- compliance and legal risks associated with acquiring unfamiliar customers, products and services, and branches in new geographical markets; and
- risks associated with integrating the operations and personnel of the acquired business in a manner that permits growth opportunities and does not materially disrupt existing customer relationships or result in decreased revenues resulting from any loss of customers.

With respect to the risks particularly associated with the integration of an acquired business, we may encounter a number of difficulties, such as: (1) customer loss and revenue loss; (2) the loss of key employees; (3) the disruption of its operations and business; (4) the inability to maintain and increase its competitive presence; (5) possible inconsistencies in standards, control procedures and policies; and/or (6) unexpected problems with costs, operations, personnel, technology and credit. In addition to the risks posed by the integration process itself, the focus of management’s attention and effort on integration may result in a lack of sufficient management attention to other important issues, causing harm to our business. Also, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our successful integration of an acquired business.

Generally, any acquisition of financial institutions, banking centers or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, including the Federal Reserve, the IDFPR, and the FDIC. Such regulators could deny our applications based on various prescribed criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. These regulatory approvals and the factors considered in reviewing such applications are described in greater detail in "Supervision and Regulation—Acquisitions and Branching."

We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome risks associated with acquisitions could have an adverse effect on our ability to successfully implement our acquisition growth strategy and grow our business and profitability.

Attractive acquisition opportunities may not be available to us in the future.

While we seek continued organic growth, we anticipate continuing to evaluate merger and acquisition opportunities presented to us in our core markets and beyond. We expect that other banking and financial companies, many of which have significantly greater resources, will compete with us to acquire financial services businesses. This competition could increase prices for potential acquisitions, which could reduce our potential returns and reduce the attractiveness of these opportunities to us.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

Our principal stockholder, Heartland Bancorp, Inc. Voting Trust U/A/D 5/4/2016, has significant influence over us, and its interests could conflict with those of our other stockholders.

As of December 31, 2022, our principal stockholder, Heartland Bancorp, Inc. Voting Trust U/A/D 5/4/2016 (“the Voting Trust”), owned approximately 59.9% of the outstanding shares of our common stock and its trustee is our Chairman and Chief Executive Officer. As a result, the Voting Trust is able to influence matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other extraordinary transactions. The Voting Trust may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may also have the effect of delaying, preventing or deterring a change of control of the Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

The Voting Trust could sell its interest in us to a third-party in a private transaction, which may not lead to your realization of any change of control premium on shares of our common stock and would subject us to the influence of a presently unknown third-party.

The ability of the Voting Trust to sell its shares of our common stock privately, with no requirement for a concurrent offer to be made to acquire all of the shares of our outstanding common stock, could prevent our stockholders from realizing any change of control premium on shares of our common stock that they own that may accrue to the Voting Trust on its private sale of our common stock.

Even if the Voting Trust’s ownership of our shares falls below a majority, the Voting Trust may continue to be able to influence or effectively control out decisions.

We are classified as a "controlled company" for purposes of the Nasdaq Listing Rules and, as a result, we qualify for certain exemptions from certain corporate governance requirements. You may not have the same protections afforded to stockholders of companies that are subject to such requirements.

As of the date of this report, the Voting Trust controls a majority of the voting power of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the corporate governance standards of the Nasdaq Listing Rules. Under the Nasdaq Listing Rules, a company of which more than 50% of the outstanding voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain stock exchange corporate governance requirements, including:

- the requirement that a majority of the board of directors consists of independent directors;
- the requirement that nominating and corporate governance matters be decided solely by independent directors; and

- the requirement that executive and officer compensation matters be decided solely by independent directors.

Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the Nasdaq corporate governance requirements.

Our ability to continue to pay dividends to our stockholders is restricted by applicable laws and regulations and by the ability of our subsidiaries to pay dividends to us.

Holders of our common stock are only entitled to receive such cash dividends as our board, in its sole discretion, may declare out of funds legally available for such payments. Any decision to declare and pay dividends will be dependent on a variety of factors, including our financial condition, earnings, legal requirements, our general liquidity needs, and other factors that our board deems relevant. As a bank holding company, our ability to declare and pay dividends to our stockholders is subject to certain banking laws, regulations, and policies, including minimum capital requirements and, as a Delaware corporation, we are subject to certain restrictions on dividends under the DGCL. In addition, we are a separate legal entity, and, accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from the Bank. The ability of the Bank to make distributions or pay dividends to us is subject to its earnings, financial condition, and liquidity needs, as well as federal and state laws, regulations, and policies applicable to the Bank, which limit the amount the Bank can pay as dividends or other capital distributions to us. Finally, our ability to pay dividends to our stockholders, or the Bank's ability to pay dividends or other distributions to us, may be limited by covenants in any financing arrangements that we or the Bank may enter into in the future. See "Supervision and Regulation."

As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate at any time, future dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock.

We cannot guarantee that we will be able to pay dividends to our stockholders, or that the board of directors of the Bank will be able to or will elect to pay dividends to us, nor can we guarantee the timing or amount of any such dividends actually paid. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares. The shares of our common stock held by each of our executive officers and directors and the trustee of the Voting Trust may be sold in accordance with the volume, manner of sale, and other limitations under Rule 144, and holders of approximately 17,210,400 shares of our common stock will have the right to require us to register the sales of their shares under the Securities Act, under the terms of an agreement between us and the holders of these securities.

In the future, we may also issue securities in connection with acquisitions or investments. The number of shares of our common stock issued in connection with an acquisition or investment could constitute a material portion of our then-outstanding shares of our common stock.

We are an "emerging growth company" and may elect to comply with reduced public company reporting requirements which could make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Act of 2012 (the "JOBS Act"). For as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various public company reporting requirements. These exemptions include, but are not limited to, (i) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, (ii) reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, and (iii) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company until the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2024. However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenue exceeds $1.235 billion or we issue more than $1.0 billion of non-convertible debt in any three-year period, we would cease to be an emerging growth company prior to the end of such five-year period. We have taken advantage of certain reduced disclosure obligations regarding executive compensation and may elect to take advantage of other reduced disclosure obligations in future filings. As a result, the information that we provide to holders of our common stock may be different than you might receive from other public reporting companies in which you hold equity interests. We cannot predict if investors will find our common stock less attractive as a result of our reliance on these exemptions. If some investors find our common stock less attractive as a result of any choice we make to reduce disclosure, there may be a less active trading market for our common stock and the price for our common stock may be more volatile.

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. We have elected to use this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies.

Anti-takeover provisions in our charter documents and Delaware law, and the banking laws and regulations to which we are subject, might discourage or delay acquisition attempts for us that you might consider favorable.

Our restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of the Company more difficult without the approval of our board of directors. These provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, requiring all stockholder actions be taken at a meeting of our stockholders, if the Voting Trust ceases to own more than 35% of our outstanding common stock;
- provide that the board of directors is expressly authorized to make, alter or repeal our amended and restated bylaws;
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- prohibit stockholders from calling special meetings of stockholders.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of the Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control," as defined under applicable law, of an FDIC-insured depository institution. These laws include the BHCA and the CBCA. These laws could, among other things, limit the equity held by certain stockholders, restrain a stockholder's ability to influence proxy matters, or prevent an acquisition of the Company, in each case without first obtaining regulatory approval. See "Supervision and Regulation—Supervision and Regulation of the Company—Change in Control."

Our restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our restated certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any of our directors, officers or other employees arising pursuant to any provision of the DGCL, our certificate of incorporation or our by-laws or (iv) any other action asserting a claim against us or any of our directors, officers or other employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

EXTERNAL RISKS

Adverse changes in local economic conditions and adverse conditions in an industry on which a local market in which we do business depends could hurt our business in a material way.

Our financial performance generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets in which we operate and in the United States as a whole. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in Illinois and Iowa. The economic conditions in our local markets may be different from, or worse than, the economic conditions in the United States as a whole. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels, tax policy, monetary policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate.

Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by, among other factors, declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; changes in inflation or interest rates; increases in real estate and other state and local taxes; high unemployment; natural disasters; pandemics, such as COVID-19; climate change; acts of terrorism or war; or a combination of these or other factors.

The COVID-19 pandemic could continue to have adverse effects on our business.

The COVID-19 pandemic has had a significant economic impact on the communities in which we operate, our borrowers and depositors, and the national economy generally. These effects have diminished in the past year, but future developments and uncertainties will be difficult to predict, such as the potential emergence of a new variant, the course of the pandemic in China and other major economies, the persistence of pandemic-related work and lifestyle changes, changes in consumer preferences associated with the emergence of the pandemic, and other market disruptions. Any such developments could have a complex and negative effect on our business, including with respect to the prevailing economic environment, our lending and investment activities, and our business operations.

Continued elevated levels of inflation could adversely impact our business and results of operations.

The United States has recently experienced elevated levels of inflation. Continued levels of inflation could have complex effects on our business and results of operations, some of which could be materially adverse. For example, elevated inflation harms consumer purchasing power, which could negatively affect our retail customers and the economic environment and, ultimately, many of our business customers, and could also negatively affect our levels of non-interest expense. In addition, if interest rates continue to rise in response to elevated levels of inflation, the value of our securities and loan portfolios may be negatively impacted. Continued elevated levels of inflation could also cause increased volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients' ability to repay indebtedness. It is also possible that governmental responses to the current inflation environment could adversely affect our business, such as changes to monetary and fiscal policy that are too strict, or the imposition or threatened imposition of price controls. The duration and severity of the current inflationary period cannot be estimated with precision.

Labor shortages and failure to attract and retain qualified employees could negatively impact our business, results of operations and financial condition.

A number of factors may adversely affect the labor force available to us or increase labor costs, including high employment levels, decreased labor force size and participation rates, and potential government actions affecting the labor force. Although we have not experienced any material labor shortage to date, we have recently observed an overall tightening and competitive local labor market. A sustained labor shortage or increased turnover rates within our employee base could lead to increased costs, such as increased compensation expense to attract and retain employees.

In addition, if we are unable to hire and retain employees capable of performing at a high-level, or if mitigation measures we may take to respond to a decrease in labor availability have unintended negative effects, our business could be adversely affected. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on our operations, results of operations, liquidity or cash flows.

The State of Illinois has experienced significant financial difficulties, and this could adversely impact certain borrowers and our business.

Historically, the financial condition of the State of Illinois has been characterized by significant financial difficulties, including material pension funding shortfalls and large budget deficits. These issues could impact the economic vitality of the State of Illinois and our customers, and could specifically encourage businesses to relocate, and discourage new employers from starting or moving businesses to Illinois. These issues could also result in delays in the payment of accounts receivable owed to borrowers that conduct business with the State of Illinois and Medicaid payments to nursing homes and other healthcare providers in Illinois and impair their ability to repay their loans when due.

Climate change could have a material negative impact on the Company and our customers.

The Company's business, as well as the operations and activities of our customers, could be negatively impacted by climate change. Climate change presents both immediate and long-term risks to the Company and our customers, and these risks are expected to increase over time. Climate change presents multi-faceted risks, including, but not limited to:

- operational risk from the physical effects of climate events on the Company and our customers' facilities and other assets;
- credit risk from borrowers with significant exposure to climate risk;
- legal and regulatory compliance risk as our regulators, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change, both directly and with respect to their customers, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities; and
- reputational risk from stakeholder concerns about the Company's practices related to climate change, the Company's carbon footprint, and the Company's business relationships with clients who operate in carbon-intensive industries.

The risks associated with climate change are changing and evolving in an escalating fashion, making them difficult to assess due to limited data and other uncertainties. The Company could experience increased expenses resulting from strategic planning, litigation, and technology and market changes, and reputational harm as a result of negative public sentiment, regulatory scrutiny, and reduced investor and stakeholder confidence due to the Company's response to climate change and its climate change strategy, which, in turn, could have a material negative impact on business, results of operations, and financial condition.

Our future growth and success will depend on our ability to compete effectively in a highly competitive environment.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, our competitive strategies have focused on attracting deposits in our local markets and growing our loan portfolio by emphasizing specific loan products in which we have significant experience and expertise, identifying and targeting markets in which we believe we can effectively compete with larger institutions and other competitors, and offering highly competitive pricing to borrowers with appropriate risk profiles. We compete for loans, deposits and other financial services with other commercial banks, credit unions, brokerage houses, mutual funds, insurance companies, real estate conduits, mortgage brokers and specialized finance companies. Many of our competitors offer products and services that we do not offer, and some offer loan structures and have underwriting standards that are not as restrictive as our required loan structures and underwriting standards. Some larger competitors have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans more aggressively than we do, and because of their larger capital bases, their underwriting practices for smaller loans may be subject to less regulatory scrutiny than they would be for smaller banks. Newer competitors may be more aggressive in pricing their products in order to increase their market share.

Some of the financial institutions and financial services organizations with which we compete are not subject to the extensive regulations imposed on banks insured by the FDIC and their holding companies. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various financial services. Additionally, technology and other changes are allowing consumers and businesses to complete financial transactions through alternative methods that historically have involved banks. For example, the wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

Additionally, while we do not offer products relating to digital assets, including cryptocurrencies and other similar assets, there has been a significant increase in digital asset adoption globally over the past several years. Certain characteristics of digital asset transactions, such as the speed with which such transactions can be conducted, the ability to transact without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, and the anonymous nature of the transactions, are appealing to certain consumers notwithstanding the various risks posed by such transactions. Accordingly, digital asset service providers—which, at present are not subject to the same degree of scrutiny and oversight as banking organizations and other financial institutions—are becoming active competitors to more traditional financial institutions. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and deposits could have a material adverse effect on our financial condition and results of operations. Potential partnerships with digital asset companies, moreover, could also entail significant investment.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our stock.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, customer personal information and privacy issues, employee, customer and other third-party fraud, recordkeeping, regulatory investigations, and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. If our reputation is negatively affected, by the intentional, inadvertent or unsubstantiated misconduct of our employees, directors, customers, third parties, or otherwise, our business and, therefore, our operating results and the value of our stock may be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

HBT Financial and Heartland Bank's headquarters are located at 401 North Hershey Road, Bloomington, Illinois. The Company owns these headquarters, and it also owns or leases other facilities, such as banking centers of Heartland Bank, for business operations.

HBT Financial and its subsidiaries own or lease all of the real property and/or buildings on which each respective entity is located. The Company considers its properties to be suitable and adequate for its present needs.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders of Record

HBT Financial, Inc.'s common stock is listed on the Nasdaq Global Select Market under the symbol "HBT."

As of February 15, 2023, HBT Financial, Inc. had approximately 123 shareholders of record. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividends

During 2022, we paid quarterly cash dividends of $0.16 per share on our common stock. The quarterly cash dividend was increased to $0.17 per share on January 24, 2023. We expect to continue our policy of paying quarterly cash dividends. Our board of directors may change or eliminate the payment of future dividends at its discretion, without notice to our stockholders. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including general and economic conditions, industry standards, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, banking regulations, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, and such other factors as our board of directors may deem relevant.

Issuer Purchases of Equity Securities

On December 14, 2021, the Company's board of directors approved a stock repurchase program that authorized the Company to repurchase up to $15 million of its common stock which expired on January 1, 2023 (the "2022 Repurchase Plan"). On December 21, 2022, the Company's board of directors approved a new stock repurchase program that took effect upon the expiration of the old stock repurchase program and expires on January 1, 2024 (the "2023 Repurchase Plan"). The 2023 Repurchase Plan authorizes the Company to repurchase up to $15 million of its common stock. The timing of purchases and number of shares repurchased are dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements, and market conditions. The Company is not obligated to purchase any shares under the stock repurchase program, and the stock repurchase program could be suspended or discontinued at any time without notice.

The following table sets forth information about the Company's purchases of its common stock during the fourth quarter of 2022:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in thousands)
October 1 - 31, 2022	—	$ —	—	$ 10,217
November 1 - 30, 2022	—	—	—	10,217
December 1 - 31, 2022	—	—	—	10,217
Total	—	$ —	—	$ 10,217 (1)

(1) As of December 31, 2022, there was $10,217,000 left under the 2022 Repurchase Plan, which expired on January 1, 2023. There are no longer any shares subject to repurchase under the 2022 Repurchase Plan. The 2023 Repurchase Plan took effect upon the expiration of the 2022 Repurchase Plan, and there remains $15 million in common stock subject to repurchase thereunder.

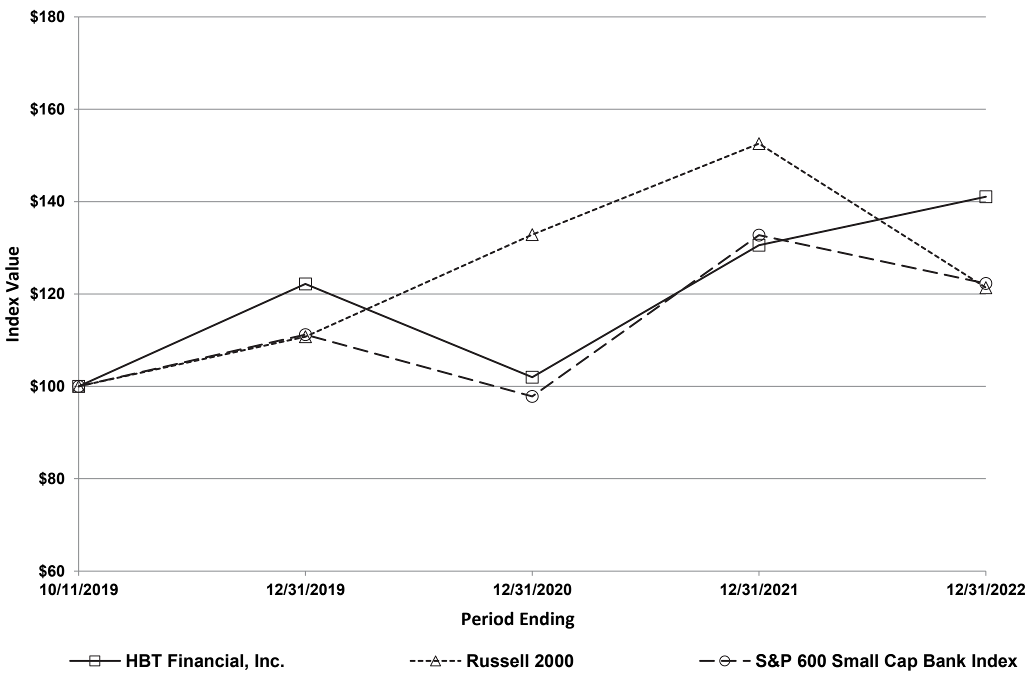
Unregistered Sales of Equity Securities

None.

Stock Performance Graph

The performance graph and table below compares the cumulative total return on the Company's common stock from October 11, 2019 (the date of the Company's IPO and listing on the Nasdaq Global Select Market) through December 31, 2022, with the cumulative total return of: (a) the Russell 2000 Index which reflects a broad equity market index and (b) the S&P 600 Small Cap Bank Index. The performance graph and table assume an initial investment of $100 and reinvestment of dividends. Returns are presented on a total return basis.

COMPARISON OF CUMULATIVE TOTAL RETURN*
Among HBT Financial, Inc., the Russell 2000 Index,
and S&P 600 Small Cap Bank Index



*$100 invested on 10/11/19 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Index	October 11, 2019	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
HBT Financial, Inc.	$ 100.00	$ 122.20	$ 101.97	$ 130.55	$ 141.07
Russell 2000 Index	100.00	110.74	132.84	152.53	121.36
S&P 600 Small Cap Bank Index	100.00	111.20	97.80	132.76	122.30

The performance graph and table represent past performance and should not be considered to be an indication of future performance. The information in the preceding paragraph, stock performance graph, and table shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

ITEM 6. [RESERVED]

ITEM 7. 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.

Management's discussion and analysis should be read in conjunction with the following parts of this Annual Report on Form 10-K: Part I, Item 1 "Business", Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", and Part II, Item 8 "Financial Statements and Supplementary Data". Detailed discussion and analysis of the financial condition and results of operation for 2022 as compared to 2021 can be found below.

OVERVIEW

HBT Financial, Inc., headquartered in Bloomington, Illinois, is the holding company for Heartland Bank and Trust Company, and has banking roots that can be traced back to 1920. We provide a comprehensive suite of business, commercial, wealth management, and retail banking products and services to businesses, families, and local governments throughout Central and Northeastern Illinois and Eastern Iowa. As of December 31, 2022, the Company had total assets of $4.3 billion, loans held for investment of $2.6 billion and total deposits of $3.6 billion.

Market Area

As of December 31, 2022, our branch network included 58 full-service branch locations in Central and Northeastern Illinois and Eastern Iowa. 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 our loan and deposit balances by geographic region.

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Total loans		
Illinois by metropolitan and micropolitan statistical areas		
Bloomington-Normal	$ 499,477	$ 527,161
Champaign-Urbana	235,537	191,646
Chicago	1,294,327	1,196,605
Lincoln	76,690	87,153
Ottawa-Peru	94,516	101,117
Peoria	117,795	123,143
Total Illinois	2,318,342	2,226,825
Iowa	301,911	272,864
Total loans	$ 2,620,253	$ 2,499,689
Total deposits		
Illinois by metropolitan and micropolitan statistical areas		
Bloomington-Normal	$ 857,988	$ 887,587
Champaign-Urbana	218,291	203,899
Chicago	1,216,423	1,237,486
Lincoln	179,923	203,098
Ottawa-Peru	385,117	407,156
Peoria	597,711	610,155
Total Illinois	3,455,453	3,549,381
Iowa	131,571	188,804
Total deposits	$ 3,587,024	$ 3,738,185

Acquisitions

The Company incurred the following pre-tax acquisition expenses during the years ended December 31:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Salaries	$ —	$ 65	$ —
Furniture and equipment	—	18	—
Data processing	304	355	—
Marketing and customer relations	—	12	—
Loan collection and servicing	—	11	—
Legal fees and other noninterest expense	788	955	—
Total acquisition-related expenses	$ 1,092	1,416	$ —

Town and Country Financial Corporation

On February 1, 2023, HBT Financial completed its acquisition of Town and Country Financial Corporation ("Town and Country"), the holding company for Town and Country Bank. The acquisition of Town and Country further enhanced HBT Financial's footprint in Central Illinois and expanded our footprint into metro-east St. Louis. At the time of acquisition, Town and Country Bank operated ten full-service branch locations which began operating as branches of Heartland Bank. The core system conversion is expected to occur in April 2023.

As of December 31, 2022, Town and Country Bank had total assets of $923.1 million, total loans of $662.0 million, and total deposits of $762.2 million. This acquisition is a subsequent event and the financial results of Town and Country are not recognized in this Form 10-K.

Total consideration consisted of 3.4 million shares of HBT Financial's common stock and $38.0 million in cash. Based upon the closing price of HBT Financial common stock of $21.12 on February 1, 2023, the aggregate consideration was approximately $109.4 million.

NXT Bancorporation, Inc.

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

Total consideration consisted of 1.8 million shares of HBT Financial's common stock and $10.6 million in cash. Based upon the closing price of HBT Financial common stock of $16.27 on October 1, 2021, the aggregate consideration was approximately $39.9 million. Goodwill of $5.7 million was recorded in the acquisition.

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

Branch Rationalization Plan

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

The Company incurred the following pre-tax branch closure costs during the year ended December 31, 2021 (dollars in thousands):

NONINTEREST INCOME		
Gains (losses) on other assets	$	(682)
NONINTEREST EXPENSE		
Salaries		53
Marketing and customer relations		6
Legal fees and other noninterest expense		7
Total noninterest expense		66
Total branch closure costs	$	748

Additionally, the Company recognized a net gain on sales of closed branch premises of $0.1 million during the year ended December 31, 2022.

Paycheck Protection Program Loans

During 2021 and 2020, we funded a total of $290.1 million of Paycheck Protection Program (“PPP”) loans. The vast majority of those loans have received full forgiveness, and outstanding PPP loans totaled $28 thousand as of December 31, 2022.

Income recognition for the fees collected at origination, net of associated origination costs, is deferred and recognized over the loan term on a level yield basis. Recognition of net deferred origination fees is accelerated upon loan forgiveness or repayment prior to contractual maturity. Net deferred origination fees on PPP loans recognized as taxable loan interest income totaled $1.5 million, $9.2 million, and $3.0 million during the years ended December 31, 2022, 2021, and 2020, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Conditions

The Company's business and financial performance are affected by economic conditions generally in the U.S. and more directly in the Illinois and Iowa markets where we primarily operate. The significant economic factors that are most relevant to our business and our financial performance include the general economic conditions in the U.S. and in the Company's markets (including the effect of inflationary pressures and supply chain constraints), unemployment rates, real estate markets, and interest rates.

Interest Rates

Net interest income is our primary source of revenue. Net interest income is equal to the excess of interest income earned on interest earning assets (including discount accretion on purchased loans plus certain loan fees) over interest expense incurred on interest-bearing liabilities. The level of interest rates as well as the volume of interest-earning assets and interest-bearing liabilities both impact net interest income. Net interest income is also influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the Federal Reserve 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’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’s actions. Our net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. Generally, we expect increases in market interest rates will increase our net interest income and net interest margin in future periods, while decreases in market interest rates may decrease our net interest income and net interest margin in future periods.

Credit Trends

We focus on originating loans with appropriate risk/reward profiles. We have a detailed loan policy that guides our overall loan origination philosophy and a well-established loan approval process that requires experienced credit officers to approve larger loan relationships. Although we believe our loan approval and credit review processes are strengths that allow us to maintain a high quality loan portfolio, we recognize that credit trends in the markets in which we operate and in our loan portfolio can materially impact our financial condition and performance and that these trends are primarily driven by the economic conditions in our markets.

Competition

Our profitability and growth are affected by the highly competitive nature of the financial services industry. We compete with community banks in all our markets and, to a lesser extent, with money center banks, primarily in the Chicago MSA. Additionally, we compete with non-bank financial services companies, FinTechs and other financial institutions operating within the areas we serve. We compete by emphasizing personalized service and efficient decision-making tailored to individual needs. We do not rely on any individual, group, or entity for a material portion of our loans or our deposits. We continue to see increased competitive pressures on loan rates and terms which may affect our financial results in the future. We have also observed an increase in competition for deposits during 2022 with increases short-term market interest rates.

Digital Banking

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

Regulatory Environment and Trends

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

FACTORS AFFECTING COMPARABILITY OF FINANCIAL RESULTS

JOBS Act Accounting Election

We qualify as an “emerging growth company” under the JOBS Act. The JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies. The Company may remain an emerging growth company until the earliest to occur of: (1) the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2024, (2) the last day of the fiscal year in which the Company has $1.235 billion or more in annual revenues, (3) the date on which the Company is deemed to be a “large accelerated filer” under the Exchange Act or (4) the date on which the Company has, during the previous three year period, issued, publicly or privately, more than $1.0 billion in non-convertible debt securities. We have elected to use the extended transition period until we are no longer an emerging growth company or until we choose to affirmatively and irrevocably opt out of the extended transition period. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements applicable to public companies.

RESULTS OF OPERATIONS

Overview of Recent Financial Results

The following table presents selected financial results and measures for the years ended December 31.

	As of or for the Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands, except per share amounts)		
Total interest and dividend income	$ 153,054	$ 128,223	$ 124,065
Total interest expense	7,180	5,820	6,460
Net interest income	145,874	122,403	117,605
Provision for loan losses	(706)	(8,077)	10,532
Net interest income after provision for loan losses	146,580	130,480	107,073
Total noninterest income	34,717	37,328	34,456
Total noninterest expense	105,107	91,246	91,956
Income before income tax expense	76,190	76,562	49,573
Income tax expense	19,734	20,291	12,728
Net income	$ 56,456	$ 56,271	$ 36,845
Adjusted net income [(1)]	55,805	56,840	39,734
Net interest income (tax-equivalent basis) [(1) (2)]	$ 148,373	$ 124,431	$ 119,548
Share and Per Share Information			
Earnings per share - Diluted	$ 1.95	$ 2.02	$ 1.34
Adjusted earnings per share - Diluted [(1)]	1.93	2.04	1.44
Weighted average shares of common stock outstanding	28,853,697	27,795,806	27,457,306
Summary Ratios			
Net interest margin	3.54 %	3.18 %	3.54 %
Net interest margin (tax-equivalent basis) [(1) (2)]	3.60	3.23	3.60
Yield on loans	4.91	4.68	4.69
Yield on interest-earning assets	3.72	3.33	3.74
Cost of interest-bearing liabilities	0.26	0.23	0.29
Cost of total deposits	0.07	0.07	0.14
Cost of funds	0.19	0.16	0.21
Efficiency ratio	57.72 %	56.46 %	59.66 %
Efficiency ratio (tax-equivalent basis) [(1) (2)]	56.93	55.76	58.91
Return on average assets	1.32 %	1.41 %	1.07 %
Return on average stockholders' equity	14.73	14.81	10.51
Return on average tangible common equity [(1)]	16.02	15.95	11.38
Adjusted return on average assets [(1)]	1.31 %	1.43 %	1.15 %
Adjusted return on average stockholders' equity [(1)]	14.56	14.95	11.33
Adjusted return on average tangible common equity [(1)]	15.83	16.12	12.28

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

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

For the year ended December 31, 2022, net income was $56.5 million increasing by $0.2 million, or 0.3%, when compared to net income for the year ended December 31, 2021. Notable changes include the following:

- A $23.5 million increase in net interest income, primarily attributable to higher average balances of interest-earning assets following the NXT acquisition in the fourth quarter of 2021, a more favorable asset mix, and higher yields on interest-earning assets which more than offset a $7.7 million decrease in PPP loan fees recognized as loan interest income;
- A $13.9 million increase in noninterest expense, primarily reflecting accruals totaling $8.2 million related to pending legal matters and a higher base level of noninterest expense following the NXT acquisition;
- A negative provision for loan losses of $0.7 million was recognized during the year ended December 31, 2022, compared to a negative provision for loan losses of $8.1 million during the year ended December 31, 2021; and
- A $4.4 million decrease in gains on sale of mortgage loans, primarily attributable to a lower level of mortgage refinancing activity due to increases in market interest rates.

Net Interest Income

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

The following tables set forth average balances, average yields and costs, and certain other information for the years ended December 31, 2022, 2021, and 2020. 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, and purchase accounting adjustments that are accreted or amortized to interest income or expense.

	Year Ended								
	December 31, 2022			December 31, 2021			December 31, 2020		
	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
	(dollars in thousands)								
ASSETS									
Loans	$ 2,514,549	$ 123,478	4.91 %	$ 2,271,544	$ 106,284	4.68 %	$ 2,245,093	$ 105,196	4.69 %
Securities	1,403,016	27,937	1.99	1,148,900	21,348	1.86	789,062	17,875	2.27
Deposits with banks	197,030	1,541	0.78	422,828	527	0.12	282,130	938	0.33
Other	3,529	98	2.77	3,201	64	2.01	2,479	56	2.28
Total interest-earning assets	4,118,124	$ 153,054	3.72 %	3,846,473	$ 128,223	3.33 %	3,318,764	$ 124,065	3.74 %
Allowance for loan losses	(24,703)			(27,999)			(27,661)		
Noninterest-earning assets	176,452			162,064			156,397		
Total assets	$ 4,269,873			$ 3,980,538			$ 3,447,500		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Liabilities									
Interest-bearing deposits:									
Interest-bearing demand	$ 1,141,402	$ 607	0.05 %	$ 1,024,888	$ 518	0.05 %	$ 873,060	$ 647	0.07 %
Money market	582,514	813	0.14	521,366	437	0.08	474,033	697	0.15
Savings	650,385	208	0.03	595,887	188	0.03	477,260	196	0.04
Time	283,232	883	0.31	295,788	1,329	0.45	317,308	2,681	0.84
Total interest-bearing deposits	2,657,533	2,511	0.09	2,437,929	2,472	0.10	2,141,661	4,221	0.20
Securities sold under agreements to repurchase	51,554	36	0.07	50,104	34	0.07	49,714	48	0.10
Borrowings	26,468	967	3.65	1,653	9	0.54	1,080	2	0.22
Subordinated notes	39,355	1,879	4.77	39,275	1,879	4.78	12,869	616	4.79
Junior subordinated debentures issued to capital trusts	37,746	1,787	4.73	37,680	1,426	3.79	37,613	1,573	4.18
Total interest-bearing liabilities	2,812,656	$ 7,180	0.26 %	2,566,641	$ 5,820	0.23 %	2,242,937	$ 6,460	0.29 %
Noninterest-bearing deposits	1,051,187			1,004,757			807,864		
Noninterest-bearing liabilities	22,724			29,060			45,996		
Total liabilities	3,886,567			3,600,458			3,096,797		
Stockholders' Equity	383,306			380,080			350,703		
Total liabilities and stockholders' equity	$ 4,269,873			$ 3,980,538			$ 3,447,500		
Net interest income/Net interest margin (1)		$ 145,874	3.54 %		$ 122,403	3.18 %		$ 117,605	3.54 %
Tax-equivalent adjustment (2)		2,499	0.06		2,028	0.05		1,943	0.06
Net interest income (tax-equivalent basis)/ Net interest margin (tax-equivalent basis) (2) (3)		$ 148,373	3.60 %		$ 124,431	3.23 %		$ 119,548	3.60 %
Net interest rate spread (4)			3.46 %			3.10 %			3.45 %
Net interest-earning assets (5)	$ 1,305,468			$ 1,279,832			$ 1,075,827		
Ratio of interest-earning assets to interest-bearing liabilities	1.46			1.50			1.48		
Cost of total deposits			0.07 %			0.07 %			0.14 %
Cost of funds			0.19			0.16			0.21

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

The following table sets forth the components of loan interest income and their contributions to the total yield on loans.

	Year Ended December 31,					
	2022		2021		2020	
	Interest	Yield Contribution	Interest	Yield Contribution	Interest	Yield Contribution
	(dollars in thousands)					
Contractual interest	$ 113,775	4.52 %	$ 90,647	3.99 %	$ 96,543	4.30 %
Loan fees (excluding PPP loans)	4,454	0.18	3,840	0.17	3,926	0.19
PPP loan fees	1,488	0.06	9,181	0.40	2,953	0.13
Accretion of acquired loan discounts	933	0.04	1,102	0.05	724	0.03
Nonaccrual interest recoveries	2,828	0.11	1,514	0.07	986	0.04
Net cash flow hedge earnings	—	—	—	—	64	—
Total loan interest income	$ 123,478	4.91 %	$ 106,284	4.68 %	$ 105,196	4.69 %

The following table sets forth the components of net interest income and their contributions to the net interest margin.

	Year Ended December 31,					
	2022		2021		2020	
	Interest	Net Interest Margin Contribution	Interest	Net Interest Margin Contribution	Interest	Net Interest Margin Contribution
	(dollars in thousands)					
Interest income:						
Contractual interest on loans	$ 113,775	2.76 %	$ 90,647	2.35 %	$ 96,543	2.91 %
Contractual interest on securities	34,896	0.85	28,426	0.74	22,920	0.69
Contractual interest on deposits with banks	1,541	0.04	530	0.01	938	0.03
Loan fees (excluding PPP loans)	4,454	0.11	3,840	0.10	3,926	0.12
PPP loan fees	1,488	0.04	9,181	0.24	2,953	0.09
Accretion of acquired loan discounts	933	0.02	1,102	0.03	724	0.02
Nonaccrual interest recoveries	2,828	0.07	1,514	0.04	986	0.03
Securities amortization, net	(6,959)	(0.17)	(7,066)	(0.18)	(5,045)	(0.15)
Other	98	—	49	—	120	—
Total interest income	153,054	3.72	128,223	3.33	124,065	3.74
Interest expense:						
Contractual interest on deposits	2,687	0.07	2,541	0.07	4,201	0.13
Contractual interest on other interest-bearing liabilities	4,398	0.11	2,903	0.07	1,846	0.06
Other	95	—	376	0.01	413	0.01
Total interest expense	7,180	0.18	5,820	0.15	6,460	0.20
Net interest income	145,874	3.54	122,403	3.18	117,605	3.54
Tax equivalent adjustment (1)	2,499	0.06	2,028	0.05	1,943	0.06
Net interest income (tax equivalent) (1) (2)	$ 148,373	3.60 %	$ 124,431	3.23 %	$ 119,548	3.60 %

(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 measures to their most closely comparable GAAP measures.

Rate/Volume Analysis

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

	Year Ended December 31, 2022 vs. Year Ended December 31, 2021			Year Ended December 31, 2021 vs. Year Ended December 31, 2020		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)					
Interest-earning assets:						
Loans	$ 11,755	$ 5,439	$ 17,194	$ 1,238	$ (150)	$ 1,088
Securities	4,977	1,612	6,589	7,100	(3,627)	3,473
Deposits with banks	(418)	1,432	1,014	338	(749)	(411)
Other	7	27	34	15	(7)	8
Total interest-earning assets	16,321	8,510	24,831	8,691	(4,533)	4,158
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	61	28	89	100	(229)	(129)
Money market	56	320	376	64	(324)	(260)
Savings	17	3	20	43	(51)	(8)
Time	(54)	(392)	(446)	(171)	(1,181)	(1,352)
Total interest-bearing deposits	80	(41)	39	36	(1,785)	(1,749)
Securities sold under agreements to repurchase	1	1	2	—	(14)	(14)
Borrowings	694	264	958	1	6	7
Subordinated notes	4	(4)	—	1,264	(1)	1,263
Junior subordinated debentures issued to capital trusts	3	358	361	3	(150)	(147)
Total interest-bearing liabilities	782	578	1,360	1,304	(1,944)	(640)
Change in net interest income	$ 15,539	$ 7,932	$ 23,471	$ 7,387	$ (2,589)	$ 4,798

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

For the year ended December 31, 2022, net interest income was $145.9 million, increasing $23.5 million, or 19.2%, when compared to the year ended December 31, 2021. The increase is primarily attributable to higher average balances of interest-earning assets following the NXT acquisition and a more favorable asset mix. These balance changes, as well as higher yields on interest-earning assets driven by recent increases in benchmark interest rates, more than offset a $7.7 million decrease in PPP loan fees recognized as loan interest income.

Net interest margin increased to 3.54% for the year ended December 31, 2022 compared to 3.18% for the year ended December 31, 2021. The contribution of PPP loans to net interest margin decreased to 4 basis points during the year ended December 31, 2022 from 24 basis points during the year ended December 31, 2021. This decrease was more than offset by an increase in contractual interest on loans, driven by recent increases in benchmark interest rates.

The quarterly net interest margins were as follows:

	2022	2021	2020
Three months ended:			
March 31	3.08 %	3.25 %	4.03 %
June 30	3.34	3.14	3.51
September 30	3.65	3.18	3.39
December 31	4.10	3.17	3.31

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

In 2021, the FOMC began to taper the pace of its security purchases, and, in March 2022, the FOMC raised the target range for the federal funds rate to 0.25% to 0.50%. Since March 2022, the FOMC has raised the target range for the federal funds rate several times, setting the target range for the federal funds rate to 4.50% to 4.75% at the February 2023 meeting and indicating that the Federal Reserve will continue reducing its security holdings.

As a result of these developments, market interest rates rose during 2022 which has led to improvements in our net interest margin. In general, we believe that increases in market interest rates will lead to improved net interest margins while decreases in market interest rates will result in lower net interest margins. Additionally, these recent increases in market interest rates have increased competition for deposits. As a result, we expect deposit costs to increase during 2023 and deposits balances may decrease and be replaced by higher cost funding sources, such as FHLB advances, brokered deposits, or other wholesale funding.

Provision for Loan Losses

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

Credit losses in our loan portfolio are highly dependent on the economic conditions in the communities that we serve. The broad deterioration in economic conditions initially caused by the COVID-19 pandemic adversely affected the communities that we serve beginning in 2020. As a result, our allowance for loan losses initially increased at the onset of the COVID-19 pandemic, remained elevated during the remainder of 2020, and then gradually returned to near pre-pandemic levels during 2021 as economic conditions improved in our market areas. During 2022, our allowance for loan losses as a percentage of total loans remained relatively stable, primarily due to the stable economic conditions observed, as well as the low level of nonperforming loans maintained, throughout 2022. Potential deterioration of economic conditions, whether due to the COVID-19 pandemic or other factors, may lead to higher credit losses and adversely impact our financial condition and results of operations.

On January 1, 2023, the Company adopted ASU 2016-13 (Topic 326), Measurement of Credit Losses on Financial Instruments, commonly referenced as the Current Expected Credit Loss ("CECL") standard. Management is finalizing macroeconomic conditions and forecast assumptions to be used in our CECL model; however, we expect the initial allowance for credit losses and the reserve for unfunded commitments together to be approximately 30% to 50% above the existing allowance for loan loss levels. When finalized, this one-time increase will be recorded, net of tax, as an adjustment to beginning retained earnings. Ongoing impacts of the CECL methodology will be dependent upon changes in economic conditions and forecasts, the credit quality of our loan portfolio, originated and acquired loan portfolio composition, portfolio duration, and other factors.

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

The Company recorded a negative provision for loan losses of $0.7 million during the year ended December 31, 2022, compared to a negative provision for loan losses of $8.1 million during the year ended December 31, 2021. During the year ended December 31, 2022, net recoveries of $2.1 million were mostly offset by a $1.4 million increase in required reserves, which included a $0.7 million increase in specific reserves on loans individually evaluated for impairment.

Noninterest Income

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

	Year Ended December 31,				
	2022	**$ Change**	**2021**	**$ Change**	**2020**
	(dollars in thousands)				
Card income	$ 10,329	$ 595	$ 9,734	$ 1,647	$ 8,087
Wealth management fees	9,155	771	8,384	1,147	7,237
Service charges on deposit accounts	7,072	992	6,080	93	5,987
Mortgage servicing	2,609	(216)	2,825	(153)	2,978
Mortgage servicing rights fair value adjustment	2,153	463	1,690	4,274	(2,584)
Gains on sale of mortgage loans	1,461	(4,385)	5,846	(2,989)	8,835
Unrealized gains (losses) on equity securities	(414)	(521)	107	74	33
Gains (losses) on foreclosed assets	(314)	(624)	310	168	142
Gains (losses) on other assets	136	859	(723)	(652)	(71)
Income on bank owned life insurance	164	123	41	41	—
Other noninterest income	2,366	(668)	3,034	(778)	3,812
Total noninterest income	$ 34,717	$ (2,611)	$ 37,328	$ 2,872	$ 34,456

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

Total noninterest income for the year ended December 31, 2022, was $34.7 million, a decrease of $2.6 million, or 7.0%, from the year ended December 31, 2021. Notable changes in noninterest income include the following:

- A $4.4 million decrease in gains on sale of mortgage loans, primarily attributable to a lower level of mortgage refinancing activity due to interest rate increases;
- A $1.0 million increase in service charges on deposit accounts;
- A $0.9 million improvement in gains (losses) on other assets, as the 2021 results include impairment losses of $0.7 million related to branches closed pursuant to our 2021 branch rationalization plan;
- A $0.8 million increase in wealth management fees, reflecting a $1.0 million increase in farm management and farmland brokerage fees;
- A $0.6 million increase in card income primarily due to increased debit and credit card transaction volume; and
- A $0.5 million increase in the mortgage servicing rights fair value adjustment, primarily resulting from slower mortgage prepayment speed assumptions.

Noninterest Expense

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

	Year Ended December 31,				
	2022	$ Change	2021	$ Change	2020
	(dollars in thousands)				
Salaries	$ 51,767	$ 2,795	$ 48,972	$ (1,253)	$ 50,225
Employee benefits	8,325	1,812	6,513	(1,392)	7,905
Occupancy of bank premises	7,673	885	6,788	208	6,580
Furniture and equipment	2,476	(200)	2,676	229	2,447
Data processing	7,441	112	7,329	587	6,742
Marketing and customer relations	3,803	427	3,376	(100)	3,476
Amortization of intangible assets	873	(181)	1,054	(178)	1,232
FDIC insurance	1,164	121	1,043	336	707
Loan collection and servicing	1,049	(268)	1,317	(438)	1,755
Foreclosed assets	293	(615)	908	351	557
Other noninterest expense	20,243	8,973	11,270	940	10,330
Total noninterest expense	$ 105,107	$ 13,861	$ 91,246	$ (710)	$ 91,956

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

Total noninterest expense for the year ended December 31, 2022, was $105.1 million, an increase of $13.9 million, or 15.2%, from the year ended December 31, 2021. Notable changes in noninterest expense include following:

- Following the NXT acquisition on October 1, 2021, there was a higher base level of noninterest expense, primarily related to personnel costs and branch operations;
- A $9.0 million increase in other noninterest expense, primarily attributable to accruals totaling $8.2 million related to pending legal matters included in the 2022 results;
- The $1.8 million increase in employee benefits expenses also included accelerated recognition of $0.6 million of stock compensation expense during February 2022 as a result of a modification to all outstanding restricted stock unit and performance restricted stock unit agreements to address treatment upon retirement. Total compensation costs related to the modified agreements remains the same, and stock compensation expense in periods subsequent to the modification are reduced as a result. The net impact of this modification was a $0.4 million increase in stock compensation expense during the year ended December 31, 2022; and
- A $0.6 million decrease in foreclosed assets expense, primarily due to fewer foreclosed properties held during 2022 relative to 2021.

See “Note 23 – Commitments and Contingencies – Legal Contingencies” to the consolidated financial statements for additional information regarding certain legal actions and litigation to which we are subject, including a discussion of potential losses and related accruals.

Income Taxes

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

We recorded income tax expense of $19.7 million, or a 25.9% effective tax rate, during the year ended December 31, 2022 compared to $20.3 million, or a 26.5% effective tax rate during the year ended December 31, 2021. The effective income tax rate was lower than the combined federal and state statutory rate primarily due to tax exempt interest income. The slight decrease in effective tax rate was primarily due to slightly higher federally tax exempt interest income and slightly lower state income taxes.

FINANCIAL CONDITION

Consolidated Balance Sheet Information	December 31, 2022	December 31, 2021	$ Change	% Change
	(dollars in thousands, except per share data)			
Cash and cash equivalents	$ 114,159	$ 409,268	$ (295,109)	(72.1)%
Debt securities available-for-sale, at fair value	843,524	942,168	(98,644)	(10.5)
Debt securities held-to-maturity	541,600	336,185	205,415	61.1
Loans held for sale	615	4,942	(4,327)	(87.6)
Loans, before allowance for loan losses	2,620,253	2,499,689	120,564	4.8
Less: allowance for loan losses	25,333	23,936	1,397	5.8
Loans, net of allowance for loan losses	2,594,920	2,475,753	119,167	4.8
Goodwill	29,322	29,322	—	—
Core deposit intangible assets, net	1,070	1,943	(873)	(44.9)
Other assets	161,524	114,673	46,851	40.9
Total assets	$ 4,286,734	$ 4,314,254	$ (27,520)	(0.6)%
Total deposits	$ 3,587,024	$ 3,738,185	$ (151,161)	(4.0)%
Securities sold under agreements to repurchase	43,081	61,256	(18,175)	(29.7)
Borrowings	160,000	—	160,000	NM
Subordinated notes	39,395	39,316	79	0.2
Junior subordinated debentures	37,780	37,714	66	0.2
Other liabilities	45,822	25,902	19,920	76.9
Total liabilities	3,913,102	3,902,373	10,729	0.3
Total stockholders' equity	373,632	411,881	(38,249)	(9.3)
Total liabilities and stockholders' equity	$ 4,286,734	$ 4,314,254	$ (27,520)	(0.6)%
Tangible assets (1)	$ 4,256,342	$ 4,282,989	$ (26,647)	(0.6)%
Tangible common equity (1)	343,240	380,616	(37,376)	(9.8)
Core deposits (1)	$ 3,559,866	$ 3,674,435	$ (114,569)	(3.1)%
Share and Per Share Information				
Book value per share	$ 12.99	$ 14.21		
Tangible book value per share (1)	11.94	13.13		
Shares of common stock outstanding	28,752,626	28,986,061		
Balance Sheet Ratios				
Loan to deposit ratio	73.05 %	66.87 %		
Core deposits to total deposits (1)	99.24	98.29		
Stockholders' equity to total assets	8.72	9.55		
Tangible common equity to tangible assets (1)	8.06	8.89		

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

Total assets were $4.29 billion at December 31, 2022, a decrease of $27.5 million, or 0.6%, from December 31, 2021. Notable changes in our consolidated balance sheet include the following:

- Excess liquidity, including excess cash held at December 31, 2021, was reinvested into debt securities, which increased by $106.8 million, and loans held for investment which increased $120.6 million;
- Loans increased by $120.6 million despite a $29.5 million decrease in PPP loans due to forgiveness;
- Total deposits decreased by $151.2 million, primarily due to lower balances maintained in noninterest-bearing business accounts and continued run-off of higher cost time deposits;
- Borrowings, consisting of short-term FHLB advances, increased $160.0 million and were utilized to fund short-term liquidity needs; and
- Increases in market interest rates during 2022 drove a decrease in fair value of debt securities resulting in $105.5 million of unrealized losses in the available-for-sale portfolio and substantially contributing to a total decrease of $73.2 million in accumulated other comprehensive income (loss).

Loan Portfolio

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

	December 31, 2022		December 31, 2021	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Commercial and industrial	$ 266,757	10.2 %	$ 286,946	11.5 %
Agricultural and farmland	237,746	9.1	247,796	9.9
Commercial real estate - owner occupied	218,503	8.3	234,544	9.4
Commercial real estate - non-owner occupied	713,202	27.2	684,023	27.4
Multi-family	287,865	11.0	263,911	10.5
Construction and land development	360,824	13.8	298,048	11.9
One-to-four family residential	338,253	12.9	327,837	13.1
Municipal, consumer, and other	197,103	7.5	156,584	6.3
Loans, before allowance for loan losses	2,620,253	100.0 %	2,499,689	100.0 %
Allowance for loan losses	(25,333)		(23,936)	
Loans, net of allowance for loan losses	$ 2,594,920		$ 2,475,753	
PPP loans (included above)				
Commercial and industrial	$ 28	— %	$ 28,404	1.1 %
Agricultural and farmland	—	—	913	0.1
Municipal, consumer, and other	—	—	171	—
Total PPP loans	$ 28	— %	$ 29,488	1.2 %

Loans, before allowance for loan losses were $2.62 billion at December 31, 2022, an increase of $120.6 million, or 4.8%, from December 31, 2021. Notable changes include the following:

- Loan growth was partially offset by a $29.5 million decrease in PPP loans due to forgiveness;
- Loan growth excluding PPP loans was predominantly in the Chicago metropolitan statistical area with balances in our Iowa and Central Illinois markets also increasing; and
- Our loan growth during 2022 was highest in the regulatory CRE categories, which includes construction and land development, commercial real estate – non-owner occupied, and multi-family loans.

Loan Portfolio Maturities

The following table summarizes the scheduled maturities of the loan portfolio as of December 31, 2022. Demand loans (loans having no stated repayment schedule or maturity) and overdraft loans are reported as being due in one year or less.

December 31, 2022	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 15 Years	After 15 Years	Total
		(dollars in thousands)			
Commercial and industrial	$ 162,152	$ 89,361	$ 15,244	$ —	$ 266,757
Agricultural and farmland	94,041	103,323	37,211	3,171	237,746
Commercial real estate - owner occupied	15,778	132,718	67,760	2,247	218,503
Commercial real estate - non-owner occupied	83,519	423,430	205,747	506	713,202
Multi-family	27,604	197,005	63,256	—	287,865
Construction and land development	191,601	151,082	17,919	222	360,824
One-to-four family residential	69,624	129,703	72,762	66,164	338,253
Municipal, consumer, and other	90,085	17,533	69,584	19,901	197,103
Total	$ 734,404	$ 1,244,155	$ 549,483	$ 92,211	$ 2,620,253

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

	Variable Interest Rates				
December 31, 2022	Repricing 1 Year or Less	Repricing After 1 Year	Total Variable Interest Rates	Predetermined (Fixed) Interest Rates	Total
		(dollars in thousands)			
Commercial and industrial	$ 25,953	$ 17	$ 25,970	$ 78,635	$ 104,605
Agricultural and farmland	7,568	5,798	13,366	130,339	143,705
Commercial real estate - owner occupied	30,113	18,447	48,560	154,165	202,725
Commercial real estate - non-owner occupied	74,175	14,615	88,790	540,893	629,683
Multi-family	17,689	3,550	21,239	239,022	260,261
Construction and land development	87,961	738	88,699	80,524	169,223
One-to-four family residential	68,152	27,734	95,886	172,743	268,629
Municipal, consumer, and other	31,209	11,680	42,889	64,129	107,018
Total	$ 342,820	$ 82,579	$ 425,399	$ 1,460,450	$ 1,885,849

Nonperforming Assets

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

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

When it appears likely that we will obtain title to real estate collateral, we develop an exit strategy by assessing overall market conditions, the current use and condition of the asset, and its highest and best use. If determined necessary to maximize value, we complete the necessary improvements or tenant stabilization tasks, with the applicable time value discount and improvement expenses incorporated into our estimates of the expected costs to sell. Substantially all foreclosed real estate is valued on an "as-is" basis.

Estimates of the net realizable value of real estate collateral also include a deduction for the expected selling costs. For most real estate collateral and foreclosed real estate, we apply a 7.0% deduction to the value of the asset to account for the expected costs to sell the asset. This estimate includes sales commissions and closing costs. Expenses for real estate taxes are accrued and repairs are expensed when incurred.

The following table sets forth information concerning nonperforming loans and nonperforming assets as of December 31.

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
NONPERFORMING ASSETS		
Nonaccrual	$ 2,155	$ 2,763
Past due 90 days or more, still accruing [(1)]	1	16
Total nonperforming loans	2,156	2,779
Foreclosed assets	3,030	3,278
Total nonperforming assets	$ 5,186	$ 6,057
Allowance for loan losses	$ 25,333	$ 23,936
Loans, before allowance for loan losses	2,620,253	2,499,689
CREDIT QUALITY RATIOS		
Allowance for loan losses to loans, before allowance for loan losses	0.97 %	0.96 %
Allowance for loan losses to nonaccrual loans	1,175.55	866.30
Allowance for loan losses to nonperforming loans	1,175.00	861.32
Nonaccrual loans to loans, before allowance for loan losses	0.08	0.11
Nonperforming loans to loans, before allowance for loan losses	0.08	0.11
Nonperforming assets to total assets	0.12	0.14
Nonperforming assets to loans, before allowance for loan losses, and foreclosed assets	0.20	0.24

(1) Excludes loans acquired with deteriorated credit quality that are past due 90 or more days totaling $145 thousand and $32 thousand as of December 31, 2022 and 2021, respectively.

Comparison of December 31, 2022 to December 31, 2021

Total nonperforming assets were $5.2 million as of December 31, 2022, a decrease of $0.9 million, or 14.4%, from December 31, 2021. Our level of nonperforming assets has remained low in recent years, representing only 0.12% of total assets as of December 31, 2022 and 0.14% of total assets as of December 31, 2021. We believe our continuous credit monitoring and collection efforts have resulted in lower levels of nonperforming assets, while also recognizing that favorable economic conditions prior to the COVID-19 pandemic and substantial federal economic stimulus during the pandemic have also contributed to these lower levels.

Troubled Debt Restructurings

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

The following table presents TDRs by loan category.

	December 31, 2022			December 31, 2021		
	Accruing	Nonaccrual	Total	Accruing	Nonaccrual	Total
	(dollars in thousands)					
Commercial and industrial	$ 84	$ —	$ 84	$ 203	$ —	$ 203
Commercial real estate - owner occupied	1,514	—	1,514	1,671	—	1,671
Commercial real estate - non-owner occupied	1,204	—	1,204	1,278	—	1,278
One-to-four family residential	189	—	189	360	—	360
Total troubled debt restructurings	$ 2,991	$ —	$ 2,991	$ 3,512	$ —	$ 3,512

TDRs have remained a small portion of our loan portfolio as loan modifications to borrowers with deteriorating financial condition are generally offered only as part of an overall workout strategy to minimize losses to the Company.

Risk Classification of Loans

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

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

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

A doubtful loan 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 December 31, 2022 and 2021, our risk classifications of loans were as follows:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Pass	$ 2,479,488	$ 2,269,228
Pass-watch	66,934	148,285
Substandard	73,831	82,176
Doubtful	—	—
Total	$ 2,620,253	$ 2,499,689

Pass-watch loans decreased $81.4 million, or 54.9% from December 31, 2021 to December 31, 2022. Additionally, substandard loans decreased $8.3 million, or 10.2%, from December 31, 2021 to December 31, 2022. These overall improvements were primarily driven by better economic conditions, relative to 2021, which resulted in both risk rating upgrades and paydowns.

Net Charge-offs and Recoveries

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Net charge-offs (recoveries)			
Commercial and industrial	$ (751)	$ 15	$ 1,189
Agricultural and farmland	—	—	27
Commercial real estate - owner occupied	(1,006)	21	(401)
Commercial real estate - non-owner occupied	(283)	(24)	274
Multi-family	—	—	—
Construction and land development	(1)	(342)	(223)
One-to-four family residential	(302)	18	(155)
Municipal, consumer, and other	240	137	282
Total	$ (2,103)	$ (175)	$ 993
Average loans, before allowance for loan losses			
Commercial and industrial	$ 268,765	$ 347,547	$ 372,927
Agricultural and farmland	233,349	230,364	223,381
Commercial real estate - owner occupied	219,127	204,148	222,593
Commercial real estate - non-owner occupied	695,230	583,084	543,227
Multi-family	258,490	227,736	196,632
Construction and land development	340,831	226,035	242,800
One-to-four family residential	328,656	314,871	324,645
Municipal, consumer, and other	170,101	137,759	118,888
Total	$ 2,514,549	$ 2,271,544	$ 2,245,093
Net charge-offs (recoveries) to average loans, before allowance for loan losses			
Commercial and industrial	(0.28)%	— %	0.32 %
Agricultural and farmland	—	—	0.01
Commercial real estate - owner occupied	(0.46)	0.01	(0.18)
Commercial real estate - non-owner occupied	(0.04)	—	0.05
Multi-family	—	—	—
Construction and land development	—	(0.15)	(0.09)
One-to-four family residential	(0.09)	0.01	(0.05)
Municipal, consumer, and other	0.14	0.10	0.24
Total	(0.08)%	(0.01)%	0.04 %

Comparison of the Year Ended December 31, 2022 to the Year Ended December 31, 2021

Our net charge-offs (recoveries) percentage has remained low for several years, including each of the years ended December 31, 2022, 2021, and 2020. We believe our continuous credit monitoring and collection efforts have resulted in lower levels of loan losses, while also recognizing that favorable economic conditions prior to the COVID-19 pandemic and substantial federal economic stimulus during the pandemic have also contributed to reduced loan losses.

Securities

The Company’s investment policy emphasizes safety of the principal, liquidity needs, expected returns, cash flow targets and consistency with our interest rate risk management strategy. The composition and maturities of the debt securities portfolio as of December 31, 2022 is summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Security yields have not been adjusted to a tax-equivalent basis.

	December 31, 2022					
	Available-for-Sale		Held-to-Maturity		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(dollars in thousands)					
Due in 1 year or less						
U.S. Treasury	$ 10,073	1.51 %	$ —	— %	$ 10,073	1.51 %
Municipal	4,431	2.51	2,288	4.01	6,719	3.02
Mortgage-backed:						
Agency residential	69	3.22	—	—	69	3.22
Agency commercial	1,484	1.98	—	—	1,484	1.98
Corporate	4,997	2.58	—	—	4,997	2.58
Total	$ 21,054	2.01 %	$ 2,288	4.01 %	$ 23,342	2.21 %
Due after 1 year through 5 years						
U.S. Treasury	$ 109,636	1.32 %	$ —	— %	$ 109,636	1.32 %
U.S. government agency	40,921	2.55	10,000	2.18	50,921	2.48
Municipal	59,838	2.05	17,813	3.19	77,651	2.31
Mortgage-backed:						
Agency residential	12,969	2.33	8,364	1.62	21,333	2.05
Agency commercial	43,737	2.02	16,708	2.64	60,445	2.19
Corporate	19,891	4.65	—	—	19,891	4.65
Total	$ 286,992	2.03 %	$ 52,885	2.58 %	$ 339,877	2.12 %
Due after 5 years through 10 years						
U.S. Treasury	$ 50,151	1.49 %	$ —	— %	$ 50,151	1.49 %
U.S. government agency	18,370	2.38	64,028	2.47	82,398	2.45
Municipal	143,973	1.75	19,153	3.43	163,126	1.95
Mortgage-backed:						
Agency residential	74,346	2.09	3,858	3.51	78,204	2.16
Agency commercial	64,083	1.67	233,021	1.77	297,104	1.75
Corporate	38,709	4.17	—	—	38,709	4.17
Total	$ 389,632	2.04 %	$ 320,060	2.03 %	$ 709,692	2.04 %
Due after 10 years						
U.S. government agency	$ —	— %	$ 14,396	2.72 %	$ 14,396	2.72 %
Municipal	67,730	1.88	2,913	3.35	70,643	1.94
Mortgage-backed:						
Agency residential	126,292	2.52	90,506	3.59	216,798	2.97
Agency commercial	40,756	2.03	58,552	1.98	99,308	2.00
Corporate	2,000	4.50	—	—	2,000	4.50
Total	$ 236,778	2.27 %	$ 166,367	2.94 %	$ 403,145	2.55 %
Total						
U.S. Treasury	$ 169,860	1.38 %	$ —	— %	$ 169,860	1.38 %
U.S. government agency	59,291	2.50	88,424	2.48	147,715	2.49
Municipal	275,972	1.86	42,167	3.36	318,139	2.06
Mortgage-backed:						
Agency residential	213,676	2.36	102,728	3.43	316,404	2.71
Agency commercial	150,060	1.87	308,281	1.86	458,341	1.86
Corporate	65,597	4.20	—	—	65,597	4.20
Total	$ 934,456	2.09 %	$ 541,600	2.37 %	$ 1,476,056	2.20 %

SOURCES OF FUNDS

Deposits

Management continues to focus on growing non-maturity deposits, through the Company's relationship-driven banking philosophy and community-focused marketing programs, and to deemphasize higher cost deposit categories, such as time deposits. Additionally, the Bank continues to add and improve digital banking services to solidify deposit relationships.

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

	Year Ended December 31, 2022			Percent Change in
	Average Balance	Percent of Total Deposits	Weighted Average Cost	Average Balance 2022 vs. 2021
	(dollars in thousands)			
Noninterest-bearing	$ 1,051,187	28.4 %	— %	4.6 %
Interest-bearing demand	1,141,402	30.8	0.05	11.4
Money market	582,514	15.7	0.14	11.7
Savings	650,385	17.5	0.03	9.1
Total non-maturity deposits	3,425,488	92.4	0.05	8.9
Time	283,232	7.6	0.31	(4.2)
Total deposits	$ 3,708,720	100.0 %	0.07 %	7.7 %

	Year Ended December 31, 2021			Percent Change in
	Average Balance	Percent of Total Deposits	Weighted Average Cost	Average Balance 2021 vs. 2020
	(dollars in thousands)			
Noninterest-bearing	$ 1,004,757	29.2 %	— %	24.4 %
Interest-bearing demand	1,024,888	29.8	0.05	17.4
Money market	521,366	15.1	0.08	10.0
Savings	595,887	17.3	0.03	24.9
Total non-maturity deposits	3,146,898	91.4	0.04	19.6
Time	295,788	8.6	0.45	(6.8)
Total deposits	$ 3,442,686	100.0 %	0.07 %	16.7 %

	Year Ended December 31, 2020		
	Average Balance	Percent of Total Deposits	Weighted Average Cost
	(dollars in thousands)		
Noninterest-bearing	$ 807,864	27.4 %	— %
Interest-bearing demand	873,060	29.6	0.07
Money market	474,033	16.1	0.15
Savings	477,260	16.2	0.04
Total non-maturity deposits	2,632,217	89.3	0.06
Time	317,308	10.7	0.84
Total deposits	$ 2,949,525	100.0 %	0.14 %

Comparison of the Year Ended December 31*, 2022 to the Year Ended* December 31*, 2021*

The average balances of non-maturity deposits increased 8.9% from the year ended December 31, 2021 to the year ended December 31, 2022, with the increase primarily attributable to higher balances maintained by deposit customers following the receipt of federal economic stimulus, in the form of PPP loan proceeds by commercial customers and direct payments received by retail customers, although this trend began to reverse in the second quarter of 2022. Additionally, the NXT acquisition added $139.4 million of non-maturity deposits on October 1, 2021. Time deposits decreased slightly due to the continued run-off of higher cost time deposits, although this was partially offset by the addition of $42.1 million of time deposits acquired from NXT.

The following table sets forth time deposits by remaining maturity as of December 31, 2022.

	3 Months or Less	Over 3 through 6 Months	Over 6 through 12 Months	Over 12 Months	Total
	(dollars in thousands)				
Time deposits:					
Amounts less than $100,000	$ 36,773	$ 34,962	$ 49,768	$ 48,858	$ 170,361
Amounts of $100,000 or more but less than $250,000	12,262	11,480	24,515	17,192	65,449
Amounts of $250,000 or more	5,743	3,414	12,128	5,873	27,158
Total time deposits	$ 54,778	$ 49,856	$ 86,411	$ 71,923	$ 262,968

As of December 31, 2022 and 2021, the Bank's uninsured deposits, including related accrued interest, were estimated to be $739.0 million and $845.7 million, respectively.

Securities Sold Under Agreements to Repurchase

All securities sold under agreements to repurchase are sweep instruments, maturing daily. The securities underlying the agreements are held under our control in safekeeping at third-party financial institutions, and include debt securities.

The following table sets forth information concerning balances and interest rates on our securities sold under agreements to repurchase.

	As of or for the Years Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Balance at end of year	$ 43,081	$ 61,256	$ 45,736
Average balance during year	51,554	50,104	49,714
Maximum outstanding at any month end	55,698	61,256	58,839
Weighted average interest rate at end of year	0.28 %	0.07 %	0.06 %
Average interest rate during year	0.07	0.07	0.10

Borrowings

Deposits are the primary source of funds for our lending activities and general business purposes. However, we may also obtain advances from the Federal Home Loan Bank of Chicago ("FHLB"), purchase federal funds, and engage in overnight borrowing from the Federal Reserve. We may also use these sources of funds as part of our asset liability management process to control our long-term interest rate risk exposure, even if it may increase our short-term cost of funds. Our level of short-term borrowing can fluctuate on a daily basis depending on funding needs and the source of funds to satisfy the needs.

Our use of FHLB advances and other borrowings was nominal during 2020 and 2021, but increased during the second half of 2022 to fund increases in loan demand and to offset a decrease in deposits.

The following table sets forth information concerning balances and interest rates on our borrowings.

	As of or for the Years Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Balance at end of year			
FHLB advances	$ 160,000	$ —	$ —
Federal funds purchased	—	—	—
Total borrowings	$ 160,000	$ —	$ —
Average balance during year			
FHLB advances	$ 25,934	$ 1,310	$ 656
Federal funds purchased	534	343	424
Total borrowings	$ 26,468	$ 1,653	$ 1,080
Maximum outstanding at any month end			
FHLB advances	$ 160,000	$ —	$ 4,000
Federal funds purchased	—	—	—
Total borrowings	$ 160,000	$ —	$ 4,000
Weighted average interest rate at end of year			
FHLB advances	4.29 %	— %	— %
Federal funds purchased	—	—	—
Total borrowings	4.29	—	—
Average interest rate during year			
FHLB advances	3.68 %	0.56 %	0.02 %
Federal funds purchased	2.11	0.48	0.52
Total borrowings	3.65	0.54	0.22

LIQUIDITY

Bank Liquidity

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

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

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

Additional sources of liquidity include unpledged securities, federal funds purchased, and borrowings from the FHLB. Unpledged securities may be sold or pledged as collateral for borrowings to meet liquidity needs. Interest is charged at the prevailing market rate on federal funds purchased and FHLB borrowings. Funds available through federal funds purchased and FHLB borrowings are used primarily to meet daily liquidity needs. The total remaining credit available to the Bank from the FHLB at December 31, 2022 was $409.9 million.

As of December 31, 2022, the Bank's liquidity and available sources of liquidity were adequate to meet all of the reasonably foreseeable short-term and intermediate-term demands of the Bank. As of December 31, 2022, the Bank had no material commitments for capital expenditures.

Holding Company Liquidity

The Holding Company, or HBT Financial, Inc. on an unconsolidated basis, is a corporation separate and apart from the Bank and, therefore, it must provide for its own liquidity. As of December 31, 2022, the Holding Company had cash and cash equivalents of $24.3 million.

The Holding Company's main source of funding is dividends declared and paid to it by the Bank. Due to state banking laws, the Bank may not declare dividends in any calendar year in an amount that would exceed accumulated retained earnings, after giving effect to any unrecognized losses and bad debts, without the prior approval of the Illinois Department of Financial and Professional Regulation. In addition, dividends paid by the Bank to the Holding Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Management believes that these limitations will not impact the Holding Company's ability to meet its ongoing short-term and intermediate-term cash obligations. During the years ended December 31, 2022, 2021, and 2020, the Bank paid dividends of $28.0 million, $20.0 million, and $17.6 million to the Holding Company, respectively.

The liquidity needs of the Holding Company on an unconsolidated basis consist primarily of operating expenses, interest payments on the subordinated notes and junior subordinated debentures, and shareholder distributions in the form of dividends and stock repurchases. During the years ended December 31, 2022, 2021, and 2020, holding company operating expenses consisted of interest expense of $3.7 million, $3.3 million, and $2.2 million, respectively, and other operating expenses of $5.3 million, $3.7 million, and $2.5 million, respectively.

Additionally, the Holding Company paid $18.6 million, $16.8 million, and $16.5 million of dividends to stockholders during the years ended December 31, 2022, 2021, and 2020, respectively. As of December 31, 2022, management was not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material impact on the Holding Company's liquidity.

As of December 31, 2022, the Holding Company's liquidity and available sources of liquidity were adequate to meet all of the reasonably foreseeable short-term and intermediate-term demands of the Holding Company. As of December 31, 2022, the Holding Company had no material commitments for capital expenditures.

CAPITAL RESOURCES

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

Regulatory Capital Requirements

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

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

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

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

	December 31, 2022	December 31, 2021	For Capital Adequacy Purposes With Capital Conversation Buffer (1)	To Be Well Capitalized Under Prompt Corrective Action Provisions (2)
Total Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	16.27 %	16.88 %	10.50 %	N/A
Heartland Bank and Trust Company	15.43	15.94	10.50	10.00 %
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	14.23 %	14.66 %	8.50 %	N/A
Heartland Bank and Trust Company	14.63	15.09	8.50	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	13.07 %	13.37 %	7.00 %	N/A
Heartland Bank and Trust Company	14.63	15.09	7.00	6.50 %
Tier 1 Capital (to Average Assets)				
Consolidated HBT Financial, Inc.	10.48 %	9.84 %	4.00	N/A
Heartland Bank and Trust Company	10.78	10.13	4.00	5.00 %

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

As of December 31, 2022, management was not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material impact on the Company's capital resources.

Cash Dividends

The Company paid quarterly cash dividends of $0.16 during 2022 and $0.15 per share during 2021 and 2020. On January 24, 2023, the Company's Board of Directors declared a quarterly cash dividend of $0.17 per share.

Stock Repurchase Program

The Company repurchased 265,379 shares of its common stock at a weighted average price of $18.02 during 2022 and 290,486 shares at a weighted average price of $16.89 during 2021. Repurchases were conducted in compliance with Rule 10b-18 and in compliance with Regulation M under the Exchange Act. On December 21, 2022, the Company's Board of Directors approved a new stock repurchase program which authorizes the Company to repurchase up to $15.0 million of its common stock. The new stock repurchase program took effect upon the expiration of the prior stock repurchase program and expires on January 1, 2024.

OFF-BALANCE SHEET ARRANGEMENTS

As a financial services provider, the Bank is routinely a party to various financial instruments with off-balance sheet risks, such as commitments to extend credit, standby letters of credit, unused lines of credit, commitments to sell loans, and interest rate swaps. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process afforded to loans originated by the Bank. Although commitments to extend credit are considered while evaluating our allowance for loan losses, at December 31, 2022 and 2021, there were no reserves for unfunded commitments. For additional information, see "Note 23 – Commitments and Contingencies" to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

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

Allowance for Loan losses

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

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

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

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

NON-GAAP FINANCIAL MEASURES

This Annual Report on Form 10-K contains certain financial information determined by methods other than in accordance with GAAP. Management believes that it is a standard practice in the banking industry to present these non-GAAP financial measures, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP; nor are they necessarily comparable to non-GAAP financial measures that may be presented by other companies. See our reconciliation of non-GAAP financial measures to their most closely comparable GAAP financial measures below.

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

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

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

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Net income	$ 56,456	$ 56,271	$ 36,845
Adjustments:			
Acquisition expenses	(1,092)	(1,416)	—
Branch closure expenses	—	(748)	—
Gains (losses) on sales of closed branch premises	141	—	—
Charges related to termination of certain employee benefit plans	—	—	(1,457)
Mortgage servicing rights fair value adjustment	2,153	1,690	(2,584)
Total adjustments	1,202	(474)	(4,041)
Tax effect of adjustments	(551)	(95)	1,152
Less adjustments after tax effect	651	(569)	(2,889)
Adjusted net income	$ 55,805	$ 56,840	$ 39,734
Average assets	$ 4,269,873	$ 3,980,538	$ 3,447,500
Return on average assets	1.32 %	1.41 %	1.07 %
Adjusted return on average assets	1.31	1.43	1.15

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands, except per share amounts)		
Numerator:			
Net income	$ 56,456	$ 56,271	$ 36,845
Earnings allocated to participating securities [(1)]	(66)	(104)	(93)
Numerator for earnings per share - basic and diluted	$ 56,390	$ 56,167	$ 36,752
Adjusted net income	$ 55,805	$ 56,840	$ 39,734
Earnings allocated to participating securities [(1)]	(65)	(105)	(101)
Numerator for adjusted earnings per share - basic and diluted	$ 55,740	$ 56,735	$ 39,633
Denominator:			
Weighted average common shares outstanding	28,853,697	27,795,806	27,457,306
Dilutive effect of outstanding restricted stock units	65,619	15,487	—
Weighted average common shares outstanding, including all dilutive potential shares	28,919,316	27,811,293	27,457,306
Earnings per share - Basic	$ 1.95	$ 2.02	$ 1.34
Earnings per share - Diluted	$ 1.95	$ 2.02	$ 1.34
Adjusted earnings per share - Basic	$ 1.93	$ 2.04	$ 1.44
Adjusted earnings per share - Diluted	$ 1.93	$ 2.04	$ 1.44

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

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Net interest income (tax equivalent basis)			
Net interest income	$ 145,874	$ 122,403	$ 117,605
Tax-equivalent adjustment (1)	2,499	2,028	1,943
Net interest income (tax equivalent basis) (1)	$ 148,373	$ 124,431	$ 119,548
Net interest margin (tax equivalent basis)			
Net interest margin	3.54 %	3.18 %	3.54 %
Tax-equivalent adjustment (1)	0.06	0.05	0.06
Net interest margin (tax equivalent basis) (1)	3.60 %	3.23 %	3.60 %
Average interest-earning assets	$ 4,118,124	$ 3,846,473	$ 3,318,764

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

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Efficiency ratio (tax equivalent basis)			
Total noninterest expense	$ 105,107	$ 91,246	$ 91,956
Less: amortization of intangible assets	873	1,054	1,232
Adjusted noninterest expense	$ 104,234	$ 90,192	$ 90,724
Net interest income	$ 145,874	$ 122,403	$ 117,605
Total noninterest income	34,717	37,328	34,456
Operating revenue	180,591	159,731	152,061
Tax-equivalent adjustment (1)	2,499	2,028	1,943
Operating revenue (tax-equivalent basis) (1)	$ 183,090	$ 161,759	$ 154,004
Efficiency ratio	57.72 %	56.46 %	59.66 %
Efficiency ratio (tax equivalent basis) (1)	56.93	55.76	58.91

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

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

	December 31, 2022	December 31, 2021
	(dollars in thousands, except per share data)	
Tangible Common Equity		
Total stockholders' equity	$ 373,632	$ 411,881
Less: Goodwill	29,322	29,322
Less: Core deposit intangible assets, net	1,070	1,943
Tangible common equity	$ 343,240	$ 380,616
Tangible Assets		
Total assets	$ 4,286,734	$ 4,314,254
Less: Goodwill	29,322	29,322
Less: Core deposit intangible assets, net	1,070	1,943
Tangible assets	$ 4,256,342	$ 4,282,989
Total stockholders' equity to total assets	8.72 %	9.55 %
Tangible common equity to tangible assets	8.06	8.89
Shares of common stock outstanding	28,752,626	28,986,061
Book value per share	$ 12.99	$ 14.21
Tangible book value per share	11.94	13.13

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

	Year Ended December 31,		
	2022	2021	2020
		(dollars in thousands)	
Average Tangible Common Equity			
Total stockholders' equity	$ 383,306	$ 380,080	$ 350,703
Less: Goodwill	29,322	25,057	23,620
Less: Core deposit intangible assets, net	1,480	2,333	3,436
Average tangible common equity	$ 352,504	$ 352,690	$ 323,647
Net income	$ 56,456	$ 56,271	$ 36,845
Adjusted net income	55,805	56,840	39,734
Return on average stockholders' equity	14.73 %	14.81 %	10.51 %
Return on average tangible common equity	16.02	15.95	11.38
Adjusted return on average stockholders' equity	14.56 %	14.95 %	11.33 %
Adjusted return on average tangible common equity	15.83	16.12	12.28

Reconciliation of Non-GAAP Financial Measure - Core Deposits

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Core Deposits		
Total deposits	$ 3,587,024	$ 3,738,185
Less: time deposits of $250,000 or more	27,158	59,512
Less: brokered deposits	—	4,238
Core deposits	$ 3,559,866	$ 3,674,435
Core deposits to total deposits	99.24 %	98.29 %

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are interest rate risk and credit risk.

Interest Rate Risk

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

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

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

The following table sets forth, as of December 31, 2022 and 2021, the estimated impact on our EVE and net interest income of immediate and parallel changes in interest rates at the specified levels.

	Estimated Increase (Decrease) in EVE		Increase (Decrease) in Estimated Net Interest Income			
			Year 1		Year 2	
Change in Interest Rates (basis points)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
			(dollars in thousands)			
December 31, 2022						
+400	$ 96,824	11.9 %	$ 14,631	8.7 %	$ 22,157	12.7 %
+300	89,504	11.0	11,587	6.9	18,225	10.5
+200	71,015	8.7	8,152	4.8	13,266	7.6
+100	43,269	5.3	4,308	2.5	7,307	4.2
-100	(64,289)	(7.9)	(6,808)	(4.0)	(10,305)	(5.9)
-200	(159,079)	(19.5)	(16,218)	(9.6)	(23,694)	(13.6)
-300	(219,755)	(27.0)	(24,834)	(14.7)	(35,743)	(20.5)
December 31, 2021						
+400	$ 92,106	19.7 %	$ 23,230	18.7 %	$ 38,485	31.7 %
+300	76,708	16.4	17,938	14.5	30,487	25.1
+200	51,627	11.1	12,154	9.8	21,339	17.6
+100	12,453	2.7	5,818	4.7	11,062	9.1
-100	34,852	7.5	(4,098)	(3.3)	(7,746)	(6.4)

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

Credit Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HBT FINANCIAL, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors
HBT Financial, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HBT Financial, Inc. and its subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2017.

Chicago, Illinois
March 8, 2023

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 18,970	$ 23,387
Interest-bearing deposits with banks	95,189	385,881
Cash and cash equivalents	114,159	409,268
Interest-bearing time deposits with banks	—	490
Debt securities available-for-sale, at fair value	843,524	942,168
Debt securities held-to-maturity (fair value of $478,801 at 2022 and $336,027 at 2021)	541,600	336,185
Equity securities with readily determinable fair value	3,029	3,443
Equity securities with no readily determinable fair value	1,977	1,927
Restricted stock, at cost	7,965	2,739
Loans held for sale	615	4,942
Loans, before allowance for loan losses	2,620,253	2,499,689
Allowance for loan losses	(25,333)	(23,936)
Loans, net of allowance for loan losses	2,594,920	2,475,753
Bank owned life insurance	7,557	7,393
Bank premises and equipment, net	50,469	52,483
Bank premises held for sale	235	1,452
Foreclosed assets	3,030	3,278
Goodwill	29,322	29,322
Core deposit intangible assets, net	1,070	1,943
Mortgage servicing rights, at fair value	10,147	7,994
Investments in unconsolidated subsidiaries	1,165	1,165
Accrued interest receivable	19,506	14,901
Other assets	56,444	17,408
Total assets	$ 4,286,734	$ 4,314,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 994,954	$ 1,087,659
Interest-bearing	2,592,070	2,650,526
Total deposits	3,587,024	3,738,185
Securities sold under agreements to repurchase	43,081	61,256
Federal Home Loan Bank advances	160,000	—
Subordinated notes	39,395	39,316
Junior subordinated debentures issued to capital trusts	37,780	37,714
Other liabilities	45,822	25,902
Total liabilities	3,913,102	3,902,373
COMMITMENTS AND CONTINGENCIES (Note 23)		
Stockholders' Equity		
Preferred stock, $0.01 par value; 25,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value; 125,000,000 shares authorized; shares issued of 29,308,491 at 2022 and 29,276,547 at 2021; shares outstanding of 28,752,626 at 2022 and 28,986,061 at 2021	293	293
Surplus	222,783	220,891
Retained earnings	232,004	194,132
Accumulated other comprehensive income (loss)	(71,759)	1,471
Treasury stock at cost, 555,865 shares at 2022 and 290,486 at 2021	(9,689)	(4,906)
Total stockholders’ equity	373,632	411,881
Total liabilities and stockholders’ equity	$ 4,286,734	$ 4,314,254

See accompanying Notes to Consolidated Financial Statements

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2022	2021	2020
INTEREST AND DIVIDEND INCOME	(dollars in thousands, except per share data)		
Loans, including fees:			
Taxable	$ 120,343	$ 103,900	$ 102,893
Federally tax exempt	3,135	2,384	2,303
Securities:			
Taxable	23,368	16,948	13,179
Federally tax exempt	4,569	4,400	4,696
Interest-bearing deposits in bank	1,541	527	938
Other interest and dividend income	98	64	56
Total interest and dividend income	153,054	128,223	124,065
INTEREST EXPENSE			
Deposits	2,511	2,472	4,221
Securities sold under agreements to repurchase	36	34	48
Borrowings	967	9	2
Subordinated notes	1,879	1,879	616
Junior subordinated debentures issued to capital trusts	1,787	1,426	1,573
Total interest expense	7,180	5,820	6,460
Net interest income	145,874	122,403	117,605
PROVISION FOR LOAN LOSSES	(706)	(8,077)	10,532
Net interest income after provision for loan losses	146,580	130,480	107,073
NONINTEREST INCOME			
Card income	10,329	9,734	8,087
Wealth management fees	9,155	8,384	7,237
Service charges on deposit accounts	7,072	6,080	5,987
Mortgage servicing	2,609	2,825	2,978
Mortgage servicing rights fair value adjustment	2,153	1,690	(2,584)
Gains on sale of mortgage loans	1,461	5,846	8,835
Unrealized gains (losses) on equity securities	(414)	107	33
Gains (losses) on foreclosed assets	(314)	310	142
Gains (losses) on other assets	136	(723)	(71)
Income on bank owned life insurance	164	41	—
Other noninterest income	2,366	3,034	3,812
Total noninterest income	34,717	37,328	34,456
NONINTEREST EXPENSE			
Salaries	51,767	48,972	50,225
Employee benefits	8,325	6,513	7,905
Occupancy of bank premises	7,673	6,788	6,580
Furniture and equipment	2,476	2,676	2,447
Data processing	7,441	7,329	6,742
Marketing and customer relations	3,803	3,376	3,476
Amortization of intangible assets	873	1,054	1,232
FDIC insurance	1,164	1,043	707
Loan collection and servicing	1,049	1,317	1,755
Foreclosed assets	293	908	557
Other noninterest expense	20,243	11,270	10,330
Total noninterest expense	105,107	91,246	91,956
INCOME BEFORE INCOME TAX EXPENSE	76,190	76,562	49,573
INCOME TAX EXPENSE	19,734	20,291	12,728
NET INCOME	$ 56,456	$ 56,271	$ 36,845
EARNINGS PER SHARE - BASIC	$ 1.95	$ 2.02	$ 1.34
EARNINGS PER SHARE - DILUTED	$ 1.95	$ 2.02	$ 1.34
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	28,853,697	27,795,806	27,457,306

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
NET INCOME	$ 56,456	$ 56,271	$ 36,845
OTHER COMPREHENSIVE (LOSS) INCOME			
Unrealized (losses) gains on debt securities available-for-sale	(105,459)	(24,798)	15,272
Reclassification adjustment for amortization of net unrealized losses on debt securities transferred to held-to-maturity	1,723	687	18
Unrealized gains (losses) on derivative instruments	1,183	366	(1,084)
Reclassification adjustment for net settlements on derivative instruments	126	412	238
Total other comprehensive (loss) income, before tax	(102,427)	(23,333)	14,444
Income tax (benefit) expense	(29,197)	(6,651)	4,123
Total other comprehensive (loss) income	(73,230)	(16,682)	10,321
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (16,774)	$ 39,589	$ 47,166

See accompanying Notes to Consolidated Financial Statements

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

	Common Stock				Accumulated Other		
	Shares Outstanding	Amount	Surplus	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
			(dollars in thousands, except per share data)				
Balance, December 31, 2019	27,457,306	$ 275	$ 190,524	$ 134,287	$ 7,832	$ —	$ 332,918
Net income	—	—	—	36,845	—	—	36,845
Other comprehensive income	—	—	—	—	10,321	—	10,321
Stock-based compensation	—	—	351	—	—	—	351
Cash dividends and dividend equivalents ($0.60 per share)	—	—	—	(16,518)	—	—	(16,518)
Balance, December 31, 2020	27,457,306	275	190,875	154,614	18,153	—	363,917
Net income	—	—	—	56,271	—	—	56,271
Other comprehensive loss	—	—	—	—	(16,682)	—	(16,682)
Stock-based compensation	—	—	764	—	—	—	764
Issuance of common stock upon vesting of restricted stock units	20,225	—	—	—	—	—	—
Issuance of common stock in NXT acquisition	1,799,016	18	29,252	—	—	—	29,270
Repurchase of common stock	(290,486)	—				(4,906)	(4,906)
Cash dividends and dividend equivalents ($0.60 per share)	—	—	—	(16,753)	—	—	(16,753)
Balance, December 31, 2021	28,986,061	293	220,891	194,132	1,471	(4,906)	411,881
Net income	—	—	—	56,456	—	—	56,456
Other comprehensive loss	—	—	—	—	(73,230)	—	(73,230)
Stock-based compensation	—	—	1,949	—	—	—	1,949
Issuance of common stock upon vesting of restricted stock units, net of tax withholdings	31,944	—	(57)	—	—	—	(57)
Repurchase of common stock	(265,379)	—	—	—	—	(4,783)	(4,783)
Cash dividends and dividend equivalents ($0.64 per share)	—	—	—	(18,584)	—	—	(18,584)
Balance, December 31, 2022	28,752,626	$ 293	$ 222,783	$ 232,004	$ (71,759)	$ (9,689)	$ 373,632

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 56,456	$ 56,271	$ 36,845
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	3,043	3,074	2,941
Provision for loan losses	(706)	(8,077)	10,532
Net amortization of debt securities	6,959	7,066	5,045
Amortization of unrealized gain on dedesignated cash flow hedge	—	—	(64)
Deferred income tax (benefit) expense	(2,919)	2,908	(339)
Stock-based compensation	1,949	764	351
Net accretion of discount and deferred loan fees on loans	(5,337)	(12,448)	(4,902)
Net unrealized loss (gain) on equity securities	414	(107)	(33)
Net (gain) loss on disposals of bank premises and equipment	(9)	33	2
Net gain on sales of bank premises held for sale	(187)	—	—
Impairment losses on bank premises held for sale	60	661	—
Net gain on sales of foreclosed assets	(118)	(505)	(348)
Write-down of foreclosed assets	432	195	213
Amortization of intangibles	873	1,054	1,232
(Increase) decrease in mortgage servicing rights	(2,153)	(1,690)	2,584
Amortization of discount and issuance costs on subordinated notes and debentures	145	144	92
Amortization of premium on Federal Home Loan Bank borrowings	—	(105)	—
Amortization of premium on interest-bearing time deposits with banks	5	4	—
Amortization of premium on time deposits	(188)	(81)	—
Mortgage loans originated for sale	(56,240)	(179,921)	(370,112)
Proceeds from sale of mortgage loans	62,028	195,538	368,765
Net gain on sale of mortgage loans	(1,461)	(5,846)	(8,835)
Increase in cash surrender value of bank owned life insurance	(164)	(41)	—
(Increase) decrease in accrued interest receivable	(4,605)	240	(304)
(Increase) decrease in other assets	(8,007)	1,676	(1,090)
Increase (decrease) in other liabilities	22,316	(17,784)	(11,320)
Net cash provided by operating activities	72,586	43,023	31,255
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of interest-bearing time deposits with banks	485	245	248
Proceeds from paydowns, maturities, and calls of debt securities	154,166	213,491	222,999
Purchase of securities	(371,682)	(513,838)	(523,559)
Net increase in loans	(113,665)	(50,089)	(80,278)
Purchase of restricted stock	(6,151)	(241)	(73)
Proceeds from redemption of restricted stock	925	796	—
Purchases of bank premises and equipment	(1,047)	(1,028)	(1,861)
Proceeds from sales of bank premises and equipment	27	17	1
Proceeds from sales of bank premises held for sale	1,344	—	—
Proceeds from sales of foreclosed assets	475	5,805	2,079
Capital improvements to foreclosed assets	—	—	(6)
Net cash paid for acquisition of NXT Bancorporation, Inc.	—	(4,771)	—
Net cash used in investing activities	(335,123)	(349,613)	(380,450)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in deposits	(150,973)	426,146	353,679
Net (decrease) increase in repurchase agreements	(18,175)	11,440	1,303
Net increase (decrease) in Federal Home Loan Bank advances	160,000	(12,520)	—
Issuance of subordinated notes, net of issuance costs	—	—	39,211
Taxes paid related to the vesting of restricted stock units	(57)	—	—
Repurchase of common stock	(4,783)	(4,906)	—
Cash dividends and dividend equivalents paid	(18,584)	(16,753)	(16,518)
Net cash (used in) provided by financing activities	(32,572)	403,407	377,675
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(295,109)	96,817	28,480
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	409,268	312,451	283,971
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 114,159	$ 409,268	$ 312,451

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest	$ 6,860	$ 5,928	$ 6,441
Cash paid for income taxes	$ 20,035	$ 20,861	$ 17,451
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES			
Transfers of loans to foreclosed assets	$ 541	$ 4,857	$ 1,074
Sales of foreclosed assets through loan origination	$ —	$ 252	$ 67
Transfers of bank premises and equipment to bank premises held for sale	$ —	$ 1,345	$ —

See accompanying Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HBT Financial, Inc. (“HBT Financial” or the “Company”) is headquartered in Bloomington, Illinois and is the holding company for Heartland Bank and Trust Company (“Heartland Bank” or the “Bank”). The Bank provides a comprehensive suite of business, commercial, wealth management and retail banking products and services to individuals, businesses, and municipal entities throughout Central and Northeastern Illinois and Eastern Iowa. Additionally, the Company is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory agencies.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Significant accounting policies are summarized below.

The Company qualifies as an "emerging growth company" as defined by the Jumpstart Our Business Startups Act (“JOBS Act”). The JOBS Act permits emerging growth companies an extended transition period for complying with new or revised accounting standards affecting public companies. The Company may remain an emerging growth company until the earliest to occur of: (1) the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2024, (2) the last day of the fiscal year in which the Company has $1.235 billion or more in annual revenues, (3) the date on which the Company is deemed to be a “large accelerated filer” under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) or (4) the date on which the Company has, during the previous three year period, issued, publicly or privately, more than $1.0 billion in non-convertible debt securities. The Company has elected to use the extended transition period until the Company is no longer an emerging growth company or until the Company chooses to affirmatively and irrevocably opt out of the extended transition period. As a result, the Company’s financial statements may not be comparable to companies that comply with new or revised accounting pronouncements applicable to public companies.

Merger of State Bank of Lincoln into Heartland Bank

On October 20, 2020, Heartland Bank and State Bank of Lincoln, both wholly-owned bank subsidiaries of the Company on that date, entered into a Bank Merger Agreement providing for the merger of State Bank of Lincoln into Heartland Bank. The merger was consummated on December 31, 2020, resulting in Heartland Bank being our sole bank subsidiary, with the branch locations in Lincoln, Illinois operating as “State Bank of Lincoln, a division of Heartland Bank and Trust Company.”

Basis of Consolidation

The consolidated financial statements of HBT Financial include the accounts of the Company and its wholly owned bank subsidiary, Heartland Bank.

The Company also has five wholly owned subsidiaries, Heartland Bancorp, Inc. Capital Trust B, Heartland Bancorp, Inc. Capital Trust C, Heartland Bancorp, Inc. Capital Trust D, FFBI Capital Trust I, and National Bancorp Statutory Trust I, which, in accordance with GAAP, are not consolidated as more fully described in Note 13.

Significant intercompany transactions and accounts have been eliminated in consolidation.

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.

Business and Significant Concentrations of Credit Risk

The Company provides several types of loans to individuals, businesses, and municipal entities primarily located in its customer service area. Real estate and commercial loans are principal areas of concentration. The Company also strives to meet the borrowing needs of the consumers in its market areas. Extension of credit is generally limited to the primary trade areas of the Company. Primary deposit products of the Bank are noninterest-bearing and interest-bearing demand accounts, savings accounts, money market accounts, and term certificates of deposit.

Cash and Cash Equivalents

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and amounts due from banks, all of which have an original maturity within 90 days or less. Cash flows from loans and deposits are reported net.

Interest-Bearing Time Deposits with Banks

Interest-bearing time deposits with banks are carried at cost.

Debt Securities

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Debt securities available-for-sale are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss). Realized gains and losses on debt securities available-for-sale are included in noninterest income when applicable and reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Any transfers of debt securities into the held-to-maturity category from the available-for-sale category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income (loss) and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the period to maturity.

Declines in the fair value of individual securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The Company monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the intent of the Company to not sell the security or whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other-than-temporary is recorded as a loss in noninterest income.

Equity Securities

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

The Company has elected to measure its equity securities with no readily determinable fair values at their cost minus impairment, if any, plus or minus charges resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Restricted Stock

Restricted stock, which consists of Federal Home Loan Bank of Chicago ("FHLB") stock, is carried at cost and evaluated for impairment.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. The Company obtains quotes or bids on these loans directly from purchasing financial institutions. Typically, these quotes include a premium on sale and thus quotes typically indicate fair value of the held for sale loans is greater than cost. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by fair value allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses, deferred loan fees or costs on originated loans, and unamortized premiums or discounts on acquired loans.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income if it was accrued during the current year and charged-off against the allowance for loan losses if accrued in a prior year. Amortization of related deferred loan fees or costs is also suspended at this time. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

The allowance consists of two primary components, general reserves and specific reserves related to impaired loans. The general component covers non-impaired loans and is based on historical losses adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 16-quarter period. This actual loss experience is adjusted for qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

These qualitative factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The Company reviews the loan portfolio on an ongoing basis to determine whether any loans require classification and impairment testing in accordance with applicable regulations and accounting principles. Loans determined to be impaired are individually evaluated for impairment. When a loan is classified as either substandard or doubtful and in certain other cases, such as troubled debt restructurings, the Company generally measures impairment based on the fair value of the collateral, but also may use the present value of expected future cash flows discounted at the original contractual interest rate, when practical.

Under certain circumstances, the Company will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring ("TDR") if the Company for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt.

In general, if the Company grants a 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 Company assigns a risk rating to all loans and periodically performs detailed internal reviews of all such loans that are part of relationships with over $750,000 in total exposure to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to review by the Company's regulators, external loan review, and internal loan review. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. The risk rating is reviewed annually, at a minimum, and on an as needed basis depending on the specific circumstances of the loan. These credit quality indicators are used to assign a risk rating to each individual loan. Risk ratings are grouped into four major categories, defined as follows:

Pass: A Pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

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

Substandard: A Substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard 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.

Doubtful: A Doubtful loan has all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The Company maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include 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, with risk characteristics described as follows:

Commercial and Industrial: Consists of loans typically granted for working capital, asset acquisition and other business purposes. These loans are underwritten primarily based on the borrower's cash flow with most loans secondarily supported by collateral. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable, inventory, and equipment, and are typically supported by personal guarantees of the owners. Cash flows and collateral values may fluctuate based on general economic conditions, specific industry conditions and specific borrower circumstances.

Agricultural and Farmland: Consists of loans typically secured by farmland, agricultural operating assets, or a combination of both, and are generally underwritten to existing cash flows of operating agricultural businesses. Debt repayment is provided by business cash flows. The credit quality of these loans is significantly influenced by changes in prices of corn and soybeans and, to a lesser extent, weather, which has been partially mitigated by federal crop insurance programs.

Commercial Real Estate - Owner Occupied: Consists of loans secured by commercial real estate that is both owned and occupied by the same or a related borrower. These loans are primarily underwritten based on the cash flow of the business occupying the property. As with commercial and industrial loans, cash flows and collateral values may fluctuate based on general economic conditions, specific industry conditions, and specific borrower circumstances.

Commercial Real Estate - Non-owner Occupied: Consists of loans secured by commercial real estate for which the primary source of repayment is the sale or rental cash flows from the underlying collateral. These loans are underwritten based primarily on the historic or projected cash flow from the underlying collateral. Adverse economic developments, or an overbuilt market, typically impact commercial real estate projects. Trends in rental and vacancy rates of commercial properties may impact the credit quality of these loans.

Multi-family: Consists of loans secured by five or more unit apartment buildings. Multi-family loans may be affected by demographic and population trends, unemployment or underemployment, and deteriorating market values of real estate.

Construction and Land Development: Consists of loans for speculative and pre-sold construction projects for developers intending to either sell upon completion or hold for long term investment, as well as construction of projects to be owner occupied. In addition, loans in this segment generally possess a higher inherent risk of loss than other portfolio segments due to risk of non-completion, changes in budgeted costs, and changes in market forces during the term of the construction period.

One-to-four Family Residential: Consists of loans secured by one-to-four family residences, including both first and junior lien mortgage loans for owner occupied and non-owner occupied properties and home equity lines of credit. The degree of risk in residential mortgage lending depends on the local economy, including the local real estate market and unemployment rates.

Municipal, Consumer and Other: Loans to municipalities include obligations of municipal entities and loans sponsored by municipal entities for the benefit of a private entity where that private entity, rather than the municipal entity, is responsible for repayment of the obligation. Consumer loans include loans to individuals for consumer purposes and typically consist of small balance loans. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of the consumer loans. Loans to non-depository financial institutions, as well as leases, are also included.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's regulators review the adequacy of the allowance and may require additions to the allowance based on their judgment about information available at the time of their examinations.

Loans Acquired with Deteriorated Credit Quality

Loans acquired that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. Loans are evaluated by management at the time of purchase to determine if there is evidence of deterioration in credit quality since origination. Loans where there is evidence of deterioration of credit quality since origination may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from nonaccretable to accretable yield with a positive impact on interest income on a prospective basis. If the Company does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost recovery method or cash basis method of income recognition.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Loan Servicing

The Company periodically sells mortgage loans on the secondary market with servicing retained. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Mortgage servicing rights are carried at fair value on the consolidated balance sheets and changes in fair value are recorded in mortgage servicing rights fair value adjustment on the consolidated statements of income.

Bank Owned Life Insurance

Bank owned life insurance represents life insurance policies on the lives of certain current and former employees and directors for which the Company is the sole owner and beneficiary. These policies are recorded as an asset in the consolidated balance sheets at their cash surrender value ("CSV") or the current amount that could be realized if settled. The change in CSV and insurance proceeds received are included as a component of noninterest income in the consolidated statements of income.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the individual assets using the straight-line method.

Bank Premises Held for Sale

Bank premises held for sale is carried at the lower of cost or fair value less estimated costs to sell. Bank premises classified as held for sale are not depreciated.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Lease Obligations

The Company leases certain bank premises under non-cancelable operating leases in the normal course of business operations. These lease obligations result in the recognition of right-of-use assets and associated lease contract liabilities. The amount of right-of-use assets and associated lease contract liabilities recorded is based on the present value of future minimum lease payments. The discount rate used is equal to the rate implicit in the lease, when readily determinable, or the Company’s incremental borrowing rate at lease inception, on a collateralized basis over a similar term. Right-of-use assets are included in other assets and lease contract liabilities are included in other liabilities in the consolidated balance sheets and were insignificant as of December 31, 2022 and 2021.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Any write-down based on the fair value of the asset at the date of acquisition is charged to the allowance for loan losses. If the fair value of the asset less estimated cost to sell exceeds the recorded investment in the loan at the date of foreclosure, the increase in value is charged to current year operations unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Write-downs of foreclosed assets subsequent to foreclosure are charged to current year operations as are gains and losses from sale of foreclosed assets, as well as expenses to maintain and hold foreclosed assets.

Goodwill and Other Intangible Assets

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. At December 31, 2022 and 2021, the Company's evaluations of goodwill indicated that goodwill was not impaired.

Other identifiable intangible assets consist of core deposit intangible assets with definite useful lives which are being amortized using an accelerated depreciation method over 10 years. The Company will periodically review the status of core deposit intangible assets for any events or circumstances which may change the recoverability of the underlying basis.

Wealth Management Assets and Fees

Assets of the wealth management department of the Bank are not included in the consolidated balance sheets as such assets are not assets of the Company or the Bank. Fee income generated from wealth management services is recorded in the consolidated statements of income as a source of noninterest income.

Employee Benefit Plans

The Company sponsors a profit sharing plan under which the Company may contribute, at the discretion of the Board of Directors, a discretionary amount to all participating employees for the plan year. The Company may also make discretionary matching contributions in an amount up to 5% of compensation contributed by employees.

Stock Based Compensation

The Company recognizes compensation cost over the requisite service period, if any, which is generally defined as the vesting period. For awards classified as equity, compensation cost is based on the fair value of the awards on the grant date. For awards classified as liabilities, compensation cost also includes subsequent remeasurements of the fair value of the awards until the award is settled. The Company's policy is to recognize forfeitures as they occur.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

With regard to uncertain tax matters, the Company recognizes in the consolidated financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. Management has analyzed the tax positions taken by the Company and concluded as of December 31, 2022 and 2021, there are no material uncertain tax positions taken or expected to be taken that require recognition of a liability or disclosure in the consolidated financial statements. When applicable, the Company recognizes interest accrued related to unrecognized tax benefits and penalties in operating expenses.

The Company files consolidated federal and state income tax returns. The Company generally is no longer subject to federal or state income tax examinations for years prior to 2019.

Derivative Financial Instruments

As part of the Company's asset/liability management, the Company may use interest rate swaps to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Derivatives that are used as part of the asset/liability management process are linked to specific assets or liabilities, or pools of assets or liabilities, and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period.

All derivatives are recognized on the consolidated balance sheet at their fair value. On the date the derivative contract is entered into, the Company may designate the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability "cash flow" hedge. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

The Company discontinues hedge accounting prospectively when (a) it is determined that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (b) the derivative expires or is sold, terminated, or exercised; (c) the derivative is dedesignated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (d) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the consolidated balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income (loss) will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale and interest rate swap agreements designated as cash flow hedges, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income (loss).

Fair Value Measurements

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

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

Level 3 - Inputs that are unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing as asset or liability.

Subsequent to initial recognition, the Company may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Accounting standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy and has not elected to measure any existing financial instruments at fair value, except for mortgage servicing rights; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Revenue from Contracts with Customers

ASC Topic 606, *Revenue from Contracts with Customers*, requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve this, the Company takes the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the Company satisfies a performance obligation. The non-interest revenue streams that are considered to be in the scope of this guidance are discussed below.

Card income: Consists of debit and credit card interchange fees. For debit and credit card transactions, the Company considers the merchant as the customer for interchange revenue with the performance obligation being satisfied when the cardholder purchases goods or services from the merchant. Interchange revenue is recognized as the services are provided. Payment is typically received daily.

Service charges on deposit accounts: Consists of account analysis fees, monthly service fees, and other deposit account related fees. The Company's performance obligation account analysis fees and monthly service fees are ongoing and either party may cancel at any time. These fees are generally recognized as the services are rendered on a monthly basis. Payment is typically received monthly. Other deposit account related fees are largely transaction based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for other deposit account related fees is primarily received immediately through a direct charge to customers' accounts.

Wealth management fees: Consists of revenue from the management and advisement of client assets and trust administration. The Company's performance obligation is generally satisfied over time, and the fees are recognized monthly. Payment is typically received quarterly or annually.

Segment Reporting

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

Reclassifications

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

Subsequent Events

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

Other than the acquisition of Town and Country Financial Corporation, as disclosed in Note 2 – Acquisitions, and further developments in a pending legal matter, as disclosed in Note 23 – Commitments and Contingencies, there were no significant subsequent events through the issuance of these consolidated financial statements that warranted adjustment or disclosure.

Recent Accounting Pronouncements

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

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

The ultimate impact to the Company's financial condition and results of operations of ASU 2016-13, at both adoption and each subsequent reporting period, is highly dependent on credit quality, macroeconomic forecasts and conditions, the composition of our loan and debt securities portfolios, along with other management judgments. Management is finalizing macroeconomic conditions and forecast assumptions to be used in the model; however, upon adoption of ASU 2016-13 on January 1, 2023, we expect the initial allowance for credit losses and the reserve for unfunded commitments together to be approximately 30% to 50% above the existing allowance for loan loss levels. When finalized, this one-time increase will be recorded, net of tax, as an adjustment to beginning retained earnings.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value and that contractual sale restrictions cannot be recognized and measured as a separate unit of account. The amendments in this update are effective for years beginning after December 15, 2023, including interim periods within those years. This standard is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* ASU 2022-02 eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclosure current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures. The amendments in this update are effective for years beginning after December 15, 2022, including interim periods within those years. This standard is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In March 2022, the FASB issued ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method*. ASU 2022-01 replaces the current last-of-layer hedge accounting method with an expanded portfolio layer method that permits multiple hedged layers of a single closed portfolio. The scope of the portfolio layer method is also expanded to include non-prepayable financial assets. ASU 2022-01 also provides additional guidance on the accounting for and disclosure of hedge basis adjustments that are applicable to the portfolio layer method, and specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio. Amendments related to hedge basis adjustments which are included in this standard apply on a modified retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings on the initial application date. Amendments related to hedge basis adjustments which are included in this standard apply on a modified retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings on the initial application date. Amendments related to disclosure which are included in this standard may be applied on a prospective basis from the initial application date, or on a retrospective basis to each prior period presented after the date of adoption of the amendments in ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments in this update are effective for years beginning after December 15, 2023, including interim periods within those years. Early adoption is permitted. This standard is not expected to have a material impact on the Company's consolidated results of operations or financial position.

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

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform, if certain criteria are met. In January 2021, the FASB also issued ASU 2021-01, Reference Rate Reform (Topic 848): Scope, which refined the scope for certain optional expedients and exceptions for contract modifications and hedge accounting to apply to derivative contracts and certain hedging relationships affected by the discounting transition. Entities may apply the provisions as of the beginning of the reporting period when the election is made and are available until December 31, 2024. The Company is currently evaluating the effect that this standard will have on the consolidated results of operations and financial position.

NOTE 2 – ACQUISITIONS

Town and Country Financial Corporation

On February 1, 2023, HBT Financial acquired 100% of the issued and outstanding common stock of Town and Country Financial Corporation ("Town and Country"), the holding company for Town and Country Bank, pursuant to an Agreement and Plan of Merger dated August 23, 2023. Under the Agreement and Plan of Merger, Town and Country merged with and into HBT Financial, with HBT Financial as the surviving entity, on February 1, 2023, immediately followed by merger of Town and Country Bank with and into Heartland Bank, with Heartland Bank as the surviving entity.

At the effective time of the merger, each share of Town and Country was converted into the right to receive, subject to the election and proration procedures as provided in the Merger Agreement, one of the following: (i) 1.9010 shares of HBT Financial's common stock for each share of Town and Country, or (ii) $35.66 per share in cash, or (iii) a combination of cash and HBT Financial common stock. Total consideration consisted of 3,378,600 shares of HBT Financial's common stock and $38.0 million in cash. In lieu of fractional shares, holders of Town and Country common stock will receive cash. Based upon the closing price of HBT Financial common stock of $21.12 on February 1, 2023, the aggregate transaction value was approximately $109.4 million.

This transaction will be accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged was recorded at estimated fair values on the date of acquisition. Fair value assessments are incomplete as of the filing date of this Form 10-K. Fair values are subject to refinement for up to one year after the closing date of February 1, 2023. This acquisition is a subsequent event and the financial results of Town and Country are not recognized in this Form 10-K.

The acquisition of Town and Country further enhanced HBT Financial's footprint in Central Illinois as well as expanding our footprint into metro-east St. Louis. During the year ended December 31, 2022, HBT Financial incurred $1.1 million in pre-tax acquisition expenses related to the planned acquisition of Town and Country, comprised of professional fees and data processing expense.

NXT Bancorporation, Inc.

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

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

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

During the year ended December 31, 2021, HBT Financial incurred $1.4 million in pre-tax acquisition expenses related to the acquisition of NXT, comprised primarily of professional fees and data processing expense. These expenses are reflected in noninterest expense on the consolidated statements of income. There were no acquisition expenses related to the acquisition of NXT during the year ended December 31, 2022.

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

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

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

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

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

The following table provides the pro forma information for the results of operations for the years ended December 31, 2021 and 2020, as if the acquisition had occurred on January 1, 2020. The pro forma results combine the historical results of NXT into HBT Financial's consolidated statements of income, including the impact of certain acquisition accounting adjustments, which include loan discount accretion, intangible assets amortization, deposit premium amortization, and borrowing premium amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2020. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, provision for loan losses, expense efficiencies or asset dispositions. The acquisition-related expenses that have been recognized are included in net income in the following table.

	Pro Forma Year Ended December 31,	
(dollars in thousands, except per share data)	**2021**	**2020**
Total revenues (net interest income and noninterest income)	$ 166,677	$ 161,005
Net income	57,883	39,263
Earnings per share - basic	1.98	1.34
Earnings per share - diluted	1.98	1.34

NOTE 3 – SECURITIES

Debt Securities

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

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
Available-for-sale:				
U.S. Treasury	$ 169,860	$ —	$ (15,345)	$ 154,515
U.S. government agency	59,291	—	(4,134)	55,157
Municipal	275,972	46	(32,189)	243,829
Mortgage-backed:				
Agency residential	213,676	5	(18,240)	195,441
Agency commercial	150,060	—	(17,172)	132,888
Corporate	65,597	55	(3,958)	61,694
Total available-for-sale	934,456	106	(91,038)	843,524
Held-to-maturity:				
U.S. government agency	88,424	—	(9,728)	78,696
Municipal	42,167	195	(314)	42,048
Mortgage-backed:				
Agency residential	102,728	—	(6,470)	96,258
Agency commercial	308,281	—	(46,482)	261,799
Total held-to-maturity	541,600	195	(62,994)	478,801
Total debt securities	$ 1,476,056	$ 301	$ (154,032)	$ 1,322,325

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

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

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

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

As of December 31, 2022 and 2021, the Company had securities with a carrying value of $332.6 million and $353.3 million, 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 49% of the municipal portfolio consists of securities issued by municipalities located in Illinois as of December 31, 2022. Approximately 81% of such securities were general obligation issues as of December 31, 2022.

The amortized cost and fair value of debt securities by contractual maturity, as of December 31, 2022, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Due in 1 year or less	$ 19,501	$ 19,127	$ 2,288	$ 2,290
Due after 1 year through 5 years	230,286	216,799	27,813	26,908
Due after 5 years through 10 years	251,203	217,722	83,181	76,214
Due after 10 years	69,730	61,547	17,309	15,332
Mortgage-backed:				
Agency residential	213,676	195,441	102,728	96,258
Agency commercial	150,060	132,888	308,281	261,799
Total	$ 934,456	$ 843,524	$ 541,600	$ 478,801

The following tables present gross unrealized losses and fair value of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31:

	Investments in a Continuous Unrealized Loss Position					
	Less than 12 Months		12 Months or More		Total	
December 31, 2022	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
	(dollars in thousands)					
Available-for-sale:						
U.S. Treasury	$ (8,401)	$ 92,445	$ (6,944)	$ 62,070	$ (15,345)	$ 154,515
U.S. government agency	(2,980)	47,370	(1,154)	7,787	(4,134)	55,157
Municipal	(10,906)	149,261	(21,283)	87,794	(32,189)	237,055
Mortgage-backed:						
Agency residential	(8,332)	127,288	(9,908)	65,692	(18,240)	192,980
Agency commercial	(4,764)	62,672	(12,408)	70,216	(17,172)	132,888
Corporate	(2,594)	52,190	(1,364)	5,600	(3,958)	57,790
Total available-for-sale	(37,977)	531,226	(53,061)	299,159	(91,038)	830,385
Held-to-maturity:						
U.S. government agency	(1,754)	15,751	(7,974)	62,945	(9,728)	78,696
Municipal	(314)	23,433	—	—	(314)	23,433
Mortgage-backed:						
Agency residential	(4,039)	78,452	(2,431)	17,806	(6,470)	96,258
Agency commercial	(16,716)	103,298	(29,766)	158,501	(46,482)	261,799
Total held-to-maturity	(22,823)	220,934	(40,171)	239,252	(62,994)	460,186
Total debt securities	$ (60,800)	$ 752,160	$ (93,232)	$ 538,411	$ (154,032)	$ 1,290,571

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

As of December 31, 2022, there were 261 securities in an unrealized loss position for a period of twelve months or more, and 519 securities in an unrealized loss position for a period of less than twelve months. These unrealized losses are primarily a result of fluctuations in interest rates in the bond market. In analyzing an issuer's financial condition, management considers whether the 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 securities are deemed to be temporary.

There were no sales of debt securities during the years ended December 31, 2022, 2021, and 2020.

Equity Securities

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

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

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

December 31, 2022	Readily Determinable Fair Value	No Readily Determinable Fair Value
	(dollars in thousands)	
Initial cost	$ 3,142	$ 2,142
Cumulative net unrealized losses	(113)	(165)
Carrying value	$ 3,029	$ 1,977

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

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

There were no sales of equity securities during the years ended December 31, 2022, 2021, and 2020. Unrealized gains (losses) on equity securities were as follows during the years ended December 31:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Readily determinable fair value	(414)	107	33
No readily determinable fair value	—	—	—
Unrealized gains (losses) on equity securities	$ (414)	107	$ 33

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major categories of loans as of December 31, 2022 and 2021 are summarized as follows:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Commercial and industrial	$ 266,757	$ 286,946
Agricultural and farmland	237,746	247,796
Commercial real estate - owner occupied	218,503	234,544
Commercial real estate - non-owner occupied	713,202	684,023
Multi-family	287,865	263,911
Construction and land development	360,824	298,048
One-to-four family residential	338,253	327,837
Municipal, consumer, and other	197,103	156,584
Loans, before allowance for loan losses	2,620,253	2,499,689
Allowance for loan losses	(25,333)	(23,936)
Loans, net of allowance for loan losses	$ 2,594,920	$ 2,475,753
Paycheck Protection Program (PPP) loans (included above)		
Commercial and industrial	$ 28	$ 28,404
Agricultural and farmland	—	913
Municipal, consumer, and other	—	171
Total PPP loans	$ 28	$ 29,488

The following tables detail activity in the allowance for loan losses for the years ended December 31:

	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
	(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	677	(1,946)	961	7,862	933	1,032	(894)	1,907	10,532
Charge-offs	(1,784)	(27)	(39)	(349)	—	(27)	(155)	(587)	(2,968)
Recoveries	595	—	440	75	—	250	310	305	1,975
Balance, December 31, 2020	3,929	793	3,141	11,251	1,957	4,232	1,801	4,734	31,838
Provision for loan losses	(1,474)	52	(1,280)	(3,130)	(694)	340	(472)	(1,419)	(8,077)
Charge-offs	(668)	—	(30)	—	—	—	(267)	(449)	(1,414)
Recoveries	653	—	9	24	—	342	249	312	1,589
Balance, December 31, 2021	2,440	845	1,840	8,145	1,263	4,914	1,311	3,178	23,936
Provision for loan losses	88	(49)	(1,653)	(1,707)	209	(692)	146	2,952	(706)
Charge-offs	(23)	—	(25)	—	—	—	(67)	(569)	(684)
Recoveries	774	—	1,031	283	—	1	369	329	2,787
Balance, December 31, 2022	$ 3,279	$ 796	$ 1,193	$ 6,721	$ 1,472	$ 4,223	$ 1,759	$ 5,890	$ 25,333

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

December 31, 2022	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
					(dollars in thousands)				
Loan balances:									
Collectively evaluated for impairment	$ 261,833	$ 233,118	$ 203,558	$ 671,663	$ 287,298	$ 359,892	$ 325,621	$ 184,579	$ 2,527,562
Individually evaluated for impairment	4,818	4,033	11,366	30,509	—	82	8,399	12,508	71,715
Acquired with deteriorated credit quality	106	595	3,579	11,030	567	850	4,233	16	20,976
Total	$ 266,757	$ 237,746	$ 218,503	$ 713,202	$ 287,865	$ 360,824	$ 338,253	$ 197,103	$ 2,620,253
Allowance for loan losses:									
Collectively evaluated for impairment	$ 3,121	$ 796	$ 1,008	$ 4,332	$ 1,470	$ 4,221	$ 1,709	$ 2,327	$ 18,984
Individually evaluated for impairment	158	—	168	2,388	—	—	44	3,562	6,320
Acquired with deteriorated credit quality	—	—	17	1	2	2	6	1	29
Total	$ 3,279	$ 796	$ 1,193	$ 6,721	$ 1,472	$ 4,223	$ 1,759	$ 5,890	$ 25,333

December 31, 2021	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
					(dollars in thousands)				
Loan balances:									
Collectively evaluated for impairment	$ 272,064	$ 247,021	$ 216,794	$ 641,555	$ 262,701	$ 293,548	$ 314,807	$ 143,510	$ 2,392,000
Individually evaluated for impairment	14,744	12	12,332	29,575	—	2,018	6,897	13,041	78,619
Acquired with deteriorated credit quality	138	763	5,418	12,893	1,210	2,482	6,133	33	29,070
Total	$ 286,946	$ 247,796	$ 234,544	$ 684,023	$ 263,911	$ 298,048	$ 327,837	$ 156,584	$ 2,499,689
Allowance for loan losses:									
Collectively evaluated for impairment	$ 2,253	$ 845	$ 1,480	$ 5,138	$ 1,259	$ 4,895	$ 1,099	$ 1,302	$ 18,271
Individually evaluated for impairment	187	—	327	2,999	—	—	210	1,875	5,598
Acquired with deteriorated credit quality	—	—	33	8	4	19	2	1	67
Total	$ 2,440	$ 845	$ 1,840	$ 8,145	$ 1,263	$ 4,914	$ 1,311	$ 3,178	$ 23,936

The following tables present loans individually evaluated for impairment by category of loans as of December 31:

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(dollars in thousands)		
With an allowance recorded:			
Commercial and industrial	$ 268	$ 254	$ 158
Agricultural and farmland	—	—	—
Commercial real estate - owner occupied	635	610	168
Commercial real estate - non-owner occupied	14,269	14,261	2,388
Multi-family	—	—	—
Construction and land development	—	—	—
One-to-four family residential	569	524	44
Municipal, consumer, and other	8,152	8,131	3,562
Total	$ 23,893	$ 23,780	$ 6,320
With no related allowance:			
Commercial and industrial	$ 4,564	$ 4,564	$ —
Agricultural and farmland	4,440	4,033	—
Commercial real estate - owner occupied	10,912	10,756	—
Commercial real estate - non-owner occupied	16,327	16,248	—
Multi-family	—	—	—
Construction and land development	92	82	—
One-to-four family residential	9,181	7,875	—
Municipal, consumer, and other	4,410	4,377	—
Total	$ 49,926	$ 47,935	$ —
Total loans individually evaluated for impairment:			
Commercial and industrial	$ 4,832	$ 4,818	$ 158
Agricultural and farmland	4,440	4,033	—
Commercial real estate - owner occupied	11,547	11,366	168
Commercial real estate - non-owner occupied	30,596	30,509	2,388
Multi-family	—	—	—
Construction and land development	92	82	—
One-to-four family residential	9,750	8,399	44
Municipal, consumer, and other	12,562	12,508	3,562
Total	$ 73,819	$ 71,715	$ 6,320

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

The following table presents the average recorded investment and interest income recognized for loans individually evaluated for impairment by category of loans during the years ended December 31:

	Year Ended December 31,					
	2022		2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)					
With an allowance recorded:						
Commercial and industrial	$ 204	$ 18	$ 1,593	$ 89	$ 3,031	$ 169
Agricultural and farmland	—	—	83	4	273	9
Commercial real estate - owner occupied	970	63	3,052	177	1,622	98
Commercial real estate - non-owner occupied	10,943	740	16,494	791	6,345	220
Multi-family	—	—	—	—	—	—
Construction and land development	—	—	554	27	2,441	116
One-to-four family residential	384	16	1,988	77	3,120	110
Municipal, consumer, and other	6,259	236	8,681	158	10,617	286
Total	$ 18,760	$ 1,073	$ 32,445	$ 1,323	$ 27,449	$ 1,008
With no related allowance:						
Commercial and industrial	$ 9,568	$ 453	$ 7,125	$ 330	$ 4,004	$ 251
Agricultural and farmland	228	13	290	17	11,061	561
Commercial real estate - owner occupied	8,619	525	7,771	344	11,056	528
Commercial real estate - non-owner occupied	12,636	1,278	10,339	432	14,412	458
Multi-family	—	—	434	10	447	10
Construction and land development	1,505	106	2,107	28	892	23
One-to-four family residential	6,238	352	6,248	192	8,022	316
Municipal, consumer, and other	3,361	148	4,666	86	3,089	115
Total	$ 42,155	$ 2,875	$ 38,980	$ 1,439	$ 52,983	$ 2,262
Total loans individually evaluated for impairment:						
Commercial and industrial	$ 9,772	$ 471	$ 8,718	$ 419	$ 7,035	$ 420
Agricultural and farmland	228	13	373	21	11,334	570
Commercial real estate - owner occupied	9,589	588	10,823	521	12,678	626
Commercial real estate - non-owner occupied	23,579	2,018	26,833	1,223	20,757	678
Multi-family	—	—	434	10	447	10
Construction and land development	1,505	106	2,661	55	3,333	139
One-to-four family residential	6,622	368	8,236	269	11,142	426
Municipal, consumer, and other	9,620	384	13,347	244	13,706	401
Total	$ 60,915	$ 3,948	$ 71,425	$ 2,762	$ 80,432	$ 3,270

The following tables present loans by category based on current payment and accrual status as of December 31:

December 31, 2022	Current	Accruing Interest 30 - 89 Days Past Due	Accruing Interest 90+ Days Past Due	Nonaccrual	Total Loans
	(dollars in thousands)				
Commercial and industrial	$ 266,521	$ 17	$ —	$ 219	$ 266,757
Agricultural and farmland	237,727	19	—	—	237,746
Commercial real estate - owner occupied	218,242	187	—	74	218,503
Commercial real estate - non-owner occupied	713,031	—	—	171	713,202
Multi-family	287,854	11	—	—	287,865
Construction and land development	360,763	61	—	—	360,824
One-to-four family residential	335,576	894	145	1,638	338,253
Municipal, consumer, and other	196,892	157	1	53	197,103
Total	$ 2,616,606	$ 1,346	$ 146	$ 2,155	$ 2,620,253

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

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

December 31, 2022	Pass	Pass-Watch	Substandard	Doubtful	Total
	(dollars in thousands)				
Commercial and industrial	$ 255,309	$ 6,630	$ 4,818	$ —	$ 266,757
Agricultural and farmland	223,114	10,004	4,628	—	237,746
Commercial real estate - owner occupied	198,546	10,105	9,852	—	218,503
Commercial real estate - non-owner occupied	652,691	27,282	33,229	—	713,202
Multi-family	283,682	4,183	—	—	287,865
Construction and land development	358,215	2,527	82	—	360,824
One-to-four family residential	323,632	5,907	8,714	—	338,253
Municipal, consumer, and other	184,299	296	12,508	—	197,103
Total	$ 2,479,488	$ 66,934	$ 73,831	$ —	$ 2,620,253

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

There were no troubled debt restructurings during the years ended December 31, 2022 and 2021. The following table presents the financial effect of troubled debt restructurings for the year ended December 31, 2020:

		Recorded Investment		Charge-offs and Specific
Year Ended December 31, 2020	Number	Pre-Modification	Post-Modification	Reserves
		(dollars in thousands)		
Commercial real estate - owner occupied	1	$ 853	$ 853	$ —

During the year ended December 31, 2020, the troubled debt restructuring was the result of a payment concession. As of December 31, 2022 and 2021, there were no troubled debt restructurings which had subsequent payment defaults within 12 months of the modification. 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 December 31, 2022 and 2021, the Company had $3.0 million and $3.5 million of troubled debt restructurings, respectively. Restructured loans are evaluated for impairment quarterly as part of the Company's determination of the allowance for loan losses. There were no material commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings.

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

Changes in the accretable yield for loans acquired with deteriorated credit quality were as follows for the years ended December 31:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Beginning balance	$ 413	$ 1,397	$ 1,662
Reclassification from non-accretable difference	548	508	288
Disposals	—	(1,089)	—
Accretion income	(231)	(403)	(553)
Ending balance	$ 730	$ 413	$ 1,397

NOTE 5 – LOAN SERVICING

Mortgage loans serviced for others, not included in the accompanying consolidated balance sheets, amounted to $955.8 million and $1.04 billion as of December 31, 2022 and 2021, respectively. Activity in mortgage servicing rights is as follows for years ended December 31:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Beginning balance	$ 7,994	$ 5,934	$ 8,518
Acquired	—	370	—
Capitalized servicing rights	530	1,200	1,981
Fair value adjustment:			
Attributable to payments and principal reductions	(1,343)	(1,788)	(2,364)
Attributable to changes in valuation inputs and assumptions	2,966	2,278	(2,201)
Total fair value adjustment	1,623	490	(4,565)
Ending balance	$ 10,147	$ 7,994	$ 5,934

NOTE 6 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost less accumulated depreciation as of December 31 as follows:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Land, buildings, and improvements	$ 77,869	$ 77,180
Furniture, fixtures, and equipment	24,512	24,199
Total bank premises and equipment	102,381	101,379
Less accumulated depreciation	51,912	48,896
Total bank premises and equipment, net	$ 50,469	$ 52,483

Depreciation expense by category for the years ended December 31 is as follows:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Buildings and improvements	$ 1,623	$ 1,694	$ 1,761
Furniture, fixtures, and equipment	1,420	1,380	1,180
Total depreciation expense	$ 3,043	$ 3,074	$ 2,941

During 2021, six branch locations were closed or consolidated as part of a branch rationalization plan. The related bank premises were transferred to held for sale at the lower of the carrying value or fair value, less estimated costs to sell. As of December 31, 2022 and 2021, bank premises held for sale totaled $0.2 million and $1.5 million, respectively. During the years ended December 31, 2022 and 2021, there were impairment losses of $0.1 million and $0.7 million, respectively, on bank premises held for sale included in gains (losses) on other assets in the consolidated statements of income. During the year ended December 31, 2020, there were no impairment losses on bank premises held for sale.

NOTE 7 – FORECLOSED ASSETS

Foreclosed assets activity is as follows for the years ended December 31:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Beginning balance	$ 3,278	$ 4,168	$ 5,099
Transfers from loans	541	4,857	1,074
Capitalized improvements	—	—	6
Proceeds from sales	(475)	(5,805)	(2,079)
Sales through loan origination	—	(252)	(67)
Net gain on sales	118	505	348
Direct write-downs	(432)	(195)	(213)
Ending balance	$ 3,030	$ 3,278	$ 4,168

Gains (losses) on foreclosed assets includes the following for the years ended December 31:

	Year Ended December 31, 2022	2021	2020
	(dollars in thousands)		
Direct write-downs	$ (432)	$ (195)	$ (213)
Net gain on sales	118	505	348
Guarantee reimbursements	—	—	7
Gains (losses) on foreclosed assets	$ (314)	$ 310	$ 142

The carrying value of foreclosed one-to-four family residential real estate property as of December 31, 2022 and 2021, was $20 thousand and $0.2 million, respectively. As of December 31, 2022, there were 4 one-to-four family residential real estate loans in the process of foreclosure totaling approximately $0.2 million. As of December 31, 2021, there were 4 residential real estate loans in the process of foreclosure totaling approximately $0.1 million.

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the changes in the Company's goodwill and core deposit intangible assets for the years ended December 31:

	Year Ended December 31, 2022		2021		2020	
	Goodwill	Core Deposit Intangible	Goodwill	Core Deposit Intangible	Goodwill	Core Deposit Intangible
	(dollars in thousands)					
Beginning balance	$ 29,322	$ 1,943	$ 23,620	$ 2,798	$ 23,620	$ 4,030
Additions	—	—	5,702	199	—	—
Amortization	—	(873)	—	(1,054)	—	(1,232)
Ending balance	$ 29,322	$ 1,070	$ 29,322	$ 1,943	$ 23,620	$ 2,798
Accumulated amortization	$ —	$ 20,847	$ —	$ 19,974	$ —	$ 18,920

Amortization of core deposit intangible assets for the years subsequent to December 31, 2022 is expected to be as follows (dollars in thousands):

Year ended December 31,	
2023	$ 353
2024	337
2025	275
2026	20
2027	20
Thereafter	65
Total	$ 1,070

NOTE 9 – DEPOSITS

The Company's deposits are summarized below as of December 31:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Noninterest-bearing deposits	$ 994,954	$ 1,087,659
Interest-bearing deposits:		
Interest-bearing demand	1,139,150	1,105,949
Money market	555,425	583,198
Savings	634,527	633,171
Time	262,968	328,208
Total interest-bearing deposits	2,592,070	2,650,526
Total deposits	$ 3,587,024	$ 3,738,185

There were no brokered deposits as of December 31, 2022. Money market deposits include $4.2 million of brokered deposits as of December 31, 2021. Money market deposits also include $1.7 million and $6.9 million of reciprocal transaction deposits as of December 31, 2022 and 2021, respectively. Time deposits include $1.6 million and $0.9 million of reciprocal time deposits as of December 31, 2022 and 2021, respectively.

The aggregate amounts of time deposits in denominations of $250 thousand or more amounted to $27.2 million and $59.5 million as of December 31, 2022 and 2021, respectively. The aggregate amounts of time deposits in denominations of $100 thousand or more amounted to $92.6 million and $133.1 million as of December 31, 2022 and 2021, respectively.

At December 31, 2022, the scheduled maturities of time deposits are as follows (dollars in thousands):

Year ended December 31,	
2023	$ 191,045
2024	44,573
2025	14,544
2026	8,822
2027	3,855
Thereafter	129
Total	$ 262,968

The components of interest expense on deposits for the years ended December 31 are as follows:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Interest-bearing demand	$ 607	$ 518	$ 647
Money market	813	437	697
Savings	208	188	196
Time	883	1,329	2,681
Total interest expense on deposits	$ 2,511	$ 2,472	$ 4,221

NOTE 10 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

All repurchase agreements are sweep instruments. The securities underlying the agreements as of December 31, 2022 and 2021 were under the Company's control in safekeeping at third-party financial institutions, and included debt securities.

Information pertaining to securities sold under agreements to repurchase as of December 31 is as follows:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Balance at end of year	$ 43,081	$ 61,256
Weighted average rate as of end of year	0.28 %	0.07 %
Fair value of securities underlying the agreements	$ 50,771	$ 64,164
Carrying value of securities underlying the agreements	$ 55,850	$ 64,262

NOTE 11 – BORROWINGS

As of December 31, 2022, Federal Home Loan Bank of Chicago ("FHLB") borrowings totaled $160.0 million and consisted of short-term borrowings which had a weighted average rate of 4.29% and mature within 30 days. There were no FHLB borrowings outstanding as of December 31, 2021. Borrowings from the FHLB are secured by FHLB stock held by the Company and pledged security in the form of qualifying loans. The loans pledged as of December 31, 2022 and 2021 totaled $892.1 million and $567.0 million, respectively. As of December 31, 2022 and 2021, loans pledged also served as collateral for credit exposure of $0.3 million and $0.4 million, respectively, associated with the Bank's participation in the FHLB's Mortgage Partnership Finance Program.

The Bank also had available borrowings through the discount window of the Federal Reserve Bank of Chicago ("FRB"). Available borrowings are based on the collateral pledged. As of December 31, 2022 and 2021, there was no collateral pledged and there was no outstanding balance.

NOTE 12 – SUBORDINATED NOTES

On September 3, 2020, the Company issued $40.0 million of fixed-to-floating rate subordinated notes that mature on September 15, 2030. The subordinated notes, which are unsecured obligations of the Company, bear a fixed interest rate of 4.50% for the first five years after issuance and thereafter bear interest at a floating rate equal to three-month SOFR, as determined on the Floating Interest Determination Date, plus 4.37%. Interest is payable semi-annually during the five year fixed rate period and quarterly during the subsequent five year floating rate period. The subordinated notes have an optional redemption in whole or in part on any interest payment date on or after September 15, 2025. If the subordinated notes are redeemed before they mature, the redemption price will be the principal amount plus any accrued but unpaid interest. The transaction resulted in debt issuance costs of $0.8 million which will be amortized over 10 years. As of December 31, 2022 and 2021, 100% of the subordinated notes qualified as Tier 2 capital.

The face value and carrying value of the subordinated notes are summarized below:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Subordinated notes, at face value	$ 40,000	$ 40,000
Unamortized issuance costs	(605)	(684)
Subordinated notes, at carrying value	$ 39,395	$ 39,316

NOTE 13 – JUNIOR SUBORDINATED DEBENTURES ISSUED TO CAPITAL TRUSTS

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 ("junior subordinated debentures") issued by the Company. These junior subordinated debentures are the only assets of the trusts and the interest payments from the junior subordinated debentures finance the distributions paid on the capital securities. The junior subordinated debentures are unsecured and rank junior and subordinate in the right of payment to all senior debt of the Company.

In accordance with GAAP, the trusts are not consolidated in the Company's financial statements.

The carrying value of the junior subordinated debentures are summarized as follows:

	December 31, 2022	December 31, 2021
	(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	5,773	5,773
Total junior subordinated debentures, at face value	38,765	38,765
National Bancorp Statutory Trust I unamortized discount	(985)	(1,051)
Total junior subordinated debentures, at carrying value	$ 37,780	$ 37,714

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

	Variable Interest Rate	Interest Rate at December 31, 2022	Interest Rate at December 31, 2021	Maturity Date
Heartland Bancorp, Inc. Capital Trust B	LIBOR plus 2.75 %	6.83 %	2.87 %	April 6, 2034
Heartland Bancorp, Inc. Capital Trust C	LIBOR plus 1.53	6.30	1.73	June 15, 2037
Heartland Bancorp, Inc. Capital Trust D	LIBOR plus 1.35	6.12	1.55	September 15, 2037
FFBI Capital Trust I	LIBOR plus 2.80	6.88	2.92	April 6, 2034
National Bancorp Statutory Trust I	LIBOR plus 2.90	7.67	3.10	December 15, 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 junior subordinated debentures at any time by extending the interest payment period for a period not exceeding 20 quarterly periods with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the junior subordinated debentures. The capital securities are subject to mandatory redemption upon payment of the junior subordinated debentures and carry an interest rate identical to that of the related debenture. The junior subordinated 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 junior subordinated debentures or the capital securities. If the junior subordinated 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 junior subordinated 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 December 31, 2022 and 2021, 100% of the trust preferred securities qualified as Tier 1 capital under the final rule adopted in March 2005.

NOTE 14 – 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 to recognize all derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheets. The Company may utilize interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position.

Interest Rate Swaps Designated as Cash Flow Hedges

The Company designated certain interest rate swap agreements as cash flow hedges on variable-rate borrowings. For derivative instruments that are designated and qualify as a cash flow hedge, the gain or loss on interest rate swaps designated as cash flow hedging instruments 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:

	December 31, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(dollars in thousands)			
Fair value recorded in other assets	$ 17,000	$ 629	$ —	$ —
Fair value recorded in other liabilities	—	—	17,000	(680)

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

In 2019, the Company had an interest rate swap contract with a notional amount of $10.0 million designated as a cash flow hedge on variable-rate loans. Beginning April 1, 2019, this hedging relationship was no longer considered highly effective, and the Company discontinued hedge accounting. In accordance with hedge accounting guidance, the net unrealized gain associated with the discontinued hedging relationship, recorded within accumulated other comprehensive income, was reclassified into earnings through April 7, 2020, the period the hedged forecasted transactions affected earnings.

For the years ended December 31, 2022, 2021, and 2020, the effect of interest rate swap agreements designated as cash flow hedges on the consolidated statements of income are summarized as follows:

Location of gross gain (loss) reclassified from accumulated other comprehensive income (loss) to income	Amounts of gross gain (loss) reclassified from accumulated other comprehensive income (loss)		
	Year Ended December 31,		
	2022	2021	2020
Designated as cash flow hedges:	(dollars in thousands)		
Taxable loan interest income	$ —	$ —	$ 64
Junior subordinated debentures interest expense	(126)	(412)	(302)
Total	$ (126)	$ (412)	$ (238)

Interest Rate Swaps Not Designated as Hedging Instruments

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

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

	December 31, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(dollars in thousands)			
Fair value recorded in other assets:				
Interest rate swaps with a commercial borrower counterparty	$ —	$ —	$ 112,041	$ 8,622
Interest rate swaps with a financial institution counterparty	106,995	6,981	3,880	75
Total fair value recorded in other assets	$ 106,995	$ 6,981	$ 115,921	$ 8,697
Fair value recorded in other liabilities:				
Interest rate swaps with a commercial borrower counterparty	$ 106,995	$ (6,981)	$ 3,880	$ (75)
Interest rate swaps with a financial institution counterparty	—	—	112,041	(8,622)
Total fair value recorded in other liabilities	$ 106,995	$ (6,981)	$ 115,921	$ (8,697)

As of December 31, 2022, the interest rate swap agreements not designated as hedging instruments had contractual maturities between 2023 and 2042. As of December 31, 2021, the Company had $7.5 million of debt securities pledged and held in safekeeping at the financial institution counterparty.

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 for the years ended December 31:

	Year Ended December 31,		
	2022	2021	2020
Not designated as hedging instruments:	(dollars in thousands)		
Gross gains	$ 16,002	$ 13,773	$ 24,758
Gross losses	(16,002)	(13,773)	(24,758)
Net gains (losses)	$ —	$ —	$ —

NOTE 15 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the activity and accumulated balances for components of other comprehensive income (loss) for the years ended December 31:

	Unrealized Gains (Losses) on Debt Securities			
	Available-for-Sale	Held-to-Maturity	Derivatives	Total
	(dollars in thousands)			
Balance, December 31, 2019	$ 8,659	$ (131)	$ (696)	$ 7,832
Other comprehensive income (loss) before reclassifications	15,272	—	(1,084)	14,188
Reclassifications	—	18	238	256
Other comprehensive income (loss), before tax	15,272	18	(846)	14,444
Income tax expense (benefit)	4,353	5	(235)	4,123
Other comprehensive income (loss), after tax	10,919	13	(611)	10,321
Balance, December 31, 2020	19,578	(118)	(1,307)	18,153
Transfer from available-for-sale to held-to-maturity	3,887	(3,887)	—	—
Other comprehensive (loss) income before reclassifications	(24,798)	—	366	(24,432)
Reclassifications	—	687	412	1,099
Other comprehensive (loss) income, before tax	(24,798)	687	778	(23,333)
Income tax (benefit) expense	(7,069)	196	222	(6,651)
Other comprehensive (loss) income, after tax	(17,729)	491	556	(16,682)
Balance, December 31, 2021	5,736	(3,514)	(751)	1,471
Transfer from available-for-sale to held-to-maturity	7,664	(7,664)	—	—
Other comprehensive (loss) income before reclassifications	(105,459)	—	1,183	(104,276)
Reclassifications	—	1,723	126	1,849
Other comprehensive (loss) income, before tax	(105,459)	1,723	1,309	(102,427)
Income tax (benefit) expense	(30,061)	491	373	(29,197)
Other comprehensive (loss) income, after tax	(75,398)	1,232	936	(73,230)
Balance, December 31, 2022	$ (61,998)	$ (9,946)	$ 185	$ (71,759)

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

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

Reclassifications from accumulated other comprehensive income (loss) for the fair value of derivative financial instruments represent net interest payments received or made on derivatives designated as cash flow hedges. See Note 14 for additional information.

NOTE 16 – INCOME TAXES

Allocation of income tax expense between current and deferred portions for the years ended December 31 is as follows:

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Current			
Federal	$ 15,194	$ 11,330	$ 8,358
State	7,459	6,053	4,709
Total current	22,653	17,383	13,067
Deferred			
Federal	(2,045)	1,945	(226)
State	(874)	963	(113)
Total deferred	(2,919)	2,908	(339)
Income tax expense	$ 19,734	$ 20,291	$ 12,728

Income tax expense differs from the statutory federal rate for the years ended December 31 due to the following:

	Year Ended December 31,					
	2022		2021		2020	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(dollars in thousands)					
Federal income tax, at statutory rate	$ 16,000	21.0 %	$ 16,078	21.0 %	$ 10,410	21.0 %
Increase (decrease) resulting from:						
Federally tax exempt interest income	(1,618)	(2.1)	(1,426)	(1.9)	(1,470)	(3.0)
State taxes, net of federal benefit	5,285	6.9	5,430	7.1	3,631	7.4
Other	67	0.1	209	0.3	157	0.3
Income tax expense	$ 19,734	25.9 %	$ 20,291	26.5 %	$ 12,728	25.7 %

The components of the deferred tax assets and liabilities are as follows:

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 7,151	$ 6,756
Compensation related	2,623	2,314
Deferred loan fees	965	1,059
Nonaccrual interest	480	489
Foreclosed assets	142	43
Goodwill	153	316
Net unrealized losses on debt securities	29,874	304
Other	5,237	853
Total deferred tax assets	46,625	12,134
Deferred tax liabilities		
Fixed asset depreciation	3,940	4,188
Mortgage servicing rights	2,868	2,262
Other purchase accounting adjustments	610	776
Intangible assets	214	374
Prepaid assets	756	664
Other	2,756	505
Total deferred tax liabilities	11,144	8,769
Net deferred tax asset	$ 35,481	$ 3,365

NOTE 17 – EARNINGS PER SHARE

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

Diluted earnings per share is computed using the treasury stock method and reflects the potential dilution from the Company's outstanding restricted stock units and performance restricted stock units.

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

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Numerator:			
Net income	$ 56,456	$ 56,271	$ 36,845
Earnings allocated to participating securities	(66)	(104)	(93)
Numerator for earnings per share - basic and diluted	$ 56,390	$ 56,167	$ 36,752
Denominator:			
Weighted average common shares outstanding	28,853,697	27,795,806	27,457,306
Dilutive effect of outstanding restricted stock units	65,619	15,487	—
Weighted average common shares outstanding, including all dilutive potential shares	28,919,316	27,811,293	27,457,306
Earnings per share - Basic	$ 1.95	$ 2.02	$ 1.34
Earnings per share - Diluted	$ 1.95	$ 2.02	$ 1.34

NOTE 18 – DEFERRED COMPENSATION

The Company maintained a supplemental executive retirement plan (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 the termination of the SERP, and a lump sum payment was made in June 2020 to each participant equal to the present value of any remaining installment payments. As of December 31, 2022 and 2021, there was no remaining deferred compensation liability for the SERP. During the year ended December 31, 2020, the Company recognized deferred compensation expense for the SERP of $1.7 million.

NOTE 19 – EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

During the years ended December 31, 2022, 2021, and 2020, the Company's profit sharing plan contribution expense amounted to $1.3 million, $1.3 million, and $1.1 million, respectively. The Company's contributions vest to employees ratably over a six-year period.

Medical Insurance Benefits

The Company is partially self-insured for medical claims filed by its employees. As of December 31, 2022 and 2021, the Company's maximum aggregate liability under the plan was $6.4 million and $6.6 million, respectively. During the years ended December 31, 2022, 2021, and 2020, medical benefits expense amounted to $4.9 million, $4.2 million, and $4.8 million, respectively.

NOTE 20 – STOCK-BASED COMPENSATION PLANS

The Company adopted the HBT Financial, Inc. Omnibus Incentive Plan (the “Omnibus Incentive Plan”) in 2019. 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 (vii) 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):

	Year Ended December 31,		
	2022	2021	2020
	(dollars in thousands)		
Restricted stock units	$ 1,334	$ 579	$ 351
Performance restricted stock units	615	185	—
Total awards classified as equity	1,949	764	351
Stock appreciation rights	88	226	(137)
Total stock-based compensation expense	$ 2,037	$ 990	$ 214

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

Restricted Stock Units

A restricted stock unit grants a participant the right to receive one share of the Company's common stock, following the completion of the requisite service period. Restricted stock units are classified as equity. Compensation cost is based on the Company's stock price on the grant date and is recognized on a straight-line basis over the service period for the entire award. Dividend equivalents on restricted stock units, which are either accrued until vested or paid at the same time as dividends on common stock, are classified as dividends charged to retained earnings.

During the years ended December 31, 2022, 2021, and 2020, the total grant date fair value of the restricted stock units granted was $1.3 million, $0.9 million, and $1.4 million, respectively, based on the grant date closing prices. The total intrinsic value of restricted stock units that vested during the year ended December 31, 2022 and 2021 were $0.7 million and $0.3 million, respectively.

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

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2019	—	$ —
Granted	73,700	18.98
Vested	—	—
Forfeited	(2,700)	19.03
Balance, December 31, 2020	71,000	$ 18.98
Granted	59,994	15.81
Vested	(20,225)	18.86
Forfeited	(1,525)	18.11
Balance, December 31, 2021	109,244	$ 17.27
Granted	66,995	18.81
Vested	(34,925)	17.26
Forfeited	(1,328)	18.35
Balance, December 31, 2022	139,986	$ 18.01

As of December 31, 2022, unrecognized compensation cost related to non-vested restricted stock units was $1.2 million. This cost is expected to be recognized over the weighted average remaining contractual term of 2.0 years.

Performance Restricted Stock Units

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

During the years ended December 31, 2022 and 2021, the total fair value of the performance restricted stock units granted was $0.5 million and $0.6 million, respectively, based on the grant date closing prices and an assessment of the probable outcome of the performance condition on the grant date. Performance conditions are based on either the average annual return on average tangible common equity during the performance period or average loan balances for a specified geographic region during the performance period, with downward adjustments if certain credit quality criteria are not maintained.

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

	Performance Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2019	—	$ —
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance, December 31, 2020	—	$ —
Granted	38,344	15.72
Vested	—	—
Forfeited	—	—
Balance, December 31, 2021	38,344	$ 15.72
Granted	23,723	19.14
Vested	—	—
Forfeited	—	—
Balance, December 31, 2022	62,067	$ 17.02

As of December 31, 2022, unrecognized compensation cost related to non-vested performance restricted stock units was $0.3 million, based on the current assessment of the probable outcome of the performance conditions. This cost is expected to be recognized over the weighted average remaining service period of 1.6 years.

Stock Appreciation Rights

A stock appreciation right grants a participant the right to receive an amount of cash, the value of which equals the appreciation in the Company's stock price between the grant date and the exercise date. Stock appreciation rights are classified as liabilities. The liability is based on an option-pricing model used to estimate the fair value of the stock appreciation rights. Compensation cost for non-vested stock appreciation rights is recognized on a straight line basis over the service period of the entire award. The non-vested stock appreciation rights vest in four equal annual installments beginning on the first anniversary of the grant date.

The following is a summary of stock appreciation rights activity:

	Stock Appreciation Rights	Weighted Average Grant Date Assigned Value
Balance, December 31, 2019	110,160	$ 16.32
Granted	—	—
Exercised	—	—
Expired	—	—
Forfeited	(4,590)	16.32
Balance, December 31, 2020	105,570	$ 16.32
Granted	—	—
Exercised	(6,120)	16.32
Expired	(1,530)	16.32
Forfeited	—	—
Balance, December 31, 2021	97,920	$ 16.32
Granted	—	—
Exercised	(24,480)	16.32
Expired	—	—
Forfeited	—	—
Balance, December 31, 2022	73,440	$ 16.32

A further summary of outstanding stock appreciation rights as of December 31, 2022, is as follows:

	Stock Appreciation Rights		Weighted Average Remaining
Grant Date Assigned Values	**Outstanding**	**Exercisable**	**Contractual Term**
$ 16.32	73,440	67,320	6.7 years

As of December 31, 2022, unrecognized compensation cost related to non-vested stock appreciation rights was $28 thousand.

As of December 31, 2022 and 2021, the liability recorded for outstanding stock appreciation rights was $0.5 million and $0.5 million, respectively. The Company used an option pricing model to value the stock appreciation rights, using the assumptions in the following table. Expected volatility is derived from the historical volatility of the Company's stock price and a selected peer group of industry-related companies.

	December 31, 2022	December 31, 2021
Risk-free interest rate	3.95 %	1.40 %
Expected volatility	36.54 %	35.52 %
Expected life (in years)	6.7	7.7
Expected dividend yield	3.27 %	3.20 %

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

NOTE 21 – REGULATORY CAPITAL

The Company (on a consolidated basis) and the Bank are each subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the consolidated financial statements of the Company and the Bank. Additionally, the ability of the Company to pay dividends to its stockholders is dependent upon the ability of the Bank to pay dividends to the Company.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. As allowed under the regulations, the Company and the Bank elected to exclude accumulated other comprehensive income, including unrealized gains and losses on securities, in the computation of regulatory capital. Prompt corrective action provisions are not applicable to bank holding companies.

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

As of December 31, 2022, the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

December 31, 2022	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.	$ 516,556	16.27 %	$ 254,052	8.00 %	N/A	N/A
Heartland Bank and Trust Company	489,316	15.43	253,643	8.00	$ 317,054	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 451,828	14.23 %	$ 190,539	6.00 %	N/A	N/A
Heartland Bank and Trust Company	463,983	14.63	190,233	6.00	$ 253,643	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 415,213	13.07 %	$ 142,904	4.50 %	N/A	N/A
Heartland Bank and Trust Company	463,983	14.63	142,674	4.50	$ 206,085	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 451,828	10.48 %	$ 172,427	4.00 %	N/A	N/A
Heartland Bank and Trust Company	463,983	10.78	172,240	4.00	$ 215,300	5.00 %

December 31, 2021	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.	$ 479,320	16.88 %	$ 227,115	8.00 %	N/A	N/A
Heartland Bank and Trust Company	452,162	15.94	226,950	8.00	$ 283,688	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 416,068	14.66 %	$ 170,336	6.00 %	N/A	N/A
Heartland Bank and Trust Company	428,226	15.09	170,213	6.00	$ 226,950	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 379,519	13.37 %	$ 127,752	4.50 %	N/A	N/A
Heartland Bank and Trust Company	428,226	15.09	127,659	4.50	$ 184,397	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 416,068	9.84 %	$ 169,171	4.00 %	N/A	N/A
Heartland Bank and Trust Company	428,226	10.13	169,070	4.00	$ 211,337	5.00 %

NOTE 22 – 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. There were no transfers between levels during the years ended December 31, 2022 and 2021. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

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

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Debt securities available-for-sale:				
U.S. Treasury	$ 154,515	$ —	$ —	$ 154,515
U.S. government agency	—	55,157	—	55,157
Municipal	—	243,829	—	243,829
Mortgage-backed:				
Agency residential	—	195,441	—	195,441
Agency commercial	—	132,888	—	132,888
Corporate	—	61,694	—	61,694
Equity securities with readily determinable fair values	3,029	—	—	3,029
Mortgage servicing rights	—	—	10,147	10,147
Derivative financial assets	—	7,610	—	7,610
Derivative financial liabilities	—	6,981	—	6,981

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

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy. There were no changes to the valuation techniques from December 31, 2021 to December 31, 2022.

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 statements of comprehensive income (loss). The change in fair value of equity securities with readily determinable fair values is recorded through an adjustment to the consolidated statements of income.

Derivative Financial Instruments

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

Mortgage Servicing Rights

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

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

December 31, 2022	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 10,147	Discounted cash flows	Constant pre-payment rates (CPR)	5.3% to 59.7% (8.2%)
			Discount rate	9.0% to 11.7% (9.3%)

December 31, 2021	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 7,994	Discounted cash flows	Constant pre-payment rates (CPR)	7.0% to 88.9% (11.7%)
			Discount rate	9.0% to 11.0% (9.0%)

Nonrecurring Basis

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

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

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Loans held for sale	$ —	$ 615	$ —	$ 615
Collateral-dependent impaired loans	—	—	17,460	17,460
Bank premises held for sale	—	—	235	235
Foreclosed assets	—	—	3,030	3,030

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

Loans Held for Sale

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

Collateral-dependent Impaired Loans

The fair value of collateral-dependent impaired loans is estimated based on the fair value of the underlying collateral supporting the loan. Collateral values are estimated using Level 3 inputs based on appraisals and other valuation estimates of the underlying collateral and 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.

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

December 31, 2022	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 17,460	Appraisal of collateral	Appraisal adjustments	Not meaningful
Bank premises held for sale	235	Appraisal	Appraisal adjustments	7% (7%)
Foreclosed assets	3,030	Appraisal	Appraisal adjustments	7% (7%)

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

Other Fair Value Methods

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

Cash and Cash Equivalents

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

Restricted Stock

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

Loans

The fair value estimation process for the loan portfolio uses an exit price concept and reflects discounts the Company believes are consistent with discounts in the marketplace. Fair values are estimated for portfolios of loans with similar characteristics. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar maturities. The fair value analysis also includes other assumptions to estimate fair value, intended to approximate those a market participant would use in an orderly transaction, with adjustments for discount rates, interest rates, liquidity, and credit spreads, as appropriate.

Investments in Unconsolidated Subsidiaries

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

Time Deposits

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

Securities Sold Under Agreements to Repurchase

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

Subordinated Notes

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

Junior Subordinated Debentures

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Limitations

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

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

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

	Fair Value Hierarchy Level	December 31, 2022 Carrying Amount	December 31, 2022 Estimated Fair Value	December 31, 2021 Carrying Amount	December 31, 2021 Estimated Fair Value
		(dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 114,159	$ 114,159	$ 409,268	$ 409,268
Debt securities held-to-maturity	Level 2	541,600	478,801	336,185	336,027
Restricted stock	Level 3	7,965	7,965	2,739	2,739
Loans, net	Level 3	2,594,920	2,566,930	2,475,753	2,494,686
Investments in unconsolidated subsidiaries	Level 3	1,165	1,165	1,165	1,165
Accrued interest receivable	Level 2	19,506	19,506	14,901	14,901
Financial liabilities:					
Time deposits	Level 3	262,968	253,619	328,208	327,779
Securities sold under agreements to repurchase	Level 2	43,081	43,081	61,256	61,256
Subordinated notes	Level 3	39,395	37,205	39,316	41,602
Junior subordinated debentures	Level 3	37,780	37,030	37,714	33,640
Accrued interest payable	Level 2	1,363	1,363	1,043	1,043

The Company estimated the fair value of lending related commitments as described in Note 23 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 23 – COMMITMENTS AND CONTINGENCIES

Financial Instruments

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

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

Such commitments and conditional obligations were as follows as of December 31:

	Contractual Amount December 31, 2022	Contractual Amount December 31, 2021
	(dollars in thousands)	
Commitments to extend credit	$ 756,885	$ 609,947
Standby letters of credit	17,785	12,960

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

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

Lease Commitments

The Company leases office space under operating leases. Certain leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Future minimum lease payments under these leases are as follows (dollars in thousands):

Year ended December 31,	
2023	$ 191
2024	123
2025	42
Total	$ 356

Legal Contingencies

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

PLB Investments LLC, John Kuehner, and A.S. Palmer Investments LLC v. Heartland Bank and Trust Company and PNC Bank N.A., In the United States District Court for the Northern District of Illinois, Case No. 1:20-cv-1023 (“Class Action”); Melanie E. Damian, As Receiver of Today’s Growth Consultant, Inc. (dba The Income Store) v. Heartland Bank and Trust Company and PNC Bank N.A., In the United States District Court for the Northern District of Illinois, Case No. 1:20-cv-7819 (“Receiver’s Action”)

The Bank was a defendant in the purported Class Action lawsuit that was filed on February 12, 2020, in the U.S. District Court for the Northern District of Illinois. The plaintiffs in the Class Action alleged that the Bank negligently enabled and facilitated a fraudulent, Ponzi-like scheme perpetrated by Today’s Growth Consultant, Inc. (dba The Income Store) (“TGC”). Additionally, the Receiver for TGC filed the Receiver’s Action on December 30, 2020, in the U.S. District Court for the Northern District of Illinois, with similar allegations.

On February 20, 2023, the Bank reached an agreement in principle to settle both the Class Action and Receiver’s Action in which the Bank would make one-time cash payments totaling $13.0 million, without admitting fault, to release the Bank from further liability and claims in both the Class Action and Receiver’s Action.

Pursuant to the agreement in principle, the parties would settle and dismiss the Class Action and Receiver's Action and seek the entry of bar orders from the U.S. District Court for the Northern District of Illinois (the "Court") prohibiting any continued or future claims against the Bank and its related parties relating to the Class Action and the Receiver's Action, whether asserted to date or not. If definitive settlement agreements, including the bar orders described in the preceding sentence, are approved by the Court and are not subject to appeal, the Bank will make one-time cash payments totaling $13.0 million.

The agreement in principle is subject to the execution and delivery of definitive settlement agreements reflecting the terms of the agreement in principle, notice to TGC's investor claimants and final, non-appealable approvals by the Court. While the Bank believes that the proposed settlements are consistent with the terms of similar settlements that have been approved by other courts and were not successfully appealed, it is possible that the Court may decide not to approve the definitive settlement agreements or that the Seventh Circuit Court of Appeals may decide to accept an appeal thereof.

The proposed settlements do not include any admission of liability or wrongdoing by the Bank, and the Bank expressly denies any liability or wrongdoing with respect to any matter alleged in the Class Action and Receiver's Action. The Bank has agreed in principle to the settlements to avoid the cost, risks and distraction of continued litigation. The Company believes the proposed settlements are in the best interests of the Company and its shareholders.

Accordingly, the Bank recorded a $13.0 million accrual related to these matters as of December 31, 2022. The Bank's insurer has agreed to reimburse $7.4 million of the settlement payment which was recorded as an insurance recovery receivable as of December 31, 2022. During the fourth quarter and year ended December 31, 2022, the estimated net settlement amount of $5.6 million was included in other noninterest expense in the consolidated statements of income.

DeBaere, et al v. Heartland Bank and Trust Company

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

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

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

The Bank intends to vigorously defend in both the DeBaere and Miller cases. However, the Company believes an unfavorable outcome in each case is probable at this time, as that term is used in assessing loss contingencies. Accordingly, consistent with the authoritative guidance in the evaluation of contingencies, an accrual has been recorded related to these matters of $2.6 million in the aggregate during the fourth quarter and year ended December 31, 2022. While the amount recorded reflects management's best estimate as of December 31, 2022, the Company cannot yet offer an opinion on the estimated range of possible loss.

NOTE 24 – RELATED PARTY TRANSACTIONS

Loans

As of December 31, 2022 and 2021, loans to directors, executive officers, principal shareholders and their affiliated entities (“related parties”) amounted to $2.2 million and $2.6 million, respectively. These loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing for comparable loans with persons not related to us.

Deposits

Deposits of related parties amounted to $22.0 million and $4.0 million as of December 31, 2022 and 2021, respectively.

NOTE 25 – CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

Following are the condensed parent company only financial statements of HBT Financial.

Condensed Parent Company Only Balance Sheets

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents	$ 24,278	$ 25,752
Investment in subsidiaries:		
Bank	422,217	461,339
Non-bank	1,165	1,165
Other assets	5,338	1,283
Total assets	$ 452,998	$ 489,539
LIABILITIES		
Subordinated notes	$ 39,395	$ 39,316
Junior subordinated debentures	37,780	37,714
Other liabilities	2,191	628
Total liabilities	79,366	77,658
STOCKHOLDERS' EQUITY	373,632	411,881
Total liabilities and stockholders' equity	$ 452,998	$ 489,539

Condensed Parent Company Only Statements of Income

	Years ended December 31		
	2022	2021	2020
INCOME	(dollars in thousands)		
Dividends received from subsidiaries:			
Bank	$ 28,000	$ 20,000	$ 17,600
Non-bank	—	—	36
Undistributed earnings from subsidiaries:			
Bank	35,044	41,227	22,462
Non-bank	—	—	(36)
Other income	51	454	215
Total income	63,095	61,681	40,277
EXPENSES			
Interest expense	3,666	3,305	2,189
Other expense	5,292	3,741	2,519
Total expenses	8,958	7,046	4,708
INCOME BEFORE INCOME TAX BENEFIT	54,137	54,635	35,569
INCOME TAX BENEFIT	(2,319)	(1,636)	(1,276)
NET INCOME	$ 56,456	$ 56,271	$ 36,845

Condensed Parent Company Only Statements of Cash Flows

	Year ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES	(dollars in thousands)		
Net income	$ 56,456	$ 56,271	$ 36,845
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of consolidated subsidiaries	(35,044)	(41,227)	(22,426)
Stock-based compensation	1,949	764	351
Amortization of discount and issuance costs on subordinated notes and debentures	145	144	92
Net gain on sale of foreclosed assets	—	(74)	—
Changes in other assets and liabilities, net	769	(2,231)	1,633
Net cash provided by operating activities	24,275	13,647	16,495
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution to bank subsidiary	—	—	—
Capital contribution to non-bank subsidiary	—	—	—
Purchase of securities	—	(48)	(17)
Purchase of foreclosed assets from Heartland Bank	(2,325)	—	—
Proceeds from sale of foreclosed assets	—	74	—
Net cash paid for acquisition of NXT Bancorporation, Inc.	—	(10,411)	—
Net cash used in investing activities	(2,325)	(10,385)	(17)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of subordinated notes, net of issuance costs	—	—	39,211
Issuance of common stock	—	—	—
Taxes paid related to the vesting of restricted stock units	(57)	—	—
Repurchase of common stock	(4,783)	(4,906)	—
Cash dividends and dividend equivalents paid	(18,584)	(16,753)	(16,518)
Net cash (used in) provided by financing activities	(23,424)	(21,659)	22,693
NET CHANGE IN CASH AND EQUIVALENTS	(1,474)	(18,397)	39,171
CASH AND CASH EQUIVALENTS			
Beginning of year	25,752	44,149	4,978
End of year	$ 24,278	$ 25,752	$ 44,149

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2022, the end of the period covered by this report, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. This assessment was based on criteria for effective internal control over financial reporting established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, our Chief Executive Officer and Chief Financial Officer have determined that the Company maintained effective internal control over financial reporting as of December 31, 2022 based on the specified criteria.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. As an emerging growth company, management's report was not subject to attestation by the Company's independent registered public accounting firm in accordance with the JOBS Act.

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 December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our Code of Ethics applies to all of our officers, directors and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics is publicly available on our internet website at ir.hbtfinancial.com. We intend to satisfy the disclosure requirements of Item 5.05 of Form 8-K regarding any amendment to, or waiver from, a provision of the Code of Ethics that applies to our principal executive officer, principal financial officer or principal accounting officer and relates to any element of the definition of code of ethics set forth in Item 406(b) of Regulation S-K by posting such information on our website, ir.hbtfinancial.com.

All other information required by this item is incorporated by reference to the information set forth in our Definitive Proxy Statement for our 2023 Annual Meeting of Stockholders (the “Definitive Proxy Statement”), which we expect to file with the SEC within 120 days after our fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in our Definitive Proxy Statement, which we expect to file with the SEC within 120 days after our fiscal year end, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information as of December 31, 2022 relating to our equity compensation plans pursuant to which grants of options, restricted stock or other rights to acquire shares may be granted from time to time.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-Average exercise price of outstanding options, warrants and rights (B) [2]	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders	233,087 [1]	$ —	1,534,744
Equity compensation plans not approved by security holders	—	—	—
Total	233,087	$ —	1,534,744

(1) Balance reflects the assumed payout of outstanding performance restricted stock units awards at maximum level and outstanding restricted stock unit awards.

(2) This “Weighted-Average exercise price of outstanding options, warrants and rights” column does not reflect the outstanding restricted stock unit or performance share unit awards. Because there are no outstanding awards that have exercise prices, no weighted-average exercise price is provided in this column.

All other information required by this item is incorporated by reference to our Definitive Proxy Statement, which we expect to file with the SEC within 120 days after our fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Definitive Proxy Statement, which we expect to file with the SEC within 120 days after our fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our Definitive Proxy Statement, which we expect to file with the SEC within 120 days after our fiscal year end.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1). See Index to Consolidated Financial Statements on page 84.

(a)(2). Financial Statement Schedule

All financial statement schedules are omitted because they are either not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto included in Part II, Item 8.

(a)(3). Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger between HBT Financial, Inc., HB-T&C Merger, Inc. and Town and Country Financial Corporation dated August 23, 2022 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 23, 2022).
3.1	Restated Certificate of Incorporation of HBT Financial, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed with the Commission on October 30, 2019).
3.2	Amended and Restated By-law of HBT Financial, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8, filed with the Commission on October 30, 2019).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A, filed with the Commission on October 1, 2019).
4.2	Description of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K, filed with the Commission on March 27, 2020).
4.3	Form of 4.50% Fixed-to-Floating Rate Subordinated Note due 2030 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Commission on September 3, 2020).
10.1	Voting Trust Agreement, dated as of May 4, 2016, among Fred L. Drake, the Company and the depositors party thereto (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, filed with the Commission on September 13, 2019).
10.2	Amended Restated Stockholder Agreement, dated as of September 27, 2019, by and among the Company and the stockholders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1/A, filed with the Commission on October 1, 2019).
10.3	Registration Rights Agreement, dated as of October 16, 2019, by and among the Company and the stockholders party thereto (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, filed with the Commission on November 20, 2019).
10.4	Subordinated Note Purchase Agreement, dated September 3, 2020, by and among HBT Financial, Inc. and the Purchasers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on September 3, 2020).
10.5 §	HBT Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8, filed with the Commission on October 30, 2019).
10.6 §	Amended and Restated Employment Agreement, dated as of February 22, 2021, by and between the Company and Fred L. Drake (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on February 25, 2021).
10.7 §	Amended and Restated Employment Agreement, dated as of February 22, 2021, by and between the Company and J. Lance Carter (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on February 25, 2021).
10.8 §	Amended and Restated Employment Agreement, dated as of February 22, 2021, by and between the Company and Patrick F. Busch (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Commission on February 25, 2021).
10.9 §	Employment Agreement, effective October 1, 2022, by and among HBT Financial, Inc., Heartland Bank and Trust Company and Peter Chapman. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 18, 2022).
10.10 §	Transition Agreement by and among HBT Financial, Inc., Heartland Bank and Trust Company and Matthew J. Doherty, dated as of August 17, 2022. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on August 18, 2022).
10.11 §	Amendment to Amended and Restated Employment Agreement, dated November 18, 2022, by and among HBT Financial, Inc., Heartland Bank and Trust Company and Patrick F. Busch. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on November 23, 2022).

10.12 §	Form of Stock Appreciation Rights Agreement (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1, filed with the Commission on September 13, 2019).
10.13 §	Form of Option Award Agreement (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1/A, filed with the Commission on October 1, 2019).
10.14 §	Form of Restricted Shares Award Agreement (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1/A, filed with the Commission on October 1, 2019).
10.15 §	Form of Restricted Stock Unit Award Agreement (with dividend equivalent rights) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on February 3, 2020).
10.16 §	Form of Director Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K, filed with the Commission on March 12, 2021).
10.17 §	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K, filed with the Commission on March 11, 2022).
10.18 § *	Form of Performance Restricted Stock Unit Award Agreement.
21.1 *	Subsidiaries of the Registrant.
23.1 *	Consent of RSM US LLP.
31.1 *	Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 **	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 **	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	iXBRL Instance Document.
101.SCH	iXBRL Taxonomy Extension Schema Document.
101.CAL	iXBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	iXBRL Taxonomy Extension Label Linkbase Document.
101.PRE	iXBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	iXBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith.

** This exhibit is furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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

ITEM 16. FORM 10-K SUMMARY

None.

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.

Dated: March 8, 2023

By: /s/ Peter R. Chapman
Peter R. Chapman
Chief Financial Officer
(on behalf of the registrant and as principal financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Fred L. Drake Fred L. Drake	Chairman and Chief Executive Officer (Principal executive officer)	March 8, 2023
/s/ Peter R. Chapman Peter R. Chapman	Executive Vice President and Chief Financial Officer (Principal financial officer and principal accounting officer)	March 8, 2023
/s/ Roger A. Baker Roger A. Baker	Director	March 8, 2023
/s/ C. Alvin Bowman C. Alvin Bowman	Director	March 8, 2023
/s/ Eric E. Burwell Eric E. Burwell	Director	March 8, 2023
/s/ Patrick F. Busch Patrick F. Busch	Director	March 8, 2023
/s/ J. Lance Carter J. Lance Carter	President, Chief Operating Officer and Director	March 8, 2023
/s/ Allen C. Drake Allen C. Drake	Director	March 8, 2023
/s/ Linda J. Koch Linda J. Koch	Director	March 8, 2023
/s/ Gerald E. Pfeiffer Gerald E. Pfeiffer	Director	March 8, 2023