REFINITIV

DELTA REPORT

10-Q

FBMS - FIRST BANCSHARES INC /MS/

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	814
CHANGES	385
DELETIONS	262
ADDITIONS	167

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023 September 30, 2023

OR

o 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: 000-22507

Logo Holding (002).jpg

THE FIRST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Mississippi	***64-0862173***
(State of Incorporation)	(IRS Employer Identification No)
6480 U.S. Highway 98 West, Suite A, Hattiesburg, Mississippi	39402
(Address of principal executive offices)	(Zip Code)

(601) 268-8998
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 $1.00	FBMS	The Nasdaq Stock Market

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 þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes þ No o

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. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, $1.00 par value, 32,345,400 32,339,839 shares issued and 31,095,793 31,090,232 outstanding as of August 3, 2023 November 1, 2023.

Auditor Firm PCAOB ID: 686	Auditor Name: FORVIS, LLP	Auditor Location: Jackson, MS

The First Bancshares, Inc.
Form 10-Q
Quarter Ended June 30, 2023 September 30, 2023
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
($ in thousands)

		(Unaudited) June 30, 2023	December 31, 2022		(Unaudited) September 30, 2023	December 31, 2022
ASSETS	ASSETS			ASSETS		
Cash and due from banks	Cash and due from banks	$ 105,788	$ 67,176	Cash and due from banks	$ 121,876	$ 67,176
Interest-bearing deposits with banks	Interest-bearing deposits with banks	88,262	78,139	Interest-bearing deposits with banks	75,756	78,139
Total cash and cash equivalents	Total cash and cash equivalents	194,050	145,315	Total cash and cash equivalents	197,632	145,315
Securities available-for-sale, at fair value (amortized cost: $1,356,696 - 2023; $1,418,337 - 2022; allowance for credit losses: $0)		1,199,103	1,257,101			
Securities held to maturity, net of allowance for credit losses of $0 (fair value: $613,831 - 2023; $642,097 - 2022)		663,473	691,484			

Securities available-for-sale, at fair value (amortized cost: $1,326,894 - 2023; $1,418,337 - 2022; allowance for credit losses: $0)				Securities available-for-sale, at fair value (amortized cost: $1,326,894 - 2023; $1,418,337 - 2022; allowance for credit losses: $0)	1,141,971	1,257,101
Securities held to maturity, net of allowance for credit losses of $0 (fair value: $582,592 - 2023; $642,097 - 2022)				Securities held to maturity, net of allowance for credit losses of $0 (fair value: $582,592 - 2023; $642,097 - 2022)	658,524	691,484
Other securities	Other securities	35,725	33,944	Other securities	35,872	33,944
Total securities	Total securities	1,898,301	1,982,529	Total securities	1,836,367	1,982,529
Loans held for sale	Loans held for sale	6,602	4,443	Loans held for sale	5,960	4,443
Loans held for investment	Loans held for investment	5,010,925	3,774,157	Loans held for investment	5,089,800	3,774,157
Allowance for credit losses	Allowance for credit losses	(52,614)	(38,917)	Allowance for credit losses	(53,565)	(38,917)
Net loans held for investment	Net loans held for investment	4,958,311	3,735,240	Net loans held for investment	5,036,235	3,735,240
Interest receivable	Interest receivable	30,837	27,723	Interest receivable	30,542	27,723
Premises and equipment	Premises and equipment	178,489	143,518	Premises and equipment	175,716	143,518
Operating lease right-of-use assets	Operating lease right-of-use assets	6,194	7,620	Operating lease right-of-use assets	6,442	7,620
Finance lease right-of-use assets	Finance lease right-of-use assets	1,698	1,930	Finance lease right-of-use assets	1,582	1,930
Cash surrender value of bank-owned life insurance	Cash surrender value of bank-owned life insurance	132,737	95,571	Cash surrender value of bank-owned life insurance	133,540	95,571
Goodwill	Goodwill	272,522	180,254	Goodwill	272,672	180,254
Other real estate owned	Other real estate owned	5,588	4,832	Other real estate owned	4,920	4,832
Other assets	Other assets	176,779	132,742	Other assets	182,677	132,742
Total assets	**Total assets**	$ 7,862,108	$ 6,461,717	**Total assets**	$ 7,884,285	$ 6,461,717
LIABILITIES AND SHAREHOLDERS' EQUITY	**LIABILITIES AND SHAREHOLDERS' EQUITY**			**LIABILITIES AND SHAREHOLDERS' EQUITY**		
Liabilities:	Liabilities:			Liabilities:		
Deposits:	Deposits:			Deposits:		
Noninterest-bearing	Noninterest-bearing	$ 2,086,666	$ 1,630,203	Noninterest-bearing	$ 1,967,661	$ 1,630,203
Interest-bearing	Interest-bearing	4,405,601	3,864,201	Interest-bearing	4,512,364	3,864,201
Total deposits	Total deposits	6,492,267	5,494,404	Total deposits	6,480,025	5,494,404
Interest payable	Interest payable	7,968	3,324	Interest payable	13,800	3,324
Borrowed funds	Borrowed funds	280,000	130,100	Borrowed funds	302,000	130,100
Subordinated debentures	Subordinated debentures	128,214	145,027	Subordinated debentures	128,300	145,027
Operating lease liabilities	Operating lease liabilities	6,353	7,810	Operating lease liabilities	6,602	7,810
Finance lease liabilities	Finance lease liabilities	1,829	1,918	Finance lease liabilities	1,784	1,918
Allowance for credit losses on off-balance sheet credit exposures	Allowance for credit losses on off-balance sheet credit exposures	2,075	1,325	Allowance for credit losses on off-balance sheet credit exposures	2,075	1,325
Other liabilities	Other liabilities	43,956	31,146	Other liabilities	52,478	31,146
Total liabilities	**Total liabilities**	6,962,662	5,815,054	**Total liabilities**	6,987,064	5,815,054
Shareholders' equity:	**Shareholders' equity:**			**Shareholders' equity:**		
Common stock, par value $1 per share, 80,000,000 shares authorized shares authorized; 32,345,400 shares issued at June 30, 2023, and par value $1 per share, 40,000,000 shares authorized; 25,275,369 shares issued at December 31, 2022		32,345	25,275			
Common stock, par value $1 per share, 80,000,000 shares authorized shares authorized; 32,343,411 shares issued at September 30, 2023, and par value $1 per share, 40,000,000 shares authorized; 25,275,369 shares issued at December 31, 2022				Common stock, par value $1 per share, 80,000,000 shares authorized shares authorized; 32,343,411 shares issued at September 30, 2023, and par value $1 per share, 40,000,000 shares authorized; 25,275,369 shares issued at December 31, 2022	32,343	25,275

Additional paid-in capital	Additional paid-in capital	774,101	558,833	Additional paid-in capital	774,598	558,833
Retained earnings	Retained earnings	279,350	252,623	Retained earnings	296,559	252,623
Accumulated other comprehensive (loss) income	Accumulated other comprehensive (loss) income	(145,239)	(148,957)	Accumulated other comprehensive (loss) income	(165,168)	(148,957)
Treasury stock, at cost, 1,249,607 shares at June 30, 2023 and at December 31, 2022		(41,111)	(41,111)			
Treasury stock, at cost, 1,249,607 shares at September 30, 2023 and at December 31, 2022				Treasury stock, at cost, 1,249,607 shares at September 30, 2023 and at December 31, 2022	(41,111)	(41,111)
Total shareholders' equity	**Total shareholders' equity**	899,446	646,663	**Total shareholders' equity**	897,221	646,663
Total liabilities and shareholders' equity	**Total liabilities and shareholders' equity**	$ 7,862,108	$ 6,461,717	**Total liabilities and shareholders' equity**	$ 7,884,285	$ 6,461,717

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
($ in thousands, except earnings and dividends per share)

		(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,			(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
		2023	**2022**	**2023**	**2022**		**2023**	**2022**	**2023**	**2022**
Interest and dividend income:	**Interest and dividend income:**					**Interest and dividend income:**				
Interest and fees on loans	Interest and fees on loans	$ 74,590	$ 34,663	$ 142,324	$ 68,817	Interest and fees on loans	$ 74,626	$ 42,274	$ 216,949	$ 111,091
Interest and dividends on securities:	**Interest and dividends on securities:**					**Interest and dividends on securities:**				
Taxable interest and dividends	Taxable interest and dividends	7,867	8,372	16,626	14,524	Taxable interest and dividends	7,685	8,723	24,311	23,247
Tax exempt interest	Tax exempt interest	2,948	2,780	5,896	5,202	Tax exempt interest	2,929	2,875	8,825	8,077
Interest on federal funds sold and interest-bearing deposits in other banks	Interest on federal funds sold and interest-bearing deposits in other banks	789	32	1,686	45	Interest on federal funds sold and interest-bearing deposits in other banks	441	2	2,128	47
Total interest income	Total interest income	86,194	45,847	166,532	88,588	Total interest income	85,681	53,874	252,213	142,462
Interest expense:	**Interest expense:**					**Interest expense:**				
Interest on deposits	Interest on deposits	14,762	1,905	27,039	4,188	Interest on deposits	19,572	2,748	46,611	6,937
Interest on borrowed funds	Interest on borrowed funds	5,402	1,841	8,537	3,660	Interest on borrowed funds	5,405	1,978	13,942	5,638
Total interest expense	Total interest expense	20,164	3,746	35,576	7,848	Total interest expense	24,977	4,726	60,553	12,575
Net interest income	**Net interest income**	66,030	42,101	130,956	80,740	**Net interest income**	60,704	49,148	191,660	129,887
Provision for credit losses, LHFI	Provision for credit losses, LHFI	1,000	450	11,500	450	Provision for credit losses, LHFI	1,000	4,300	12,500	4,750

Provision for credit losses, OBSC exposures	Provision for credit losses, OBSC exposures	250	150	750	150	Provision for credit losses, OBSC exposures	—	—	750	150
Net interest income after provision for credit losses	**Net interest income after provision for credit losses**	64,780	41,501	118,706	80,140	**Net interest income after provision for credit losses**	59,704	44,848	178,410	124,987
Non-interest income:	**Non-interest income:**					**Non-interest income:**				
Service charges on deposit accounts	Service charges on deposit accounts	3,425	2,038	7,082	4,078	Service charges on deposit accounts	3,646	2,219	10,728	6,297
(Loss) on securities		(48)	(80)	(48)	(83)					
(Loss) gain on securities						(Loss) gain on securities	2	1	(46)	(82)
Gain on acquisition	Gain on acquisition	—	281	—	281	Gain on acquisition	—	—	—	281
Government awards/grants	Government awards/grants	—	171	—	873	Government awards/grants	6,197	—	6,197	873
BOLI death proceeds	BOLI death proceeds	—	—	—	1,630	BOLI death proceeds	—	—	—	1,630
(Loss) gain on sale of premises and equipment	(Loss) gain on sale of premises and equipment	—	(115)	663	(113)	(Loss) gain on sale of premises and equipment	(104)	—	559	(114)
Other	Other	9,046	6,369	17,338	13,155	Other	9,583	6,802	26,921	19,958
Total non-interest income	Total non-interest income	12,423	8,664	25,035	19,821	Total non-interest income	19,324	9,022	44,359	28,843
Non-interest expense:	**Non-interest expense:**					**Non-interest expense:**				
Salaries and employee benefits	Salaries and employee benefits	23,315	17,237	46,888	34,036	Salaries and employee benefits	22,807	19,099	69,695	53,135
Occupancy and equipment	Occupancy and equipment	5,041	3,828	10,337	7,704	Occupancy and equipment	5,343	3,826	15,680	11,530
Acquisition expense/charter conversion	Acquisition expense/charter conversion	4,101	1,172	7,894	1,580	Acquisition expense/charter conversion	588	3,640	8,482	5,220
Other	Other	14,442	8,718	27,450	16,225	Other	18,986	9,338	46,436	25,563
Total non-interest expense	Total non-interest expense	46,899	30,955	92,569	59,545	Total non-interest expense	47,724	35,903	140,293	95,448
Income before income taxes	**Income before income taxes**	30,304	19,210	51,172	40,416	**Income before income taxes**	31,304	17,967	82,476	58,382
Income tax expense	Income tax expense	6,525	3,457	11,122	7,834	Income tax expense	6,944	3,924	18,066	11,758
Net income	**Net income**	$ 23,779	$ 15,753	$ 40,050	$ 32,582	**Net income**	$ 24,360	$ 14,043	$ 64,410	$ 46,624
Basic earnings per share	**Basic earnings per share**	$ 0.76	$ 0.77	$ 1.28	$ 1.58	**Basic earnings per share**	$ 0.78	$ 0.61	$ 2.05	$ 2.18
Diluted earnings per share	**Diluted earnings per share**	0.75	0.76	1.27	1.57	**Diluted earnings per share**	0.77	0.61	2.04	2.17

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
($ in thousands)

		(Unaudited)					(Unaudited)			
		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Net income	**Net income**	$ 23,779	$ 15,753	$ 40,050	$ 32,582	**Net income**	$ 24,360	$ 14,043	$ 64,410	$ 46,624
Other comprehensive (loss) income:	**Other comprehensive (loss) income:**					**Other comprehensive (loss) income:**				
Unrealized holding (losses) gains arising during the period on available-for-sale securities	Unrealized holding (losses) gains arising during the period on available-for-sale securities	(19,504)	(57,007)	4,745	(159,856)	Unrealized holding (losses) gains arising during the period on available-for-sale securities	(26,770)	(67,785)	(22,025)	(227,641)
Reclassification adjustment for (accretion) amortization of unrealized holdings gain/(loss) included in accumulated other comprehensive income from the transfer of securities available-for-sale to held-to-maturity	Reclassification adjustment for (accretion) amortization of unrealized holdings gain/(loss) included in accumulated other comprehensive income from the transfer of securities available-for-sale to held-to-maturity	92	—	184	—	Reclassification adjustment for (accretion) amortization of unrealized holdings gain/(loss) included in accumulated other comprehensive income from the transfer of securities available-for-sale to held-to-maturity	93	—	277	—
Reclassification adjustment for losses (gains) included in net income	Reclassification adjustment for losses (gains) included in net income	48	80	48	83	Reclassification adjustment for losses (gains) included in net income	(2)	(1)	46	82
Unrealized holding (losses) gains arising during the period on available-for-sale securities	Unrealized holding (losses) gains arising during the period on available-for-sale securities	(19,364)	(56,927)	4,977	(159,773)	Unrealized holding (losses) gains arising during the period on available-for-sale securities	(26,679)	(67,786)	(21,702)	(227,559)
Income tax (expense) benefit	Income tax (expense) benefit	4,899	14,401	(1,259)	40,422	Income tax (expense) benefit	6,750	17,150	5,491	57,572
Other comprehensive (loss) income	**Other comprehensive (loss) income**	(14,465)	(42,526)	3,718	(119,351)	**Other comprehensive (loss) income**	(19,929)	(50,636)	(16,211)	(169,987)
Comprehensive income (loss)	**Comprehensive income (loss)**	$ 9,314	$ (26,773)	$ 43,768	$ (86,769)	**Comprehensive income (loss)**	$ 4,431	$ (36,593)	$ 48,199	$ (123,363)

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ in thousands except per share data, unaudited)

		Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Amount	Shares	Total	Amount	Common Stock		Additional Paid-in Capital	Shares	Re Ea
Balance, January 1, 2022	**Balance, January 1, 2022**	21,668,644	$21,669	$ 459,228	$206,228	$	7,978	(649,607)	$(18,931)	$676,172	**Balance, January 1, 2022**	21,668,644	$21,669	$ 459,228		$2
Net income	Net income	—	—	—	16,829		—	—	—	16,829	Net income	—	—	—		
Common stock repurchased	Common stock repurchased	—	—	—	—		—	(600,000)	(22,180)	(22,180)	Common stock repurchased	—	—	—		
Other comprehensive loss	Other comprehensive loss	—	—	—	—		(76,825)	—	—	(76,825)	Other comprehensive loss	—	—	—		
Dividends on common stock, $0.17 per share	Dividends on common stock, $0.17 per share	—	—	—	(3,468)		—	—	—	(3,468)	Dividends on common stock, $0.17 per share	—	—	—		
Issuance of restricted stock grants	Issuance of restricted stock grants	82,123	82	(82)	—		—	—	—	—	Issuance of restricted stock grants	82,123	82	(82)		
Restricted stock grants forfeited	Restricted stock grants forfeited	(1,000)	(1)	1	—		—	—	—	—	Restricted stock grants forfeited	(1,000)	(1)	1		
Repurchase of restricted stock for payment of taxes	Repurchase of restricted stock for payment of taxes	(15,330)	(16)	(538)	—		—	—	—	(554)	Repurchase of restricted stock for payment of taxes	(15,330)	(16)	(538)		
Compensation expense	Compensation expense	—	—	466	—		—	—	—	466	Compensation expense	—	—	466		
Balance, March 31, 2022	**Balance, March 31, 2022**	21,734,437	21,734	459,075	219,589		(68,847)	(1,249,607)	(41,111)	590,440	**Balance, March 31, 2022**	21,734,437	21,734	459,075		2
Net income	Net income	—	—	—	15,753		—	—	—	15,753	Net income	—	—	—		
Other comprehensive loss	Other comprehensive loss	—	—	—	—		(42,526)	—	—	(42,526)	Other comprehensive loss	—	—	—		
Dividends on common stock, $0.18 per share	Dividends on common stock, $0.18 per share	—	—	—	(3,688)		—	—	—	(3,688)	Dividends on common stock, $0.18 per share	—	—	—		
Issuance of restricted stock grants	Issuance of restricted stock grants	47,767	48	(48)	—		—	—	—	—	Issuance of restricted stock grants	47,767	48	(48)		
Restricted stock grants forfeited	Restricted stock grants forfeited	(1,000)	(1)	1	—		—	—	—	—	Restricted stock grants forfeited	(1,000)	(1)	1		
Repurchase of restricted stock for payment of taxes	Repurchase of restricted stock for payment of taxes	(2,473)	(2)	(71)	—		—	—	—	(73)	Repurchase of restricted stock for payment of taxes	(2,473)	(2)	(71)		
Compensation expense	Compensation expense	—	—	546	—		—	—	—	546	Compensation expense	—	—	546		
Balance, June 30, 2022	**Balance, June 30, 2022**	21,778,731	$21,779	$ 459,503	$231,654	$	(111,373)	(1,249,607)	$(41,111)	$560,452	**Balance, June 30, 2022**	21,778,731	21,779	459,503		2
Net income											Net income	—	—	—		

		Shares	Amount	Additional Paid-in Capital	
Other comprehensive loss	Other comprehensive loss	—	—	—	
Dividends on common stock, $0.19 per share	Dividends on common stock, $0.19 per share	—	—	—	
Issuance of common shares for BBI acquisition	Issuance of common shares for BBI acquisition	3,498,936	3,499	97,970	
Compensation expense	Compensation expense	—	—	708	
Balance, September 30, 2022	**Balance, September 30, 2022**	25,277,667	$25,278	$ 558,181	$2

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY CONTINUED
($ in thousands except per share data, unaudited)

		Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total		Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Shares Re Ea
Balance, January 1, 2023	**Balance, January 1, 2023**	25,275,369	$ 25,275	$ 558,833	$ 252,623	$ (148,957)	(1,249,607)	$(41,111)	$646,663	**Balance, January 1, 2023**	25,275,369	$25,275	$ 558,833	$2
Net income	Net income	—	—	—	16,271	—	—	—	16,271	Net income	—	—	—	
Other comprehensive income	Other comprehensive income	—	—	—	—	18,183	—	—	18,183	Other comprehensive income	—	—	—	
Dividends on common stock, $0.21 per share	Dividends on common stock, $0.21 per share	—	—	—	(6,498)	—	—	—	(6,498)	Dividends on common stock, $0.21 per share	—	—	—	
Issuance of common shares for HSBI acquisition	Issuance of common shares for HSBI acquisition	6,920,422	6,920	214,602	—	—	—	—	221,522	Issuance of common shares for HSBI acquisition	6,920,422	6,920	214,602	
Issuance of restricted stock grants	Issuance of restricted stock grants	118,689	119	(119)	—	—	—	—	—	Issuance of restricted stock grants	118,689	119	(119)	
Restricted stock grants forfeited	Restricted stock grants forfeited	(500)	(1)	1	—	—	—	—	—	Restricted stock grants forfeited	(500)	(1)	1	
Repurchase of restricted stock for payment of taxes	Repurchase of restricted stock for payment of taxes	(9,827)	(9)	(298)	—	—	—	—	(307)	Repurchase of restricted stock for payment of taxes	(9,827)	(9)	(298)	
Compensation expense	Compensation expense	—	—	593	—	—	—	—	593	Compensation expense	—	—	593	
Balance, March 31, 2023	**Balance, March 31, 2023**	32,304,153	32,304	773,612	262,396	(130,774)	(1,249,607)	(41,111)	896,427	**Balance, March 31, 2023**	32,304,153	32,304	773,612	2
Net income	Net income	—	—	—	23,779	—	—	—	23,779	Net income	—	—	—	
Other comprehensive loss	Other comprehensive loss	—	—	—	—	(14,465)	—	—	(14,465)	Other comprehensive loss	—	—	—	

Dividends on common stock, $0.22 per share	Dividends on common stock, $0.22 per share	—	—	—	(6,825)	—	—	—	(6,825)	Dividends on common stock, $0.22 per share	—	—	—
Issuance of restricted stock grants	Issuance of restricted stock grants	45,773	46	(46)	—	—	—	—	—	Issuance of restricted stock grants	45,773	46	(46)
Restricted stock grants forfeited	Restricted stock grants forfeited	(4,526)	(5)	5	—	—	—	—	—	Restricted stock grants forfeited	(4,526)	(5)	5
Compensation expense	Compensation expense	—	—	530	—	—	—	—	530	Compensation expense	—	—	530
Balance, June 30, 2023	**Balance, June 30, 2023**	32,345,400	$ 32,345	$ 774,101	$ 279,350	$ (145,239)	(1,249,607)	$ (41,111)	$ 899,446	**Balance, June 30, 2023**	32,345,400	32,345	774,101
Net income										Net income	—	—	—
Other comprehensive loss										Other comprehensive loss	—	—	—
Dividends on common stock, $0.23 per share										Dividends on common stock, $0.23 per share	—	—	—
Issuance of restricted stock grants										Issuance of restricted stock grants	2,711	3	(3)
Restricted stock grants forfeited										Restricted stock grants forfeited	(3,596)	(4)	4
Repurchase of restricted stock for payment of taxes										Repurchase of restricted stock for payment of taxes	(1,104)	(1)	(31)
Compensation expense										Compensation expense	—	—	527
Balance, September 30, 2023										**Balance, September 30, 2023**	32,343,411	$32,343	$ 774,598

See Notes to Consolidated Financial Statements

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THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

		(Unaudited) Six Months Ended June 30,			(Unaudited) Nine Months Ended September 30,	
		2023	**2022**		**2023**	**2022**
Cash flows from operating activities:	**Cash flows from operating activities:**			**Cash flows from operating activities:**		
Net income	Net income	$ 40,050	$ 32,582	Net income	$ 64,410	$ 46,624
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:			Adjustments to reconcile net income to net cash provided by operating activities:		

Depreciation, amortization, and accretion	Depreciation, amortization, and accretion	2,321	6,520	Depreciation, amortization, and accretion	3,969	8,939
Provision for credit loss	Provision for credit loss	12,250	600	Provision for credit loss	13,250	4,900
Loss (gain) on sale or writedown of ORE		533	235			
Securities loss (gain)		48	83			
Loss on sale or writedown of ORE				Loss on sale or writedown of ORE	753	252
Securities loss				Securities loss	46	82
Acquisition gain	Acquisition gain	—	(281)	Acquisition gain	—	(281)
(Gain) loss on disposal of premises and equipment		(663)	113			
Loss (gain) on loss of premises and equipment				Loss (gain) on loss of premises and equipment	(559)	114
Restricted stock expense	Restricted stock expense	1,123	1,012	Restricted stock expense	1,650	1,720
Increase in cash value of life insurance	Increase in cash value of life insurance	(1,587)	(1,080)	Increase in cash value of life insurance	(2,390)	(1,576)
Federal Home Loan Bank stock dividends	Federal Home Loan Bank stock dividends	(222)	(1)	Federal Home Loan Bank stock dividends	(279)	(8)
Residential loans originated and held for sale	Residential loans originated and held for sale	(50,376)	(79,176)	Residential loans originated and held for sale	(76,169)	(113,058)
Proceeds from sale of residential loans held for sale	Proceeds from sale of residential loans held for sale	48,217	80,151	Proceeds from sale of residential loans held for sale	74,652	118,511
Changes in:	Changes in:			Changes in:		
Interest receivable	Interest receivable	1,235	(1,287)	Interest receivable	1,530	166
Interest payable	Interest payable	4,644	(104)	Interest payable	10,476	(346)
Operating lease liability	Operating lease liability	(1,457)	(47)	Operating lease liability	(1,208)	3,900
Other, net	Other, net	(17,370)	6,029	Other, net	(9,774)	1,844
Net cash provided by operating activities	**Net cash provided by operating activities**	38,746	45,349	**Net cash provided by operating activities**	80,357	71,783

Cash flows from investing activities:	**Cash flows from investing activities:**			**Cash flows from investing activities:**		
Available-for-sale securities:	Available-for-sale securities:			Available-for-sale securities:		
Sales	Sales	171,150	—	Sales	171,150	21,069
Maturities, prepayments, and calls	Maturities, prepayments, and calls	59,142	106,960	Maturities, prepayments, and calls	88,490	148,168
Purchases	Purchases	—	(7,000)	Purchases	(1,000)	(7,000)
Held-to-maturity securities:	Held-to-maturity securities:			Held-to-maturity securities:		
Maturities, prepayments, and calls	Maturities, prepayments, and calls	30,155	4,666	Maturities, prepayments, and calls	35,827	9,013
Purchases	Purchases	—	(597,673)	Purchases	—	(602,218)
Purchases of other securities	Purchases of other securities	(9,473)	(361)	Purchases of other securities	(9,563)	(8,580)
Proceeds from other securities	Proceeds from other securities	8,741	—	Proceeds from other securities	8,741	1,237
Net (increase) decrease in loans		(70,124)	(163,403)			
Net increase in loans				Net increase in loans	(145,047)	(273,335)
Net changes in premises and equipment	Net changes in premises and equipment	(2,916)	(4,125)	Net changes in premises and equipment	(2,749)	(9,146)
Proceeds from sale of other real estate owned	Proceeds from sale of other real estate owned	587	836	Proceeds from sale of other real estate owned	1,098	2,260
Proceeds from the sale of premises and equipment	Proceeds from the sale of premises and equipment	731	712	Proceeds from the sale of premises and equipment	1,416	712
Bank-owned life insurance – death proceeds	Bank-owned life insurance – death proceeds	—	1,630	Bank-owned life insurance – death proceeds	—	1,630
Cash received in excess of cash paid for acquisitions	Cash received in excess of cash paid for acquisitions	106,973	—	Cash received in excess of cash paid for acquisitions	106,973	23,939
Net cash provided by (used in) investing activities	**Net cash provided by (used in) investing activities**	294,966	(657,758)	**Net cash provided by (used in) investing activities**	255,336	(692,251)
Cash flows from financing activities:	**Cash flows from financing activities:**			**Cash flows from financing activities:**		
(Decrease) increase in deposits		(395,323)	79,413			
Decrease in deposits				Decrease in deposits	(408,603)	(165,921)
Net change in borrowed funds	Net change in borrowed funds	149,900	—	Net change in borrowed funds	171,900	65,000

Principal payments on finance lease liabilities	Principal payments on finance lease liabilities	(89)	(88)	Principal payments on finance lease liabilities	(134)	(132)
Dividends paid on common stock	Dividends paid on common stock	(13,158)	(7,050)	Dividends paid on common stock	(20,200)	(11,544)
Cash paid to repurchase common stock	Cash paid to repurchase common stock	—	(22,180)	Cash paid to repurchase common stock	—	(22,180)
Payment of subordinated debt issuance costs		—	(1)			
Called/repayment of subordinated debt	Called/repayment of subordinated debt	(26,000)	—	Called/repayment of subordinated debt	(26,000)	—
Repurchase of restricted stock for payment of taxes	Repurchase of restricted stock for payment of taxes	(307)	(627)	Repurchase of restricted stock for payment of taxes	(339)	(627)
Net cash (used in) provided by financing activities		(284,977)	49,467			
Net cash used in financing activities				**Net cash used in financing activities**	(283,376)	(135,404)

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THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED
($ in thousands)

		(Unaudited) Six Months Ended June 30,			(Unaudited) Nine Months Ended September 30,	
		2023	**2022**		**2023**	**2022**
Net change in cash and cash equivalents	Net change in cash and cash equivalents	48,735	(562,942)	Net change in cash and cash equivalents	52,317	(755,872)
Beginning cash and cash equivalents	**Beginning cash and cash equivalents**	145,315	919,713	**Beginning cash and cash equivalents**	145,315	919,713
Ending cash and cash equivalents	**Ending cash and cash equivalents**	$ 194,050	$ 356,771	**Ending cash and cash equivalents**	$ 197,632	$ 163,841
Supplemental disclosures:	**Supplemental disclosures:**			**Supplemental disclosures:**		
Loans transferred to other real estate	Loans transferred to other real estate	$ 1,267	$ 495	Loans transferred to other real estate	$ 1,543	$ 1,490
Issuance of restricted stock grants	Issuance of restricted stock grants	$ 165	$ 130	Issuance of restricted stock grants	$ 168	$ 130
Dividends on restricted stock grants	Dividends on restricted stock grants	$ 165	$ 105	Dividends on restricted stock grants	$ 273	$ 176

Stock issued in connection with BBI acquisition				Stock issued in connection with BBI acquisition	$ —	$ 101,469
Stock issued in connection with HSBI acquisition	Stock issued in connection with HSBI acquisition	6,920,422	—	Stock issued in connection with HSBI acquisition	$ 6,920,422	$ —
Lease liabilities arising from obtaining right-of-use assets	Lease liabilities arising from obtaining right-of-use assets	$ —	$ 600	Lease liabilities arising from obtaining right-of-use assets	$ 560	$ 2,647
Lease liabilities arising from BBI acquisition				Lease liabilities arising from BBI acquisition	$ —	$ 3,390
Lease liabilities arising from HSBI acquisition	Lease liabilities arising from HSBI acquisition	$ 184	$ —	Lease liabilities arising from HSBI acquisition	$ 184	$ —

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June September 30, 2023

NOTE 1 – BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and the instructions to Form 10-Q of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six nine months ended June 30, 2023 September 30, 2023, are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2022.

NOTE 2 – SUMMARY OF ORGANIZATION

The First Bancshares, Inc., Hattiesburg, Mississippi (the "Company"), was incorporated June 23, 1995, under the laws of the State of Mississippi for the purpose of operating as a bank holding company. The Company's primary asset is its interest in its wholly-owned subsidiary, The First Bank (the "Bank" or "The First").

At June 30, 2023 September 30, 2023, the Company had approximately $7.862 billion $7.884 billion in assets, $4.958 billion $5.036 billion in net loans held for investment ("LHFI"), $6.492 billion $6.480 billion in deposits, and $899.4 million $897.2 million in shareholders' equity. For the six nine months ended June 30, 2023 September 30, 2023, the Company reported net income of $40.1 million $64.4 million.

On February 24, 2023, the Company paid a cash dividend in the amount of $0.21 per share to shareholders of record as of the close of business on February 8, 2023. On May 24, 2023, the Company paid a cash dividend of $0.22 per share to shareholders of record as of the close of business on May 8, 2023. On August 24, 2023, the Company paid a cash dividend of $0.23 per share to shareholders of record as of the close of business August 8, 2023.

NOTE 3 – ACCOUNTING STANDARDS

Effect of Recently Adopted Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-04, *Reference Rate Reform (ASC 848): "Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference London Interbank Offer Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The Company adopted ASU 2020-04 effective January 1, 2023. Adoption of ASU 2020-04 did not have a material impact on the Company's consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combination (Topic 805): "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers."* This ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendment improves comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The Company adopted ASU 2021-08 effective January 1, 2023. Adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

In March 2022, FASB issued ASU No. 2022-02, "*Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.”* These amendments eliminate the TDR recognition and measurement guidance and instead require that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For public business entities, these

amendments require that an entity disclose current period gross write-offs by year of origination for financing receivables

and net investment in leases within the scope of Subtopic 326-20. Gross write-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The Company adopted ASU 2022-02 effective January 1, 2023. Adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

In July 2023, FASB issued ASU No. 2023-03, *"Presentation of Financial Statements (Topic 205), Income Statement - Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation - Stock Compensation (Topic 718): Amendments to SEC Paragraph Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 Emerging Issues Task Force ("EITF") Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable to Common Stock."* This ASU amends the FASB Accounting Standards Codification for SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. These updates were effective immediately and did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards That Have Not Yet Been Adopted

In March 2023, FASB issued ASU No. 2023-01, *Leases (Topic 842) - "Common Control Arrangements."* This ASU requires entities to determine whether a related party arrangement between entities under common control is a lease. If the arrangement is determined to be a lease, an entity must classify and account for the lease on the same basis as an arrangement with a related party. The ASU requires all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. This guidance is effective for the Company January 1, 2024, and is not expected to have a material impact on the Company's consolidated financial statements.

In March 2023, FASB issued ASU No. 2023-02, *Investments - Equity Method and Joint Venture (Topic 323): "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method."* These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. This guidance is effective for the Company January 1, 2024, and is not expected to have a material impact on the Company's consolidated financial statements.

In October 2023, FASB issued ASU No. 2023-06, "*Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative."* This ASU amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-K becomes effective, with early adoption prohibited. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 4 – BUSINESS COMBINATIONS

Acquisitions

Heritage Southeast Bank

On January 1, 2023, the Company completed its acquisition of Heritage Southeast Bancorporation, Inc. ("HSBI"), pursuant to an Agreement and Plan of Merger dated July 27, 2022, by and between the Company and HSBI (the "HSBI Merger Agreement"). Upon the completion of the merger of HSBI with and into the Company, Heritage Southeast Bank ("Heritage Bank"), HSBI's wholly-owned subsidiary, was merged with and into The First Bank. Under the terms of the HSBI Merger Agreement, each share of HSBI common stock was converted into the right to receive 0.965 of a share of Company common stock. The Company paid a total consideration of $221.5 million to the former HSBI shareholders as consideration in the acquisition, which included 6,920,422 shares of the Company's common stock, and $16 thousand in cash in lieu of fractional shares. The HSBI acquisition provides provided the opportunity for the Company to expand its operations in Georgia and the Florida panhandle.

In connection with the acquisition of HSBI, the Company recorded approximately $92.1 million of goodwill, of which $3.2 million funded the ACL for estimated losses on the acquired PCD loans, and $43.7 million core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

Expenses associated with the HSBI acquisition were $3.0 million $312 thousand and $4.2 million $4.5 million for the three months and six nine months period ended June 30, 2023 September 30, 2023, respectively. These costs included charges associated with legal and consulting expenses, which have been expensed as incurred.

The assets acquired and liabilities assumed, and consideration paid in the acquisition were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, accounting guidance provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period, which will run through January 1, 2024, in respect of the acquisition, in the measurement period in which the adjustment amounts are determined. The acquirer must record in the financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed, and the goodwill generated from the transaction.

($ in thousands)		
Purchase price:		
Cash and stock	$	221,538
Total purchase price		221,538
Identifiable assets:		
Cash	$	106,973
Investments		172,775
Loans		1,155,712
Core deposit intangible		43,739
Personal and real property		35,963
Other real estate owned		857
Bank owned life insurance		35,579
Deferred taxes		6,129
Interest receivable		4,349
Other assets		3,103
Total assets		1,565,179
Liabilities and equity:		
Deposits		1,392,432
Trust Preferred		9,015
Other liabilities		34,271
Total liabilities		1,435,718
Net assets acquired		129,461
Goodwill	$	92,077

Beach Bancorp, Inc.

On August 1, 2022, the Company completed its acquisition of Beach Bancorp, Inc. ("BBI"), pursuant to an Agreement and Plan of Merger dated April 26, 2022, by and between the Company and BBI (the "BBI Merger Agreement"). Upon the completion of the merger of BBI with and into the Company, Beach Bank, BBI's wholly-owned subsidiary, was merged with and into The First Bank. Under the terms of the BBI Merger Agreement, each share of BBI common stock and each share of BBI preferred stock was converted into the right to receive 0.1711 of a share of Company common stock (the "BBI Exchange Ratio"), and all stock options awarded under the BBI equity plans were converted automatically into an option to purchase shares of Company common stock on the same terms and conditions as applicable to each such BBI option as in effect immediately prior to the effective time, with the number of shares underlying each such option and the applicable exercise price adjusted based on the BBI Exchange Ratio. The BBI merger provides the opportunity for the Company to expand its operations in the Florida panhandle and enter the Tampa market. The Company paid consideration of $101.5 million to the former BBI shareholders including 3,498,936 shares of the Company's common stock and $1 thousand in cash in lieu of fractional shares, and also assumed options entitling the owners thereof to purchase an additional 310,427 shares of the Company's common stock.

In connection with the acquisition of BBI, the Company recorded approximately $23.5 million $23.7 million of goodwill, of which $1.3 million funded the ACL for estimated losses on the acquired PCD loans, and $9.8 million core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

Expenses associated with the BBI acquisition were $471 $78 thousand and $1.3 million $1.4 million for the three months and six nine months period ended June 30, 2023 September 30, 2023, respectively. These costs included charges associated with legal and consulting expenses, which have been expensed as incurred.

The assets acquired and liabilities assumed, and consideration paid in the acquisition were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, accounting guidance provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period, which will run through August 1, 2023, in respect of the acquisition, in the measurement period in which the adjustment amounts are determined. The acquirer must record in the financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

The following table summarizes the provisional finalized fair values of the assets acquired and liabilities assumed and including the goodwill generated from the transaction. transaction on August 1, 2022, along with valuation adjustments that have been made since initially reported.

($ in thousands)	
Purchase price:	
Cash and stock	$ 101,470
Total purchase price	101,470
Identifiable assets:	
Cash	$ 23,939
Investments	22,643
Loans	485,171
Other real estate	8,429
Bank owned life insurance	10,092
Core deposit intangible	9,791
Personal and real property	11,895
Deferred tax asset	27,135
Other assets	9,235
Total assets	608,330
Liabilities and equity:	
Deposits	490,591
Borrowings	25,000
Other liabilities	14,772
Total liabilities	530,363
Net assets acquired	77,967
Goodwill	$ 23,503

($ in thousands)	**As Initially Reported**	**Measurement Period Adjustments**	**As Adjusted**
Purchase price:			
Cash and stock	$ 101,470	$ —	$ 101,470
Total purchase price	101,470	—	101,470
Identifiable assets:			
Cash	$ 23,939	$ —	$ 23,939
Investments	22,907	(264)	22,643
Loans	482,903	2,268	485,171
Other real estate	8,797	(580)	8,217
Bank owned life insurance	10,092	—	10,092
Core deposit intangible	9,791	—	9,791
Personal and real property	13,825	(1,868)	11,957
Deferred tax asset	28,105	(970)	27,135
Other assets	9,649	(414)	9,235

Total assets	610,008	(1,828)	608,180
Liabilities and equity:			
Deposits	490,588	3	490,591
Borrowings	25,000	—	25,000
Other liabilities	14,772	—	14,772
Total liabilities	530,360	3	530,363
Net assets acquired	79,648	(1,831)	77,817
Goodwill	$ 21,822	$ 1,831	$ 23,653

During the third quarter of 2023, the Company finalized its analysis and valuation adjustments that have been made to investments, loans, other real estate, personal and real property, deferred tax asset, other assets, and deposits.

Supplemental Pro Forma Information

The following table presents certain supplemental pro forma information, for illustrative purposes only, for the six nine months ended June 30, 2023 September 30, 2023 and 2022 as if the BBI and HSBI acquisitions had occurred on January 1, 2022. The pro forma financial information is not necessarily indicative of the results of operations had the acquisitions been effective as of this date.

($ in thousands)	($ in thousands)	(unaudited) Six Months Ended June 30, 2023	(unaudited) Six Months Ended June 30, 2022	($ in thousands)	(unaudited) Nine Months Ended September 30, 2023	(unaudited) Nine Months Ended September 30, 2022
Net interest income	Net interest income	$ 130,956	$ 90,701	Net interest income	$ 191,660	$ 183,008
Non-interest income	Non-interest income	25,035	32,240	Non-interest income	44,359	46,466
Total revenue	Total revenue	155,991	122,941	Total revenue	236,019	229,474
Income before income taxes	Income before income taxes	59,066	61,621	Income before income taxes	90,958	87,860

Supplemental pro-forma earnings were adjusted to exclude acquisition costs incurred. The Company's operating results for the six nine months ended June 30, 2023 September 30, 2023, include the operating results of the acquired assets and assumed liabilities of the above mentioned acquisitions subsequent to the acquisition date.

NOTE 5 – EARNINGS APPLICABLE TO COMMON SHAREHOLDERS

Basic per share data is calculated based on the weighted-average number of common shares outstanding during the reporting period. Diluted per share data includes any dilution from potential common stock outstanding, such as restricted stock grants. There were no anti-dilutive common stock equivalents excluded in the calculations.

The following tables disclose the reconciliation of the numerators and denominators of the basic and diluted computations applicable to common shareholders.

($ in thousands, except per share amount)	($ in thousands, except per share amount)	Three Months Ended June 30, 2023			Three Months Ended June 30, 2022			($ in thousands, except per share amount)	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
		Net Income (Numerator)	Shares (Denominator)	Per Share Data	Net Income (Numerator)	Shares (Denominator)	Per Share Data		Net Income (Numerator)	Shares (Denominator)	Per Share Data	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic earnings per share	Basic earnings per share	$ 23,779	31,378,364	$ 0.76	$ 15,753	20,507,451	$ 0.77	Basic earnings per share	$ 24,360	31,405,439	$ 0.78	$ 14,043	22,861,795	$0.61
Effect of dilutive shares:	Effect of dilutive shares:							Effect of dilutive shares:						
Restricted stock grants	Restricted stock grants		213,301			108,477		Restricted stock grants		204,125			117,734	

Diluted earnings per share	Diluted earnings per share	$ 23,779	31,591,665	$ 0.75	$ 15,753	20,615,928	$ 0.76	Diluted earnings per share	$ 24,360	31,609,564	$ 0.77	$ 14,043	22,979,529	$0.61

($ in thousands, except per share amount)	**($ in thousands, except per share amount)**	**For the Six Months Ended June 30, 2023**			**For the Six Months Ended June 30, 2022**			**($ in thousands, except per share amount)**	**For the Nine Months Ended September 30, 2023**			**For the Nine Months Ended September 30, 2022**		
		Net Income (Numerator)	Shares (Denominator)	Per Share Data	Net Income (Numerator)	Shares (Denominator)	Per Share Data		Net Income (Numerator)	Shares (Denominator)	Per Share Data	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic earnings per share	Basic earnings per share	$ 40,050	31,343,911	$ 1.28	$ 32,582	20,602,698	$ 1.58	Basic earnings per share	$ 64,410	31,364,420	$ 2.05	$ 46,624	21,355,731	$ 2.18
Effect of dilutive shares:	Effect of dilutive shares:							Effect of dilutive shares:						
Restricted stock grants	Restricted stock grants		205,828			122,847		Restricted stock grants		199,862			111,397	
Diluted earnings per share	Diluted earnings per share	$ 40,050	31,549,739	$ 1.27	$ 32,582	20,725,545	$ 1.57	Diluted earnings per share	$ 64,410	31,564,282	$ 2.04	$ 46,624	21,467,128	$ 2.17

The Company granted 118,689 shares and 82,123 shares of restricted stock in the first quarter of 2023 and 2022, respectively. The Company granted 45,773 shares and 47,827 shares of restricted stock in the second quarter of 2023 and 2022, respectively.

The Company granted 2,711 shares and 0 shares of restricted stock in the third quarter of 2023 and 2022, respectively.

NOTE 6 – COMPREHENSIVE INCOME

As presented in the Consolidated Statements of Comprehensive Income (Loss), comprehensive income includes net income and other comprehensive income. The Company's sources of other comprehensive income are unrealized gains and losses on available-for-sale securities, which are also recognized as separate components of equity.

NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. At June 30, 2023 September 30, 2023, and December 31, 2022, these financial instruments consisted of the following:

($ in thousands)	**($ in thousands)**	**June 30, 2023**		**December 31, 2022**		**($ in thousands)**	**September 30, 2023**		**December 31, 2022**	
		Fixed Rate	**Variable Rate**	**Fixed Rate**	**Variable Rate**		**Fixed Rate**	**Variable Rate**	**Fixed Rate**	**Variable Rate**
Commitments to make loans	Commitments to make loans	$ 74,312	$ 53,495	$ 43,227	$ 15,758	Commitments to make loans	$ 54,323	$ 31,508	$ 43,227	$ 15,758
Unused lines of credit	Unused lines of credit	302,087	691,746	243,043	404,025	Unused lines of credit	259,705	641,896	243,043	404,025
Standby letters of credit	Standby letters of credit	16,584	11,122	4,260	9,909	Standby letters of credit	15,975	12,556	4,260	9,909

Commitments to make loans are generally made for periods of 90 days or less. The fixed rate loan commitments have interest rates ranging from 1.0% to 18.0% and maturities ranging from approximately 1 year to 30 years.

ALLOWANCE FOR CREDIT LOSSES ("ACL") ON OFF BALANCE SHEET CREDIT ("OBSC") Exposures EXPOSURES

The Company maintains a separate ACL on OBSC exposures, including unfunded commitments and letters of credit, which is included on the accompanying consolidated balance sheet as of June 30, 2023 September 30, 2023 and December 31, 2022. The ACL on OBSC exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Changes in the ACL on OBSC exposures were as follows for the presented periods:

($ in thousands)	($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,		($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Balance at beginning of period	Balance at beginning of period	$ 1,825	$ 1,070	$ 1,325	$ 1,070	Balance at beginning of period	$ 2,075	$ 1,220	$ 1,325	$ 1,070
Credit loss expense related to OBSC exposures	Credit loss expense related to OBSC exposures	250	150	750	150	Credit loss expense related to OBSC exposures	—	—	750	150
Balance at end of period	Balance at end of period	$ 2,075	$ 1,220	$ 2,075	$ 1,220	Balance at end of period	$ 2,075	$ 1,220	$ 2,075	$ 1,220

Adjustments to the ACL on OBSC exposures are recorded to provision for credit losses related to OBSC exposures. The Company recorded $250 thousand and $150 thousand no provision for the three months period ended June 30, 2023 September 30, 2023 and 2022, respectively. For the six nine months period ended June 30, 2023 September 30, 2023 and 2022, the Company recorded $750 thousand and $150 thousand provision to the ACL on OBSC exposures, respectively. The increase in the ACL on OBSC exposures for the six nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022 was due to the day one provision for unfunded commitments related to the HSBI acquisition and an increase in unfunded commitments.

No credit loss estimate is reported for OBSC exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation on the arrangement.

NOTE 8 – FAIR VALUE DISCLOSURES AND REPORTING, THE FAIR VALUE OPTION AND FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the factors that market participants would likely consider in pricing an asset or liability.

The following methods and assumptions were used by the Company to estimate its financial instrument fair values disclosed at June 30, 2023 September 30, 2023 and December 31, 2022:

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

- Loans Held for Sale - Loans held for sale are carried at fair value in the aggregate as determined by the outstanding commitments from investors. As, such we classify those loans subjected to recurring fair value adjustments as Level 2 of the fair value hierarchy.

- Collateral Dependent Loans: Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments, if any, result in a Level 3 classification of the inputs for determining fair value. The Company generally adjusts the appraisal down by approximately 10 percent to account for cost associated with litigation and collection. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment.

- Other Real Estate Owned*:* Other real estate owned consists of properties obtained through foreclosure. The adjustment at the time of foreclosure is recorded through the allowance for credit losses. Fair value of other real estate owned is based on current independent appraisals of the collateral less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals, which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments, if any, result in a Level 3 classification of the inputs for determining fair value. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in market conditions from the time of valuation and anticipated sales values considering plans for disposition, which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. The Company generally adjusts the appraisal down by approximately 10 percent to account for carrying costs. Periodic revaluations are classified as Level 3 in the fair value hierarchy since assumptions are used that may not be observable in the market. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through other non-interest income. Operating costs associated with the assets after acquisition are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and recorded in other non-interest income. Other real estate owned is classified within Level 3 of the fair value hierarchy.

- Interest Rate Swaps: The Company offers interest rate swaps to certain commercial loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable to fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing the contract or fixed interest payments for the customer. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rates rate swaps is classified within Level 2 of the fair value hierarchy.

Estimated fair values for the Company's financial instruments are as follows, as of the dates noted:

June 30, 2023					Fair Value Measurements						
September 30, 2023		**Carrying Amount**	**Estimated Fair Value**			**September 30, 2023**					**Fair Valu**
($ in thousands)	**($ in thousands)**			**Quoted Prices (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**($ in thousands)**	**Carrying Amount**	**Significant Unobservable Inputs (Level 3)**	**Estimated Fair Value**		
Financial Instruments:	Financial Instruments:	**Carrying Amount**	**Estimated Fair Value**			Financial Instruments:				**Carrying Amount**	**Estima Fair V**
Assets:	Assets:						Assets:				
Cash and cash equivalents	Cash and cash equivalents	$ 194,050	$ 194,050	$194,050	$ —	$ —	Cash and cash equivalents		$ 197,632	$ 197,632	
Securities available-for-sale	Securities available-for-sale	1,199,103	1,199,103	124,616	1,053,435	21,052	Securities available-for-sale		1,141,971	1,141,971	
Securities held-to-maturity	Securities held-to-maturity	663,473	613,831	—	613,831	—	Securities held-to-maturity		658,524	582,592	
Loans held for sale	Loans held for sale	6,602	6,602	—	6,602	—	Loans held for sale		5,960	5,960	
Loans, net	Loans, net	4,958,311	4,795,956	—	—	4,795,956	Loans, net		5,036,235	4,851,597	
Accrued interest receivable	Accrued interest receivable	30,837	30,837	—	8,957	21,880	Accrued interest receivable		30,542	30,542	
Interest rate swaps	Interest rate swaps	12,469	12,469	—	12,469	—	Interest rate swaps		14,869	14,869	
Liabilities:	Liabilities:						Liabilities:				
Noninterest-bearing	Noninterest-bearing	$2,086,666	$2,086,666	$ —	$2,086,666	$ —	Noninterest-bearing		$1,967,661	$1,967,661	

deposits	deposits						deposits		
Interest-bearing deposits	Interest-bearing deposits	4,405,601	4,151,398	—	4,151,398	—	Interest-bearing deposits	4,512,364	4,225,829
Subordinated debentures	Subordinated debentures	128,214	106,361	—	—	106,361	Subordinated debentures	128,300	106,391
FHLB and other borrowings	FHLB and other borrowings	280,000	280,000	—	280,000	—	FHLB and other borrowings	302,000	302,000
Accrued interest payable	Accrued interest payable	7,968	7,968	—	7,968	—	Accrued interest payable	13,800	13,800
Interest rate swaps	Interest rate swaps	12,469	12,469	—	12,469	—	Interest rate swaps	14,880	14,880

December 31, 2022 ($ in thousands)	Carrying Amount	Estimated Fair Value	Fair Value Measurements Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	$ 145,315	$ 145,315	$ 145,315	$ —	$ —
Securities available-for-sale	1,257,101	1,257,101	123,854	1,118,099	15,148
Securities held-to-maturity	691,484	642,097	—	642,097	—
Loans held for sale	4,443	4,443	—	4,443	—
Loans, net	3,735,240	3,681,313	—	—	3,681,313
Accrued interest receivable	27,723	27,723	—	9,757	17,966
Interest rate swaps	12,825	12,825	—	12,825	—
Liabilities:					
Non-interest-bearing deposits	$ 1,630,203	$ 1,630,203	$ —	$ 1,630,203	$ —
Interest-bearing deposits	3,864,201	3,505,990	—	3,505,990	—
Subordinated debentures	145,027	133,816	—	—	133,816
FHLB and other borrowings	130,100	130,100	—	130,100	—
Accrued interest payable	3,324	3,324	—	3,324	—
Interest rate swaps	12,825	12,825	—	12,825	—

Assets measured at fair value on a recurring basis are summarized below:

June 30, 2023						
September 30, 2023				September 30, 2023		
($ in thousands)	($ in thousands)	Fair Value	Fair Value Measurements Using	($ in thousands)	Fair Value	Fair Value Measure

			Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:	Assets:					Assets:			
Available-for-sale	Available-for-sale					Available-for-sale			
U.S. Treasury	U.S. Treasury	$ 124,616	$124,616	$ —	$ —	U.S. Treasury	$ 124,694	$124,694	$ —
Obligations of U.S. Government agencies and sponsored entities	Obligations of U.S. Government agencies and sponsored entities	132,738	—	132,738	—	Obligations of U.S. Government agencies and sponsored entities	125,364	—	125,364
Municipal securities	Municipal securities	447,901	—	426,880	21,021	Municipal securities	419,678	—	400,185
Mortgage-backed securities	Mortgage-backed securities	455,979	—	455,979	—	Mortgage-backed securities	433,956	—	433,956
Corporate obligations	Corporate obligations	37,869	—	37,838	31	Corporate obligations	37,279	—	37,248
Other						Other	1,000	—	1,000
Total available-for-sale	Total available-for-sale	$1,199,103	$124,616	$1,053,435	$21,052	Total available-for-sale	$1,141,971	$124,694	$997,753
Loans held for sale	Loans held for sale	$ 6,602	$ —	$ 6,602	$ —	Loans held for sale	$ 5,960	$ —	$ 5,960
Interest rate swaps	Interest rate swaps	$ 12,469	$ —	$ 12,469	$ —	Interest rate swaps	$ 14,869	$ —	$ 14,869
Liabilities									
Liabilities:						Liabilities:			
Interest rate swaps	Interest rate swaps	$ 12,469	$ —	$ 12,469	$ —	Interest rate swaps	$ 14,880	$ —	$ 14,869

December 31, 2022

($ in thousands)

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale				
U.S. Treasury	$ 123,854	$ 123,854	$ —	$ —
Obligations of U.S. Government agencies and sponsored entities	144,369	—	144,369	—
Municipal securities	457,857	—	442,740	15,117
Mortgage-backed securities	490,139	—	490,139	—
Corporate obligations	40,882	—	40,851	31
Total available-for-sale	$ 1,257,101	$ 123,854	$ 1,118,099	$ 15,148

Loans held for sale	$ 4,443	$ —	$ 4,443	$ —
Interest rate swaps	$ 12,825	$ —	$ 12,825	$ —
Liabilities:				
Interest rate swaps	$ 12,825	$ —	$ 12,825	$ —

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable inputs (Level 3) information.

($ in thousands)	($ in thousands)	Bank-Issued Trust Preferred Securities 2023	Bank-Issued Trust Preferred Securities 2022	($ in thousands)	Bank-Issued Trust Preferred Securities 2023	Bank-Issued Trust Preferred Securities 2022
Balance, January 1	Balance, January 1	$ 31	$ 43	Balance, January 1	$ 31	$ 43
Paydowns	Paydowns	—	(11)	Paydowns	—	(11)
Balance at June 30		$ 31	$ 32			
Balance at September 30				Balance at September 30	$ 31	$ 32

($ in thousands)	($ in thousands)	Municipal Securities 2023	Municipal Securities 2022	($ in thousands)	Municipal Securities 2023	Municipal Securities 2022
Balance, January 1	Balance, January 1	$ 15,117	$ 20,123	Balance, January 1	$ 15,117	$ 20,123
Purchases	Purchases	—	—	Purchases	—	—
Maturities, calls and paydowns	Maturities, calls and paydowns	(236)	(236)	Maturities, calls and paydowns	(532)	(524)
Transfer from level 2 to level 3	Transfer from level 2 to level 3	6,085	—	Transfer from level 2 to level 3	6,085	—
Unrealized gain (loss) included in comprehensive income	Unrealized gain (loss) included in comprehensive income	55	(1,630)	Unrealized gain (loss) included in comprehensive income	(1,177)	(2,641)
Balance at June 30		$ 21,021	$ 18,257			
Balance at September 30				Balance at September 30	$ 19,493	$ 16,958

The following methods and assumptions were used to estimate the fair values of the Company's assets measured at fair value on a recurring basis at June 30, 2023 September 30, 2023 and December 31, 2022. The following tables present quantitative information about recurring Level 3 fair value measurements ($ in thousands):

Trust Preferred Securities	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
June September 30, 2023	$ 31	Discounted cash flow	Probability of default	7.69% 7.91% - 7.76% 7.93%
December 31, 2022	$ 31	Discounted cash flow	Probability of default	6.98% - 7.19%

Municipal Securities	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
June September 30, 2023	$ 21,021 19,493	Discounted cash flow	Discount Rate	3.65% 4.50% - 5.61% 6.77%
December 31, 2022	$ 15,117	Discounted cash flow	Discount Rate	3.00% - 4.00%

The following table presents the fair value measurement of assets measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements were classified at June 30, 2023 September 30, 2023 and December 31, 2022.

June 30, 2023			
September 30, 2023		September 30, 2023	
($ in thousands)	($ in thousands) Fair Value Measurements Using	($ in thousands)	Fair Value Measurements Using

		Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	Collateral dependent loans	$ 6,740	$ —	$ —	$ 6,740	Collateral dependent loans	$ 7,406	$ —	$ —	$ 7,406
Other real estate owned	Other real estate owned	5,588	—	—	5,588	Other real estate owned	4,920	—	—	4,920

December 31, 2022

($ in thousands)		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 5,552	$ —	$ —	$ 5,552
Other real estate owned	4,832	—	—	4,832

NOTE 9 - SECURITIES

The following table summarizes the amortized cost, gross unrealized gains and losses, and estimated fair values of securities available-for-sale ("AFS") and securities held-to-maturity at June 30, 2023 September 30, 2023 and December 31, 2022.

($ in thousands)	($ in thousands)	June 30, 2023				($ in thousands)	September 30, 2023			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:	*Available-for-sale securities:*					*Available-for-sale securities:*				
U.S. Treasury	U.S. Treasury	$ 135,683	$ —	$ 11,067	$ 124,616	U.S. Treasury	$ 135,648	$ —	$ 10,954	$ 124,694
Obligations of U.S. government agencies and sponsored entities	Obligations of U.S. government agencies and sponsored entities	152,520	1	19,783	132,738	Obligations of U.S. government agencies and sponsored entities	147,347	1	21,984	125,364
Tax-exempt and taxable obligations of states and municipal subdivisions	Tax-exempt and taxable obligations of states and municipal subdivisions	505,231	430	57,760	447,901	Tax-exempt and taxable obligations of states and municipal subdivisions	494,334	168	74,824	419,678
Mortgage-backed securities - residential	Mortgage-backed securities - residential	319,417	3	40,622	278,798	Mortgage-backed securities - residential	307,867	4	46,914	260,957

Mortgage-backed securities - commercial	Mortgage-backed securities - commercial	201,601	51	24,471	177,181	Mortgage-backed securities - commercial	199,065	48	26,114	172,999
Corporate obligations	Corporate obligations	42,244	—	4,375	37,869	Corporate obligations	41,633	—	4,354	37,279
Other						Other	1,000	—	—	1,000
Total available-for-sale	Total available-for-sale	$ 1,356,696	$ 485	$ 158,078	$ 1,199,103	Total available-for-sale	$ 1,326,894	$ 221	$ 185,144	$ 1,141,971
Held-to-maturity:	*Held-to-maturity:*					*Held-to-maturity:*				
U.S. Treasury	U.S. Treasury	$ 89,687	$ —	$ 4,648	$ 85,039	U.S. Treasury	$ 89,687	$ —	$ 4,256	$ 85,431
Obligations of U.S. government agencies and sponsored entities	Obligations of U.S. government agencies and sponsored entities	33,681	—	2,383	31,298	Obligations of U.S. government agencies and sponsored entities	33,656	—	2,781	30,875
Tax-exempt and taxable obligations of states and municipal subdivisions	Tax-exempt and taxable obligations of states and municipal subdivisions	247,126	6,330	15,968	237,488	Tax-exempt and taxable obligations of states and municipal subdivisions	246,611	96	28,288	218,419
Mortgage-backed securities - residential	Mortgage-backed securities - residential	148,859	—	16,902	131,957	Mortgage-backed securities - residential	144,991	—	21,971	123,020
Mortgage-backed securities - commercial	Mortgage-backed securities - commercial	134,120	—	14,016	120,104	Mortgage-backed securities - commercial	133,579	—	17,028	116,551
Corporate obligations	Corporate obligations	10,000	—	2,055	7,945	Corporate obligations	10,000	—	1,704	8,296
Total held-to-maturity	Total held-to-maturity	$ 663,473	$ 6,330	$ 55,972	$ 613,831	Total held-to-maturity	$ 658,524	$ 96	$ 76,028	$ 582,592

($ in thousands)	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. Treasury	$ 135,752	$ —	$ 11,898	$ 123,854
Obligations of U.S. government agencies sponsored entities	163,054	3	18,688	144,369
Tax-exempt and taxable obligations of states and municipal subdivisions	519,190	598	61,931	457,857
Mortgage-backed securities - residential	341,272	11	42,041	299,242
Mortgage-backed securities - commercial	215,200	60	24,363	190,897
Corporate obligations	43,869	—	2,987	40,882
Total available-for-sale	$ 1,418,337	$ 672	$ 161,908	$ 1,257,101
Held-to-maturity:				
U.S. Treasury	$ 109,631	$ —	$ 5,175	$ 104,456
Obligations of U.S. government agencies and sponsored entities	33,789	—	2,153	31,636

Tax-exempt and taxable obligations of states and municipal subdivisions	247,467	4,525	13,699	238,293
Mortgage-backed securities - residential	156,119	—	17,479	138,640
Mortgage-backed securities - commercial	134,478	7	13,798	120,687
Corporate obligations	10,000	—	1,615	8,385
Total held-to-maturity	$ 691,484	$ 4,532	$ 53,919	$ 642,097

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

The Company reassessed classification of certain investments and effective October 2022, the Company transferred $863 thousand of obligations of U.S. government agencies and sponsored entities, $1.2 million of mortgage-backed securities - commercial, and $137.5 million of tax-exempt and taxable obligations of state and municipal subdivisions from AFS to HTM securities. The securities were transferred at their amortized cost basis, net of any remaining unrealized gain or loss reported in accumulated other comprehensive income. The related unrealized loss of $36.8 million included in other comprehensive income remained in other comprehensive income, to be amortized out of other comprehensive income with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. There was no allowance for credit loss associated with the AFS securities that were transferred to HTM.

ACL on Securities

Securities Available for Sale

Quarterly, the Company evaluates if a security has a fair value less than its amortized cost. Once these securities are identified, in order to determine whether a decline in fair value resulted from a credit loss or other factors, the Company performs further analysis as outlined below:

- Review the extent to which the fair value is less than the amortized cost and determine if the decline is indicative of credit loss or other factors.
- The securities that violate the credit loss trigger above would be subjected to additional analysis.
- If the Company determines that a credit loss exists, the credit portion of the allowance will be measured using the discounted cash flow ("DCF") analysis using the effective interest rate. The amount of credit loss the Company records will be limited to the amount by which the amortized cost exceeds the fair value. The allowance for the calculated credit loss will be monitored going forward for further credit deterioration or improvement.

At both June 30, 2023 September 30, 2023 and December 31, 2022, the results of the analysis did not identify any securities where the decline was indicative of credit loss factors; therefore, no credit loss was recognized on any of the securities AFS.

Accrued interest receivable is excluded from the estimate of credit losses for securities AFS. Accrued interest receivable totaled $5.7 million $5.2 million and $6.2 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively and was reported in interest receivable on the accompanying Consolidated Balance Sheet.

All AFS securities were current with no securities past due or on nonaccrual as of June 30, 2023 September 30, 2023 and December 31, 2022.

Securities Held to Maturity

At June 30, 2023 September 30, 2023 and December 31, 2022, the potential credit loss exposure was $201 $216 thousand and $242 thousand, respectively and consisted of tax-exempt and taxable obligations of states and municipal subdivisions and corporate obligations securities. After applying appropriate probability of default ("PD") and loss given default ("LGD") assumptions, the total amount of current expected credit losses was deemed immaterial. Therefore, no reserve was recorded at June 30, 2023 September 30, 2023.

Accrued interest receivable is excluded from the estimate of credit losses for securities held-to-maturity. Accrued interest receivable totaled $3.4 million $2.7 million and $3.6 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively and was reported in interest receivable on the accompanying Consolidated Balance Sheet.

At both June 30, 2023 September 30, 2023 and December 31, 2022, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual at both June 30, 2023 September 30, 2023 and December 31, 2022.

The Company monitors the credit quality of the debt securities held-to-maturity through the use of credit ratings. The Company monitors the credit ratings on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at June 30, 2023 September 30, 2023 and December 31, 2022, aggregated by credit quality indicators.

($ in thousands)	**($ in thousands)**	**June 30, 2023**	**December 31, 2022**	**($ in thousands)**	**September 30, 2023**	**December 31, 2022**
Aaa	Aaa	$ 440,152	$ 467,736	Aaa	$ 435,761	$ 467,736
Aa1/Aa2/Aa3	Aa1/Aa2/Aa3	137,533	110,854	Aa1/Aa2/Aa3	137,230	110,854
A1/A2	A1/A2	33,349	13,757	A1/A2	33,326	13,757
BBB	BBB	10,000	10,000	BBB	10,000	10,000
Not rated	Not rated	42,439	89,137	Not rated	42,207	89,137

Total	Total	$ 663,473	$ 691,484	Total	$ 658,524	$ 691,484

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

($ in thousands)	**($ in thousands)**	**June 30, 2023**		**($ in thousands)**	**September 30, 2023**	
		Amortized Cost	**Fair Value**		**Amortized Cost**	**Fair Value**
Available-for-sale:	*Available-for-sale:*			*Available-for-sale:*		
Due less than one year	Due less than one year	$ 62,185	$ 61,053	Due less than one year	$ 64,589	$ 63,710
Due after one year through five years	Due after one year through five years	265,117	246,185	Due after one year through five years	258,766	238,230
Due after five years through ten years	Due after five years through ten years	334,035	289,647	Due after five years through ten years	329,028	274,301
Due greater than ten years	Due greater than ten years	174,341	146,239	Due greater than ten years	167,579	131,774
Mortgage-backed securities - residential	Mortgage-backed securities - residential	319,417	278,798	Mortgage-backed securities - residential	307,867	260,957
Mortgage-backed securities - commercial	Mortgage-backed securities - commercial	201,601	177,181	Mortgage-backed securities - commercial	199,065	172,999
Total	Total	$ 1,356,696	$ 1,199,103	Total	$ 1,326,894	$ 1,141,971
Held-to-maturity:	*Held-to-maturity:*			*Held-to-maturity:*		
Due less than one year	Due less than one year	$ 38,491	$ 37,396	Due less than one year	$ 38,482	$ 37,742
Due after one year through five years	Due after one year through five years	72,423	68,056	Due after one year through five years	72,433	68,066
Due after five years through ten years	Due after five years through ten years	52,315	47,359	Due after five years through ten years	53,952	47,856
Due greater than ten years	Due greater than ten years	217,265	208,959	Due greater than ten years	215,087	189,357
Mortgage-backed securities - residential	Mortgage-backed securities - residential	148,859	131,957	Mortgage-backed securities - residential	144,991	123,020
Mortgage-backed securities - commercial	Mortgage-backed securities - commercial	134,120	120,104	Mortgage-backed securities - commercial	133,579	116,551
Total	Total	$ 663,473	$ 613,831	Total	$ 658,524	$ 582,592

The amortized costs of Total securities pledged as collateral, to secure public deposits and for other purposes, was $1.186 billion $1.203 billion at June 30, 2023 September 30, 2023 and $1.031 billion at December 31, 2022, respectively.

The following table summarizes securities in an unrealized loss position for which an allowance for credit losses has not been recorded at June 30, 2023 September 30, 2023 and December 31, 2022. The securities are aggregated by major security type and length of time in a continuous unrealized loss position:

($ in thousands)	($ in thousands)	June 30, 2023						($ in thousands)	September 30, 2023					
		Losses < 12 Months		Losses 12 Months or >		Total			Losses < 12 Months		Losses 12 Months or >		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:	*Available-for-sale:*							*Available-for-sale:*						
U.S. Treasury	U.S. Treasury	$ —	$ —	$ 124,616	$ 11,067	$ 124,616	$ 11,067	U.S. Treasury	$ —	$ —	$ 124,694	$ 10,954	$ 124,694	$ 10,954
Obligations of U.S. government agencies and sponsored entities	Obligations of U.S. government agencies and sponsored entities	1,031	38	131,338	19,745	132,369	19,783	Obligations of U.S. government agencies and sponsored entities	187	—	124,848	21,984	125,035	21,984
Tax-exempt and taxable obligations of state and municipal subdivisions	Tax-exempt and taxable obligations of state and municipal subdivisions	47,332	2,055	378,121	55,705	425,453	57,760	Tax-exempt and taxable obligations of state and municipal subdivisions	35,198	3,215	373,596	71,609	408,794	74,824
Mortgage-backed securities - residential	Mortgage-backed securities - residential	9,805	423	268,497	40,199	278,302	40,622	Mortgage-backed securities - residential	749	10	259,613	46,904	260,362	46,914
Mortgage-backed securities - commercial	Mortgage-backed securities - commercial	5,067	333	167,716	24,138	172,783	24,471	Mortgage-backed securities - commercial	306	—	169,023	26,114	169,329	26,114
Corporate obligations	Corporate obligations	8,323	1,177	29,547	3,198	37,870	4,375	Corporate obligations	—	—	37,279	4,354	37,279	4,354
Total	Total	$ 71,558	$ 4,026	$1,099,835	$ 154,052	$1,171,393	$ 158,078	Total	$ 36,440	$ 3,225	$1,089,053	$ 181,919	$1,125,493	$ 185,144
Held-to-maturity:	*Held-to-maturity:*							*Held-to-maturity:*						
U.S. Treasury	U.S. Treasury	$ —	$ —	$ 85,039	$ 4,648	$ 85,039	$ 4,648	U.S. Treasury	$ —	$ —	$ 85,431	$ 4,256	$ 85,431	$ 4,256
Obligations of U.S. government agencies and sponsored entities	Obligations of U.S. government agencies and sponsored entities	736	—	30,561	2,383	31,297	2,383	Obligations of U.S. government agencies and sponsored entities	708	36	30,166	2,745	30,874	2,781
Tax-exempt and taxable obligations of state and municipal subdivisions	Tax-exempt and taxable obligations of state and municipal subdivisions	44,551	4,276	67,739	11,692	112,290	15,968	Tax-exempt and taxable obligations of state and municipal subdivisions	119,396	10,885	87,466	17,403	206,862	28,288
Mortgage-backed securities - residential	Mortgage-backed securities - residential	—	—	131,957	16,902	131,957	16,902	Mortgage-backed securities - residential	—	—	123,020	21,971	123,020	21,971
Mortgage-backed securities - commercial	Mortgage-backed securities - commercial	25,217	1,829	94,887	12,187	120,104	14,016	Mortgage-backed securities - commercial	870	52	115,680	16,976	116,550	17,028

Corporate obligations	Corporate obligations	—	—	7,945	2,055	7,945	2,055	Corporate obligations	—	—	8,296	1,704	8,296	1,704
Total	Total	$ 70,504	$ 6,105	$ 418,128	$ 49,867	$ 488,632	$ 55,972	Total	$120,974	$ 10,973	$ 450,059	$ 65,055	$ 571,033	$ 76,028

($ in thousands)	December 31, 2022					
	Losses < 12 Months		Losses 12 Months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. Treasury	$ 4,563	$ 419	$ 119,292	$ 11,479	$ 123,855	$ 11,898
Obligations of U.S. government agencies and sponsored entities	34,254	2,293	109,431	16,395	143,685	18,688
Tax-exempt and taxable obligations of state and municipal subdivisions	275,202	31,152	159,508	30,779	434,710	61,931
Mortgage-backed securities - residential	76,125	4,970	222,274	37,071	298,399	42,041
Mortgage-backed securities - commercial	50,193	3,025	136,062	21,338	186,255	24,363
Corporate obligations	35,142	1,995	5,739	992	40,881	2,987
Total	$ 475,479	$ 43,854	$ 752,306	$ 118,054	$ 1,227,785	$ 161,908
Held-to-maturity:						
U.S. Treasury	$ 104,457	$ 5,175	$ —	$ —	$ 104,457	$ 5,175
Obligations of U.S. government agencies and sponsored entities	31,636	2,153	—	—	31,636	2,153
Tax-exempt and taxable obligations of state and municipal subdivisions	127,628	13,583	15,303	116	142,931	13,699
Mortgage-backed securities - residential	138,639	17,479	—	—	138,639	17,479
Mortgage-backed securities - commercial	119,758	13,798	—	—	119,758	13,798
Corporate obligations	8,385	1,615	—	—	8,385	1,615
Total	$ 530,503	$ 53,803	$ 15,303	$ 116	$ 545,806	$ 53,919

At June 30, 2023 September 30, 2023 and December 31, 2022, the Company's securities portfolio consisted of 1,208 1,318 and 1,265 securities, respectively, which were in an unrealized loss position. Securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. The As of September 30, 2023 and December 31, 2022, the Company determined that it does not intend to sell these securities and it is more likely than not that the Company currently aware of any circumstances which will not be required require it to sell any of the investments before securities that are in an unrealized loss position prior to recovery of their amortized cost basis. No As such, no allowance for credit losses was needed at June 30, 2023 September 30, 2023 and December 31, 2022.

NOTE 10 – LOANS

The Company uses four different categories to classify loans in its portfolio based on the underlying collateral securing each loan. The loans grouped together in each category have been determined to share similar risk characteristics with respect to credit quality. Those four categories are commercial, financial and agriculture, commercial real estate, consumer real estate, consumer installment;

Commercial, financial and agriculture – Commercial, financial and agriculture loans include loans to business entities issued for commercial, industrial, or other business purposes. This type of commercial loan shares a similar risk characteristic in that unlike commercial real estate loans, repayment is largely dependent on cash flow generated from the operation of the business.

Commercial real estate – Commercial real estate loans are grouped as such because repayment is mainly dependent upon either the sale of the real estate, operation of the business occupying the real estate, or refinance of the debt obligation. This includes both owner-occupied and non-owner occupied CRE secured loans, because they share similar risk characteristics related to these variables.

Consumer real estate – Consumer real estate loans consist primarily of loans secured by 1-4 family residential properties and/or residential lots. This includes loans for the purpose of constructing improvements on the residential property, as well as home equity lines of credit.

Consumer installment – Installment and other loans are all loans issued to individuals that are not for any purpose related to operation of a business, and not secured by real estate. Repayment on these loans is mostly dependent on personal income, which may be impacted by general economic conditions.

The following table shows the composition of the loan portfolio:

($ in thousands)	($ in thousands)	June 30, 2023	December 31, 2022	($ in thousands)	September 30, 2023	December 31, 2022
Loans held for sale	**Loans held for sale**			**Loans held for sale**		
Mortgage loans held for sale	Mortgage loans held for sale	$ 6,602	$ 4,443	Mortgage loans held for sale	$ 5,960	$ 4,443
Total LHFS	Total LHFS	$ 6,602	$ 4,443	Total LHFS	$ 5,960	$ 4,443
Loans held for investment	**Loans held for investment**			**Loans held for investment**		
Commercial, financial and agriculture (1)	Commercial, financial and agriculture (1)	$ 790,295	$ 536,192	Commercial, financial and agriculture (1)	$ 788,598	$ 536,192
Commercial real estate	Commercial real estate	2,915,886	2,135,263	Commercial real estate	2,995,803	2,135,263
Consumer real estate	Consumer real estate	1,249,295	1,058,999	Consumer real estate	1,247,568	1,058,999
Consumer installment	Consumer installment	55,449	43,703	Consumer installment	57,831	43,703
Total loans	Total loans	5,010,925	3,774,157	Total loans	5,089,800	3,774,157
Less allowance for credit losses	Less allowance for credit losses	(52,614)	(38,917)	Less allowance for credit losses	(53,565)	(38,917)
Net LHFI	Net LHFI	$ 4,958,311	$ 3,735,240	Net LHFI	$ 5,036,235	$ 3,735,240

(1) Loan balance includes $514 $450 thousand and $710 thousand in Paycheck Protection Program ("PPP") loans as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Accrued interest receivable is not included in the amortized cost basis of the Company's LHFI. At June 30, 2023 September 30, 2023 and December 31, 2022, accrued interest receivable for LHFI totaled $21.9 million $22.4 million and $18.0 million, respectively, with no related ACL and was reported in interest receivable on the accompanying consolidated balance sheet.

Nonaccrual and Past Due LHFI

Past due LHFI are loans contractually past due 30 days or more as to principal or interest payments. Generally, the Company will place a delinquent loan in nonaccrual status when the loan becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

The following tables present the aging of the amortized cost basis in past due loans in addition to those loans classified as nonaccrual including purchase credit deteriorated ("PCD") loans:

($ in thousands)	($ in thousands)	June 30, 2023	($ in thousands)	September 30, 2023

		Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Nonaccrual	PCD	Total Past Due, Nonaccrual and PCD	Total LHFI	Nonaccrual and PCD with No ACL		Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Nonaccrual	PCD	Total Past Due, Nonaccrual and PCD	Total LHFI	Nona and wit A
Commercial, financial and agriculture (1)	Commercial, financial and agriculture (1)	$1,549	$ —	$ 221	$1,066	$ 2,836	$ 790,295	$ 172	Commercial, financial and agriculture (1)	$ 909	$ 32	$ 315	$1,020	$ 2,276	$ 788,598	$
Commercial real estate	Commercial real estate	1,278	—	9,196	793	11,267	2,915,886	5,030	Commercial real estate	1,279	21	8,985	705	10,990	2,995,803	
Consumer real estate	Consumer real estate	1,899	—	3,324	1,419	6,642	1,249,295	1,456	Consumer real estate	2,706	—	3,135	3,209	9,050	1,247,568	
Consumer installment	Consumer installment	177	—	18	—	195	55,449	—	Consumer installment	126	—	54	—	180	57,831	
Total	Total	$4,903	$ —	$ 12,759	$3,278	$ 20,940	$5,010,925	$ 6,658	Total	$5,020	$ 53	$ 12,489	$4,934	$ 22,496	$5,089,800	$

(1) Total loan balance includes $514 $450 thousand in PPP loans as of June 30, 2023 September 30, 2023.

($ in thousands)	December 31, 2022						
	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Nonaccrual	PCD	Total Past Due, Nonaccrual and PCD	Total LHFI	Nonaccrual and PCD with No ACL
Commercial, financial and agriculture (1)	$ 220	$ —	$ 19	$ —	$ 239	$ 536,192	$ —
Commercial real estate	1,984	—	7,445	1,129	10,558	2,135,263	4,560
Consumer real estate	3,386	289	2,965	1,032	7,672	1,058,999	791
Consumer installment	173	—	1	—	174	43,703	—
Total	$ 5,763	$ 289	$ 10,430	$ 2,161	$ 18,643	$ 3,774,157	$ 5,351

(1) Total loan balance includes $710 thousand in PPP loans as of December 31, 2022.

Acquired Loans

In connection with the acquisitions of HSBI and BBI, the Company acquired loans both with and without evidence of credit quality deterioration since origination. Acquired loans are recorded at their fair value at the time of acquisition with no carryover from the acquired institution's previously recorded allowance for credit losses. Acquired loans are accounted for under the following accounting pronouncements: ASC 326, *Financial Instruments - Credit Losses*.

The fair value for acquired loans recorded at the time of acquisition is based upon several factors including the timing and payment of expected cash flows, as adjusted for estimated credit losses and prepayments, and then discounting these cash flows using comparable market rates. The resulting fair value adjustment is recorded in the form of premium or discount to the unpaid principal balance of each acquired loan. As it relates to acquired PCD loans, the net premium or net discount is adjusted to reflect the Company's allowance for credit losses ("ACL") recorded for PCD loans at the time of acquisition, and the remaining fair value adjustment is accreted or amortized into interest income over the remaining life of the loan. As it relates to acquired loans not classified as PCD ("non-PCD") loans, the credit loss and yield components of the fair value adjustments are aggregated, and the resulting net premium or net discount is accreted or amortized into interest income over the average remaining life of those loans. The Company records an ACL for non-PCD loans at the time of acquisition through provision expense, and therefore, no further adjustments are made to the net premium or net discount for non-PCD loans.

The estimated fair value of the non-PCD loans acquired in the BBI acquisition was $460.0 million, which is net of a $8.8 million discount. The gross contractual amounts receivable of the acquired non-PCD loans at acquisition was approximately $468.8 million, of which $6.4 million is the amount of contractual cash flows not expected to be collected.

The estimated fair value of the non-PCD acquired in the HSBI acquisition was $1.091 billion, which is net of a $33.7 million discount. The gross contractual amounts receivable of the acquired non-PCD loans at acquisition was approximately $1.125 billion, of which $16.5 million is the amount of contractual cash flows not expected to be collected.

The following table shows the carrying amount of loans acquired in the BBI and HSBI acquisitions for which there was, at the date of acquisition, more than insignificant deterioration of credit quality since origination:

($ in thousands)	BBI	HSBI
Purchase price of loans at acquisition	$ 27,669	$ 52,356
Allowance for credit losses at acquisition	1,303	3,176
Non-credit discount (premium) at acquisition	530	2,325
Par value of acquired loans at acquisition	$ 29,502	$ 57,857

As of June 30, 2023 September 30, 2023, and December 31, 2022 the amortized cost of the Company's PCD loans totaled $65.9 million $60.6 million and $24.0 million, respectively, which had an estimated ACL of $3.5 million $3.8 million and $1.7 million, respectively.

Loan Modifications

The Company adopted ASU No. 2022-02 effective January 1, 2023. These amendments eliminate the TDR recognition and measurement guidance and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, and other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, an other-than-insignificant payment delay and/or an interest rate reduction.

The following table presents the amortized cost basis of loans at June 30, 2023 September 30, 2023 that were both experiencing financial difficulty and modified during 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below:

($ in thousands)	Payment Modification	Percentage of Total Loans Held for Investment
Consumer real estate	$ 60	— %
Total	$ 60	— %

($ in thousands)	Term Extension	Percentage of Total Loans Held for Investment
Commercial real estate	$ 413	0.01 %
Total	$ 413	0.01 %

The Company has not committed to lend additional amounts to the borrowers included in the previous table.

Troubled Debt Restructurings Prior to the Adoption of ASU 2022-02

If the Company grants a concession to a borrower for economic or legal reasons related to a borrower's financial difficulties that it would not otherwise consider, the loan is classified as a TDR.

As of December 31, 2022, the Company had TDRs totaling $21.8 million. The Company acquired three TDRs totaling $1.5 million as part of the BBI acquisition. As of December 31, 2022, the Company had no additional amount committed on any loan classified as TDR. As of December 31, 2022, TDRs had a related ACL of $841 thousand.

The following table presents LHFI by class modified as There were no TDRs that occurred added during the three and six nine months ended June 30, 2022 September 30, 2022.

($ in thousands, except for number of loans)	Three Months Ended June 30,		
2022	Number of Loans	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification
Commercial, financial and agriculture	1	$ 15	$ 15

Total	1	$ 15	$ 15

The TDRs presented above increased the ACL $0 and resulted in There were no charge-offs for the three months period ended June 30, 2022.

($ in thousands, except for number of loans)	Six Months Ended June 30,		
2022	**Number of Loans**	**Outstanding Recorded Investment Pre-Modification**	**Outstanding Recorded Investment Post-Modification**
Commercial, financial and agriculture	1	$ 15	$ 15
Total	1	$ 15	$ 15

The TDRs presented above increased the ACL $0 and resulted in no charge-offs for the six months period ended June 30, 2022.

The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification.

($ in thousands, except for number of loans)	Six Months Ended June 30, 2022	
Troubled Debt Restructurings That Subsequently Defaulted:	**Number of Loans**	**Recorded Investment**
Commercial real estate	3	$ 4,562
Consumer real estate	3	133
Total	6	$ 4,695

The modifications described above included one of the following or a combination of the following: maturity date extensions, interest only payments, amortizations were extended beyond what would be available on similar type loans, and payment waiver. No interest rate concessions were given on these loans nor were any of these loans written down. A loan is considered to be in a payment default once it is 30 days contractually past due under the modified terms. The TDRs presented above increased the ACL $1.5 million and resulted in no charge-offs for the six nine months period ended June 30, 2022 September 30, 2022.

The following tables represents the Company's TDRs at December 31, 2022:

December 31, 2022 **($ in thousands)**	**Current Loans**	**Past Due 30-89**	**Past Due 90 days and still accruing**	**Nonaccrual**	**Total**
Commercial, financial and agriculture	$ 49	$ —	$ —	$ —	$ 49
Commercial real estate	13,561	—	—	6,121	19,682
Consumer real estate	1,077	—	—	929	2,006
Consumer installment	14	—	—	—	14
Total	$ 14,701	$ —	$ —	$ 7,050	$ 21,751
Allowance for credit losses	$ 350	$ —	$ —	$ 491	$ 841

Collateral Dependent Loans

The following table presents the amortized cost basis of collateral dependent individually evaluated loans by class of loans as of June 30, 2023 September 30, 2023 and December 31, 2022:

June 30, 2023

September 30, 2023

($ in thousands)	**($ in thousands)**	**Real Property**	**Miscellaneous**	**Total**	**September 30, 2023** **($ in thousands)**	**Real Property**	**Miscellaneous**	**Total**
Commercial, financial and agriculture	Commercial, financial and agriculture	$ —	$ 172	$ 172	Commercial, financial and agriculture	$ —	$ 1,081	$ 1,081
Commercial real estate	Commercial real estate	5,030	—	5,030	Commercial real estate	5,251	—	5,251

Consumer real estate	Consumer real estate	1,574	—	1,574	Consumer real estate	1,366	—	1,366
Consumer installment					Consumer installment	—	15	15
Total	Total	$ 6,604	$ 172	$ 6,776	Total	$ 6,617	$ 1,096	$ 7,713

December 31, 2022

($ in thousands)	Real Property	Total
Commercial real estate	$ 4,560	$ 4,560
Consumer real estate	998	998
Total	$ 5,558	$ 5,558

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the sale of the collateral. The following provides a qualitative description by class of loan of the collateral that secures the Company's collateral dependent LHFI:

- Commercial, financial and agriculture – Loans within these loan classes are secured by equipment, inventory accounts, and other non-real estate collateral.
- Commercial real estate – Loans within these loan classes are secured by commercial real property.
- Consumer real estate - Loans within these loan classes are secured by consumer real property.
- Consumer installment - Loans within these loan classes are secured by consumer goods, equipment, and non-real estate collateral.

There have been no significant changes to the collateral that secures these financial assets during the period.

Loan Participations

The Company has loan participations, which qualify as participating interest, with other financial institutions. As of June 30, 2023 September 30, 2023, these loans totaled $273.0 million $286.9 million, of which $152.8 million $165.6 million had been sold to other financial institutions and $120.2 million $121.3 million was purchased by the Company. As of December 31, 2022, these loans totaled $202.6 million, of which $100.1 million had been sold to other financial institutions and $102.5 million was purchased by the Company. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder; involving no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder; all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership; and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. The Company uses the following definitions for risk ratings:

Pass: Loan classified as pass are deemed to possess average to superior credit quality, requiring no more than normal attention.

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

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

These above classifications were the most current available as of June 30, 2023 September 30, 2023, and were generally updated within the prior year.

The tables below present the amortized cost basis of loans by credit quality indicator and class of loans based on the most recent analysis performed at June 30, 2023 September 30, 2023 and December 31, 2022. Revolving loans converted to term as of the six nine months ended June 30, 2023 September 30, 2023 and December 31, 2022 were not material to the total loan portfolio.

As of June 30, 2023	Term Loans Amortized Cost Basis by Origination Year	Revolving Loans	Total

As of September 30, 2023									As of September 30, 2023		Term Loans Amortized Cost Basis by Origination Y				
($ in thousands)	**($ in thousands)**	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**				**($ in thousands)**	**2023**	**2022**	**2021**	**2020**
Commercial, financial and	Commercial, financial and							**Revolving Loans**	Commercial, financial and	**Total**					
agriculture:	agriculture:										agriculture:				
Risk Rating	Risk Rating										Risk Rating				
Pass	Pass	$ 63,198	$ 153,935	$119,982	$ 55,578	$ 42,981	$ 74,566	$ 274,501		$ 784,741	Pass	$ 84,614	$ 144,691	$112,186	$ 51,36
Special mention	Special mention	—	—	—	179	1,199	1,473	127		2,978	Special mention	—	—	—	15
Substandard	Substandard	58	427	163	317	638	948	25		2,576	Substandard	7	411	172	30
Doubtful	Doubtful	—	—	—	—	—	—	—		—	Doubtful	—	—	—	-
Total commercial, financial and agriculture	Total commercial, financial and agriculture	$ 63,256	$ 154,362	$120,145	$ 56,074	$ 44,818	$ 76,987	$ 274,653		$ 790,295	Total commercial, financial and agriculture	$ 84,621	$ 145,102	$112,358	$ 51,82
Current period gross write offs	Current period gross write offs	$ —	$ 11	$ 95	$ 2	$ 206	$ 110	$ —		$ 424	Current period gross write offs	$ 2	$ 11	$ 141	$
Commercial real estate:	Commercial real estate:										Commercial real estate:				
Risk Rating	Risk Rating										Risk Rating				
Pass	Pass	$115,044	$ 801,165	$591,882	$397,524	$278,946	$619,859	$ 3,546		$2,807,966	Pass	$251,872	$ 817,602	$577,364	$389,86
Special mention	Special mention	—	681	10,427	3,263	10,434	18,817	—		43,622	Special mention	—	662	7,283	3,19
Substandard	Substandard	—	6,981	3,389	838	5,334	47,756	—		64,298	Substandard	139	7,009	2,194	81
Doubtful	Doubtful	—	—	—	—	—	—	—		—	Doubtful	—	—	—	-
Total commercial real estate	Total commercial real estate	$115,044	$ 808,827	$605,698	$401,625	$294,714	$686,432	$ 3,546		$2,915,886	Total commercial real estate	$252,011	$ 825,273	$586,841	$393,86
Current period gross write offs	Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —		$ —	Current period gross write offs	$ —	$ —	$ 27	$ -
Consumer real estate:	Consumer real estate:										Consumer real estate:				
Risk Rating	Risk Rating										Risk Rating				
Pass	Pass	$ 87,387	$ 369,865	$236,851	$139,610	$ 64,194	$182,654	$ 149,200		$1,229,761	Pass	$133,794	$ 349,656	$225,167	$134,66
Special mention	Special mention	—	76	—	—	90	4,126	2,027		6,319	Special mention	—	711	—	-
Substandard	Substandard	—	119	527	1,647	763	8,902	1,257		13,215	Substandard	502	116	519	1,56
Doubtful	Doubtful	—	—	—	—	—	—	—		—	Doubtful	—	—	—	-
Total consumer real estate	Total consumer real estate	$ 87,387	$ 370,060	$237,378	$141,257	$ 65,047	$195,682	$ 152,484		$1,249,295	Total consumer real estate	$134,296	$ 350,483	$225,686	$136,22
Current period gross write offs	Current period gross write offs	$ —	$ 21	$ —	$ —	$ —	$ 3	$ —		$ 24	Current period gross write offs	$ 1	$ 19	$ —	$ -
Consumer installment:	Consumer installment:										Consumer installment:				
Risk Rating	Risk Rating										Risk Rating				
Pass	Pass	$ 13,765	$ 17,183	$ 9,991	$ 4,416	$ 1,940	$ 1,618	$ 6,444		$ 55,357	Pass	$ 20,928	$ 14,667	$ 8,629	$ 3,60
Special mention	Special mention	—	—	—	1	—	—	—		1	Special mention	—	—	—	-
Substandard	Substandard	—	9	19	42	20	1	—		91	Substandard	—	8	20	6
Doubtful	Doubtful	—	—	—	—	—	—	—		—	Doubtful	—	—	—	-
Total consumer installment	Total consumer installment	$ 13,765	$ 17,192	$ 10,010	$ 4,459	$ 1,960	$ 1,619	$ 6,444		$ 55,449	Total consumer installment	$ 20,928	$ 14,675	$ 8,649	$ 3,67

Current period gross write offs	Current period gross write offs	$ 47	$ 370	$ 131	$ 128	$ 66	$ 243	$ 33		$ 1,018	Current period gross write offs	$ 123	$ 487	$ 161	$ 16
Total	Total										Total				
Pass	Pass	$279,394	$1,342,148	$958,706	$597,128	$388,061	$878,697	$ 433,691		$4,877,825	Pass	$491,208	$1,326,616	$923,346	$579,49
Special mention	Special mention	—	757	10,427	3,443	11,723	24,416	2,154		52,920	Special mention	—	1,373	7,283	3,35
Substandard	Substandard	58	7,536	4,098	2,844	6,755	57,607	1,282		80,180	Substandard	648	7,544	2,905	2,74
Doubtful	Doubtful	—	—	—	—	—	—	—		—	Doubtful	—	—	—	
Total	Total	$279,452	$1,350,441	$973,231	$603,415	$406,539	$960,720	$ 437,127		$5,010,925	Total	$491,856	$1,335,533	$933,534	$585,58
Current period gross write offs	Current period gross write offs	$ 47	$ 402	$ 226	$ 130	$ 272	$ 356	$ 33		$ 1,466	Current period gross write offs	$ 126	$ 517	$ 329	$ 16

As of December 31, 2022	**Term Loans Amortized Cost Basis by Origination Year**						**Revolving**	
($ in thousands)	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Loans**	**Total**
Commercial, financial and:								
agriculture								
Risk Rating								
Pass	$ 181,761	$ 141,174	$ 55,690	$ 53,954	$ 43,441	$ 52,038	$ 181	$ 528,239
Special mention	380	5,188	1,664	—	—	412	—	7,644
Substandard	50	—	—	34	33	192	—	309
Doubtful	—	—	—	—	—	—	—	—
Total commercial, financial and agriculture	$ 182,191	$ 146,362	$ 57,354	$ 53,988	$ 43,474	$ 52,642	$ 181	$ 536,192
Commercial real estate:								
Risk Rating								
Pass	$ 582,895	$ 436,661	$ 305,140	$ 217,626	$ 140,682	$ 368,185	$ 1,765	$ 2,052,954
Special mention	672	1,345	3,938	11,643	9,885	16,612	—	44,095
Substandard	50	2,830	908	1,694	4,797	27,935	—	38,214
Doubtful	—	—	—	—	—	—	—	—
Total commercial real estate	$ 583,617	$ 440,836	$ 309,986	$ 230,963	$ 155,364	$ 412,732	$ 1,765	$ 2,135,263
Consumer real estate:								
Risk Rating								
Pass	$ 325,853	$ 226,355	$ 136,052	$ 59,376	$ 51,515	$ 129,923	$ 112,278	$ 1,041,352
Special mention	—	—	—	—	823	3,846	—	4,669
Substandard	519	554	1,481	648	1,706	6,894	1,176	12,978
Doubtful	—	—	—	—	—	—	—	—
Total consumer real estate	$ 326,372	$ 226,909	$ 137,533	$ 60,024	$ 54,044	$ 140,663	$ 113,454	$ 1,058,999
Consumer installment:								
Risk Rating								
Pass	$ 18,925	$ 11,618	$ 5,031	$ 2,078	$ 832	$ 1,445	$ 3,725	$ 43,654
Special mention	—	—	—	—	—	—	—	—
Substandard	4	13	24	—	3	5	—	49
Doubtful	—	—	—	—	—	—	—	—
Total consumer installment	$ 18,929	$ 11,631	$ 5,055	$ 2,078	$ 835	$ 1,450	$ 3,725	$ 43,703
Total								
Pass	$ 1,109,434	$ 815,808	$ 501,913	$ 333,034	$ 236,470	$ 551,591	$ 117,949	$ 3,666,199
Special mention	1,052	6,533	5,602	11,643	10,708	20,870	—	56,408

Substandard	623	3,397	2,413	2,376	6,539	35,026	1,176	51,550
Doubtful	—	—	—	—	—	—	—	—
Total	$ 1,111,109	$ 825,738	$ 509,928	$ 347,053	$ 253,717	$ 607,487	$ 119,125	$ 3,774,157

Allowance for Credit Losses

The ACL is a valuation account that is deducted from loans' amortized cost basis to present the net amount expected to be collected on the loans. It is comprised of a general allowance for loans that are collectively assessed in pools with similar risk characteristics and a specific allowance for individually assessed loans. The allowance is continuously monitored by management to maintain a level adequate to absorb expected losses inherent in the loan portfolio.

The ACL represents the estimated losses for financial assets accounted for on an amortized cost basis. Expected losses are calculated using relevant information, from internal and external sources, about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environment conditions, such as changes in unemployment rates, property values, or other relevant factors. Management may selectively apply external market data to subjectively adjust the Company's own loss history including index or peer data. Expected losses are estimated over the contractual term of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. Expected recovery amounts may not exceed the aggregate of amounts previously charged-off.

The ACL is measured on a collective basis when similar risk characteristics exist. Generally, collectively assessed loans are grouped by call code (segments). Segmenting loans by call code will group loans that contain similar types of collateral and purposes, and are usually structured with similar terms making each loan's risk profile very similar to the rest in that segment. Each of these segments then flows up into one of the four bands, (bands), Commercial, Financial, and Agriculture, Commercial Real Estate, Consumer Real Estate, and Consumer Installment. In accordance with the guidance in ASC 326, the Company redefined its LHFI portfolio segments and related loan classes based on the level at which risk is monitored within the ACL methodology. Construction loans for 1-4 family residential properties with a call code 1A1, and other construction, all land development and other land loans with a call code 1A2 were previously separated between the Commercial Real Estate or Consumer Real Estate bands based on loan type code. Under our ASC 326 methodology 1A1 loans are all defined as part of the Consumer Real Estate band and 1A2 loans are all defined as part of the Commercial Real Estate Band.

The PD calculation analyzes the historical loan portfolio over the given lookback period to identify, by segment, loans that have defaulted. A default is defined as a loan that has moved to past due 90 days and greater, nonaccrual status, or experienced a charge-off during the period. The model observes loans over a 12-month window, detecting any events previously defined. This information is then used by the model to calculate annual iterative count-based PD rates for each segment. This process is then repeated for all dates within the historical data range. These averaged PD's are used for an immediate reversion back to the historical mean. The historical data used to calculate this input was captured by the Company from 2009 through the most recent quarter end.

The Company utilizes reasonable and supportable forecasts of future economic conditions when estimating the ACL on loans. The model's calculation also includes a 24-month forecasted PD based on a regression model that calculated a comparison of the Company's historical loan data to various national economic metrics during the same periods. The results showed the Company's past losses having a high rate of correlation to unemployment, both regionally and nationally. Using this information, along with the most recently published Wall Street Journal survey of sixty economists' forecasts predicting unemployment rates out over the next eight quarters, a corresponding future PD can be calculated for the forward-looking 24-month period. This data can also be used to predict loan losses at different levels of stress, including a baseline, adverse and severely adverse economic condition. After the forecast period, PD rates revert to the historical mean of the entire data set.

The LGD calculation is based on actual losses (charge-offs, net recoveries) at a loan level experienced over the entire lookback period aggregated to get a total for each segment of loans. The aggregate loss amount is divided by the exposure at default to determine an LGD rate. Defaults occurring during the lookback period are included in the denominator, whether a loss occurred or not and exposure at default is determined by the loan balance immediately preceding the default event. If there is not a minimum of five past defaults in a loan segment, or less than 15.0% calculated LGD rate, or the total balance at default is less than 1% of the balance in the respective call code as of the model run date, a proxy index is used. This index is proprietary to the Company's ACL modeling vendor derived from loss data of other client institutions similar in organization structure to the Company. The vendor also provides a "crisis" index derived from loss data between the post-recessionary years of 2008-2013 that the Company uses.

The model then uses these inputs in a non-discounted version of DCF methodology to calculate the quantitative portion of estimated losses. The model creates loan level amortization schedules that detail out the expected monthly payments for a loan including estimated prepayments and payoffs. These expected cash flows are discounted back to present value using the loan's coupon rate instead of the effective interest rate. On a quarterly basis, the Company uses internal credit portfolio data, such as changes in portfolio volume and composition, underwriting practices, and levels of past due loans, nonaccruals and classified assets along with other external information not used in the quantitative calculation to determine if any subjective qualitative adjustments are required so that all significant risks are incorporated to form a sufficient basis to estimate credit losses.

The following table presents the activity in the allowance for credit losses by portfolio segment for the three months ended June 30, 2023 September 30, 2023 and 2022:

($ in thousands)	($ in thousands)	Three Months Ended June 30, 2023					($ in thousands)	Three Months Ended September 30, 2023				
		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Allowance for credit losses:	Allowance for credit losses:						Allowance for credit losses:					

Beginning balance	Beginning balance	$ 9,443	$ 28,052	$ 14,201	$ 754	$ 52,450	Beginning balance	$ 8,972	$ 28,726	$ 14,123	$ 793	$ 52,614
Provision for credit losses	Provision for credit losses	(64)	603	(118)	579	1,000	Provision for credit losses	(709)	389	919	401	1,000
Loans charged-off	Loans charged-off	(421)	—	(24)	(681)	(1,126)	Loans charged-off	(48)	(27)	(21)	(533)	(629)
Recoveries	Recoveries	14	71	64	141	290	Recoveries	277	15	142	146	580
Total ending allowance balance	Total ending allowance balance	$ 8,972	$ 28,726	$ 14,123	$ 793	$ 52,614	Total ending allowance balance	$ 8,492	$ 29,103	$ 15,163	$ 807	$ 53,565

($ in thousands)	($ in thousands)	Six Months Ended June 30, 2023					($ in thousands)	Nine Months Ended September 30, 2023				
		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Allowance for credit losses:	Allowance for credit losses:						Allowance for credit losses:					
Beginning balance	Beginning balance	$ 6,349	$ 20,389	$ 11,599	$ 580	$ 38,917	Beginning balance	$ 6,349	$ 20,389	$ 11,599	$ 580	$ 38,917
Initial allowance on PCD loans	Initial allowance on PCD loans	727	2,260	182	7	3,176	Initial allowance on PCD loans	727	2,260	182	7	3,176
Provision for credit losses	Provision for credit losses	2,263	5,991	2,284	962	11,500	Provision for credit losses	1,554	6,380	3,203	1,363	12,500
Loans charged-off	Loans charged-off	(424)	—	(24)	(1,018)	(1,466)	Loans charged-off	(472)	(27)	(45)	(1,551)	(2,095)
Recoveries	Recoveries	57	86	82	262	487	Recoveries	334	101	224	408	1,067
Total ending allowance balance	Total ending allowance balance	$ 8,972	$ 28,726	$ 14,123	$ 793	$ 52,614	Total ending allowance balance	$ 8,492	$ 29,103	$ 15,163	$ 807	$ 53,565

($ in thousands)	($ in thousands)	Three Months Ended June 30, 2022					($ in thousands)	Three Months Ended September 30, 2022				
		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Allowance for credit losses:	Allowance for credit losses:						Allowance for credit losses:					
Beginning balance	Beginning balance	$ 4,874	$ 17,773	$ 8,492	$ 481	$ 31,620	Beginning balance	$ 4,511	$ 18,668	$ 8,752	$ 469	$ 32,400
Initial allowance on PCD loans							Initial allowance on PCD loans	614	576	113	—	1,303
Provision for credit losses	Provision for credit losses	(313)	629	62	72	450	Provision for credit losses	483	1,663	2,135	19	4,300
Loans charged-off	Loans charged-off	(94)	(24)	(140)	(168)	(426)	Loans charged-off	—	—	(55)	(186)	(241)
Recoveries	Recoveries	44	290	338	84	756	Recoveries	292	18	39	245	594

Total ending allowance balance	Total ending allowance balance	$ 4,511	$ 18,668	$ 8,752	$ 469	$ 32,400	Total ending allowance balance	$ 5,900	$ 20,925	$ 10,984	$ 547	$ 38,356

($ in thousands)	($ in thousands)	Six Months Ended June 30, 2022					($ in thousands)	Nine Months Ended September 30, 2022				
		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Allowance for credit losses:	Allowance for credit losses:						Allowance for credit losses:					
Beginning balance	Beginning balance	$ 4,873	$ 17,552	$ 7,889	$ 428	$ 30,742	Beginning balance	$ 4,873	$ 17,552	$ 7,889	$ 428	$ 30,742
Initial allowance on PCD loans							Initial allowance on PCD loans	614	576	113	—	1,303
Provision for credit losses	Provision for credit losses	(313)	629	62	72	450	Provision for credit losses	171	2,292	2,197	90	4,750
Loans charged-off	Loans charged-off	(146)	(27)	(147)	(337)	(657)	Loans charged-off	(146)	(27)	(202)	(523)	(898)
Recoveries	Recoveries	97	514	948	306	1,865	Recoveries	388	532	987	552	2,459
Total ending allowance balance	Total ending allowance balance	$ 4,511	$ 18,668	$ 8,752	$ 469	$ 32,400	Total ending allowance balance	$ 5,900	$ 20,925	$ 10,984	$ 547	$ 38,356

The Company recorded a $11.5 million $12.5 million provision for credit losses for the six nine months ended June 30, 2023 September 30, 2023, compared to $450 thousand $4.8 million provision for the same period in 2022. The increase in the provision for credit losses is related to loan growth across all loan categories. Total loans were $5.090 billion at September 30, 2023, compared to $3.719 billion at September 30, 2022, representing an increase of $1.370 billion, or 36.8%. During January 2023, loans totaling $1.159 billion, net of purchase accounting adjustments, were acquired in the HSBI acquisition. The initial ACL on PCD loans recorded in March 2023, of $3.2 million was related to the HSBI acquisition. The 2023 provision for credit losses includes $10.7 million associated with day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments acquired in the HSBI merger. acquisition. In 2022, the Company's provision for credit losses includes $3.9 million associated with a day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments and a $1.3 million initial allowance on PCD loans acquired in the BBI acquisition.

The Company recorded a $1.0 million provision for credit losses for the three months ended June 30, 2023 September 30, 2023, compared to $450 thousand $4.3 million provision for the same periods in 2022. The increase in the provision for the three months ended June 30, 2023 September 30, 2023 is attributed to loan growth.

The following table provides the ending balance in the Company's LHFI and the ACL, broken down by portfolio segment as of June 30, 2023 September 30, 2023 and December 31, 2022.

($ in thousands)	($ in thousands)						($ in thousands)					
June 30, 2023		Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total						
September 30, 2023							September 30, 2023	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
LHFI	LHFI						LHFI					
Individually evaluated	Individually evaluated	$ 172	$ 5,030	$ 1,574	$ —	$ 6,776	Individually evaluated	$ 1,081	$ 5,251	$ 1,366	$ 15	$ 7,713
Collectively evaluated	Collectively evaluated	790,123	2,910,856	1,247,721	55,449	5,004,149	Collectively evaluated	787,517	2,990,552	1,246,202	57,816	5,082,087
Total	Total	$ 790,295	$ 2,915,886	$ 1,249,295	$ 55,449	$ 5,010,925	Total	$ 788,598	$ 2,995,803	$ 1,247,568	$ 57,831	$ 5,089,800

Allowance for Credit Losses	Allowance for Credit Losses						Allowance for Credit Losses					
Individually evaluated	Individually evaluated	$ —	$ —	$ 36	$ —	$ 36	Individually evaluated	$ 217	$ 90	$ —	$ —	$ 307
Collectively evaluated	Collectively evaluated	8,972	28,726	14,087	793	52,578	Collectively evaluated	8,275	29,013	15,163	807	53,258
Total	Total	$ 8,972	$ 28,726	$ 14,123	$ 793	$ 52,614	Total	$ 8,492	$ 29,103	$ 15,163	$ 807	$ 53,565

($ in thousands)

December 31, 2022	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
LHFI					
Individually evaluated	$ —	$ 4,560	$ 998	$ —	$ 5,558
Collectively evaluated	536,192	2,130,703	1,058,001	43,703	3,768,599
Total	$ 536,192	$ 2,135,263	$ 1,058,999	$ 43,703	$ 3,774,157
Allowance for Credit Losses					
Individually evaluated	$ —	$ —	$ 5	$ —	$ 5
Collectively evaluated	6,349	20,389	11,594	580	38,912
Total	$ 6,349	$ 20,389	$ 11,599	$ 580	$ 38,917

NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

The Company enters into interest rate swap agreements primarily to facilitate the risk management strategies of certain commercial customers. The interest rate swap agreements entered into by the Company are all entered into under what is referred to as a back-to-back interest rate swap, as such, the net positions are offsetting assets and liabilities, as well as income and expenses. All expenses and risk participation.

Under a back-to-back interest rate swap program, all derivative instruments are recorded in the consolidated statement of financial condition at their respective fair values, as components of other assets and other liabilities. Under a back-to-back interest rate swap program, the The Company enters into an interest rate swap with the customer and another offsetting swap with a counterparty. The result is two mirrored interest rate swaps, absent a credit event, which will offset in the financial statements. These swaps are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities. The change in fair value is recognized in the income statement as other income and fees.

Risk participation agreements are derivative financial instruments and are recorded at fair value. These derivatives are not designated as hedges and therefore, changes in fair value are recorded directly through earnings at each reporting period. Under a risk participation-out agreement, a derivative asset, the Company participates out a portion of the credit risk associated with the interest rate swap position executed with the commercial borrower, for a fee paid to the participating bank. Under a risk participation-in agreement, a derivative liability, the Company assumes, or participates in, a portion of the credit risk associated with the interest rate swap position with the commercial borrower, for a fee received from the other bank. The Company currently has one risk participation-in swap.

The following table provides outstanding interest rate swaps as of June 30, 2023 September 30, 2023 and December 31, 2022.

($ in thousands)	($ in thousands)	June 30, 2023	December 31, 2022	($ in thousands)	September 30, 2023	December 31, 2022
Notional amount	Notional amount	$ 361,749	$ 328,756	Notional amount	$ 411,450	$ 328,756
Weighted average pay rate	Weighted average pay rate	4.5 %	4.6 %	Weighted average pay rate	4.8 %	4.6 %

Weighted average receive rate	Weighted average receive rate	4.5	%	4.3	%	Weighted average receive rate	4.8	%	4.3	%
Weighted average maturity in years	Weighted average maturity in years	5.77		6.11		Weighted average maturity in years	5.49		6.11	

The following table provides the fair value of interest rate swap contracts at June 30, 2023 September 30, 2023 and December 31, 2022 included in other assets and other liabilities.

($ in thousands)	**($ in thousands)**	**June 30, 2023**		**December 31, 2022**		**($ in thousands)**	**September 30, 2023**		**December 31, 2022**	
		Derivative Assets	**Derivative Liabilities**	**Derivative Assets**	**Derivative Liabilities**		**Derivative Assets**	**Derivative Liabilities**	**Derivative Assets**	**Derivative Liabilities**
Interest rate swap contracts	Interest rate swap contracts	$ 12,469	$ 12,469	12,825	$ 12,825	Interest rate swap contracts	$ 14,869	$ 14,880	12,825	$ 12,825

The Company also enters into a collateral agreement with the counterparty requiring the Company to post cash or cash equivalent collateral to mitigate the credit risk in the transaction. At June 30, 2023 September 30, 2023 and December 31, 2022, the Company had $500 thousand of collateral posted with its counterparties, which is included in the consolidated statement of financial condition as cash and cash equivalents as "restricted cash". The Company also receives a swap spread to compensate it for the credit exposure it takes on the customer-facing portion of the transaction and this upfront cash payment from the counterparty is recorded in other income, net of any transaction execution expenses, in the consolidated statement of operations. For the three months and six months ended June 30, 2023 September 30, 2023, net swap spread income included in other income was $326 $344 thousand and $495 compared to $20 thousand respectively. for the same period in 2022. For the nine months ended September 30, 2023, net swap spread income included in other income was $839 thousand compared to $20 thousand for the same period in 2022.

Entering into derivative contracts potentially exposes the Company to the risk of counterparties' failure to fulfill their legal obligations, including, but not limited to, potential amounts due or payable under each derivative contract. Notional principal amounts are often used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller. The Company assesses the credit risk of its dealer counterparties by regularly monitoring publicly available credit rating information, evaluating other market indicators, and periodically reviewing detailed financials.

The Company records the fair value of its interest rate swap contracts separately within other assets and other liabilities as current accounting rules do not permit the netting of customer and counterparty fair value amounts in the consolidated statement of financial condition.

NOTE 12 – RECLASSIFICATION

Certain amounts in the 2022 financial statements have been reclassified for comparative purposes to conform to the current period financial statement presentation.

NOTE 13 – SUBSEQUENT EVENTS/OTHER

In April 2023, the U.S. Department of Treasury (the "Treasury") informed the Company that the Treasury has reviewed the Company's application to receive a grant through the Community Development Financial Institution Fund ("CDFI Fund") related to the Equitable Recovery Program ("ERP"), and that the Company would be eligible to receive an ERP grant in an amount up to $6.2 million. The Company has not yet determined whether it will accept the offer to receive the ERP grant.

If the Company moves forward with pursuing the ERP grant from the Treasury, the Company would be required to fulfill certain conditions established by the Treasury and would be subject to certain restrictions following its acceptance of the investment.

Authorized by the Consolidated Appropriations Act, 2021, the ERP was created to respond to the economic effects of the Coronavirus Disease ("COVID-19") pandemic. These funds will strengthen the ability of the CDFIs to help low-and moderate-income communities recover from the COVID-19 pandemic and invest in long-term prosperity.

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

FORWARD LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Quarterly Report on Form 10-Q of the Company (the "Report") which are not statements of historical fact, including those under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Report, constitute forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, many of which are beyond the Company's control and which may cause the Company's actual results, performance or achievements or the financial services industry or economy generally, to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are forward-looking statements. You can identify these forward-looking statements through the Company's use of words such as "believes," "anticipates," "expects," "may," "will," "assumes," "predicts," "could," "should," "would," "intends," "targets," "estimates," "projects," "seek," "plans," "potential," "aim," and other similar words and expressions of the future or otherwise regarding the outlook for the Company's future business and financial performance and/or the performance of the financial services industry and economy in general. Forward-looking statements are based on the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements. A number of factors could cause actual results to differ materially from those contemplated by the forward-looking statements in this document. Many of these factors are beyond the Company's ability to control or predict. Other factors that could cause actual results to differ materially from those indicated by forward-looking statements include, but are not limited to, the following:

- negative impacts on our business, profitability and our stock price that could result from prolonged periods of inflation;
- risks and uncertainties relating to recent, pending or potential future mergers or acquisitions, including risks related to the completion of such acquisitions within expected timeframes and the successful integration of the business that we acquire into our operations;
- the risk that a future economic downturn and contraction, including a recession, could have a material adverse effect on our capital, financial condition, credit quality, results of operations and future growth, including the risk that the strength of the current economic environment could be weakened by the continued impact of rising interest rates, supply chain challenges and inflation;
- disruptions to the financial markets as a result of the current or anticipated impact of military conflict, including Russia's military action in Ukraine, the conflict in Israel and surrounding areas, terrorism or other geopolitical events;
- governmental monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve;
- the costs and effects of litigation, investigations, inquiries or similar matters, or adverse facts and developments related thereto;
- reduced earnings due to higher credit losses generally and specifically because losses in the sectors of our loan portfolio secured by real estate are greater than expected due to economic factors, including declining residential and commercial real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors occurring in those areas;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- ability of borrowers to repay loans, which can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, natural disasters, public health emergencies and international instability;
- developments in our mortgage banking business, including loan modifications, general demand, and the effects of judicial or regulatory requirements or guidance;
- changes in laws and regulations affecting our businesses, including governmental monetary and fiscal policies, legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses;
- the financial impact of future tax legislation;
- changes in political conditions or the legislative or regulatory environment, including the possibility that the U.S. could default on its debt obligations;

- the adequacy of the level of our allowance for credit losses and the amount of credit loss provisions required to replenish the allowance in future periods;
- reduced earnings due to higher credit losses because our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- increased funding costs due to market illiquidity, increased competition for funding, higher interest rates, and increased regulatory requirements with regard to funding;
- results of examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for credit losses through additional credit loss provisions or write-down of our assets;
- the rate of delinquencies and amount of loans charged-off;
- the impact of our efforts to raise capital on our financial position, liquidity, capital, and profitability;
- significant increases in competition in the banking and financial services industries;
- changes in the securities markets;
- significant turbulence or a disruption in the capital or financial markets and the effect of a fall in stock market prices on our investment securities;
- loss of consumer confidence and economic disruptions resulting from national disasters or terrorist activities;
- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget;
- the risk that the regulatory environment may not be conducive to or may prohibit the consummation of future mergers and/or business combinations, may increase the length of time and amount of resources required to consummate such transactions, and may reduce the anticipated benefit;
- our ability to retain our existing customers, including our deposit relationships;
- changes occurring in business conditions and inflation;
- changes in technology or risks to cybersecurity;
- changes in deposit flows;
- changes in accounting principles, policies, or guidelines, including the impact of the Current Expected Credit Losses ("CECL") standard;
- our ability to maintain adequate internal control over financial reporting; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission ("SEC").

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in and the assumptions underlying our forward-looking statements are reasonable, we cannot guarantee that these expectations will be achieved, or the assumptions will be accurate. The Company disclaims any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments. Additional information concerning these risks and uncertainties is contained in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 "the Company's 2022 Form 10-K" and in our other filings with the Securities and Exchange Commission, available at the SEC's website, http://www.sec.gov.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues, and expenses. Accounting policies considered critical to our financial results include the allowance for credit losses and related provision, income taxes, goodwill, and business combinations. The most critical of these is the accounting policy related to the allowance for credit losses. The allowance is based in large measure upon management's evaluation of borrowers' abilities to make loan payments, local and national economic conditions, and other subjective factors. If any of these factors were to deteriorate, management would update its estimates and judgments which may require additional loss provisions. The Company's critical accounting policies are discussed in detail in Note B "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" contained in Item 8 "Financial Statements and Supplementary Data" of the Company's 2022 Form 10-K.

On January 1, 2023, the Company adopted FASB ASU 2022-02, which eliminates the TDR recognition and measurement guidance and instead requires that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For public business entities, these amendments require that an entity disclose current period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross write-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination.

OVERVIEW OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS SUMMARY

Second Third quarter 2023 compared to second third quarter 2022

The Company reported net Net income available to common shareholders of $23.8 million for the three months ended June 30, 2023, compared with net income available to common shareholders of $15.8 million for the same period last year, an increase of $8.0 million or 50.9%. For the second quarter of 2023, fully diluted earnings per share were $0.75, compared to $0.76 for the second quarter of 2022.

Operating net earnings, a non-GAAP financial measure, for the second third quarter of 2023 totaled $26.8 million $24.4 million compared to $16.5 million $14.0 million for the second third quarter of 2022, an increase of $10.3 million or 62.7% 73.5%. Operating net earnings, which is a non-GAAP financial measure, for the second quarter of 2023 excludes merger and conversion related costs of $3.1 million, net of tax. Operating net earnings, a non-GAAP financial measure, for the second quarter of 2022 excludes merger and conversion related costs of $875 thousand, net of tax, government grants from the U.S. Treasury of $128 thousand, net of tax, offset by $123 thousand

Excluding one-time items detailed in charitable contribution related to the U.S. Treasury awards, and bargain purchase gain and loss on sale of fixed assets, net of tax, $123 thousand. Diluted operating earnings per share, a non-GAAP financial measure, was $0.85 on a fully diluted basis for the second quarter 2023, compared to $0.80 for the same period in 2022, excluding the costs and income described above. See reconciliation of non-GAAP financial measures provided below. below, net earnings available to common shareholders, operating (non-GAAP) increased $4.4 million, or 22.4%, to $24.0 million for quarter ended September 30, 2023, as compared to $19.6 million for the quarter ended September 30, 2022. This increase is attributable to net income associated from the acquisitions of Heritage Bank and Beach Bank.

Net interest income for the second third quarter of 2023 was $66.0 million $60.7 million, an increase of $23.9 million $11.6 million or 56.8%, 23.5% when compared to $42.1 million for the same period in third quarter of 2022. Fully tax equivalent ("FTE") net interest income which is a non-GAAP measure, (non-GAAP) totaled $67.0 million $61.7 million and $43.0 million $50.1 million for the second third quarter of 2023 and 2022, respectively. Purchase accounting adjustments increased $5.9 million $3.1 million for the second third quarter comparisons. The increase was largely due to increased interest rates as well as the acquisitions of BBI Beach Bank and HSBI. Heritage Bank.

Second Third quarter of 2023 net interest margin was 3.76% including 37 3.47%, which included 25 basis points related to purchase accounting adjustments compared to 3.02% 3.43% for the same quarter in 2022, which included 4 5 basis points related to purchase accounting adjustments. Excluding the purchase accounting adjustments, the core net interest margin a non-GAAP financial measure, increased 41 (non-GAAP) decreased 16 basis points in prior year quarterly comparison primarily due to an increase in average loans as well as rates on interest rate increases. See reconciliation of non-GAAP financial measures provided below. bearing liabilities.

Non-interest income increased $10.3 million for the three months ended June 30, 2023 was $12.4 million third quarter of 2023 as compared to $8.7 million for the same period in 2022, reflecting an increase third quarter of $3.7 million or 43.4%. 2022. This increase was attributable attributed to increases in service charges on deposit accounts and interchange fee income of $2.8 million and an increase of $1.7 million in other charges and fees. This increase was partially offset by a decrease of $454 thousand in mortgage income.

Pre-tax, pre-provision operating earnings, a non-GAAP measure, increased 71.3% to $35.7 million for $3.4 million as well as the quarter-ended June 30, 2023 as compared to $20.8 million for the second quarter of 2022. Pre-tax, pre-provision operating earnings, a non-GAAP measure, for the second quarter 2023 excludes merger and conversion related costs of $4.1 million, and $1.3 million provision for credit losses. Pre-tax, pre-provision operating earnings, a non-GAAP measure, for the second quarter of 2022 excludes merger and conversion related costs of $1.2 million, $600 thousand provision for loan losses, $165 thousand bargain purchase gain and loss on sale of fixed assets, and $171 thousand in government grants $6.2 million award from the U.S. Treasury offset by $165 thousand in charitable contributions related to the U.S. Treasury awards. See reconciliation of non-GAAP financial measures provided below. Treasury.

Non-interest Third quarter 2023 non-interest expense was $46.9 million for the three months ended June 30, 2023 $47.7 million, an increase of $15.9 million $11.8 million, or 51.5%, when 32.9% as compared with to the same period in 2022. For the second third quarter of 2023, 2022. This increase was attributed to an increase of $6.3 million in charges related to the ongoing operations of BBI Beach Bank and HSBI totaled $10.0 million Heritage Bank, increased FDIC premiums of $662 thousands, increased amortization of core deposit intangibles of $1.2 million, and acquisition charges of $2.9 million. $5.2 million related to the U.S. Treasury awards.

Investment securities totaled $1.898 billion $1.836 billion, or 24.1% 23.3% of total assets at June 30, 2023 September 30, 2023, compared to $2.105 billion $2.004 billion, or 34.9% 31.0% of total assets at June 30, 2022 September 30, 2022. For the second third quarter of 2023 compared to the second third quarter of 2022, the average balance of investment securities decreased $183.2 million $208.6 million. The average tax equivalent yield on investment securities (non-GAAP) increased 13 4 basis points to 2.23% 2.26% from 2.10% 2.22% in the prior year quarterly comparison. The investment portfolio had a net unrealized loss of $157.6 million $184.9 million at June 30, 2023 September 30, 2023 as compared to a net unrealized loss of $149.1 million $216.9 million at June 30, 2022 September 30, 2022.

The average yield on all earning assets increased 162 114 basis points in prior year quarterly comparison, from 3.29% 3.76% for the second third quarter of 2022 to 4.91% 4.90% for the second third quarter of 2023. Interest expense on average interest-bearing interest bearing liabilities increased 126 157 basis points from 0.39% 0.48% for the second third quarter of 2022 to 1.65% 2.05% for the second third quarter of 2023.

Cost of all deposits averaged 91 121 basis points for the second third quarter of 2023 compared to 14 19 basis points for the second third quarter of 2022. This increase was a result of rising interest rates and increased competition for deposits.

First six nine months 2023 compared to first six nine months 2022

In the year-over-year comparison, net income available to common shareholders increased $7.5 million $17.8 million, or 22.9% 38.1%, from $32.6 million $46.6 million for the six nine months ended June 30, 2022 September 30, 2022, to $40.1 million $64.4 million for the same period ended June 30, 2023 September 30, 2023.

Operating net earnings, a non-GAAP financial measure, increased $22.5 million, or 71.3%, from $31.5 million at June 30, 2022 to $54.0 million at June 30, 2023. Provision for credit losses increased $11.7 million for the year-over-year comparison. Operating net earnings, a non-GAAP financial measure, excludes merger and conversion related costs of $5.9 million, net of tax, and initial provision for acquired loans for $8.0 million, net of tax, for the year-to-date period ending June 30, 2023. Operating net earnings, a non-GAAP financial measure, excludes merger and conversion related costs of $1.2 million, net of tax, government grants from the U.S. Treasury of $652 thousand, net of tax, offset by $123 thousand in contributions related to the government grants from the U.S. Treasury and $123 thousand bargain purchase gain and loss on sale of fixed assets, net of tax, for the year-to-date period ending June 30, 2022. Operating earnings per share were $1.71 on a fully diluted basis for six-month period ending June 30, 2023, compared to $1.52 for the same period in 2022,

excluding the merger-related costs and income described above. See reconciliation of non-GAAP financial measures provided below.

Net interest income was $131.0 million $191.7 million for the nine months ended September 30, 2023, an increase of $50.2 million, or 62.2%, for the six months ended June 30, 2023, $61.8 million as compared to $80.7 million for the same period in 2022. This increase was ended September 30, 2022, primarily due to interest income earned on a high higher volume of loans and securities, including (including loans and securities acquired from the HSBI Heritage Bank and BBI. Average earning assets at June 30, 2023, increased $1.464 billion, or 26.0%, and average interest-bearing liabilities increased $1,024.7 million, or 26.3%, when compared to June 30, 2022 Beach Bank).

Non-interest income was $44.4 million for the six nine months ended June 30, 2023 September 30, 2023, was $25.0 million an increase of $15.5 million as compared to $19.8 million for the same period in June 30, 2022, reflecting an increase of $5.2 million or 26.3% ended September 30, 2022. The increase can be attributed to $3.0 million in services Service charges on deposit accounts and $ 2.7 million accounted for $4.4 million of the increase as well as $4.7 million in interchange fee income.

The provision for credit losses was $12.3 million for income and $5.3 million increase in awards from the six months ended June 30, 2023, compared with $600 thousand provision for credit losses for the same period in 2022. The 2023 provision for credit losses includes $10.7 million associated with day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments acquired in the HSBI merger. The allowance for credit losses of $52.6 million at June 30, 2023 is considered by management to be adequate to cover losses inherent in the loan portfolio. See “Allowance for Credit Losses” in Item 2. – Management’s Discussion and Analysis of Financial Condition and Results of Operations for more information on this evaluation. U.S. Treasury.

Non-interest expense was $92.6 million $140.3 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $33.0 million or 55.5%, when $44.8 million as compared with to the same period in 2022. ended September 30, 2022. The increase was partially attributable to $6.3 million $3.3 million in acquisition and charter conversion charges and $20.9 million $27.2 million in increased operating expenses related to the acquisitions of Beach Bank and Heritage Bank as well as $5.2 million in expenses associated with the BBI U.S. Treasury awards and HSBI acquisitions increases in FDIC premiums of $1.0 million and a $3.8 million increase in core deposit amortization for the six nine months ended June 30, 2023 September 30, 2023.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE FIRST

The First represents the primary asset of the Company. The First reported total assets of $7.852 billion $7.875 billion at June 30, 2023 September 30, 2023 compared to $6.462 billion at December 31, 2022, an increase of $1.390 billion $1.413 billion. Loans, including loans held for sale, increased $1.239 billion $1.317 billion to $5.018 billion $5.096 billion, or 32.8% 34.9%, during the first six nine months of 2023. Deposits at June 30, 2023 September 30, 2023 totaled $6.511 billion $6.495 billion compared to $5.494 billion at December 31, 2022. The majority of the increase in assets, loans, and deposits is attributed to the HSBI acquisition.

For the six nine months period ended June 30, 2023 September 30, 2023, The First reported net income of $46.7 million $68.7 million compared to $35.5 million $53.6 million for the six nine months ended June 30, 2022 September 30, 2022. Merger and conversion charges equaled $5.9 million $6.3 million, net of tax, for the first six nine months of 2023 as compared to $1.2 $3.9 million, net of tax, for the first six nine months of 2022.

EARNINGS PERFORMANCE

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by earning assets less interest expense on deposits and other borrowed money. The second is non-interest income, which primarily consists of customer service charges and fees as well as mortgage income but also comes from non-customer sources such as bank-owned life insurance. The majority of the Company’s non-interest expense is comprised of operating costs that facilitate offering a full range of banking services to our customers.

NET INTEREST INCOME AND NET INTEREST MARGIN

For the three months ended June 30, 2023 September 30, 2023, net interest income increased by $23.9 million $11.6 million, or 56.8% 23.5%, when compared with the same period in 2022. The increase was largely due to increased interest rates as well as the acquisitions of BBI and HSBI. PPP loans totaled $514 $450 thousand as of June 30, 2023 September 30, 2023, a decrease of $5.8 million $5.9 million or 91.8% 92.9% when compared to the same period last year due to loan forgiveness under the PPP program. The level of net interest income we recognize in any given period depends on a combination of factors including the average volume and yield for interest-earning assets, the average volume and cost of interest-bearing liabilities, and the mix of products which comprise the Company’s earning assets, deposits, and other interest-bearing liabilities. Net interest income is also impacted by the reversal of interest for loans placed on nonaccrual status during the reporting period, and the recovery of interest on loans that had been on nonaccrual and were paid off, sold or returned to accrual status.

The following tables depict, for the periods indicated, certain information related to the average balance sheet and average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

Average Balances, Tax Equivalent Interest and Yields/Rates

($ in thousands)	($ in thousands)	Three Months Ended						($ in thousands)	Three Months Ended					
		June 30, 2023			June 30, 2022				September 30, 2023			September 30, 2022		
		Avg. Balance	Tax Equivalent Interest	Yield/ Rate	Avg. Balance	Tax Equivalent Interest	Yield/ Rate		Avg. Balance	Tax Equivalent Interest	Yield/ Rate	Avg. Balance	Tax Equivalent Interest	Yield/ Rate
Earning Assets:	Earning Assets:							Earning Assets:						
Taxable securities	Taxable securities	$ 1,473,166	$ 7,867	2.14 %	$ 1,634,679	$ 8,372	2.05 %	Taxable securities	$ 1,419,343	$ 7,685	2.17 %	$ 1,612,066	$ 8,723	2.16 %
Tax exempt securities	Tax exempt securities	470,742	3,946	3.35 %	492,405	3,721	3.02 %	Tax exempt securities	463,329	3,921	3.39 %	479,168	3,849	3.21 %
Total investment securities	Total investment securities	1,943,908	11,813	2.43 %	2,127,084	12,093	2.27 %	Total investment securities	1,882,672	11,606	2.47 %	2,091,234	12,572	2.40 %
Interest bearing deposits in other banks	Interest bearing deposits in other banks	93,464	789	3.38 %	432,851	32	0.03 %	Interest bearing deposits in other banks	79,448	441	2.22 %	143,867	2	0.01 %
Loans	Loans	4,982,368	74,590	5.99 %	3,013,228	34,663	4.60 %	Loans	5,038,928	74,626	5.92 %	3,492,110	42,274	4.84 %
Total earning assets	Total earning assets	7,019,740	87,192	4.97 %	5,573,163	46,788	3.36 %	Total earning assets	7,001,048	86,673	4.95 %	5,727,211	54,848	3.83 %
Other assets	Other assets	862,390			539,078			Other assets	872,297			645,661		
Total assets	Total assets	$ 7,882,130			$ 6,112,241			Total assets	$ 7,873,345			$ 6,372,872		
Interest-bearing liabilities:	Interest-bearing liabilities:							Interest-bearing liabilities:						
Deposits	Deposits	$ 4,465,800	$ 14,762	1.32 %	$ 3,706,711	$ 1,905	0.21 %	Deposits	$ 4,459,869	$ 19,572	1.76 %	$ 3,777,059	$ 2,748	0.29 %
Borrowed funds	Borrowed funds	277,531	3,264	4.70 %	—	—	— %	Borrowed funds	296,963	3,556	4.79 %	13,261	92	2.78 %
Subordinated debentures	Subordinated debentures	145,418	2,138	5.88 %	144,834	1,841	5.08 %	Subordinated debentures	128,251	1,849	5.77 %	144,910	1,886	5.21 %
Total interest-bearing liabilities	Total interest-bearing liabilities	4,888,749	20,164	1.65 %	3,851,545	3,746	0.39 %	Total interest-bearing liabilities	4,885,083	24,977	2.05 %	3,935,230	4,726	0.48 %
Other liabilities	Other liabilities	2,091,882			1,667,286			Other liabilities	2,083,192			1,806,898		
Shareholders' equity	Shareholders' equity	901,499			593,410			Shareholders' equity	905,070			630,744		
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	$ 7,882,130			$ 6,112,241			Total liabilities and shareholders' equity	$ 7,873,345			$ 6,372,872		
Net interest income	Net interest income		$ 66,030			$ 42,101		Net interest income		$ 60,704			$ 49,148	
Net interest margin	Net interest margin			3.76 %			3.02 %	Net interest margin			3.47 %			3.43 %
Net interest income (FTE)*	Net interest income (FTE)*		$ 67,028	3.32 %		$ 43,042	3.06 %	Net interest income (FTE)*		$ 61,696	2.91 %		$ 50,122	3.35 %

Net interest margin (FTE)*	Net interest margin (FTE)*			3.82 %			3.09 %	Net interest margin (FTE)*			3.52 %			3.50 %

($ in thousands)	($ in thousands)	Six Months Ended						($ in thousands)	Nine Months Ended					
		June 30, 2023			June 30, 2022				September 30, 2023			September 30, 2022		
		Avg. Balance	Tax Equivalent Interest	Yield/ Rate	Avg. Balance	Tax Equivalent Interest	Yield/ Rate		Avg. Balance	Tax Equivalent Interest	Yield/ Rate	Avg. Balance	Tax Equivalent Interest	Yield/ Rate
Earning Assets:	Earning Assets:							Earning Assets:						
Taxable securities	Taxable securities	$ 1,519,140	$ 16,625	2.19 %	$ 1,565,844	$ 14,524	1.85 %	Taxable securities	$ 1,485,511	$ 24,310	2.18 %	$ 1,553,820	$ 23,247	1.99 %
Tax exempt securities	Tax exempt securities	466,752	7,892	3.38 %	446,984	6,963	3.12 %	Tax exempt securities	465,598	11,813	3.38 %	485,101	10,812	2.97 %
Total investment securities	Total investment securities	1,985,892	24,517	2.47 %	2,012,828	21,487	2.13 %	Total investment securities	1,951,109	36,123	2.47 %	2,038,921	34,059	2.23 %
Interest bearing deposits in other banks	Interest bearing deposits in other banks	119,916	1,687	2.81 %	628,279	45	0.01 %	Interest bearing deposits in other banks	106,279	2,128	2.67 %	465,312	47	0.01 %
Loans	Loans	4,979,034	142,324	5.72 %	2,979,738	68,817	4.62 %	Loans	4,999,218	216,950	5.79 %	3,151,197	111,091	4.70 %
Total earning assets	Total earning assets	7,084,842	168,528	4.76 %	5,620,845	90,349	3.21 %	Total earning assets	7,056,606	255,201	4.82 %	5,655,430	145,197	3.42 %
Other assets	Other assets	857,516			535,698			Other assets	862,495			572,623		
Total assets	Total assets	$ 7,942,358			$ 6,156,543			Total assets	$ 7,919,101			$ 6,228,053		
Interest-bearing liabilities:	Interest-bearing liabilities:							Interest-bearing liabilities:						
Deposits	Deposits	$ 4,587,933	$ 27,039	1.18 %	$ 3,746,538	$ 4,188	0.22 %	Deposits	$ 4,544,775	$ 46,611	1.37 %	$ 3,756,077	$ 6,936	0.25 %
Borrowed funds	Borrowed funds	177,868	4,223	4.75 %	—	—	— %	Borrowed funds	218,002	7,779	4.76 %	4,469	92	2.74 %
Subordinated debentures	Subordinated debentures	150,225	4,314	5.74 %	144,797	3,660	5.06 %	Subordinated debentures	142,820	6,163	5.75 %	144,835	5,546	5.11 %
Total interest-bearing liabilities	Total interest-bearing liabilities	4,916,026	35,576	1.45 %	3,891,335	7,848	0.40 %	Total interest-bearing liabilities	4,905,597	60,553	1.65 %	3,905,381	12,574	0.43 %
Other liabilities	Other liabilities	2,140,995			1,635,425			Other liabilities	2,121,519			1,692,565		
Shareholders' equity	Shareholders' equity	885,337			629,783			Shareholders' equity	891,985			630,107		
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	$ 7,942,358			$ 6,156,543			Total liabilities and shareholders' equity	$ 7,919,101			$ 6,228,053		
Net interest income	Net interest income		$ 130,956			$ 80,740		Net interest income		$ 191,660			$ 129,887	
Net interest margin	Net interest margin			2.46 %			2.87 %	Net interest margin			3.62 %			3.06 %
Net interest income (FTE)*	Net interest income (FTE)*		$ 132,952	3.31 %		$ 82,501	2.91 %	Net interest income (FTE)*		$ 194,648	3.18 %		$ 132,623	2.99 %
Net interest margin (FTE)*	Net interest margin (FTE)*			3.75 %			2.94 %	Net interest margin (FTE)*			3.68 %			3.13 %

*Non-GAAP measure. See reconciliation of non-GAAP financial measures.

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

The following table provides details on the Company's non-interest income and non-interest expense for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

($ in thousands)	($ in thousands)	Three Months Ended				($ in thousands)	Three Months Ended			
EARNINGS STATEMENT	EARNINGS STATEMENT	June 30, 2023	% of Total	June 30, 2022	% of Total	EARNINGS STATEMENT	September 30, 2023	% of Total	September 30, 2022	% of Total
Non-interest income:	Non-interest income:					Non-interest income:				
Service charges on deposit accounts	Service charges on deposit accounts	$ 3,425	27.6 %	$ 2,038	23.5 %	Service charges on deposit accounts	$ 3,646	18.9 %	$ 2,219	24.6 %
Mortgage fee income	Mortgage fee income	773	6.2 %	1,227	14.2 %	Mortgage fee income	878	4.5 %	1,221	13.5 %
Interchange fee income	Interchange fee income	4,543	36.6 %	3,102	35.8 %	Interchange fee income	5,280	27.3 %	3,310	36.7 %
	(Loss) gain on securities, net	(48)	(0.4) %	(80)	(0.9) %					
	Gain (loss) on sale of premises and equipment	—	0.0 %	(115)	(1.3) %					
	Gain on acquisition	—	0.0 %	281	3.2 %					
Gain (loss) on securities, net						Gain (loss) on securities, net	2	— %	1	— %
(Loss) gain on sale of premises and equipment						(Loss) gain on sale of premises and equipment	(104)	(0.5) %	—	— %
Government awards/grants	Government awards/grants	—	0.0 %	171	2.0 %	Government awards/grants	6,197	32.1 %	—	— %
Other	Other	3,730	30.0 %	2,040	23.5 %	Other	3,425	17.7 %	2,271	25.2 %
Total non-interest income	Total non-interest income	$ 12,423	100 %	$ 8,664	100 %	Total non-interest income	$ 19,324	100 %	$ 9,022	100 %
Non-interest expense:	Non-interest expense:					Non-interest expense:				
Salaries and employee benefits	Salaries and employee benefits	$ 23,315	49.7 %	$ 17,237	55.6 %	Salaries and employee benefits	$ 22,807	47.9 %	$ 19,099	53.2 %
Occupancy expense	Occupancy expense	5,041	10.7 %	3,828	12.4 %	Occupancy expense	5,343	11.2 %	3,826	10.7 %
FDIC/OCC premiums	FDIC/OCC premiums	758	1.6 %	546	1.8 %	FDIC/OCC premiums	1,158	2.4 %	496	1.4 %
Marketing	Marketing	45	0.1 %	122	0.4 %	Marketing	559	1.2 %	50	0.1 %
Amortization of core deposit intangibles	Amortization of core deposit intangibles	2,391	5.1 %	1,064	3.4 %	Amortization of core deposit intangibles	2,385	5.0 %	1,227	3.4 %
Other professional services	Other professional services	1,570	3.3 %	768	2.5 %	Other professional services	1,499	3.1 %	1,256	3.5 %
Other non-interest expense	Other non-interest expense	9,678	20.6 %	6,218	20.1 %	Other non-interest expense	13,385	28.0 %	6,309	17.6 %
Acquisition and charter conversion charges	Acquisition and charter conversion charges	4,101	8.7 %	1,172	3.8 %	Acquisition and charter conversion charges	588	1.2 %	3,640	10.1 %

Total non-interest expense	Total non-interest expense	$ 46,899	100 %	$ 30,955	100 %	Total non-interest expense	$ 47,724	100 %	$ 35,903	100 %

($ in thousands)	($ in thousands)	Six Months Ended				($ in thousands)	Nine Months Ended			
EARNINGS STATEMENT	EARNINGS STATEMENT	June 30, 2023	% of Total	June 30, 2022	% of Total	EARNINGS STATEMENT	September 30, 2023	% of Total	September 30, 2022	% of Total
Non-interest income:	Non-interest income:					Non-interest income:				
Service charges on deposit accounts	Service charges on deposit accounts	$ 7,082	28.4 %	$ 4,078	20.6 %	Service charges on deposit accounts	$ 10,728	24.1 %	$ 6,297	21.8 %
Mortgage fee income	Mortgage fee income	1,406	5.6 %	2,457	12.4 %	Mortgage fee income	2,284	5.1 %	3,678	12.8 %
Interchange fee income	Interchange fee income	9,041	36.1 %	6,299	31.8 %	Interchange fee income	14,321	32.3 %	9,609	33.3 %
(Loss) gain on securities, net	(Loss) gain on securities, net	(48)	(0.2) %	(83)	(0.4) %	(Loss) gain on securities, net	(46)	(0.1) %	(82)	(0.3) %
Gain (loss) on sale of premises and equipment	Gain (loss) on sale of premises and equipment	663	2.6 %	(113)	(0.6) %	Gain (loss) on sale of premises and equipment	559	1.3 %	(114)	(0.4) %
Gain on acquisition	Gain on acquisition	—	0.0 %	281	1.4 %	Gain on acquisition	—	— %	281	1.0 %
Government awards/grants	Government awards/grants	—	0.0 %	873	4.4 %	Government awards/grants	6,197	14.0 %	873	3.0 %
BOLI income from death proceeds	BOLI income from death proceeds	—	0.0 %	1,630	8.2 %	BOLI income from death proceeds	—	0.0 %	1,630	5.7 %
Other	Other	6,891	27.5 %	4,399	22.2 %	Other	10,316	23.3 %	6,671	23.1 %
Total non-interest income	Total non-interest income	$ 25,035	100 %	$ 19,821	100 %	Total non-interest income	$ 44,359	100 %	$ 28,843	100 %
Non-interest expense:	Non-interest expense:					Non-interest expense:				
Salaries and employee benefits	Salaries and employee benefits	$ 46,888	50.7 %	$ 34,036	57.2 %	Salaries and employee benefits	$ 69,695	49.9 %	$ 53,135	55.6 %
Occupancy expense	Occupancy expense	10,337	11.2 %	7,704	12.9 %	Occupancy expense	15,680	11.2 %	11,530	12.1 %
FDIC/OCC premiums	FDIC/OCC premiums	1,428	1.5 %	1,112	1.9 %	FDIC/OCC premiums	2,586	1.8 %	1,608	1.7 %
Marketing	Marketing	203	0.2 %	208	0.3 %	Marketing	762	0.5 %	258	0.3 %
Amortization of core deposit intangibles	Amortization of core deposit intangibles	4,793	5.2 %	2,128	3.6 %	Amortization of core deposit intangibles	7,178	5.1 %	3,355	3.5 %
Other professional services	Other professional services	2,638	2.8 %	1,331	2.2 %	Other professional services	4,137	2.9 %	2,587	2.7 %
Other non-interest expense	Other non-interest expense	18,388	19.9 %	11,446	19.2 %	Other non-interest expense	31,773	22.6 %	17,755	18.6 %
Acquisition and charter conversion charges	Acquisition and charter conversion charges	7,894	8.5 %	1,580	2.7 %	Acquisition and charter conversion charges	8,482	6.0 %	5,220	5.5 %

Total non-interest expense	Total non-interest expense	$ 92,569	100 %	$ 59,545	100 %	Total non-interest expense	$ 140,293	100 %	$ 95,448	100 %

PROVISION FOR INCOME TAXES

The Company sets aside a provision for income taxes on a monthly basis. The amount of the provision is determined by first applying the Company's statutory income tax rates to estimated taxable income, which is pre-tax book income adjusted for permanent differences, and then subtracting available tax credits if applicable. Permanent differences include but are not limited to tax-exempt interest income, bank-owned life insurance cash surrender value income, and certain book expenses that are not allowed as tax deductions.

The Company's provision for income taxes was $6.5 million $6.9 million or 21.5% 22.2% of earnings before income taxes for the second third quarter 2023, compared to $3.5 million $3.9 million or 18.0% 21.8% of earnings before income taxes for the same period in 2022. The provision for the six nine months ended June 30, 2023 September 30, 2023 was $11.1 million $18.1 million or 21.7% 21.9% of earnings before income taxes compared to $7.8 million $11.8 million or 19.4% 20.1% for the same period in 2022.

BALANCE SHEET ANALYSIS

EARNING ASSETS

The Company's interest-earning assets are comprised of investments and loans, and the composition, growth characteristics, and credit quality of both are significant determinants of the Company's financial condition. Investments are analyzed in the section immediately below, while the loan and lease portfolio and other factors affecting earning assets are discussed in the sections following investments.

INVESTMENTS

The Company's investments can at any given time consist of debt securities and marketable equity securities (together, the "investment portfolio"), investments in the time deposits of other banks, surplus interest-earning balances in our Federal Reserve Bank ("FRB") account, and overnight fed funds sold. Surplus FRB balances and federal funds sold to correspondent banks represent the temporary investment of excess liquidity. The Company's investments serve several purposes: 1) they provide liquidity to even out cash flows from the loan and deposit activities of customers; 2) they provide a source of pledged assets for securing public deposits, bankruptcy deposits and certain borrowed funds which require collateral; 3) they constitute a large base of assets with maturity and interest rate characteristics that can be changed more readily than the loan portfolio to better match changes in the deposit base and other funding sources of the Company; 4) they are another interest-earning option for surplus funds when loan demand is light; and 5) they can provide partially tax exempt income. Total securities, excluding other securities, totaled $1.863 billion $1.800 billion, or 23.7% 22.8% of total assets at June 30, 2023 September 30, 2023 compared to $1.949 billion, or 30.2% of total assets at December 31, 2022.

There were no federal funds sold at June 30, 2023 September 30, 2023 and December 31, 2022; and interest-bearing balances at other banks increased decreased to $88.3 million $75.8 million at June 30, 2023 September 30, 2023 from $78.1 million at December 31, 2022. The increase in interest-bearing balances is primarily related to an increase in the Federal Reserve Bank deposits. The Company's investment portfolio decreased $84.2 million $146.2 million, or 4.2% 7.4%, to $1.898 billion $1.836 billion at June 30, 2023 September 30, 2023 compared to December 31, 2022. The decrease is attributed to $89.3 million $124.3 million in securities that matured, prepaid, or were called offset by a $3.6 $23.7 million change in the net unrealized loss of the security portfolio. The Company sold approximately $171.2 million in securities that were acquired in the HSBI acquisition. The investment portfolio had a net unrealized loss of $157.6 million $184.9 million at June 30, 2023 September 30, 2023 as compared to a net unrealized loss of $161.2 million at December 31, 2022. The Company carries available-for-sale investments at their fair market values and held-to-maturity investments at their amortized costs. The fair value of available-for-sale securities totaled $1.199 billion $1.142 billion at June 30, 2023 September 30, 2023 compared to $1.257 billion at December 31, 2022. The fair value of held-to-maturity investments totaled $613.8 million $582.6 million and $642.1 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. All other investment securities are classified as "available-for-sale" to allow maximum flexibility with regard to interest rate risk and liquidity management.

Refer to the tables shown in Note 9 – "Securities" to the Consolidated Financial Statements for information on the Company's amortized cost and fair market value of its investment portfolio by investment type.

LOAN PORTFOLIO

Loans Held for Sale ("LHFS")

The Bank originates fixed rate single family, residential first mortgage loans on a presold basis. The Bank issues a rate lock commitment to a customer and concurrently "locks in" with a secondary market investor under a best efforts delivery mechanism. Such loans are sold without the mortgage servicing rights being retained by the Bank. The terms of the loan are dictated by the secondary investors and are transferred within several weeks of the Bank initially funding the loan. The Bank recognizes certain origination fees and service release fees upon the sale, which are included in other income on loans in the consolidated statements of income. Between the initial funding of the loans by the Bank and the subsequent purchase by the investor, the Bank carries the loans held for sale at fair value in the aggregate as determined by the outstanding commitments from investors. Associated servicing rights are not retained. At June 30, 2023 September 30, 2023, LHFS totaled $6.6 million $6.0 million, compared to $4.4 million at December 31, 2022.

Loans Held for Investment ("LHFI")

LHFI, net of deferred fees and costs, were $4.958 billion $5.036 billion at June 30, 2023 September 30, 2023, an increase of $1.223 billion $1.301 billion, or 32.7% 34.8%, from $3.735 billion at December 31, 2022. The acquisition of HSBI accounted for approximately $1.159 billion, net of purchase accounting adjustments, of the increase. PPP loans were $514 $450 thousand at June 30, 2023 September 30, 2023, a decrease of $196 $260 thousand, or 27.6% 36.6%, from $710 thousand at December 31, 2022.

The following table presents the Company's composition of LHFI, net of deferred fees and costs, in dollar amounts and as a percentage of total gross loans ($ in thousands):

		June 30, 2023		December 31, 2022			September 30, 2023		December 31, 2022	
		Amount	Percent of Total	Amount	Percent of Total		Amount	Percent of Total	Amount	Percent of Total
Commercial, financial and agriculture (1)	Commercial, financial and agriculture (1)	$ 790,295	15.8 %	$ 536,192	14.2 %	Commercial, financial and agriculture (1)	$ 788,598	15.5 %	$ 536,192	14.2 %
Commercial real estate	Commercial real estate	2,915,886	58.2 %	2,135,263	56.5 %	Commercial real estate	2,995,803	58.9 %	2,135,263	56.5 %
Consumer real estate	Consumer real estate	1,249,295	24.9 %	1,058,999	28.1 %	Consumer real estate	1,247,568	24.5 %	1,058,999	28.1 %
Consumer installment	Consumer installment	55,449	1.1 %	43,703	1.2 %	Consumer installment	57,831	1.1 %	43,703	1.2 %
Total loans	Total loans	5,010,925	100 %	3,774,157	100 %	Total loans	5,089,800	100 %	3,774,157	100 %
Allowance for credit losses	Allowance for credit losses	(52,614)		(38,917)		Allowance for credit losses	(53,565)		(38,917)	
Net loans	Net loans	$ 4,958,311		$ 3,735,240		Net loans	$ 5,036,235		$ 3,735,240	

(1) Loan amount includes $514 $450 thousand and $710 thousand in PPP loans at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes that the risk elements of its loan portfolio have been reduced through strategies that diversify the lending mix.

LOAN CONCENTRATIONS

Diversification within the loan portfolio is an important means of reducing inherent lending risk. As of June 30, 2023 September 30, 2023, management does not consider there to be any significant credit concentrations within the loan portfolio. Although the Bank's loan portfolio, as well as existing commitments, reflects the diversity of its primary market area, a substantial portion of a borrower's ability to repay a loan is dependent upon the economic stability of the area.

NON-PERFORMING ASSETS

Non-performing assets ("NPAs") are comprised of loans for which the Company is no longer accruing interest, and foreclosed assets including mobile homes and other real estate owned. Loans are placed on nonaccrual status when they become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled $16.0 million $17.4 million at June 30, 2023 September 30, 2023, an increase of $3.4 million $4.8 million from December 31, 2022.

Other real estate owned is carried at fair value, determined by an appraisal, less estimated costs to sell. Other real estate owned totaled $5.6 million $4.9 million at June 30, 2023 September 30, 2023, an increase of $756 $88 thousand as compared to $4.8 million at December 31, 2022. The acquisition of HSBI accounted for approximately $857 thousand of the increase and was offset by sales and write-downs during 2023.

The following table presents comparative data for the Company's non-performing assets as of the dates noted.

($ in thousands)	($ in thousands)	June 30, 2023	December 31, 2022	($ in thousands)	September 30, 2023	December 31, 2022
Nonaccrual Loans	Nonaccrual Loans			Nonaccrual Loans		
Commercial, financial and agriculture	Commercial, financial and agriculture	$ 1,287	$ 19	Commercial, financial and agriculture	$ 1,335	$ 19
Commercial real estate	Commercial real estate	9,989	8,574	Commercial real estate	9,690	8,574
Consumer real estate	Consumer real estate	4,743	3,997	Consumer real estate	6,344	3,997
Consumer installment	Consumer installment	18	1	Consumer installment	54	1
Total Nonaccrual Loans	Total Nonaccrual Loans	16,037	12,591	Total Nonaccrual Loans	17,423	12,591
Other real-estate owned	Other real-estate owned	5,588	4,832	Other real-estate owned	4,920	4,832

Total NPAs	Total NPAs	$ 21,625	$ 17,423	Total NPAs	$ 22,343	$ 17,423
Past due 90 days or more and still accruing	Past due 90 days or more and still accruing	$ —	$ 289	Past due 90 days or more and still accruing	$ 53	$ 289
Total NPAs as a % of total loans & leases net of unearned income	Total NPAs as a % of total loans & leases net of unearned income	0.4 %	0.5 %	Total NPAs as a % of total loans & leases net of unearned income	0.4 %	0.5 %
Total nonaccrual loans as a % of total loans & leases net of unearned income	Total nonaccrual loans as a % of total loans & leases net of unearned income	0.3 %	0.3 %	Total nonaccrual loans as a % of total loans & leases net of unearned income	0.3 %	0.3 %

NPAs totaled $21.6 million $22.3 million at June 30, 2023 September 30, 2023, compared to $17.4 million at December 31, 2022, an increase of $4.2 million $4.9 million. The ACL/total loans ratio was 1.05% at June 30, 2023 September 30, 2023, and 1.03% at December 31, 2022. Total valuation accounting adjustments were $33.6 million $29.3 million on acquired loans at June 30, 2023 September 30, 2023. The Company recorded a $9.5 million credit loss and yield mark related to the BBI acquisition in 2022 and a $33.2 million credit loss and yield mark related to the HSBI acquisition in 2023. The ratio of annualized net charge-offs (recoveries) to total loans was 0.07% 0.004% for the quarter ended June 30, 2023 September 30, 2023 compared to 0.004% for the quarter ended December 31, 2022.

ALLOWANCE FOR CREDIT LOSSES

The ACL is a valuation account that is deducted from loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environment conditions, such as changes in unemployment rates, property values, or other relevant factors. Management may selectively apply external market data to subjectively adjust the Company's own loss history including index or peer data. Management evaluates the adequacy of the ACL quarterly and makes provisions for credit losses based on this evaluation. See Note 10 - "Loans" for a description of the Company's methodology and the quantitative and qualitative factors included in the calculation.

At June 30, 2023 September 30, 2023, the ACL was $52.6 million $53.6 million, or 1.0% 1.05% of LHFI, an increase of $13.7 million $14.6 million, or 35.2% 37.6% when compared to December 31, 2022. The 2023 provision for credit losses includes $10.7 million associated with a day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments and a $3.2 million initial allowance on PCD loans related to the HSBI acquisition. At December 31, 2022, provision for credit losses includes $3.9 million associated with a day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments and a $1.3 million initial allowance on PCD loans acquired in the BBI acquisition. At December 31, 2022, the allowance for credit losses was approximately $38.9 million, which was 1.0% 1.03% of LHFI.

At June 30, 2023 September 30, 2023, management believes the allowance is appropriate and should any of the factors considered by management in evaluating the appropriateness of the allowance for credit losses change, management's estimate of inherent losses in the portfolio could also change, which would affect the level of future provisions for credit losses.

The table that follows summarizes the activity in the allowance for credit losses for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 ($ in thousands):

Allowance for Credit Losses Balances:	**Allowance for Credit Losses Balances:**	**Three Months Ended June 30, 2023**	**Three Months Ended June 30, 2022**	**Six Months Ended June 30, 2023**	**Six Months Ended June 30, 2022**	**Allowance for Credit Losses Balances:**	**Three Months Ended September 30, 2023**	**Three Months Ended September 30, 2022**	**Nine Months Ended September 30, 2023**	**Nine Months Ended September 30, 2022**
Average LHFI outstanding during period:	Average LHFI outstanding during period:	$ 4,982,368	$ 3,013,228	$ 4,979,034	$ 2,979,739	Average LHFI outstanding during period:	$ 5,038,928	$ 3,162,310	$ 4,999,218	$ 3,041,337
LHFI outstanding at end of period:	LHFI outstanding at end of period:	$ 5,010,925	$ 3,124,924	5,010,925	3,124,924	LHFI outstanding at end of period:	$ 5,089,800	$ 3,719,388	5,089,800	3,719,388

Allowance for Credit Losses:	Allowance for Credit Losses:					Allowance for Credit Losses:				
Balance at beginning of period	Balance at beginning of period	$ 52,450	$ 31,620	$ 38,917	$ 30,742	Balance at beginning of period	$ 52,614	$ 32,400	$ 38,917	$ 30,742
Initial allowance on PCD loans	Initial allowance on PCD loans	—		3,176		Initial allowance on PCD loans	—	1,303	3,176	1,303
Provision:	Provision:					Provision:				
Initial provision for acquired non-PCD loans	Initial provision for acquired non-PCD loans	—	—	10,219	—	Initial provision for acquired non-PCD loans	—	3,855	10,219	3,855
Provision for credit losses charged to expense	Provision for credit losses charged to expense	1,000	450	1,281	450	Provision for credit losses charged to expense	1,000	445	2,281	895
Charge-offs:	Charge-offs:					Charge-offs:				
Commercial, financial and agriculture	Commercial, financial and agriculture	421	94	424	146	Commercial, financial and agriculture	48	—	472	146
Commercial real estate	Commercial real estate	—	24	—	27	Commercial real estate	27	—	27	27
Consumer real estate	Consumer real estate	24	140	24	147	Consumer real estate	21	55	45	202
Consumer installment	Consumer installment	681	168	1,018	337	Consumer installment	533	186	1,551	523
Total Charge-offs	Total Charge-offs	1,126	426	1,466	657	Total Charge-offs	629	241	2,095	898
Recoveries:	Recoveries:					Recoveries:				
Commercial, financial and agriculture	Commercial, financial and agriculture	14	44	57	97	Commercial, financial and agriculture	277	292	334	388
Commercial real estate	Commercial real estate	71	290	86	514	Commercial real estate	15	18	101	532
Consumer real estate	Consumer real estate	64	338	82	948	Consumer real estate	142	39	224	987
Consumer installment	Consumer installment	141	84	262	306	Consumer installment	146	245	408	552
Total Recoveries	Total Recoveries	290	756	487	1,865	Total Recoveries	580	594	1,067	2,459
Net loan charge offs (recoveries)	Net loan charge offs (recoveries)	836	(330)	979	(1,208)	Net loan charge offs (recoveries)	49	(353)	1,028	(1,561)
Balance at end of period	Balance at end of period	$ 52,614	$ 32,400	$ 52,614	$ 32,400	Balance at end of period	$ 53,565	$ 38,356	$ 53,565	$ 38,356
RATIOS	RATIOS					RATIOS				
Net Charge-offs (recoveries) to average LHFI (annualized)	Net Charge-offs (recoveries) to average LHFI (annualized)	0.1 %	0.0 %	0.04 %	(0.1) %	Net Charge-offs (recoveries) to average LHFI (annualized)	— %	(0.04) %	0.03 %	(0.06) %
ACL to LHFI at end of period	ACL to LHFI at end of period	1.0 %	1.0 %	1.0 %	1.0 %	ACL to LHFI at end of period	1.05 %	1.03 %	1.05 %	1.03 %

Net Loan Charge-offs (recoveries) to PCL	Net Loan Charge-offs (recoveries) to PCL	83.6 %	(73.3) %	76.4 %	(268.4) %	Net Loan Charge-offs (recoveries) to PCL	4.90 %	(79.33) %	45.07 %	(174.41) %

The Company recorded a $1.0 million provision for credit losses for the three months ended June 30, 2023 September 30, 2023 and $11.5 million $12.5 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $450 thousand $4.3 million for the three and six months ended June 30, 2022 September 30, 2022 and $4.8 million for the nine months ended September 30, 2022. The increase in 2023 the provision for credit losses is related to loan growth across all loan categories. Total loans were $5.090 billion at September 30, 2023, compared to $3.719 billion at September 30, 2022, representing an increase of $1.370 billion, or 36.8%. During January 2023, loans totaling $1.159 billion, net of purchase accounting adjustments, were acquired in the HSBI acquisition. The initial ACL on PCD loans recorded in March 2023, of $3.2 million was related to the HSBI acquisition. The 2023 provision for acquired credit losses includes $10.7 million associated with day one post-merger accounting provision recorded for non-PCD loans of $10.2 million and an unfunded commitments acquired in the HSBI acquisition. In 2022, the Company's provision for credit losses includes $3.9 million associated with a day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments and a $1.3 million initial allowance on PCD loans of $3.2 million recorded as of March 31, 2023 due to acquired in the acquisition of HSBI. BBI acquisition.

The following table summarizes the ACL at June 30, 2023 September 30, 2023 and at December 31, 2022.

($ in thousands)	($ in thousands)	June 30, 2023	December 31, 2022	($ in thousands)	September 30, 2023	December 31, 2022
Commercial, financial and agriculture	Commercial, financial and agriculture	$ 8,972	$ 6,349	Commercial, financial and agriculture	$ 8,492	$ 6,349
Commercial real estate	Commercial real estate	28,726	20,389	Commercial real estate	29,103	20,389
Consumer real estate	Consumer real estate	14,123	11,599	Consumer real estate	15,163	11,599
Consumer installment	Consumer installment	793	580	Consumer installment	807	580
Total	Total	$ 52,614	$ 38,917	Total	$ 53,565	$ 38,917

ALLOWANCE FOR CREDIT LOSSES ON OBSC EXPOSURES

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on OBSC exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Company recorded $250 thousand $0 and $750 thousand provision for credit losses on OBSC exposures for the three and six nine month period periods ended June 30, 2023 September 30, 2023, respectively, compared to $0 and $150 thousand for the three and six nine month period periods ended in June 30, 2022 September 30, 2022. The increase in the ACL on OBSC exposures for the six nine months ended June 30, 2023 September 30, 2023 was primarily due to the day one provision for unfunded commitments related to the HSBI acquisition.

OTHER ASSETS

The Company's balance of non-interest earning cash and due from banks was $105.8 million $121.9 million at June 30, 2023 September 30, 2023 and $67.2 million at December 31, 2022. The balance of cash and due from banks depends on the timing of collection of outstanding cash items (checks), the level of cash maintained on hand at our branches, and our reserve requirement among other things, and is subject to significant fluctuation in the normal course of business. While cash flows are normally predictable within limits, those limits are fairly broad and the Company manages its short-term cash position through the utilization of overnight loans to and borrowings from correspondent banks, including the Federal Reserve Bank and the Federal Home Loan Bank ("FHLB"). Should a large "short" overnight position persist for any length of time, the Company typically raises money through focused retail deposit gathering efforts or by adding brokered time deposits. If a "long" position is prevalent, the Company will let brokered deposits or other wholesale borrowings roll off as they mature, or might invest excess liquidity in higher-yielding, longer-term bonds.

Total other securities increased $1.8 million $1.9 million to $35.7 million $35.9 million at June 30, 2023 September 30, 2023 compared to $33.9 million at December 31, 2022. The increase in other securities is related to an increase in stock held at the Federal Reserve Bank. The Company's net premises and equipment at June 30, 2023 September 30, 2023 was $178.5 million $175.7 million and $143.5 million at December 31, 2022; an increase of $35.0 million $32.2 million, or 24.4% 22.4% for the first six nine months of 2023. The A majority of the increase in premises and equipment is attributed to approximately $35.8 million of premises and equipment added through the HSBI acquisition. Operating right-of-use assets at June 30, 2023 September 30, 2023 totaled $6.2 million $6.4 million compared to $7.6 million at December 31, 2022, a decrease of $1.4 million $1.2 million. The decrease in operating right-of-use assets is attributed to several lease cancellations in the first quarter of 2023. Financing right-of-use assets at June 30, 2023 September 30, 2023 totaled $1.7 million $1.6 million compared to $1.9 million at December 31, 2022, a decrease of $232 $348 thousand. Bank-owned life insurance at June 30, 2023 September 30, 2023 totaled $132.7 million $133.5 million compared to $95.6 million at December 31, 2022, an increase of $37.2 million $38.0 million. A majority of the increase in bank-owned life insurance is attributed to $35.6 million of insurance included in the acquisition of HSBI. Goodwill at June 30, 2023 September 30, 2023 increased $92.3 million $92.4 million to $272.5 million $272.7 million compared to $180.3 million at December 31, 2022. The HSBI acquisition added approximately $92.1 million in goodwill. Other intangible assets, consisting primarily of the Company's core deposit intangible ("CDI"), increased by $38.9 million $36.6 million to $73.6 million $71.2 million as of June 30, 2023 September 30, 2023, compared to $34.6 million at December 31, 2022. The HSBI acquisition added approximately $43.7 million in CDI.

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually, and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. At June 30, 2023 September 30, 2023, management has determined that no impairment exists.

Other real estate owned increased by $756 $88 thousand, or 15.6% 1.8%, to $5.6 million $4.9 million at June 30, 2023 September 30, 2023 as compared to December 31, 2022. The acquisition of HSBI accounted for approximately $857 thousand. thousand of the increase.

OFF-BALANCE SHEET ARRANGEMENTS

The Company maintains commitments to extend credit in the normal course of business, as long as there are no violations of conditions established in the outstanding contractual arrangements. Unused commitments to extend credit totaled $1.122 billion $987.4 million at June 30, 2023 September 30, 2023 and $706.1 million at December 31, 2022, although it is not likely that all of those commitments will ultimately be drawn down. Unused commitments represented approximately 22.4% 19.4% of gross loans at June 30, 2023 September 30, 2023 and 18.7% at December 31, 2022. The Company also had undrawn similar standby letters of credit to customers totaling $27.7 million $28.5 million at June 30, 2023 September 30, 2023 and $14.2 million at December 31, 2022. The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will ever be used. However, the "Liquidity" section in this Form 10-Q outlines resources available to draw upon should we be required to fund a significant portion of unused commitments. For more information regarding the Company's off-balance sheet arrangements, see Note 7 "Financial Instruments with Off-Balance Risk" to the Consolidated Financial Statements.

In addition to unused commitments to provide credit, the Company is utilizing a $255.0 million letter of credit issued by the FHLB on the Company's behalf as of June 30, 2023 September 30, 2023. That letter of credit is backed by loans which are pledged to the FHLB by the Company.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Liquidity management refers to the Company's ability to maintain cash flows that are adequate to fund operations and meet other obligations and commitments in a timely and cost-effective manner. Detailed cash flow projections are reviewed by management on a monthly basis, with various scenarios applied to assess its ability to meet liquidity needs under adverse conditions. Liquidity ratios are also calculated and reviewed on a regular basis. While those ratios are merely indicators and are not measures of actual liquidity, they are closely monitored, and we are focused on maintaining adequate liquidity resources to draw upon should unexpected needs arise.

The Company, on occasion, experiences cash needs as the result of loan growth, deposit outflows, asset purchases or liability repayments. To meet short-term needs, the Company can borrow overnight funds from other financial institutions, draw advances through FHLB lines of credit, utilize the bank term funding program, or solicit brokered deposits if deposits are not immediately obtainable from local sources. The net availability on lines of credit from the FHLB totaled $2.066 billion $2.085 billion at June 30, 2023 September 30, 2023. Furthermore, funds can be obtained by drawing down the Company's correspondent bank deposit accounts, or by liquidating unpledged investments or other readily saleable assets. In addition, the Company can raise immediate cash for temporary needs by selling under agreement to repurchase those investments in its portfolio which are not pledged as collateral. As of June 30, 2023 September 30, 2023, the market value of unpledged debt securities plus pledged securities in excess of current pledging requirements comprised $909.2 million $795.6 million of the Company's investment balances, compared to $1.066 billion at December 31, 2022. Other forms of balance sheet liquidity include but are not necessarily limited to any outstanding federal funds sold and vault cash. The Company has a higher level of actual balance sheet liquidity than might otherwise be the case since it utilizes a letter of credit from the FHLB rather than investment securities for certain pledging requirements.

The Company's liquidity ratio as of June 30, 2023 September 30, 2023 was 16.7% 15.8%, as compared to internal liquidity policy guidelines of 10% minimum. Other liquidity ratios reviewed include the following along with policy guidelines:

		June 30, 2023		Policy Maximum		Policy Compliance		September 30, 2023		Policy Maximum		Policy Compliance
Loans to Deposits (including FHLB advances)	Loans to Deposits (including FHLB advances)	76.7	%	90.0	%	In Policy	Loans to Deposits (including FHLB advances)	78.0	%	90.0	%	In Policy
Net Non-core Funding Dependency Ratio	Net Non-core Funding Dependency Ratio	4.6	%	20.0	%	In Policy	Net Non-core Funding Dependency Ratio	7.4	%	20.0	%	In Policy
Fed Funds Purchased / Total Assets	Fed Funds Purchased / Total Assets	0.0	%	10.0	%	In Policy	Fed Funds Purchased / Total Assets	0.0	%	10.0	%	In Policy
FHLB Advances / Total Assets	FHLB Advances / Total Assets	0.0	%	20.0	%	In Policy	FHLB Advances / Total Assets	0.3	%	20.0	%	In Policy
FRB Advances / Total Assets		3.6	%	10.0	%	In Policy						

Bank Term Funding Program / Total Assets							Bank Term Funding Program / Total Assets	3.6	%	10.0	%	In Policy
Pledged Securities to Total Securities	Pledged Securities to Total Securities	58.2	%	90.0	%	In Policy	Pledged Securities to Total Securities	59.6	%	90.0	%	In Policy

Continued growth in core deposits and relatively high levels of potentially liquid investments have had a positive impact on our liquidity position in recent periods, but no assurance can be provided that our liquidity will continue at current robust levels.

As of June 30, 2023 September 30, 2023, cash and cash equivalents were $194.1 million $197.6 million. In addition, loans and investment securities repricing or maturing within one year or less were approximately $1.384 billion $1.397 billion at June 30, 2023 September 30, 2023. Approximately $1.122 billion $987.4 million in loan commitments could fund within the next three months and includes other commitments, primarily commercial and $27.7 million $28.5 million similar letters of credit, at June 30, 2023 September 30, 2023.

Management continually evaluates our liquidity position and currently believes the Company has adequate funding to meet our financial needs.

The Company's primary uses of funds are ordinary operating expenses and shareholder dividends, and its primary source of funds is dividends from the Bank since the Company does not conduct regular banking operations. Both the Company and the Bank are subject to legal and regulatory limitations on dividend payments, as outlined in Item 1. Business "Supervision and Regulation" in the Company's 2022 Form 10-K.

DEPOSITS

Deposits are another key balance sheet component impacting the Company's net interest margin and other profitability metrics. Deposits provide liquidity to fund growth in earning assets, and the Company's net interest margin is improved to the extent that growth in deposits is concentrated in less volatile and typically less costly non-maturity deposits such as demand deposit accounts, NOW accounts, savings accounts, and money market demand accounts. Information concerning average balances and rates for the six-month nine-month periods ended June 30, 2023 September 30, 2023 and 2022 are included in the Average Balances, Tax Equivalent Interest and Yield/Rates tables appearing above, under the heading "Net Interest Income and Net Interest Margin."

Deposit Distribution	**Deposit Distribution**	**June 30, 2023**		**December 31, 2022**		**Deposit Distribution**	**September 30, 2023**		**December 31, 2022**	
($ in thousands)	**($ in thousands)**	**Average Balance**	**Average Rate Paid**	**Average Balance**	**Average Rate Paid**	**($ in thousands)**	**Average Balance**	**Average Rate Paid**	**Average Balance**	**Average Rate Paid**
Non-interest-bearing demand deposits	Non-interest-bearing demand deposits	$ 2,070,069	—	$ 1,660,301	—	Non-interest-bearing demand deposits	$ 2,048,539	—	$ 1,660,301	—
Interest bearing deposits:	Interest bearing deposits:					Interest bearing deposits:				
NOW accounts and other	NOW accounts and other	2,085,845	1.16 %	1,810,575	0.44 %	NOW accounts and other	2,056,113	1.31 %	1,810,575	0.44 %
Money market accounts	Money market accounts	1,035,120	1.28 %	831,463	0.29 %	Money market accounts	1,007,532	1.47 %	831,463	0.29 %
Savings accounts	Savings accounts	640,622	0.16 %	535,449	0.04 %	Savings accounts	625,505	0.17 %	535,449	0.04 %
Time deposits	Time deposits	826,346	1.90 %	590,385	0.58 %	Time deposits	855,626	2.26 %	590,385	0.58 %
Total interest-bearing deposits	Total interest-bearing deposits	4,587,933	1.18 %	3,767,872	0.37 %	Total interest-bearing deposits	4,544,776	1.37 %	3,767,872	0.37 %
Total deposits	Total deposits	$ 6,658,002	0.81 %	$ 5,428,173	0.26 %	Total deposits	$ 6,593,315	0.94 %	$ 5,428,173	0.26 %

As of June 30, 2023 September 30, 2023, average deposits increased by $1.230 billion $1.165 billion, or 22.7% 21.5% to $6.658 billion $6.593 billion from $5.428 billion at December 31, 2022. During January 2023, deposits totaling $1.392 billion, net of purchase accounting adjustments were acquired in the HSBI merger. The average cost of interest-bearing deposits and total deposits was 1.18% 1.37% and 0.81% 0.94% during at June 30, 2023 September 30, 2023 compared to 0.37% and 0.26% at December 31, 2022. The increase in the average cost of interest-bearing deposit during the first six nine months of 2022 2023 compared to December 31, 2022 is attributed to the increase in volume due to the HSBI acquisition coupled with an increase in rates attributable to the higher rate environment.

The Company's estimated uninsured deposits totaled $2.200 billion $2.141 billion at June 30, 2023 September 30, 2023, compared to $2.076 billion at December 31, 2022, representing 33.9% 33.0% and 37.8% of total deposits at June 30, 2023 September 30, 2023, and December 31, 2022, respectively. These estimates were derived using the same methodologies and assumptions used for the Bank's regulatory reporting.

OTHER INTEREST-BEARING LIABILITIES

The Company's non-deposit borrowings may, at any given time, include federal funds purchased from correspondent banks, borrowings from the FHLB, advances from the Federal Reserve Bank, securities sold under agreements to repurchase, and/or junior subordinated debentures. The Company uses short-term FHLB advances, and federal funds purchased on uncommitted lines to support liquidity needs created by seasonal deposit flows, to temporarily satisfy funding needs from increased loan demand, and for other short-term purposes. The FHLB line is committed, but the amount of available credit depends on the level of pledged collateral.

Total noninterest-bearing deposit liabilities increased by $456.5 million $337.5 million, or 28.0% 20.7%, in the first six nine months of 2023. The increase in noninterest-bearing deposits is attributed to the HSBI acquisition. As of June 30, 2023 September 30, 2023, junior subordinated debentures decreased $16.8 million $16.7 million, net of issuance costs, to $128.2 million $128.3 million. The decrease in subordinated debentures was attributable to the Company's redemption of $24.0 million of its 5.875% fixed-to-floating rate subordinated note due 2028, and the Company's repayment of $2.0 million of its 4.25% fixed-to-floating rate subordinated notes due 2030. The decrease in junior subordinated debentures was partially offset by the addition of $9.0 million, net of purchase accounting adjustments, of subordinated debt that the Company acquired as part of the HSBI acquisition. Subordinated debt is discussed more fully in the below Capital section of this report.

BANK TERM FUNDING PROGRAM BORROWINGS

On March 12, 2023, the Federal Reserve Board announced the Bank Term Funding Program ("BTFP"), which offers loans to banks with a term up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying asset. These pledged securities will be valued at par for collateral purposes. The BTFP offers up to one year fixed-rate term borrowings that are prepayable without penalty.

The Bank participated in the BTFP and had outstanding debt of $280.0 million and , pledged securities totaling a fair value of $293.7 million and a letter of credit $288.4 million at the FHLB totaling $250.0 million at June 30, 2023 September 30, 2023. The securities pledged have a par value of $321.1 million $319.2 million. The Bank's BTFP borrowings, which were drawn between March 15, 2023 and May 2, 2023, bear interest rates ranging from 4.69% to 4.82% and are set to mature one year from their issuance date.

LEASE LIABILITIES

As of June 30, 2023 September 30, 2023, operating lease liabilities decreased $1.5 million $1.2 million, or 18.7% 15.5% to $6.4 $6.6 million from $7.8 million at December 31, 2022. The decrease in operating lease liabilities is attributed to several leases that were cancelled in the first quarter of 2023. Finance lease liabilities decreased $89 $134 thousand, or 4.6% 7.0% to $1.8 million from $1.9 million at December 31, 2022.

OTHER LIABILITIES

Other liabilities are principally comprised of accrued interest payable and other accrued but unpaid expenses. Other liabilities increased by $18.2 million $32.6 million, or 50.9% 91.0%, during the first six nine months of 2023. The increase is primarily related to the HSBI acquisition which included increases of $4.9 million in federal income taxes, $4.7 million in other expense payable, $1.3 million in escrow payable and $1.4 million in property taxes payable. As of June 30, 2023 September 30, 2023, accrued interest payable increased $4.6 million $10.5 million, or 139.7% 315.2% to $8.0 million $13.8 million from $3.3 million at December 31, 2022. A majority of the The increase is primarily related to a $7.0 million increase in interest accrued on BTFP borrowings from the FRB. FRB and a $2.8 million increase in accrued interest payable on certificate of deposits less than $250 thousand. The ACL on OBSC

exposures increased $750 thousand to $2.1 million at June 30, 2023 September 30, 2023 when compared to December 31, 2022. The increase in the ACL on OBSC exposures for the six nine months ended June 30, 2023 September 30, 2023, was due to the day one provision for unfunded commitments related to the HSBI acquisition and loan growth.

CAPITAL

At June 30, 2023 September 30, 2023, the Company had total shareholders' equity of $899.4 million $897.2 million, comprised of $32.3 million in common stock, $41.1 million in treasury stock, $774.1 million $774.6 million in surplus, $279.4 million $296.6 million in undivided profits, and $145.2 million $165.2 million in accumulated comprehensive loss on available-for-sale securities. Total shareholders' equity at the end of 2022 was $646.7 million. The increase of $252.8 million $250.6 million, or 39.1% 38.7%, in shareholders' equity during the first six nine months of 2023 is primarily attributable to $3.7 million decrease capital added through net earnings of $64.4 million, and $221.5 million added through the HSBI acquisition offset by $16.2 million increase in accumulated comprehensive loss related to the effect of rising interest rates on the market value of our available-for-sale securities and $13.3 million $20.5 million in cash dividends paid. These decreases in total shareholders' equity were offset by capital added through net earnings of $40.1 million, and $221.5 million added through the HSBI acquisition.

On February 8, 2022, the Company announced the renewal of the 2021 Repurchase Program that previously expired on December 31, 2021. Under the renewed 2021 Repurchase Program, the Company could from time to time, repurchase up to an aggregate of $30 million of the Company's issued and outstanding common stock in any manner determined appropriate by the Company's management, less the amount of prior purchases under the program during the 2021 calendar year. The renewed 2021 Repurchase Program was completed in February 2022 when the Company's repurchases under the program approached the maximum authorized amount.

On March 9, 2022, the Company announced that its Board of Directors authorized a new share repurchase program (the “2022 Repurchase Program”), pursuant to which the Company could purchase up to an aggregate of $30 million in shares of the Company’s issued and outstanding common stock during the 2022 calendar year. Under the program, the Company could, but was not required to, repurchase up to $30 million of shares of its own common stock in any manner determined appropriate by the Company’s management. The actual timing and method of any purchases, the target number of shares and the maximum price (or range of prices) under the program, was determined by management at its discretion and depended on a number of factors, including the market price of the Company’s common stock, general market and economic conditions, and applicable legal and regulatory requirements. The 2022 Repurchase Program expired on December 31, 2022.

The Inflation Reduction Act of 2022 signed into law in August 2022 includes a provision for an excise tax equal to 1% of the fair market value of any stock repurchased by covered corporations during a taxable year, subject to certain limits and provisions. The excise tax is effective beginning in fiscal year 2023. While we may complete transactions subject to the new excise tax, we do not expect a material impact to our statement of condition or result of operations.

On February 28, 2023, the Company announced that its Board of Directors authorized a new share repurchase program (the "2023 Repurchase Program"), pursuant to which the Company may purchase up to an aggregate of $50 million in shares of the Company's issued and outstanding common stock during the 2023 calendar year. Under the program, the Company may, but is not required to, from time to time, repurchase up to $50 million of shares of its own common stock in any manner determined appropriate by the Company’s management. The actual timing and method of any purchases, the target number of shares and the maximum price (or range of prices) under the program, will be determined by management at is discretion and will depend on a number of factors, including the market price of the Company’s common stock, general market and economic conditions, and applicable legal and regulatory requirements. The 2023 Repurchase Program has an expiration date of December 31, 2023.

The Company uses a variety of measures to evaluate its capital adequacy, including risk-based capital and leverage ratios that are calculated separately for the Company and the Bank. Management reviews these capital measurements on a quarterly basis and takes appropriate action to ensure that they meet or surpass established internal and external guidelines. As permitted by the regulators for financial institutions that are not deemed to be “advanced approaches” institutions, the Company has elected to opt out of the requirement of the standards initially adopted by the Basal Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) to include accumulated other comprehensive income in risk-based capital. The following table sets forth the Company’s Bank's and the Bank’s Company’s regulatory capital ratios as of the dates indicated.

Regulatory Capital Ratios The First Bank	**Regulatory Capital Ratios The First Bank**	**June 30, 2023**	**December 31, 2022**	**Minimum Required to be Well Capitalized**	**Minimum Capital Required Basel III Fully Phased In**	**Regulatory Capital Ratios The First Bank**	**September 30, 2023**	**December 31, 2022**	**Minimum Required to be Well Capitalized**	**Minimum Capital Required Basel III Fully Phased In**
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital Ratio	13.2 %	15.6 %	6.5 %	7.0 %	Common Equity Tier 1 Capital Ratio	13.8 %	15.6 %	6.5 %	7.0 %
Tier 1 Capital Ratio	Tier 1 Capital Ratio	13.2 %	15.6 %	8.0 %	8.5 %	Tier 1 Capital Ratio	13.8 %	15.6 %	8.0 %	8.5 %
Total Capital Ratio	Total Capital Ratio	14.1 %	16.4 %	10.0 %	10.5 %	Total Capital Ratio	14.8 %	16.4 %	10.0 %	10.5 %
Tier 1 Leverage Ratio	Tier 1 Leverage Ratio	10.3 %	11.1 %	5.0 %	7.0 %	Tier 1 Leverage Ratio	10.7 %	11.1 %	5.0 %	7.0 %

Regulatory Capital Ratios The First Bancshares, Inc.	**Regulatory Capital Ratios The First Bancshares, Inc.**	**June 30, 2023**	**December 31, 2022**	**Minimum Required to be Well Capitalized**	**Minimum Capital Required Basel III Fully Phased In**	**Regulatory Capital Ratios The First Bancshares, Inc.**	**September 30, 2023**	**December 31, 2022**	**Minimum Required to be Well Capitalized**	**Minimum Capital Required Basel III Fully Phased In**
Common Equity Tier 1 Capital Ratio*	Common Equity Tier 1 Capital Ratio*	11.5 %	12.7 %	N/A	N/A	Common Equity Tier 1 Capital Ratio*	12.0 %	12.7 %	N/A	N/A
Tier 1 Capital Ratio**	Tier 1 Capital Ratio**	11.9 %	13.0 %	N/A	N/A	Tier 1 Capital Ratio**	12.4 %	13.0 %	N/A	N/A
Total Capital Ratio	Total Capital Ratio	14.5 %	16.7 %	N/A	N/A	Total Capital Ratio	15.1 %	16.7 %	N/A	N/A
Tier 1 Leverage Ratio	Tier 1 Leverage Ratio	9.3 %	9.3 %	N/A	N/A	Tier 1 Leverage Ratio	9.6 %	9.3 %	N/A	N/A

* The numerator does not include Preferred Stock and Trust Preferred.

** The numerator includes Trust Preferred.

Our capital ratios remain very strong relative to the median for peer financial institutions, and at June 30, 2023 September 30, 2023 were well above the threshold for the Company and the Bank to be classified as “well capitalized,” the highest rating of the categories defined under the Bank Holding Company Act and the Federal Deposit Insurance

Corporation Improvement Act of 1991. Basel III rules require a "capital conservation buffer" for both the Company and the Bank. The capital conservation buffer is subject to a three-year phase-in period that began January 1, 2016 and was fully phased-in on

January 1, 2019 January 1, 2019 at 2.5%. Under this guidance banking institutions with a CETI, Tier 1 Capital Ratio and Total Risk Based Capital above the minimum regulatory adequate capital ratios but below the capital conservation buffer will face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers, based on the amount of the shortfall.

As of June 30, 2023 September 30, 2023, management believes that each of the Bank and the Company met all capital adequacy requirements to which they are subject. We do not foresee any circumstances that would cause the Company or the Bank to be less than well capitalized, although no assurance can be given that this will not occur.

Total consolidated equity capital at June 30, 2023 September 30, 2023 was $899.4 million $897.2 million, or approximately 11.4% of total assets. The Company currently has adequate capital to meet the minimum capital requirements for all regulatory agencies.

On June 30, 2006, the Company issued $4.1 million of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 2 ("Trust 2"). The debentures are the sole asset of Trust 2, and the Company is the sole owner of the common equity of Trust 2. Trust 2 issued $4.0 million of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust 2's obligations under the preferred securities. The preferred securities are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2036. Interest on the preferred securities is the three-month term Secured Overnight Financing Rate ("SOFR") plus 1.65% plus a tenor spread adjustment of .026161% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities.

On July 27, 2007, the Company issued $6.2 million of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 3 ("Trust 3"). The Company owns all of the common equity of Trust 3, and the debentures are the sole asset of Trust 3. Trust 3 issued $6.0 million of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust 3's obligations under the preferred securities. The preferred securities are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2037. Interest on the preferred securities is the three-month term SOFR plus 1.40% plus a tenor spread adjustment of .026161% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities.

In 2018, as a result of the acquisition of FMB Banking Corporation ("FMB"), the Company became the successor to FMB's obligations in respect of $6.1 million of floating rate junior subordinated debentures issued to FMB Capital Trust 1 ("FMB Trust"). The debentures are the sole asset of FMB Trust, and the Company is the sole owner of the common equity of FMB Trust. FMB Trust issued $6.0 million of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of FMB Trust's obligations under the preferred securities. The preferred securities issued by the FMB Trust are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2033. Interest on the preferred securities is the three-month term SOFR plus 2.85% plus a tenor spread adjustment of .026161% and is payable quarterly.

On January 1, 2023, as a result of the acquisition of HSBI, the Company became the successor to HSBI's obligations in respect of $10.3 million of subordinated debentures issued to Liberty Shares Statutory Trust II ("Liberty Trust"). The debentures are the sole asset of Liberty Trust, and the Company is the sole owner of the common equity of Liberty Trust. Liberty Trust issued $10.0 million of preferred securities to an investor. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of Liberty Trust's obligations under the preferred securities. The preferred securities issued by the Liberty Trust are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2036. Interest on the preferred securities is the three-month term SOFR plus 1.48% plus a tenor spread adjustment of .026161% and is payable quarterly.

In accordance with the provisions of ASC 810, *Consolidation,* the trusts are not included in the consolidated financial statements.

Subordinated Notes

On April 30, 2018, the Company entered into two Subordinated Note Purchase Agreements pursuant to which the Company sold and issued $24.0 million in aggregate principal amount of 5.875% fixed-to-floating rate subordinated notes due 2028 (the "Notes due 2028") and $42.0 million in aggregate principal amount of 6.40% fixed-to-floating rate subordinated notes due 2033 (the "Notes due 2033"). In May of 2023, the Company redeemed all $24.0 million of the outstanding 5.875% fixed-to-floating rate subordinated notes due 2028.

The Notes due 2033 are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The Notes due 2023 are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is *pari passu* in right to payment with respect to the other Notes. The Notes due 2023 have a fifteen year term, maturing May 1, 2033, and will bear interest at a fixed annual rate of 6.40%, payable quarterly in arrears, for the first ten years of the term. Thereafter, the interest rate will re-set quarterly to an interest rate per annum equal to a benchmark rate (which is expected to be three-month term SOFR plus 3.39% plus a tenor spread adjustment of .026161%)., payable quarterly in arrears. As provided in the Notes due 2033, under specified conditions the interest rate on the Notes due 2033 during the applicable floating rate period may be determined based on a rate other than Three-Month Term SOFR. The Company is entitled to redeem the Notes due 2033, in whole or in part, on any interest payment date on or after May 1, 2028, and to redeem the Notes due 2033 at any time in whole upon certain other specified events.

On September 25, 2020, the Company entered into a Subordinated Note Purchase Agreement with certain qualified institutional buyers pursuant to which the Company sold and issued $65.0 million in aggregate principal amount of its 4.25% Fixed to Floating Rate Subordinated Notes due 2030 (the "Notes due 2030"). The Notes due 2030 are unsecured and have a ten-year term, maturing October 1, 2030, and will bear interest at a fixed annual rate of 4.25%, payable semi-annually in arrears, for the first five years of the term. Thereafter, the interest rate will reset quarterly to an interest rate per annum equal to a benchmark rate (which is expected to be the Three-Month Term SOFR plus 412.6 basis points), payable quarterly in arrears. As provided in the Notes due 2030, under specified conditions the interest rate on the Notes due 2030 during the applicable floating rate period may be determined based on a rate other than Three-Month Term

SOFR. The Company is entitled to redeem the Notes due 2030, in whole or in part, on any interest payment date on or after October 1, 2025, and to redeem the Notes due 2030 at any time in whole upon certain other specified events.

The Company had $128.2 million $128.3 million of subordinated debt, net of $1.7 million deferred issuance costs $1.8 million and $2.1 million unamortized fair value mark, $2.1 million, at June 30, 2023 September 30, 2023, compared to $145.0 million, net of $1.9 million deferred issuance costs $1.9 million and $593 thousand unamortized fair value mark, $593 thousand, at December 31, 2022. The decrease in subordinated debt was attributable to the Company's redemption of $24.0 million of its 5.875% fixed-to-floating rate subordinated not Notes due 2028 and the Company's repayment of $2.0 million of its 4.25% fixed-to-floating rate subordinated notes Notes due 2030 in May of 2023, which resulted in the Company recording a $217 thousand gain on the repurchased debt. The decrease in subordinated debt was partially offset by the addition of $9.0 million, net purchase accounting adjustments, of subordinated debt that the Company acquired as part of the HSBI acquisition.

Reconciliation of Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP in the United States and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of our performance. This Quarterly Report on Form 10-Q includes operating net earnings; diluted operating earnings per share; net interest income, FTE; pre-tax, pre-provision operating earnings; total interest income, FTE; interest income investment securities, FTE and certain ratios derived from these non-GAAP financial measures. The Company believes that the non-GAAP financial measures included in this Quarterly Report on Form 10-Q allow management and investors to understand and compare results in a more consistent manner for the periods presented herein. The tax equivalent adjustment to net interest income, total interest income, and interest income investment securities recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 25.3% tax rate. Management believes that it is a standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and believes it enhances the comparability of income and expenses arising from taxable and nontaxable sources. Operating net earnings and diluted operating earnings per share exclude acquisition and charter conversion charges, initial provision for acquired loans, bargain purchase gain and loss on sale of fixed assets, Treasury awards, BOLI income from death proceeds, and contributions related to the Treasury awards. Pre-tax, pre-provision operating earnings excludes acquisition and charter conversion charges, provision for credit losses, bargain purchase gain and loss on sale of fixed assets, Treasury awards,

BOLI income from death proceeds, and charitable contributions related to Treasury awards. Non-GAAP financial measures should be considered supplemental and not a substitute for the Company's results reported in accordance with GAAP for the periods presented, and other bank holding companies may define or calculate these measures differently. The most comparable GAAP measures to these measures are earnings per share, net interest income, earnings, total interest income, and average yield on investment securities, respectively. These non-GAAP financial measures should not be considered in isolation and do not purport to be an alternative to the efficiency ratio, net income, earnings per share, net interest income, net interest margin, average yield on investment securities, average yield on all earning assets, common equity, book value per common share or other GAAP financial measures as a measure of operating performance. A reconciliation of these non-GAAP financial measures to the most comparable GAAP measure is provided below.

Operating Net Earnings

($ in thousands)	($ in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	($ in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net income available to common shareholders	Net income available to common shareholders	$ 23,779	$ 15,753	$ 40,050	$ 32,582	Net income available to common shareholders	$ 24,360	$ 14,043	$ 64,410	$ 46,624
Acquisition and charter conversion charges	Acquisition and charter conversion charges	4,101	1,172	7,894	1,580	Acquisition and charter conversion charges	588	3,640	8,482	5,220

Tax on acquisition and charter conversion charges	Tax on acquisition and charter conversion charges	(1,037)	(297)	(1,997)	(400)	Tax on acquisition and charter conversion charges	(149)	(919)	(2,146)	(1,318)
Initial provision for acquired loans	Initial provision for acquired loans	—	—	10,727	—	Initial provision for acquired loans	—	3,855	10,727	3,855
Tax on initial provision for acquired loans	Tax on initial provision for acquired loans	—	—	(2,714)	—	Tax on initial provision for acquired loans	—	(976)	(2,714)	(976)
Bargain purchase gain and loss on sale of fixed assets	Bargain purchase gain and loss on sale of fixed assets	—	(165)	—	(165)	Bargain purchase gain and loss on sale of fixed assets	—	—	—	(165)
Tax on bargain purchase gain and loss on sale of fixed assets	Tax on bargain purchase gain and loss on sale of fixed assets	—	42	—	42	Tax on bargain purchase gain and loss on sale of fixed assets	—	—	—	42
Treasury awards	Treasury awards	—	(170)	—	(872)	Treasury awards	(6,197)	—	(6,197)	(872)
Tax on Treasury awards	Tax on Treasury awards	—	42	—	220	Tax on Treasury awards	1,568	—	1,568	220
BOLI income from death proceeds	BOLI income from death proceeds	—	—	—	(1,630)	BOLI income from death proceeds	—	—	—	(1,630)
Contributions related to Treasury awards		—	165	—	165					
Tax on contributions related to Treasury awards		—	(42)	—	(42)					
Contributions/consulting/advertising related to Treasury awards						Contributions/consulting/advertising related to Treasury awards	5,190	—	5,190	165
Tax on contributions/consulting/advertising related to Treasury awards						Tax on contributions/consulting/advertising related to Treasury awards	(1,313)	—	(1,313)	(42)
Net earnings available to common shareholders, operating	Net earnings available to common shareholders, operating	$ 26,843	$ 16,500	$ 53,960	$ 31,480	Net earnings available to common shareholders, operating	$ 24,047	$ 19,643	$ 78,007	$ 51,123

Diluted Operating Earnings per Share

($ in thousands)	($ in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	($ in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Diluted earnings per share	Diluted earnings per share	$ 0.75	$ 0.76	$ 1.27	$ 1.57	Diluted earnings per share	$ 0.77	$ 0.61	$ 2.04	$ 2.17
Acquisition and charter conversion charges	Acquisition and charter conversion charges	0.13	0.06	0.24	0.08	Acquisition and charter conversion charges	0.02	0.16	0.27	0.24

Tax on acquisition and charter conversion charges	Tax on acquisition and charter conversion charges	(0.03)	(0.02)	(0.05)	(0.02)	Tax on acquisition and charter conversion charges	(0.01)	(0.05)	(0.07)	(0.06)
Initial provision for acquired loans	Initial provision for acquired loans	—	—	0.34	—	Initial provision for acquired loans	—	0.17	0.34	0.18
Tax on initial provision for acquired loans	Tax on initial provision for acquired loans	—	—	(0.09)	—	Tax on initial provision for acquired loans	—	(0.04)	(0.09)	(0.04)
Bargain purchase gain and loss on sale of fixed assets	Bargain purchase gain and loss on sale of fixed assets	—	(0.01)	—	(0.01)	Bargain purchase gain and loss on sale of fixed assets	—	—	—	(0.01)
Tax on bargain purchase gain and loss on sale of fixed assets		—	—	—	—					
Effect of Treasury awards	Effect of Treasury awards	—	(0.01)	—	(0.04)	Effect of Treasury awards	(0.20)	—	(0.20)	(0.04)
Tax on Treasury awards	Tax on Treasury awards	—	0.01	—	0.01	Tax on Treasury awards	0.05	—	0.05	0.01
BOLI income from death proceeds	BOLI income from death proceeds	—	—	—	(0.08)	BOLI income from death proceeds	—	—	—	(0.08)
Contributions related to Treasury awards		—	0.01	—	0.01					
Tax on contributions related to Treasury awards		—	—	—	—					
Contributions/consulting/advertising related to Treasury awards						Contributions/consulting/advertising related to Treasury awards	0.17	—	0.17	0.01
Tax on contributions/consulting/advertising related to Treasury awards						Tax on contributions/consulting/advertising related to Treasury awards	(0.04)	—	(0.04)	—
Diluted earnings per share, operating	Diluted earnings per share, operating	$ 0.85	$ 0.80	$ 1.71	$ 1.52	Diluted earnings per share, operating	$ 0.76	$ 0.85	$ 2.47	$ 2.38

Net Interest Income, Fully Tax Equivalent

($ in thousands)	**($ in thousands)**	**Three Months Ended June 30, 2023**	**Three Months Ended June 30, 2022**	**Six Months Ended June 30, 2023**	**Six Months Ended June 30, 2022**	**($ in thousands)**	**Three Months Ended September 30, 2023**	**Three Months Ended September 30, 2022**	**Nine Months Ended September 30, 2023**	**Nine Months Ended September 30, 2022**
Net interest income	Net interest income	$ 66,030	$ 42,101	$ 130,956	$ 80,740	Net interest income	$ 60,704	$ 49,148	$ 191,660	$ 129,887
Tax exempt investment income		(2,948)	(2,780)	(5,896)	(5,202)					

Tax-exempt investment income						Tax-exempt investment income	(2,929)	(2,875)	(8,825)	(8,077)
Taxable investment income	Taxable investment income	3,946	3,721	7,892	6,963	Taxable investment income	3,921	3,849	11,813	10,812
Net interest income, FTE	Net interest income, FTE	$ 67,028	$ 43,042	$ 132,952	$ 82,501	Net interest income, FTE	$ 61,696	$ 50,122	$ 194,648	$ 132,622
Average earning assets	Average earning assets	$ 7,019,740	$ 5,573,163	$ 7,084,842	$ 5,620,845	Average earning assets	$ 7,001,048	$ 5,727,211	$ 7,056,606	$ 5,655,430
Net interest margin, FTE		3.82 %	3.09 %	3.75 %	2.94 %					
Annualized net interest margin						Annualized net interest margin	3.47 %	3.43 %	3.62 %	3.06 %
Annualized net interest margin, FTE						Annualized net interest margin, FTE	3.52 %	3.50 %	3.68 %	3.13 %

Pre-Tax Pre-Provision Operating Earnings

($ in thousands)	**($ in thousands)**	**Three Months Ended June 30, 2023**	**Three Months Ended June 30, 2022**	**Six Months Ended June 30, 2023**	**Six Months Ended June 30, 2022**	**($ in thousands)**	**Three Months Ended September 30, 2023**	**Three Months Ended September 30, 2022**	**Nine Months Ended September 30, 2023**	**Nine Months Ended September 30, 2022**
Earnings before income taxes	Earnings before income taxes	$ 30,304	$ 19,210	$ 51,172	$ 40,416	Earnings before income taxes	$ 31,304	$ 17,967	$ 82,476	$ 58,382
Acquisition and charter conversion charges	Acquisition and charter conversion charges	4,101	1,172	7,894	1,580	Acquisition and charter conversion charges	588	3,640	8,482	5,220
Provision for credit loss	Provision for credit loss	1,250	600	12,250	600	Provision for credit loss	1,000	4,300	13,250	4,900
Bargain purchase gain and loss on sale of fixed assets	Bargain purchase gain and loss on sale of fixed assets	—	(165)	—	(165)	Bargain purchase gain and loss on sale of fixed assets	—	—	—	(165)
Treasury awards	Treasury awards	—	(171)	—	(872)	Treasury awards	(6,197)	—	(6,197)	(872)
BOLI income from death proceeds	BOLI income from death proceeds	—	—	—	(1,630)	BOLI income from death proceeds	—	—	—	(1,630)
Contributions related to Treasury awards		—	165	—	165					
Contributions/consulting/advertising related to Treasury awards						Contributions/consulting/advertising related to Treasury awards	5,190	—	5,190	165

Pre-Tax, Pre-Provision Operating Earnings	Pre-Tax, Pre-Provision Operating Earnings	$ 35,655	$ 20,811	$ 71,316	$ 40,094	Pre-Tax, Pre-Provision Operating Earnings	$ 31,885	$ 25,907	$ 103,201	$ 66,000

Total Interest Income, Fully Tax Equivalent

($ in thousands)	($ in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	($ in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Total interest income	Total interest income	$ 86,194	$ 45,847	$ 166,532	$ 88,588	Total interest income	$ 85,681	$ 53,874	$ 252,213	$ 142,462
Tax-exempt investment income	Tax-exempt investment income	(2,948)	(2,780)	(5,896)	(5,202)	Tax-exempt investment income	(2,929)	(2,875)	(8,825)	(8,077)
Taxable investment income	Taxable investment income	3,946	3,721	7,892	6,963	Taxable investment income	3,921	3,849	11,813	10,812
Total interest income, FTE	Total interest income, FTE	$ 87,192	$ 46,788	$ 168,528	$ 90,349	Total interest income, FTE	$ 86,673	$ 54,848	$ 255,201	$ 145,197
Yield on average earning assets, FTE	Yield on average earning assets, FTE	4.97 %	3.36 %	4.76 %	3.21 %	assets, FTE	4.95 %	3.83 %	4.82 %	3.42 %

Interest Income Investment Securities, Fully Tax Equivalent

($ in thousands)	($ in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	($ in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest income investment securities	Interest income investment securities	$ 10,815	$ 11,152	$ 22,521	$ 19,726	Interest income investment securities	$ 10,614	$ 11,598	$ 33,136	$ 31,324
Tax-exempt investment income	Tax-exempt investment income	(2,948)	(2,780)	(5,896)	(5,202)	Tax-exempt investment income	(2,929)	(2,875)	(8,825)	(8,077)
Taxable investment income	Taxable investment income	3,946	3,721	7,892	6,963	Taxable investment income	3,921	3,849	11,813	10,812
Interest income investment securities, FTE	Interest income investment securities, FTE	$ 11,813	$ 12,093	$ 24,517	$ 21,487	Interest income investment securities, FTE	$ 11,606	$ 12,572	$ 36,124	$ 34,059
Average investment securities	Average investment securities	$ 1,943,908	$ 2,127,084	$ 1,985,892	$ 2,012,828	Average investment securities	$ 1,882,672	$ 2,091,234	$ 1,951,109	$ 2,038,921
Yield on Investment Securities						Yield on Investment Securities	2.26 %	2.22 %	2.26 %	2.05 %

Yield on investment securities, FTE	Yield on investment securities, FTE	2.43 %	2.27 %	2.47 %	2.13 %	Yield on investment securities, FTE	2.47 %	2.40 %	2.47 %	2.23 %

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company does not engage in the trading of financial instruments, nor does it have exposure to currency exchange rates. Our market risk exposure is primarily that of interest rate risk, and we have established policies and procedures to monitor and limit our earnings and balance sheet exposure to changes in interest rates. The principal objective of interest rate risk management is to manage the financial components of the Company's balance sheet in a manner that will optimize the risk/reward equation for earnings and capital under a variety of interest rate scenarios.

To identify areas of potential exposure to interest rate changes, we utilize commercially available modeling software to perform earnings simulations and calculate the Company's market value of portfolio equity under varying interest rate scenarios every month. The model imports relevant information for the Company's financial instruments and incorporates management's assumptions on pricing, duration, and optionality for anticipated new volumes. Various rate scenarios consisting of key rate and yield curve projections are then applied in order to calculate the expected effect of a given interest rate change on interest income, interest expense, and the value of the Company's financial instruments. The rate projections can be shocked (an immediate and parallel change in all base rates, up or down), ramped (an incremental increase or decrease in rates over a specified time period), economic (based on current trends and econometric models) or stable (unchanged from current actual levels).

The following table shows the estimated changes in net interest income at risk and market value of equity along with policy limits:

June 30, 2023 / September 30, 2023	June 30, 2023	Net Interest Income at Risk		Market Value of Equity		September 30, 2023	Net Interest Income at Risk		Market Value of Equity	
Change in Interest Rates	Change in Interest Rates	% Change from Base	Policy Limit	% Change from Base	Policy Limit	Change in Interest Rates	% Change from Base	Policy Limit	% Change from Base	Policy Limit
Up 400 bps	Up 400 bps	(2.6) %	(20.0) %	(7.3) %	(40.0) %	Up 400 bps	(5.9) %	(20.0) %	(8.5) %	(40.0) %
Up 300 bps	Up 300 bps	(0.1) %	(15.0) %	(3.3) %	(30.0) %	Up 300 bps	(2.5) %	(15.0) %	(4.1) %	(30.0) %
Up 200 bps	Up 200 bps	1.3 %	(10.0) %	(0.3) %	(20.0) %	Up 200 bps	(0.3) %	(10.0) %	(1.0) %	(20.0) %
Up 100 bps	Up 100 bps	1.2 %	(5.0) %	1.1 %	(10.0) %	Up 100 bps	0.5 %	(5.0) %	0.5 %	(10.0) %
Down 100 bps	Down 100 bps	(0.8) %	(5.0) %	(2.6) %	(10.0) %	Down 100 bps	(0.7) %	(5.0) %	(2.0) %	(10.0) %
Down 200 bps	Down 200 bps	(4.2) %	(10.0) %	(9.1) %	(20.0) %	Down 200 bps	(1.7) %	(10.0) %	(5.1) %	(20.0) %

We use seven standard interest rate scenarios in conducting our 12-month net interest income simulations: "static," upward shocks of 100, 200, 300 and 400 basis points, and downward shocks of 100, and 200 basis points. Pursuant to policy guidelines, we typically attempt to limit the projected decline in net interest income relative to the stable rate scenario to no more than 5% for a 100 basis point (bp) interest rate shock, 10% for a 200 bp shock, 15% for a 300 bp shock, and 20% for a 400 bp shock. As of June 30, 2023 September 30, 2023, the Company had the following estimated net interest income sensitivity profile, without factoring in any potential negative impact on spreads resulting from competitive pressures or credit quality deterioration:

June 30, 2023 — Net Interest Income at Risk – Sensitivity Year 1

($ in thousands)	-200 bp	-100 bp	STATIC	+100 bp	+200 bp	+300 bp	+400 bp
Net Interest Income	238,176	246,556	248,517	251,513	251,644	248,292	242,086
Dollar Change	(10,341)	(1,961)		2,996	3,127	(225)	(6,431)
NII @ Risk - Sensitivity Y1	(4.2)%	(0.8)%		1.2 %	1.3 %	(0.1)%	(2.6)%
Policy Limits	(10.0)%	(5.0)%		(5.0)%	(10.0)%	(15.0)%	(20.0)%

September 30, 2023 — Net Interest Income at Risk – Sensitivity Year 1

($ in thousands)	-200 bp	-100 bp	STATIC	+100 bp	+200 bp	+300 bp	+400
Net Interest Income	240,042	242,523	244,252	245,547	243,528	238,255	229,94
Dollar Change	(4,210)	(1,729)		1,295	(724)	(5,997)	(14,30
NII @ Risk - Sensitivity Y1	(1.7)%	(0.7)%		0.5 %	(0.3)%	(2.5)%	(5.
Policy Limits	(10.0)%	(5.0)%		(5.0)%	(10.0)%	(15.0)%	(20.

If there were an immediate and sustained downward adjustment of 200 basis points in interest rates, all else being equal, net interest income over the next twelve months would likely be approximately $10.3 million $4.2 million lower than in a stable interest rate scenario, for a negative variance of 4.2% 1.7%.

Net interest income would likely improve decline by $3.1 million, $724 thousand, or 1.3% (0.3)%, if interest rates were to increase by 200 basis points relative to a stable interest rate scenario, with the favorable unfavorable variance expanding the higher interest rates rise. The initial increase in rising rate scenarios will be limited to some extent by the fact that some of our variable-rate loans are currently at rate floors, resulting in a re-pricing lag while base rates are increasing to floored levels, but the Company would expect to benefit from a material upward shift in the yield curve.

The Company's one-year cumulative GAP ratio is approximately 169.0% 153.0%, which means that there are more assets repricing than liabilities within the first year. The Company is asset sensitive. These results are based on cash flows from assumptions of assets and liabilities that reprice (maturities, likely calls, prepayments, etc.). Typically, the net interest income of asset-sensitive financial institutions should improve with rising rates and decrease with declining rates.

If interest rates change in the modeled amounts, our assets and liabilities may not perform as anticipated. Measuring interest rate risk has inherent limitations including model assumptions. For example, changes in market indices as modeled in conjunction with changes in the shapes of the yield curves could result in different net interest income. We consider many factors in monitoring our interest rate risk, and management adjusts strategies for the balance sheet and earnings as needed.

In addition to the net interest income simulations shown above, we run stress scenarios modeling the possibility of no balance sheet growth, the potential runoff of "surge" core deposits, which flowed into the Company in the most recent economic cycle, and potential unfavorable movement in deposit rates relative to yields on earning assets. Even though net interest income will naturally be lower with no balance sheet growth, the rate-driven variances projected for net interest income in a static growth environment are similar to the changes noted above for our standard projections. When a greater level of non-maturity deposit runoff is assumed or unfavorable deposit rate changes are factored into the model, projected net interest income in declining rate and flat rate scenarios does not change materially relative to standard growth projections. However, the benefit we would otherwise experience in rising rate scenarios is minimized and net interest income remains relatively flat.

The economic value (or "fair value") of financial instruments on the Company's balance sheet will also vary under the interest rate scenarios previously discussed. The difference between the projected fair value of the Company's financial assets and the fair value of its financial liabilities is referred to as the economic value of equity ("EVE"), and changes in EVE under different interest rate scenarios are effectively a gauge of the Company's longer-term exposure to interest rate risk. Fair values for financial instruments are estimated by discounting projected cash flows (principal and interest) at projected replacement interest rates for each account type, while the fair value of non-financial accounts is assumed to equal their book value for all rate scenarios. An economic value simulation is a static measure utilizing balance sheet accounts at a given point in time, and the measurement can change substantially over time as the characteristics of the Company's balance sheet evolve and interest rate and yield curve assumptions are updated.

The change in economic value under different interest rate scenarios depends on the characteristics of each class of financial instrument, including stated interest rates or spreads relative to current or projected market-level interest rates or spreads, the likelihood of principal prepayments, whether contractual interest rates are fixed or floating, and the average remaining time to maturity. As a general rule, fixed-rate financial assets become more valuable in declining rate scenarios and less valuable in rising rate scenarios, while fixed-rate financial liabilities gain in value as interest rates rise and lose value as interest rates decline. The longer the duration of the financial instrument, the greater the impact a rate change will have on its value. In our economic value simulations, estimated prepayments are factored in for financial instruments with stated maturity dates, and decay rates for non-maturity deposits are projected based on historical patterns and management's best estimates. The table below shows estimated changes in the Company's EVE as of June 30, 2023 September 30, 2023, under different interest rate scenarios relative to a base case of current interest rates:

June 30, 2023	Balance Sheet Shock						
($ in thousands)	-200 bp	-100 bp	STATIC (Base)	+100 bp	+200 bp	+300 bp	+400 bp
Market Value of Equity	1,376,168	1,474,863	1,514,637	1,530,556	1,510,752	1,464,064	1,404,833
Change in EVE from base	(138,469)	(39,774)		15,919	(3,885)	(50,573)	(109,804)
% Change	(9.1) %	(2.6) %		1.1 %	(0.3) %	(3.3) %	(7.3) %
Policy Limits	(20.0) %	(10.0) %		(10.0) %	(20.0) %	(30.0) %	(40.0) %

September 30, 2023	Balance Sheet Shock					
($ in thousands)	-200 bp	-100 bp	STATIC (Base)	+100 bp	+200 bp	+
Market Value of Equity	1,457,921	1,506,306	1,536,980	1,544,327	1,521,479	1,4
Change in EVE from base	(79,059)	(30,674)		7,347	(15,501)	(
% Change	(5.1) %	(2.0) %		0.5 %	(1.0) %	
Policy Limits	(20.0) %	(10.0) %		(10.0) %	(20.0) %	(

We also run stress scenarios for EVE to simulate the possibility of higher loan prepayment rates, unfavorable changes in deposit rates, and higher deposit decay rates. Model results are highly sensitive to changes in assumed decay rates for non-maturity deposits, in particular.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 2023 September 30, 2023, (the "Evaluation Date"), we carried out an evaluation, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act, during the fiscal quarter ended June 30, 2023 September 30, 2023 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings in the normal course of business. Management does not believe, based on currently available information, that the outcome of any such proceedings will have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes in the Risk Factors described in the Company's 2022 Annual Report on Form 10-K other than as set out in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, in Item 1A of Part II.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

	Current Program			
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (a)
April 1 - April 30	—	$ —	—	$ 50,000
May 1 - May 31	—	—	—	50,000
June 1 - June 30	—	—	—	50,000
Total	—	$ —	—	

	Current Program				
Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (a)
July 1 - July 31	—		$ —	—	$ 50,000
August 1 - August 31	1,104		29.27	—	50,000
September 1 - September 30	—		—	—	50,000
Total	1,104	(b)	$ 29.27	—	

(a) On February 28, 2023, the Company announced that its Board of Directors authorized a new share repurchase program (the "2023 Repurchase Program"), pursuant to which the Company may purchase up to an aggregate of $50 million in shares of the Company's issued and outstanding common stock. The 2023 Repurchase Program expires on December 31, 2023.

(b) The 1,104 shares purchased in the third quarter were withheld by the Company in order to satisfy employee tax obligations for vesting of restricted stock awards.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

During the quarter ended June 30, 2023 September 30, 2023, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of April 26, 2022, by and between The Fist Bancshares, Inc. and Beach Bancorp, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on May 2, 2022).
2.2	Agreement and Plan of Merger, dated as of July 27, 2022, by and between The First Bancshares, Inc. and Heritage Southeast Bancorporation, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on August 1, 2022).
3.1	Amended and Restated Articles of Incorporation of The First Bancshares, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on July 28, 2016).
3.2	Amendment to the Amended and Restated Articles of Incorporation of The First Bancshares, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q filed on August 9, 2018).
3.3	Amendment to the Amended and Restated Articles of Incorporation of the First Bancshares, Inc. (as incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 26, 2023).
3.4	Amended and Restated Bylaws of The First Bancshares, Inc. effective as of March 17, 2016 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on March 18, 2016).
3.5	Amendment No. 1 to the Amended and Restated Bylaws of The First Bancshares, Inc. effective as of May 7, 2020 (incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2020).
4.1	Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 333-220491 on Form S-3 filed on September 15, 2017).
4.2	Form of Global Subordinated Note for The First Bancshares, Inc. 5.875% Fixed-to-Floating Rate Subordinated Notes Due 2028 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 1, 2018).
4.3	Form of Global Subordinated Note for The First Bancshares, Inc. 6.4% Fixed-to-Floating Rate Subordinated Notes Due 2033 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 1, 2018).
4.4	Indenture by and between The First Bancshares, Inc. and U.S. Bank National Association, dated September 25, 2020 (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on September 25, 2020).
4.5	Form of Global Subordinated Note for The First Bancshares, Inc. 4.25% Fixed-to-Floating Rate Subordinated Notes Due 2030 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on September 25, 2020).
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of principal 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 principal 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 XBRL Instance Document
	101.SCH XBRL Taxonomy Extension Schema
	101.CAL XBRL Taxonomy Extension Calculation Linkbase
	101.DEF XBRL Taxonomy Extension Definition Linkbase
	101.LAB XBRL Taxonomy Extension Label Linkbase
	101.PRE XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

THE FIRST BANCSHARES, INC.

(Registrant)

August November 9, 2023	/s/ M. RAY (HOPPY) COLE, JR.
(Date)	M. Ray (Hoppy) Cole, Jr. Chief Executive Officer and President (Principal Executive Officer), Chairman of the Board
August November 9, 2023	/s/ DONNA T. (DEE DEE) LOWERY
(Date)	Donna T. (Dee Dee) Lowery, Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

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Exhibit 31.1

Certification of Chief Executive Officer

I, M. Ray (Hoppy) Cole, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of The First Bancshares,

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

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

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

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

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

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

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

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

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

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

Date: August November 9, 2023	/s/ M. Ray (Hoppy) Cole, Jr.
	M. Ray (Hoppy) Cole, Jr. Chief Executive Officer and President (Principal Executive Officer), Chairman of the Board

Exhibit 31.2

Certification of Chief Financial Officer

I, Dee Dee Lowery, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The First Bancshares, Inc.

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

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

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

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

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

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

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

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

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

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

Date: August November 9, 2023

/s/ Donna T. (Dee Dee) Lowery

Donna T. (Dee Dee) Lowery, Executive Vice
President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of The First Bancshares, Inc. (the "Company") for the period ended June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Ray (Hoppy) Cole, Jr., the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

	/s/ M. Ray (Hoppy) Cole, Jr.
Name:	M. Ray (Hoppy) Cole, Jr.
Title:	Chief Executive Officer and President (Principal Executive Officer), Chairman of the Board
Date:	August November 9, 2023

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of The First Bancshares, Inc. (the "Company") for the period ended June 30, 2023 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dee Dee Lowery, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) the Report fully complies with the requirements of Section 13(a) or Section 15 (d) of the Securities Exchange Act of 1934, as amended; and

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

	/s/ Donna T. (Dee Dee) Lowery
Name:	Donna T. (Dee Dee) Lowery
Title:	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)
Date:	August November 9, 2023

DISCLAIMER