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

Form 10-Q

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

For the quarterly period ended September 30, 2023

or

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

For the transition period from __________ to __________

Commission File Number: 001-37621

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

Louisiana	**26-0513559**
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification Number)
400 East Thomas Street	
Hammond, Louisiana	**70401**
(Address of principal executive offices)	(Zip Code)

(985) 345-7685
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1 par value	FGBI	The Nasdaq Stock Market LLC
Depository Shares (each representing a 1/40th interest in a share of 6.75% Series A Fixed-Rate Non-Cumulative perpetual preferred stock)	FGBIP	The Nasdaq Stock Market LLC

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

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

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

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

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

As of November 8, 2023 the registrant had 11,431,083 shares of $1 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FIRST GUARANTY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 200,825	$ 82,796
Federal funds sold	450	423
Cash and cash equivalents	**201,275**	**83,219**
Investment securities:		
Available for sale, at fair value	79,857	131,458
Held to maturity, at cost and net of allowance for credit losses of $ 80 and $ 0 (estimated fair value of $ 234,771 and $ 242,560 respectively)	320,624	320,068
Investment securities	**400,481**	**451,526**
Federal Home Loan Bank stock, at cost	13,241	6,528
Loans held for sale	—	—
Loans, net of unearned income	2,699,393	2,519,077
Less: allowance for credit losses	31,936	23,518
Net loans	**2,667,457**	**2,495,559**
Premises and equipment, net	64,006	58,206
Goodwill	12,900	12,900
Intangible assets, net	4,366	4,979
Other real estate, net	1,135	113
Accrued interest receivable	16,728	13,002
Other assets	36,645	25,315
Total Assets	**$ 3,418,234**	**$ 3,151,347**
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 458,392	$ 524,415
Interest-bearing demand	1,435,555	1,460,259
Savings	214,371	205,760
Time	706,691	533,358
Total deposits	**2,815,009**	**2,723,792**
Short-term advances from Federal Home Loan Bank	125,000	120,000
Short-term borrowings	20,000	20,000
Repurchase agreements	7,659	6,442
Accrued interest payable	10,780	4,289
Long-term advances from Federal Home Loan Bank	155,000	—
Senior long-term debt	20,306	21,927
Junior subordinated debentures	15,000	15,000
Other liabilities	10,658	4,906
Total Liabilities	**3,179,412**	**2,916,356**
Shareholders' Equity		
Preferred stock, Series A - $ 1,000 par value - 100,000 shares authorized		
Non-cumulative perpetual; 34,500 shares issued and outstanding	33,058	33,058
Common stock, $ 1 par value - 100,600,000 shares authorized; 11,431,083 and 10,716,796 shares issued and outstanding	11,431	10,717
Surplus	139,379	130,093
Retained earnings	69,247	76,351
Accumulated other comprehensive (loss) income	(14,293)	(15,228)
Total Shareholders' Equity	**238,822**	**234,991**
Total Liabilities and Shareholders' Equity	**$ 3,418,234**	**$ 3,151,347**

See Notes to Consolidated Financial Statements

FIRST GUARANTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except share data)	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:				
Loans (including fees)	$ 43,407	$ 32,386	$ 121,846	$ 90,423
Deposits with other banks	1,897	561	3,719	924
Securities (including FHLB stock)	2,323	2,303	7,130	6,922
Total Interest Income	**47,627**	**35,250**	**132,695**	**98,269**
Interest Expense:				
Demand deposits	16,102	6,243	44,187	11,403
Savings deposits	1,001	267	2,418	429
Time deposits	6,504	2,533	15,304	7,828
Borrowings	3,575	758	7,127	1,867
Total Interest Expense	**27,182**	**9,801**	**69,036**	**21,527**
Net Interest Income	**20,445**	**25,449**	**63,659**	**76,742**
Less: Provision for credit losses	627	1,509	1,489	2,898
Net Interest Income after Provision for Credit Losses	**19,818**	**23,940**	**62,170**	**73,844**
Noninterest Income:				
Service charges, commissions and fees	858	814	2,461	2,364
ATM and debit card fees	796	864	2,449	2,591
Net gains (losses) on securities	—	—	—	(17)
Net gains (losses) on sale of loans	—	1,624	12	1,713
Other	835	716	3,083	1,856
Total Noninterest Income	**2,489**	**4,018**	**8,005**	**8,507**
Noninterest Expense:				
Salaries and employee benefits	10,429	9,181	30,365	27,246
Occupancy and equipment expense	2,121	2,295	6,542	6,748
Other	7,446	6,312	22,990	18,364
Total Noninterest Expense	**19,996**	**17,788**	**59,897**	**52,358**
Income Before Income Taxes	**2,311**	**10,170**	**10,278**	**29,993**
Less: Provision for income taxes	539	2,117	2,362	6,230
Net Income	**1,772**	**8,053**	**7,916**	**23,763**
Less: Preferred stock dividends	582	582	1,747	1,747
Net Income Available to Common Shareholders	**$ 1,190**	**$ 7,471**	**$ 6,169**	**$ 22,016**
Per Common Share:				
Earnings	$ 0.10	$ 0.70	$ 0.56	$ 2.05
Cash dividends paid	$ 0.16	$ 0.16	$ 0.48	$ 0.48
Weighted Average Common Shares Outstanding	11,431,083	10,716,796	11,022,919	10,716,796

See Notes to Consolidated Financial Statements

FIRST GUARANTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2023	2022	2023	2022
Net Income	**$ 1,772**	**$ 8,053**	**$ 7,916**	**$ 23,763**
Other comprehensive income:				
Unrealized (losses) gains on securities:				
Unrealized holding (losses) gains arising during the period	766	(1,082)	1,184	(11,818)
Reclassification adjustments for (gains) losses included in net income	—	—	—	17
Change in unrealized (losses) gains on securities	**766**	**(1,082)**	**1,184**	**(11,801)**
Tax impact	(161)	227	(249)	2,478
Other comprehensive (loss) income	**605**	**(855)**	**935**	**(9,323)**
Comprehensive Income	**$ 2,377**	**$ 7,198**	**$ 8,851**	**$ 14,440**

See Notes to Consolidated Financial Statements

FIRST GUARANTY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

(*in thousands, except per share data*)	Preferred Stock $ 1,000 Par	Common Stock $ 1 Par	Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance December 31, 2021	**$ 33,058**	**$ 10,717**	**$ 130,093**	**$ 56,654**	**$ (6,633)**	**$ 223,889**
Net income	—	—	—	7,585	—	7,585
Other comprehensive income (loss)	—	—	—	—	(7,425)	(7,425)
Preferred stock dividends	—	—	—	(582)	—	(582)
Cash dividends on common stock ($ 0.16 per share)	—	—	—	(1,715)	—	(1,715)
Balance March 31, 2022 (unaudited)	**33,058**	**10,717**	**130,093**	**61,942**	**(14,058)**	**221,752**
Net income	—	—	—	8,124	—	8,124
Other comprehensive income (loss)	—	—	—	—	(1,043)	(1,043)
Preferred stock dividends	—	—	—	(582)	—	(582)
Cash dividends on common stock ($ 0.16 per share)	—	—	—	(1,715)	—	(1,715)
Balance June 30, 2022 (unaudited)	**33,058**	**10,717**	**130,093**	**67,769**	**(15,101)**	**226,536**
Net income	—	—	—	8,053	—	8,053
Other comprehensive income (loss)	—	—	—	—	(855)	(855)
Preferred stock dividends	—	—	—	(582)	—	(582)
Cash dividends on common stock ($ 0.16 per share)	—	—	—	(1,714)	—	(1,714)
Balance September 30, 2022 (unaudited)	**$ 33,058**	**$ 10,717**	**$ 130,093**	**$ 73,526**	**$ (15,956)**	**$ 231,438**

Balance December 31, 2022	**$ 33,058**	**$ 10,717**	**$ 130,093**	**$ 76,351**	**$ (15,228)**	**$ 234,991**
Net income	—	—	—	3,468	—	3,468
Cumulative effect of adoption of ASC Topic 326, net of tax	—	—	—	(7,900)	—	(7,900)
Other comprehensive income	—	—	—	—	414	414
Preferred stock dividends	—	—	—	(582)	—	(582)
Cash dividends on common stock ($ 0.16 per share)	—	—	—	(1,715)	—	(1,715)
Balance March 31, 2023 (unaudited)	**33,058**	**10,717**	**130,093**	**69,622**	**(14,814)**	**228,676**
Net Income	—	—	—	2,676	—	2,676
Common stock issued in private placement, 714,287 shares	—	714	9,286	—	—	10,000
Other comprehensive income (loss)	—	—	—	—	(84)	(84)
Preferred stock dividends	—	—	—	(582)	—	(582)
Cash dividends on common stock ($ 0.16 per share)	—	—	—	(1,829)	—	(1,829)
Balance June 30, 2023 (unaudited)	**33,058**	**11,431**	**139,379**	**69,887**	**(14,898)**	**238,857**
Net Income	—	—	—	1,772	—	1,772
Other comprehensive income	—	—	—	—	605	605
Preferred stock dividends	—	—	—	(582)	—	(582)
Cash dividends on common stock ($ 0.16 per share)	—	—	—	(1,830)	—	(1,830)
Balance September 30, 2023 (unaudited)	**$ 33,058**	**$ 11,431**	**$ 139,379**	**$ 69,247**	**$ (14,293)**	**$ 238,822**

See Notes to Consolidated Financial Statements

FIRST GUARANTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash Flows From Operating Activities		
Net income	$ 7,916	$ 23,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,489	2,898
Depreciation and amortization	3,031	3,000
Amortization/Accretion of investments	709	1,298
(Gain) loss on sale/call of securities	—	17
(Gain) loss on sale of assets	(23)	(1,774)
Repossessed asset write downs, gains and losses on dispositions	150	146
FHLB stock dividends	(209)	(7)
Change in other assets and liabilities, net	(4,216)	4,221
Net Cash Provided By Operating Activities	**8,847**	**33,562**
Cash Flows From Investing Activities		
Proceeds from maturities and calls of HTM securities	180	—
Proceeds from maturities, calls and sales of AFS securities	51,196	52,876
Funds invested in AFS securities	—	(153,053)
Funds invested in Federal Home Loan Bank stock	(8,929)	(3,464)
Proceeds from sale/redemption of Federal Home Loan Bank stock	2,425	—
Net increase in loans	(181,469)	(281,615)
Purchase of premises and equipment	(8,260)	(1,903)
Proceeds from sales of premises and equipment	276	47
Proceeds from sales of other real estate owned	101	787
Net Cash Used In Investing Activities	**(144,480)**	**(386,325)**
Cash Flows From Financing Activities		
Net increase in deposits	91,217	112,080
Net (decrease) increase in federal funds purchased and short-term borrowings	6,217	99,969
Proceeds from long-term borrowings	155,000	—
Repayment of long-term borrowings	(1,625)	(4,970)
Proceeds from issuance of common stock	10,000	—
Dividends paid on preferred stock	(1,747)	(1,747)
Dividends paid on common stock	(5,373)	(5,144)
Net Cash Provided By Financing Activities	**253,689**	**200,188**
Net Increase (Decrease) In Cash and Cash Equivalents	118,056	(152,575)
Cash and Cash Equivalents at the Beginning of the Period	83,219	261,932
Cash and Cash Equivalents at the End of the Period	**$ 201,275**	**$ 109,357**
Noncash Activities:		
Acquisition of real estate in settlement of loans	$ 1,273	$ 558
Transfer of securities from AFS to HTM	$ —	$ 176,181
Cash Paid During The Period:		
Interest on deposits and borrowed funds	$ 62,545	$ 22,366
Federal income taxes	$ 3,100	$ 6,600
State income taxes	$ 330	$ —

See Notes to the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. The consolidated financial statements and the footnotes of First Guaranty Bancshares, Inc. ("First Guaranty") thereto should be read in conjunction with the audited consolidated financial statements and note disclosures for First Guaranty previously filed with the Securities and Exchange Commission in First Guaranty's Annual Report on Form 10-K for the year ended December 31, 2022.

The consolidated financial statements include the accounts of First Guaranty Bancshares, Inc. and its wholly owned subsidiary First Guaranty Bank (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of the consolidated financial statements. Those adjustments are of a normal recurring nature. The results of operations at September 30, 2023 and for the three and nine month periods ended September 30, 2023 and 2022 are not necessarily indicative of the results expected for the full year or any other interim period. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and the valuation of investment securities.

Note 2. Recent Accounting Pronouncements

Accounting Standards Adopted in 2023

First Guaranty adopted FASB ASC Topic 326 *"Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" Update No. 2016-13 ("ASU 2016-13").* ASU 2016-13 on January 1, 2023. ASU 2016-13, referred to as the Current Expected Credit Loss ("CECL") standard, requires financial assets measured on an amortized cost basis, including loans and held-to-maturity debt securities, to be presented at an amount net of an allowance for credit losses, which reflects expected losses for the full life of the financial asset. Unfunded lending commitments are also within the scope of this topic. Under prior GAAP losses were not recognized until the occurrence of the loss was probable.

CECL requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. The CECL methodology requires that lifetime expected credit losses be recorded at the time the financial asset is originated or acquired, and be adjusted each period as a provision for credit losses for changes in expected lifetime credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the lifetime credit loss estimate. First Guaranty developed a CECL model methodology that calculates expected credit losses over the life of the portfolio by analyzing the composition, characteristics and quality of the loan and securities portfolios, as well as prevailing economic conditions and forecasts. First Guaranty's CECL calculation estimates loan losses using a combination of discounted cash flow and remaining life analyses.

First Guaranty adopted ASU 2016-13 using the modified retrospective approach for all loans and off-balance sheet credit exposures measured at amortized cost, other than purchased credit deteriorated ("PCD") financial assets. Results for reporting periods beginning after December 31, 2022 are presented in accordance with ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

ASU 2016-13 also amended the accounting model for purchased financial assets and replaced the guidance for purchased credit impaired ("PCI") financial assets with the concept of PCDs. For PCD assets, the CECL estimate is recognized through the allowance for credit losses with an offset to the amortized cost basis of the PCD asset at the date of acquisition. Subsequent changes in the allowance for credit losses for PCD assets are recognized through a provision for credit losses on loans. First Guaranty used the prospective transition approach for PCD loans that were previously classified as PCI and accounted for under ASC *310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality"* ("ASC *310-30*"). First Guaranty determined that certain PCI assets no longer met meet the criteria of PCD assets as of the date of adoption.

First Guaranty adopted ASU 2016-13 on January 1, 2023, and recorded a one-time, cumulative effect adjustment as shown in the table below (dollars in thousands).

	December 31, 2022	Impact of ASU 2016-13 Adoption	January 1, 2023
Assets:			
Allowance for credit losses	$ (23,518)	$ (8,220)	$ (31,738)
Deferred tax asset	6,420	2,100	8,520
Remaining purchase discount on loans	(1,120)	1,120	—
Liabilities:			
Reserve for unfunded loan commitments	—	(2,900)	(2,900)
Shareholders' Equity:			
Retained earnings	76,351	(7,900)	68,451

In addition, ASU 2016-13 amends the accounting for credit losses on available for sale ("AFS") securities, requiring expected credit losses on AFS securities to be recorded in an allowance for credit losses rather than as a write-down of the securities' amortized cost. Declines in the fair value of AFS securities that are not considered credit related are recognized in accumulated other comprehensive income. In addition, expected credit losses on held to maturity ("HTM") securities are required to be recorded in an allowance for credit losses rather than as a write-down of the securities' amortized cost basis. First Guaranty's AFS securities portfolio was not materially impacted by the adoption of ASC 326. A $ 100,000 allowance for HTM securities was recorded at the adoption of ASC 326.

The allowance for credit losses is measured on a pool basis when similar risk characteristics exist and is maintained at an amount which management believes is a current estimate of the expected credit losses for the full life of the relevant pool of loans and related unfunded lending commitments. For modeling purposes, loan pools include: Real Estate based pools for construction and land development, farmland, 1-4 family residential, multifamily, and non-farm non-residential and non-real-estate pools for agricultural, commercial and industrial, commercial leases and consumer and other. Management periodically reassesses each pool to confirm the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary. The loss rates computed for each pool and expected pool-level funding rates are applied to the related unfunded lending commitments to calculate an allowance for credit losses.

Loans that do not share similar risk characteristics with other loans are excluded from the loan pools and individually evaluated for impairment. Individually evaluated loans are loans for which it is probable that all the amounts due under the contractual terms of the loan will not be collected.

FASB ASC Topic 326 *“Financial Instruments – Credit Losses, Troubled Debt Restructurings and Vintage Disclosures”* Update No. 2022-02 (“ASU 2022-02”). ASU 2022-02 became effective for First Guaranty on January 1, 2023 and is applied prospectively. ASU 2022-02 amends Topic 326 to eliminate the accounting guidance for troubled debt restructurings (“TDRs”) by creditors that have adopted ASU 2016-13 and, instead, requires that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendment also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases. The adoption of ASU 2022-02 did not have a material impact on First Guaranty’s consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

None.

Note 3. Securities

A summary comparison of securities by type at September 30, 2023 and December 31, 2022 is shown below.

(in thousands)	September 30, 2023 Amortized Cost	September 30, 2023 Gross Unrealized Gains	September 30, 2023 Gross Unrealized Losses	September 30, 2023 Fair Value	December 31, 2022 Amortized Cost	December 31, 2022 Gross Unrealized Gains	December 31, 2022 Gross Unrealized Losses	December 31, 2022 Fair Value
Available for sale:								
U.S. Treasuries	$ 50,183	$ —	$ (769)	$ 49,414	$ 100,642	$ —	$ (2,142)	$ 98,500
U.S. Government Agencies	—	—	—	—	—	—	—	—
Corporate debt securities	16,750	—	(1,558)	15,192	16,750	—	(752)	15,998
Municipal bonds	13,715	10	(746)	12,979	14,742	31	(426)	14,347
Mortgage-backed securities	2,536	—	(264)	2,272	2,711	—	(98)	2,613
Total available for sale securities	**$ 83,184**	**$ 10**	**$ (3,337)**	**$ 79,857**	**$ 134,845**	**$ 31**	**$ (3,418)**	**$131,458**
Held to maturity:								
U.S. Government Agencies	$ 265,680	$ —	$ (77,067)	$188,613	$ 265,032	$ —	$ (69,503)	$195,529
Corporate debt securities	55,024	—	(8,866)	46,158	55,036	—	(8,005)	47,031
Total held to maturity securities	**$ 320,704**	**$ —**	**$ (85,933)**	**$234,771**	**$ 320,068**	**$ —**	**$ (77,508)**	**$242,560**

The scheduled maturities of securities at September 30, 2023, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities due to calls or prepayments. Mortgage-backed securities are not due at a single maturity because of amortization and potential prepayment of the underlying mortgages. For this reason, they are presented separately in the maturity table below:

(in thousands)	At September 30, 2023 Amortized Cost	At September 30, 2023 Fair Value
Available for sale:		
Due in one year or less	$ 51,091	$ 50,317
Due after one year through five years	2,842	2,776
Due after five years through 10 years	20,078	18,427
Over 10 years	6,637	6,065
Subtotal	**80,648**	**77,585**
Mortgage-backed securities	2,536	2,272
Total available for sale securities	**$ 83,184**	**$ 79,857**
Held to maturity:		
Due in one year or less	$ —	$ —
Due after one year through five years	2,253	2,029
Due after five years through 10 years	115,461	93,746
Over 10 years	202,990	138,996
Total held to maturity securities	**$ 320,704**	**$ 234,771**

At September 30, 2023, $ 163.8 million of First Guaranty's securities were pledged to secure public funds deposits and borrowings. The pledged securities had a market value of $ 119.6 million as of September 30, 2023.

Accrued interest receivable on First Guaranty's investment securities was $ 2.6 million and $ 2.0 million at September 30, 2023 and December 31, 2022, respectively, and was included in accrued interest receivable on the consolidated balance sheet. First Guaranty had a $ 0.1 million allowance for credit losses related to the held to maturity portfolio at September 30, 2023.

The following is a summary of the fair value of securities with gross unrealized losses and an aging of those gross unrealized losses at September 30, 2023.

	At September 30, 2023								
	Less Than 12 Months			12 Months or More			Total		
(in thousands)	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Available for sale:									
U.S. Treasuries	—	$ —	$ —	3	$ 49,414	$ (769)	3	$ 49,414	$ (769)
Corporate debt securities	—	—	—	16	15,192	(1,558)	16	15,192	(1,558)
Municipal bonds	24	6,155	(135)	41	5,651	(611)	65	11,806	(746)
Mortgage-backed securities	—	—	—	5	2,272	(264)	5	2,272	(264)
Total available for sale securities	**24**	**$ 6,155**	**$ (135)**	**65**	**$ 72,529**	**$ (3,202)**	**89**	**$ 78,684**	**$ (3,337)**
Held to maturity:									
U.S. Government Agencies	—	$ —	$ —	29	$ 188,614	$ (77,067)	29	$ 188,614	$ (77,067)
Corporate debt securities	—	—	—	58	46,157	(8,866)	58	46,157	(8,866)
Total held to maturity securities	**—**	**$ —**	**$ —**	**87**	**$ 234,771**	**$ (85,933)**	**87**	**$ 234,771**	**$ (85,933)**

The following is a summary of the fair value of securities with gross unrealized losses and an aging of those gross unrealized losses at December 31, 2022.

	At December 31, 2022								
	Less Than 12 Months			12 Months or More			Total		
(in thousands)	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Available for sale:									
U.S. Treasuries	—	$ —	$ —	6	$ 98,500	$ (2,142)	6	$ 98,500	$ (2,142)
U.S. Government Agencies	—	—	—	—	—	—	—	—	—
Corporate debt securities	14	14,628	(622)	2	1,370	(130)	16	15,998	(752)
Municipal bonds	46	5,854	(394)	6	673	(32)	52	6,527	(426)
Mortgage-backed securities	3	2,608	(98)	4	5	—	7	2,613	(98)
Total available for sale securities	**63**	**$ 23,090**	**$ (1,114)**	**18**	**$ 100,548**	**$ (2,304)**	**81**	**$ 123,638**	**$ (3,418)**
Held to maturity:									
U.S. Government Agencies	13	$ 89,695	$ (21,724)	16	$ 105,834	$ (47,779)	29	$ 195,529	$ (69,503)
Corporate debt securities	59	47,031	(8,005)	—	—	—	59	47,031	(8,005)
Total held to maturity securities	**72**	**$ 136,726**	**$ (29,729)**	**16**	**$ 105,834**	**$ (47,779)**	**88**	**$ 242,560**	**$ (77,508)**

As of September 30, 2023, 176 of First Guaranty's debt securities had unrealized losses totaling 22.2 % of the individual securities' amortized cost basis and 22.1 % of First Guaranty's total amortized cost basis of the investment securities portfolio. 152 of the 176 securities had been in a continuous loss position for over 12 months at such date. The 152 securities had an aggregate amortized cost basis of $ 396.4 million and an unrealized loss of $ 89.1 million at September 30, 2023. Management has determined that the declines in the fair value of these securities was not attributed to credit losses, and no allowance for credit losses was recorded for available for sale securities at September 30, 2023.

Securities are evaluated for impairment from credit losses at least quarterly and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (i) the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the recovery of contractual principal and interest and (iv) the intent and ability of First Guaranty to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Investment securities issued by the U.S. Government and Government sponsored enterprises with unrealized losses and the amount of unrealized losses on those investment securities that are the result of changes in market interest rates will not be credit impaired. First Guaranty has the ability and intent to hold these securities until recovery, which may not be until maturity.

Corporate debt securities in a loss position consist primarily of corporate bonds issued by businesses in the financial, insurance, utility, manufacturing, industrial, consumer products and oil and gas industries. There was one held to maturity corporate security with a credit related impairment loss at September 30, 2023. First Guaranty believes that the remaining issuers will be able to fulfill the obligations of these securities based on evaluations described above. First Guaranty has the ability and intent to hold these securities until they recover, which could be at their maturity dates.

There was one charge-off, net of recovery, of $ 0.1 million recognized on a corporate security classed as held to maturity during the nine months ended September 30, 2023. There was a $ 0.1 million provision for credit losses recognized on securities during the nine months ended September 30, 2023.

For securities that have indications of credit related impairment, management analyzes future expected cash flows to determine if any credit related impairment is evident. Estimated cash flows are determined using management's best estimate of future cash flows based on specific assumptions. The assumptions used to determine the cash flows were based on estimates of loss severity and credit default probabilities. Management reviews reports from credit rating agencies and public filings of issuers.

At September 30, 2023, First Guaranty's exposure to bond issuers that exceeded 10% of shareholders' equity is below:

	At September 30, 2023	
(in thousands)	**Amortized Cost**	**Fair Value**
U.S. Government Treasuries (U.S.)	$ 50,183	$ 49,414
Federal Home Loan Bank (FHLB)	32,170	24,081
Federal Home Loan Mortgage Corporation (Freddie Mac-FHLMC)	97,439	64,373
Federal Farm Credit Bank (FFCB)	138,606	102,430
Total	**$ 318,398**	**$ 240,298**

Note 4. Loans

The following table summarizes the components of First Guaranty's loan portfolio as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
(in thousands except for %)	Balance	As % of Category	Balance	As % of Category
Real Estate:				
Construction & land development	$ 342,246	12.6 %	$ 233,091	9.2 %
Farmland	31,361	1.1 %	24,823	1.0 %
1- 4 Family	419,045	15.5 %	366,330	14.5 %
Multifamily	121,206	4.5 %	119,785	4.7 %
Non-farm non-residential	1,052,750	38.9 %	992,929	39.3 %
Total Real Estate	**1,966,608**	**72.6 %**	**1,736,958**	**68.7 %**
Non-Real Estate:				
Agricultural	47,949	1.8 %	39,045	1.5 %
Commercial and industrial (1)	354,836	13.1 %	385,279	15.3 %
Commercial leases	292,208	10.8 %	317,574	12.6 %
Consumer and other	46,068	1.7 %	47,864	1.9 %
Total Non-Real Estate	**741,061**	**27.4 %**	**789,762**	**31.3 %**
Total Loans Before Unearned Income	**2,707,669**	**100.0 %**	**2,526,720**	**100.0 %**
Unearned income	(8,276)		(7,643)	
Total Loans Net of Unearned Income	**$ 2,699,393**		**$ 2,519,077**	

(1) Includes PPP loans fully guaranteed by the SBA of $ 3.1 million and $ 5.9 million at September 30, 2023 and December 31, 2022, respectively.

Accrued interest receivable on First Guaranty's loans totaled $ 14.2 million and $ 11.0 million at September 30, 2023 and December 31, 2022, respectively, and is included in accrued interest receivable on the consolidated balance sheet. Accrued interest receivable is excluded from First Guaranty's estimate of the allowance for credit losses.

The following table summarizes fixed and floating rate loans by contractual maturity, excluding nonaccrual loans, as of September 30, 2023 and December 31, 2022 unadjusted for scheduled principal payments, prepayments, or repricing opportunities. The average life of the loan portfolio may be substantially less than the contractual terms when these adjustments are considered.

	September 30, 2023			December 31, 2022		
(in thousands)	Fixed	Floating	Total	Fixed	Floating	Total
One year or less	$ 276,228	$ 108,575	$ 384,803	$ 234,921	$ 137,203	$ 372,124
More than one to five years	834,137	321,496	1,155,633	900,960	339,894	1,240,854
More than five to 15 years	90,625	249,955	340,580	114,425	216,251	330,676
Over 15 years	300,164	500,934	801,098	261,209	308,291	569,500
Subtotal	**$ 1,501,154**	**$ 1,180,960**	**2,682,114**	**$ 1,511,515**	**$ 1,001,639**	**2,513,154**
Nonaccrual loans			25,555			13,566
Total Loans Before Unearned Income			**2,707,669**			**2,526,720**
Unearned income			(8,276)			(7,643)
Total Loans Net of Unearned Income			**$ 2,699,393**			**$ 2,519,077**

Included in floating rate loans are loans that adjust to a floating rate following an initial fixed rate period. The initial fixed rate periods are typically one, three, or five years.

The following tables present the age analysis of past due loans at September 30, 2023 and December 31, 2022:

	As of September 30, 2023					
(in thousands)	30-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans	Recorded Investment 90 Days Accruing
Real Estate:						
Construction & land development	$ 2,644	$ 846	$ 3,490	$ 338,756	$ 342,246	$ 182
Farmland	418	3,567	3,985	27,376	31,361	2,693
1- 4 family	2,933	7,420	10,353	408,692	419,045	594
Multifamily	—	537	537	120,669	121,206	—
Non-farm non-residential	1,096	9,359	10,455	1,042,295	1,052,750	955
Total Real Estate	**7,091**	**21,729**	**28,820**	**1,937,788**	**1,966,608**	**4,424**
Non-Real Estate:						
Agricultural	155	1,439	1,594	46,355	47,949	61
Commercial and industrial	5,073	6,486	11,559	343,277	354,836	3,659
Commercial leases	—	1,799	1,799	290,409	292,208	—
Consumer and other	1,374	2,246	3,620	42,448	46,068	—
Total Non-Real Estate	**6,602**	**11,970**	**18,572**	**722,489**	**741,061**	**3,720**
Total Loans Before Unearned Income	**$ 13,693**	**$ 33,699**	**$ 47,392**	**$ 2,660,277**	**$ 2,707,669**	**$ 8,144**
Unearned income					(8,276)	
Total Loans Net of Unearned Income					**$ 2,699,393**	

	As of December 31, 2022					
(in thousands)	30-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans	Recorded Investment 90 Days Accruing
Real Estate:						
Construction & land development	$ 1,029	$ 652	$ 1,681	$ 231,410	$ 233,091	$ 427
Farmland	357	290	647	24,176	24,823	—
1- 4 family	4,512	4,158	8,670	357,660	366,330	332
Multifamily	874	157	1,031	118,754	119,785	157
Non-farm non-residential	1,133	3,849	4,982	987,947	992,929	103
Total Real Estate	**7,905**	**9,106**	**17,011**	**1,719,947**	**1,736,958**	**1,019**
Non-Real Estate:						
Agricultural	120	1,622	1,742	37,303	39,045	—
Commercial and industrial	1,369	942	2,311	382,968	385,279	123
Commercial leases	—	1,799	1,799	315,775	317,574	—
Consumer and other	1,997	1,239	3,236	44,628	47,864	—
Total Non-Real Estate	**3,486**	**5,602**	**9,088**	**780,674**	**789,762**	**123**
Total Loans Before Unearned Income	**$ 11,391**	**$ 14,708**	**$ 26,099**	**$ 2,500,621**	**$ 2,526,720**	**$ 1,142**
Unearned income					(7,643)	
Total Loans Net of Unearned Income					**$ 2,519,077**	

The tables above include $ 25.6 million and $ 13.6 million of nonaccrual loans at September 30, 2023 and December 31, 2022, respectively. See the tables below for more detail on nonaccrual loans.

The following is a summary of nonaccrual loans by class at the dates indicated:

	As of September 30, 2023		
(in thousands)	With Related Allowance	Without Related Allowance	Total
Real Estate:			
Construction & land development	$ 664	$ —	$ 664
Farmland	517	357	874
1- 4 family	4,387	2,440	6,827
Multifamily	—	537	537
Non-farm non-residential	8,403	—	8,403
Total Real Estate	**13,971**	**3,334**	**17,305**
Non-Real Estate:			
Agricultural	439	939	1,378
Commercial and industrial	2,807	20	2,827
Commercial leases	—	1,799	1,799
Consumer and other	2,246	—	2,246
Total Non-Real Estate	**5,492**	**2,758**	**8,250**
Total Nonaccrual Loans	**$ 19,463**	**$ 6,092**	**$ 25,555**

(in thousands)	As of December 31, 2022
Real Estate:	
Construction & land development	$ 225
Farmland	290
1- 4 family	3,826
Multifamily	—
Non-farm non-residential	3,746
Total Real Estate	**8,087**
Non-Real Estate:	
Agricultural	1,622
Commercial and industrial	819
Commercial leases	1,799
Consumer and other	1,239
Total Non-Real Estate	**5,479**
Total Nonaccrual Loans	**$ 13,566**

The following table presents First Guaranty's loan portfolio by credit quality classification and origination year as of the date indicated:

	As of September 30, 2023							
	Term Loans by Origination Year							
(in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Real Estate:								
Construction & land development:								
Pass	$ 94,253	$ 120,755	$ 74,155	$ 3,426	$ 8,646	19,117	$ 15,216	$ 335,568
Special Mention	488	1,564	241	—	970	7	—	3,270
Substandard	—	587	552	263	94	1,912	—	3,408
Doubtful	—	—	—	—	—	—	—	—
Total Construction & land development	94,741	122,906	74,948	3,689	9,710	21,036	15,216	342,246
Current period gross charge-offs	—	—	—	—	—	—	—	—
Farmland								
Pass	8,482	4,050	3,483	1,821	499	2,753	1,209	22,297
Special Mention	—	201	—	564	—	369	—	1,134
Substandard	—	248	1,382	4,020	115	754	1,411	7,930
Doubtful	—	—	—	—	—	—	—	—
Total Farmland	8,482	4,499	4,865	6,405	614	3,876	2,620	31,361
Current period gross charge-offs	—	—	—	—	—	—	—	—
1- 4 family								
Pass	77,518	114,091	72,631	43,083	20,425	49,144	17,947	394,839
Special Mention	1,115	1,511	968	1,553	1,054	890	717	7,808
Substandard	—	2,403	5,224	1,236	2,224	4,449	862	16,398
Doubtful	—	—	—	—	—	—	—	—
Total 1- 4 family	78,633	118,005	78,823	45,872	23,703	54,483	19,526	419,045
Current period gross charge-offs	—	—	—	—	—	101	—	101
Multifamily								
Pass	10,072	76,606	6,183	15,166	1,879	6,799	2,297	119,002
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	2,204	—	2,204
Doubtful	—	—	—	—	—	—	—	—
Total Multifamily	10,072	76,606	6,183	15,166	1,879	9,003	2,297	121,206
Current period gross charge-offs	—	—	—	—	—	—	—	—
Non-farm non-residential								
Pass	146,365	248,193	113,614	89,749	89,734	264,840	34,830	987,325
Special Mention	712	1,417	—	—	—	14,214	706	17,049
Substandard	250	18,877	18,299	66	—	6,111	4,773	48,376
Doubtful	—	—	—	—	—	—	—	—
Total non-farm non-residential	147,327	268,487	131,913	89,815	89,734	285,165	40,309	1,052,750
Current period gross charge-offs	—	—	—	138	—	—	—	138
Total Real Estate	**339,255**	**590,503**	**296,732**	**160,947**	**125,640**	**373,563**	**79,968**	**1,966,608**
Non-Real Estate:								
Agricultural								
Pass	2,573	11,177	3,451	1,595	1,745	2,538	21,499	44,578
Special Mention	—	49	154	—	—	—	24	227
Substandard	—	—	537	306	20	2,220	61	3,144
Doubtful	—	—	—	—	—	—	—	—
Total Agricultural	2,573	11,226	4,142	1,901	1,765	4,758	21,584	47,949
Current period gross charge-offs	—	—	—	—	—	—	—	—
Commercial and industrial								
Pass	22,505	30,328	60,749	54,893	6,815	28,839	137,583	341,712

Special Mention	95	129	2,120	254	—	1,037	3,353	6,988
Substandard	—	629	308	1,023	27	3,924	225	6,136
Doubtful	—	—	—	—	—	—	—	—
Total Commercial and industrial	22,600	31,086	63,177	56,170	6,842	33,800	141,161	354,836
Current period gross charge-offs	—	5	—	69	—	—	—	74
Commercial leases								
Pass	56,229	132,196	75,680	7,025	5,268	8	—	276,406
Special Mention	—	12,248	1,755	—	—	—	—	14,003
Substandard	—	1,799	—	—	—	—	—	1,799
Doubtful	—	—	—	—	—	—	—	—
Total Commercial leases	56,229	146,243	77,435	7,025	5,268	8	—	292,208
Current period gross charge-offs	—	—	—	—	—	—	—	—
Consumer and other loans								
Pass	9,560	10,115	7,383	6,634	797	7,568	65	42,122
Special Mention	44	232	398	136	41	29	—	880
Substandard	135	1,189	995	538	113	96	—	3,066
Doubtful	—	—	—	—	—	—	—	—
Total Consumer and other loans	9,739	11,536	8,776	7,308	951	7,693	65	46,068
Current period gross charge-offs	337	580	544	236	9	26	—	1,732
Total Non-Real Estate	**91,141**	**200,091**	**153,530**	**72,404**	**14,826**	**46,259**	**162,810**	**741,061**
Total Loans								
Pass	427,557	747,511	417,329	223,392	135,808	381,606	230,646	2,563,849
Special Mention	2,454	17,351	5,636	2,507	2,065	16,546	4,800	51,359
Substandard	385	25,732	27,297	7,452	2,593	21,670	7,332	92,461
Doubtful	—	—	—	—	—	—	—	—
Total Loans Before Unearned Income	**$ 430,396**	**$ 790,594**	**$ 450,262**	**$ 233,351**	**$ 140,466**	**$ 419,822**	**$ 242,778**	**$ 2,707,669**
Unearned income								(8,276)
Total Loans Net of Unearned Income								**$ 2,699,393**
Total Current Period Gross Charge-offs	**$ 337**	**$ 585**	**$ 544**	**$ 443**	**$ 9**	**$ 127**	**$ —**	**$ 2,045**

The following table identifies the credit exposure of the loan portfolio, including loans acquired with deteriorated credit quality, by specific credit ratings as of the date indicated:

	As of December 31, 2022				
(in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Real Estate:					
Construction & land development	$ 229,416	$ 2,846	$ 829	$ —	$ 233,091
Farmland	19,722	35	5,066	—	24,823
1- 4 family	347,842	8,667	9,821	—	366,330
Multifamily	117,081	444	2,260	—	119,785
Non-farm non-residential	968,861	15,071	8,997	—	992,929
Total Real Estate	**1,682,922**	**27,063**	**26,973**	**—**	**1,736,958**
Non-Real Estate:					
Agricultural	34,827	198	4,020	—	39,045
Commercial and industrial	374,947	2,016	8,316	—	385,279
Commercial leases	315,775	—	1,799	—	317,574
Consumer and other	45,225	1,031	1,608	—	47,864
Total Non-Real Estate	**770,774**	**3,245**	**15,743**	**—**	**789,762**
Total Loans Before Unearned Income	**$2,453,696**	**$ 30,308**	**$ 42,716**	**$ —**	**2,526,720**
Unearned income					(7,643)
Total Loans Net of Unearned Income					**$2,519,077**

Purchased Credit Deteriorated Loans

As part of the acquisition of Union Bancshares, Incorporated on November 7, 2019 and Premier Bancshares, Inc. on June 16, 2017, First Guaranty purchased credit deteriorated loans for which there was, at acquisition, evidence of deterioration of credit quality since their origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows at December 31, 2022.

(in thousands)		As of December 31, 2022
Real Estate:		
Construction & land development	$	301
Farmland		—
1- 4 family		1,311
Multifamily		—
Non-farm non-residential		1,904
Total Real Estate		**3,516**
Non-Real Estate:		
Agricultural		—
Commercial and industrial		742
Commercial leases		—
Consumer and other		—
Total Non-Real Estate		**742**
Total	**$**	**4,258**

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Note 5. Allowance for Credit Losses on Loans

A summary of changes in the allowance for credit losses, by portfolio type, for the nine months ended September 30, 2023 and 2022 are as follows:

	For the Nine Months Ended September 30, 2023					
(in thousands)	Beginning Allowance (12/31/2022)	ASC 326 Adoption Day 1 Adjustment	Charge-offs	Recoveries	Provision	Ending Allowance (9/30/2023)
Real Estate:						
Construction & land development	$ 1,232	$ 1,891	$ —	$ 7	$ 485	$ 3,615
Farmland	83	(39)	—	—	16	60
1- 4 family	1,761	3,465	(101)	8	1,165	6,298
Multifamily	746	1,418	—	—	(21)	2,143
Non-farm non-residential	9,280	307	(138)	221	2,203	11,873
Total Real Estate	**13,102**	**7,042**	**(239)**	**236**	**3,848**	**23,989**
Non-Real Estate:						
Agricultural	240	(98)	—	410	(423)	129
Commercial and industrial	2,194	2,971	(74)	181	(1,717)	3,555
Commercial leases	4,879	(162)	—	—	(2,633)	2,084
Consumer and other	2,506	(1,042)	(1,732)	338	1,416	1,486
Unallocated	597	(591)	—	—	687	693
Total Non-Real Estate	**10,416**	**1,078**	**(1,806)**	**929**	**(2,670)**	**7,947**
Total	**$ 23,518**	**$ 8,120**	**$ (2,045)**	**$ 1,165**	**$ 1,178**	**$ 31,936**

	For the Nine Months Ended September 30, 2022				
(in thousands)	Beginning Allowance (12/31/2021)	Charge-offs	Recoveries	Provision	Ending Allowance (9/30/2022)
Real Estate:					
Construction & land development	$ 769	$ (66)	$ 339	$ 145	$ 1,187
Farmland	478	—	—	(378)	100
1- 4 family	1,921	(94)	37	43	1,907
Multifamily	940	—	452	(291)	1,101
Non-farm non-residential	12,730	(598)	250	(2,719)	9,663
Total Real Estate	**16,838**	**(758)**	**1,078**	**(3,200)**	**13,958**
Non-Real Estate:					
Agricultural	183	(460)	133	401	257
Commercial and industrial	2,363	(437)	72	672	2,670
Commercial leases	2,486	(150)	3	458	2,797
Consumer and other	1,371	(3,274)	334	3,679	2,110
Unallocated	788	—	—	888	1,676
Total Non-Real Estate	**7,191**	**(4,321)**	**542**	**6,098**	**9,510**
Total	**$ 24,029**	**$ (5,079)**	**$ 1,620**	**$ 2,898**	**$ 23,468**

Negative provisions are caused by changes in the composition and credit quality of the loan portfolio and by recoveries. The result is an allocation of the credit loss reserve from one category to another.

A summary of the allowance along with loans and leases individually and collectively evaluated are as follows:

	As of September 30, 2023					
(in thousands)	Allowance Individually Evaluated	Allowance Collectively Evaluated	Total Allowance for Credit Losses	Loans Individually Evaluated	Loans Collectively Evaluated	Total Loans before Unearned Income
Real Estate:						
Construction & land development	$ —	$ 3,615	$ 3,615	$ —	$ 342,246	$ 342,246
Farmland	—	60	60	3,187	28,174	31,361
1- 4 family	317	5,981	6,298	3,637	415,408	419,045
Multifamily	—	2,143	2,143	537	120,669	121,206
Non-farm non-residential	2,902	8,971	11,873	45,158	1,007,592	1,052,750
Total Real Estate	**3,219**	**20,770**	**23,989**	**52,519**	**1,914,089**	**1,966,608**
Non-Real Estate:						
Agricultural	—	129	129	1,480	46,469	47,949
Commercial and industrial	548	3,007	3,555	1,712	353,124	354,836
Commercial leases	—	2,084	2,084	1,799	290,409	292,208
Consumer and other	—	1,486	1,486	—	46,068	46,068
Unallocated	—	693	693	—	—	—
Total Non-Real Estate	**548**	**7,399**	**7,947**	**4,991**	**736,070**	**741,061**
Total	**$ 3,767**	**$ 28,169**	**$ 31,936**	**$ 57,510**	**$ 2,650,159**	**2,707,669**
Unearned Income						(8,276)
Total Loans Net of Unearned Income						**$ 2,699,393**

All loans individually evaluated for impairment as of September 30, 2023 were considered collateral dependent loans.

	As of December 31, 2022							
(in thousands)	Allowance Individually Evaluated for Impairment	Allowance Individually Evaluated for Purchased Credit-Impairment	Allowance Collectively Evaluated for Impairment	Total Allowance for Credit Losses	Loans Individually Evaluated for Impairment	Loans Individually Evaluated for Purchased Credit-Impairment	Loans Collectively Evaluated for Impairment	Total Loans before Unearned Income
Real Estate:								
Construction & land development	$ —	$ —	$ 1,232	$ 1,232	$ 68	$ 301	$ 232,722	$ 233,091
Farmland	—	—	83	83	4,240	—	20,583	24,823
1- 4 family	—	—	1,761	1,761	949	1,311	364,070	366,330
Multifamily	—	—	746	746	—	—	119,785	119,785
Non-farm non-residential	666	512	8,102	9,280	4,095	1,904	986,930	992,929
Total Real Estate	**666**	**512**	**11,924**	**13,102**	**9,352**	**3,516**	**1,724,090**	**1,736,958**
Non-Real Estate:								
Agricultural	—	—	240	240	2,366	—	36,679	39,045
Commercial and industrial	412	212	1,570	2,194	5,919	742	378,618	385,279
Commercial leases	1,799	—	3,080	4,879	1,799	—	315,775	317,574
Consumer and other	—	—	2,506	2,506	—	—	47,864	47,864
Unallocated	—	—	597	597	—	—	—	—
Total Non-Real Estate	**2,211**	**212**	**7,993**	**10,416**	**10,084**	**742**	**778,936**	**789,762**
Total	**$ 2,877**	**$ 724**	**$ 19,917**	**$ 23,518**	**$ 19,436**	**$ 4,258**	**$ 2,503,026**	**2,526,720**
Unearned Income								(7,643)
Total loans net of unearned income								**$ 2,519,077**

A loan is considered impaired when, based on current information and events, it is probable that First Guaranty will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Payment status, collateral value and the probability of collecting scheduled principal and interest payments when due are considered in evaluating loan impairment. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

The following is a summary of impaired loans, excluding loans acquired with deteriorated credit quality, by class as of the date indicated:

	As of December 31, 2022				
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired Loans with no related allowance:					
Real Estate:					
Construction & land development	$ 68	$ 68	$ —	$ 68	$ —
Farmland	4,240	4,240	—	4,242	51
1- 4 family	949	949	—	949	5
Multifamily	—	—	—	—	—
Non-farm non-residential	1,814	1,814	—	1,817	56
Total Real Estate	**7,071**	**7,071**	**—**	**7,076**	**112**
Non-Real Estate:					
Agricultural	2,366	2,521	—	2,366	7
Commercial and industrial	4,871	4,988	—	4,988	33
Commercial leases	—	—	—	—	—
Consumer and other	—	—	—	—	—
Total Non-Real Estate	**7,237**	**7,509**	**—**	**7,354**	**40**
Total Impaired Loans with no related allowance	**14,308**	**14,580**	**—**	**14,430**	**152**
Impaired Loans with an allowance recorded:					
Real Estate:					
Construction & land development	—	—	—	—	—
Farmland	—	—	—	—	—
1- 4 family	—	—	—	—	—
Multifamily	—	—	—	—	—
Non-farm non-residential	2,281	2,855	666	2,279	5
Total Real Estate	**2,281**	**2,855**	**666**	**2,279**	**5**
Non-Real Estate:					
Agricultural	—	—	—	—	—
Commercial and industrial	1,048	1,048	412	1,112	35
Commercial leases	1,799	1,812	1,799	1,817	27
Consumer and other	—	—	—	—	—
Total Non-Real Estate	**2,847**	**2,860**	**2,211**	**2,929**	**62**
Total Impaired Loans with an allowance recorded	**5,128**	**5,715**	**2,877**	**5,208**	**67**
Total Impaired Loans	**$ 19,436**	**$ 20,295**	**$ 2,877**	**$ 19,638**	**$ 219**

Note 6. Goodwill and Other Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to impairment testing. Other intangible assets continue to be amortized over their useful lives. First Guaranty's goodwill is the difference in purchase price over the fair value of net assets acquired from its acquisition of Homestead Bancorp in 2007, Premier Bancshares, Inc. in 2017 and Union Bancshares, Incorporated in 2019. Goodwill totaled $ 12.9 million at September 30, 2023 and December 31, 2022. No impairment charges have been recognized on First Guaranty's intangible assets since acquisition. Loan servicing assets totaled $ 0.5 million at September 30, 2023 and December 31, 2022. Other intangible assets recorded include core deposit intangibles, which are subject to amortization. The weighted-average amortization period remaining for First Guaranty's core deposit intangibles is 5.5 years at September 30, 2023. The core deposits intangible reflect the value of deposit relationships, including the beneficial rates, which arose from acquisitions.

Note 7. Other Real Estate (ORE)

Other real estate owned consists of the following at the dates indicated:

(in thousands)	September 30, 2023	December 31, 2022
Real Estate Owned Acquired by Foreclosure:		
Residential	$ 194	$ 113
Construction & land development	251	—
Non-farm non-residential	690	—
Total Other Real Estate Owned and Foreclosed Property	**1,135**	**113**
Allowance	—	—
Net Other Real Estate Owned and Foreclosed Property	**$ 1,135**	**$ 113**

Loans secured by one-to-four family residential properties in the process of foreclosure totaled $ 2.0 million as of September 30, 2023.

Note 8. Commitments and Contingencies

Off-balance sheet commitments

First Guaranty 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement in particular classes of financial instruments.

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual notional amount of those instruments. The same credit policies are used in making commitments and conditional obligations as it does for balance sheet instruments. Unless otherwise noted, collateral or other security is not required to support financial instruments with credit risk.

Below is a summary of the notional amounts of the financial instruments with off-balance sheet risk at September 30, 2023 and December 31, 2022:

Contract Amount

(in thousands)	**September 30, 2023**	**December 31, 2022**
Commitments to Extend Credit	$ 378,250	$ 246,968
Unfunded Commitments under lines of credit	$ 227,279	$ 253,906
Commercial and Standby letters of credit	$ 14,170	$ 14,222

Allowance For Credit Losses - Off- Balance-Sheet Credit Exposures

The provision for credit losses on unfunded commitments was $ 0.1 million and $ 0.2 million for the three and nine months ended September 30, 2023. The ACL on off-balance-sheet credit exposures total $ 2.9 million at January 1, 2023 upon the adoption of ASC 326, and $ 3.1 million at September 30, 2023 and is included in other liabilities on the accompanying consolidated balance sheets.

Litigation

First Guaranty is subject to various legal proceedings in the normal course of its business. First Guaranty assesses its liabilities and contingencies in connection with outstanding legal proceedings. Where it is probable that First Guaranty will incur a loss and the amount of the loss can be reasonably estimated, First Guaranty records a liability in its consolidated financial statements. First Guaranty does not record a loss if the loss is not probable or the amount of the loss is not estimable. First Guaranty Bank is a defendant in a lawsuit alleging fault for a loss of funds by a customer related to fraud by a third party with a possible loss range of $ 0.0 million to $ 1.5 million. The Bank denies the allegations and intends to vigorously defend against this lawsuit, which is in early stages and no trial date has been set. No accrued liability has been recorded related to this lawsuit. First Guaranty settled a case in the third quarter of 2021 for $ 1.1 million. A receivable for $ 0.9 million has been recorded for recovery by a claim against First Guaranty's insurer. In the opinion of management, neither First Guaranty nor First Guaranty Bank is currently involved in such legal proceedings, either individually or in the aggregate, that the resolution is expected to have a material adverse effect on First Guaranty's consolidated results of operations, financial condition, or cash flows. However, one or more unfavorable outcomes in these ordinary claims or litigation against First Guaranty or First Guaranty Bank could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or ultimate outcomes, such matters are costly, divert management's attention, and may materially and adversely affect the reputation of First Guaranty and First Guaranty Bank, even if resolved favorably.

Note 9. Fair Value Measurements

The fair value of a financial instrument is the current amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Valuation techniques use certain inputs to arrive at fair value. Inputs to valuation techniques are the assumptions that market participants would use in pricing the asset or liability. They may be observable or unobservable. First Guaranty uses a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds or credit risks) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value follows, as well as the classification of such instruments within the valuation hierarchy.

Securities available for sale. Securities are classified within Level 1 where quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted prices of securities with similar characteristics, at which point the securities would be classified within Level 2 of the hierarchy. Securities classified within Level 3 in First Guaranty's portfolio as of September 30, 2023 includes corporate debt and municipal securities.

Impaired loans. Loans are measured for impairment using the methods permitted by ASC Topic 310. Fair value of impaired loans is measured by either the fair value of the collateral if the loan is collateral dependent (Level 2 or Level 3), or the present value of expected future cash flows, discounted at the loan's effective interest rate (Level 3). Fair value of the collateral is determined by appraisals or by independent valuation.

Other real estate owned. Properties are recorded at the balance of the loan or at estimated fair value less estimated selling costs, whichever is less, at the date acquired. Fair values of other real estate owned ("OREO") are determined by sales agreement or appraisal, and costs to sell are based on estimation per the terms and conditions of the sales agreement or amounts commonly used in real estate transactions. Inputs include appraisal values or recent sales activity for similar assets in the property's market; thus, OREO measured at fair value would be classified within either Level 2 or Level 3 of the hierarchy.

Certain non-financial assets and non-financial liabilities are measured at fair value on a non-recurring basis including assets and liabilities related to reporting units measured at fair value in the testing of goodwill impairment, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

The following table summarizes financial assets measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	September 30, 2023	December 31, 2022
Available for Sale Securities Fair Value Measurements Using:		
Level 1: Quoted Prices in Active Markets For Identical Assets	$ 49,414	$ 98,466
Level 2: Significant Other Observable Inputs	20,112	21,890
Level 3: Significant Unobservable Inputs	10,331	11,102
Securities available for sale measured at fair value	**$ 79,857**	**$ 131,458**

First Guaranty's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the methodologies used are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value.

The change in Level 1 securities available for sale from December 31, 2022 to September 30, 2023 was due to a net decrease in Treasury bills of $ 49.1 million. There were no transfers between Level 2 and Level 3 from December 31, 2022 to September 30, 2023. There were no transfers between Level 1 and 2 securities available for sale from December 31, 2022 to September 30, 2023.

The following table reconciles assets measured at fair value on a recurring basis using unobservable inputs**(Level 3)**:

(in thousands)	**Level 3 Changes September 30, 2023**
Balance, beginning of year	$ 11,102
Total gains or losses (realized/unrealized):	
Included in earnings	—
Included in other comprehensive income	(282)
Purchases, sales, issuances and settlements, net	(489)
Transfers in and/or out of Level 3	—
Balance as of end of period	**$ 10,331**

There were no gains or losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held as of September 30, 2023.

The following table measures financial assets and financial liabilities measured at fair value on a non-recurring basis as of September 30, 2023 and December 31, 2022, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	**At September 30, 2023**	**At December 31, 2022**
Impaired Loans - Fair Value Measurements Using:		
Level 1: Quoted Prices in Active Markets For Identical Assets	$ —	$ —
Level 2: Significant Other Observable Inputs	—	—
Level 3: Significant Unobservable Inputs	6,650	2,251
Impaired loans measured at fair value	**$ 6,650**	**$ 2,251**
Other Real Estate Owned - Fair Value Measurements Using:		
Level 1: Quoted Prices in Active Markets For Identical Assets	$ —	$ —
Level 2: Significant Other Observable Inputs	1,135	—
Level 3: Significant Unobservable Inputs	—	113
Other real estate owned measured at fair value	**$ 1,135**	**$ 113**

ASC 825-10 provides First Guaranty with an option to report selected financial assets and liabilities at fair value. The fair value option established by this statement permits First Guaranty to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date subsequent to implementation.

First Guaranty has chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

Note 10. Financial Instruments

Fair value estimates are generally subjective in nature and are dependent upon a number of significant assumptions associated with each instrument or group of similar instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows and relevant available market information. Fair value information is intended to represent an estimate of an amount at which a financial instrument could be exchanged in a current transaction between a willing buyer and seller engaging in an exchange transaction. However, since there are no established trading markets for a significant portion of First Guaranty's financial instruments, First Guaranty may not be able to immediately settle financial instruments; as such, the fair values are not necessarily indicative of the amounts that could be realized through immediate settlement. In addition, the majority of the financial instruments, such as loans and deposits, are held to maturity and are realized or paid according to the contractual agreement with the customer.

Quoted market prices are used to estimate fair values when available. However, due to the nature of the financial instruments, in many instances quoted market prices are not available. Accordingly, estimated fair values have been estimated based on other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. Fair values are estimated without regard to any premium or discount that may result from concentrations of ownership of financial instruments, possible income tax ramifications or estimated transaction costs. The fair value estimates are subjective in nature and involve matters of significant judgment and, therefore, cannot be determined with precision. Fair values are also estimated at a specific point in time and are based on interest rates and other assumptions at that date. As events change the assumptions underlying these estimates, the fair values of financial instruments will change.

Disclosure of fair values is not required for certain items such as lease financing, investments accounted for under the equity method of accounting, obligations of pension and other postretirement benefits, premises and equipment, other real estate, prepaid expenses, the value of long-term relationships with depositors (core deposit intangibles) and other customer relationships, other intangible assets and income tax assets and liabilities. Fair value estimates are presented for existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses have not been considered in the estimates. Accordingly, the aggregate fair value amounts presented do not purport to represent and should not be considered representative of the underlying market or franchise value of First Guaranty.

Because the standard permits many alternative calculation techniques and because numerous assumptions have been used to estimate the fair values, reasonable comparison of the fair value information with other financial institutions' fair value information cannot necessarily be made. The methods and assumptions used to estimate the fair values of financial instruments are as follows:

Cash and due from banks, interest-bearing deposits with banks, federal funds sold and federal funds purchased.

These items are generally short-term and the carrying amounts reported in the consolidated balance sheets are a reasonable estimation of the fair values.

Investment Securities.

Fair values are principally based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or the use of discounted cash flow analyses.

Loans Held for Sale.

Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices. These loans are classified within level 3 of the fair value hierarchy.

Loans, net.

Market values are computed present values using net present value formulas. The present value is the sum of the present value of all projected cash flows on an item at a specified discount rate. The discount rate is set as an appropriate rate index, plus or minus an appropriate spread. These loans are classified within level 3 of the fair value hierarchy.

Impaired loans.

Fair value of impaired loans is measured by either the fair value of the collateral if the loan is collateral dependent (Level 2 or Level 3), or the present value of expected future cash flows, discounted at the loan's effective interest rate (Level 3). Fair value of the collateral is determined by appraisals or by independent valuation.

Cash Surrender of BOLI.

The cash surrender value of BOLI approximates fair value.

Accrued interest receivable.

The carrying amount of accrued interest receivable approximates its fair value.

Deposits.

The fair value of customer deposits, excluding certificates of deposit, is the amount payable on demand. Market values of certificates of deposit are actually computed present values using net present value formulas. The present value is the sum of the present value of all projected cash flows on an item at a specified discount rate. The discount rate is set as an appropriate rate index, plus or minus an appropriate spread. Deposits are classified within level 3 of the fair value hierarchy.

Accrued interest payable.

The carrying amount of accrued interest payable approximates its fair value.

Borrowings.

The carrying amount of federal funds purchased and other short-term borrowings approximate their fair values. The fair value of First Guaranty's long-term borrowings is computed using net present value formulas. The present value is the sum of the present value of all projected cash flows on an item at a specified discount rate. The discount rate is set as an appropriate rate index, plus or minus an appropriate spread. Borrowings are classified within level 3 of the fair value hierarchy.

Other Unrecognized Financial Instruments.

The fair value of commitments to extend credit is estimated using the fees charged to enter into similar legally binding agreements, taking into account the remaining terms of the agreements and customers' credit ratings. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit are based on fees charged for similar agreements or on estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At September 30, 2023 and December 31, 2022, the fair value of guarantees under commercial and standby letters of credit was not material.

The carrying amounts and estimated fair values of financial instruments at September 30, 2023 were as follows:

		Fair Value Measurements at September 30, 2023 Using			
(in thousands)	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Cash and due from banks	$ 200,825	$ 200,825	$ —	$ —	$ 200,825
Federal funds sold	450	450	—	—	450
Securities, available for sale	79,857	49,414	20,112	10,331	79,857
Securities, held for maturity	320,624	—	234,771	—	234,771
Loans held for sale	—	—	—	—	—
Loans, net	2,667,457	—	—	2,514,556	2,514,556
Cash surrender value of BOLI	5,823	—	—	5,823	5,823
Accrued interest receivable	16,728	—	—	16,728	16,728
Liabilities					
Deposits	$ 2,815,009	$ —	$ —	$ 2,807,472	2,807,472
Short-term advances from Federal Home Loan Bank	125,000			125,000	125,000
Short-term borrowings	20,000	—	—	20,000	20,000
Repurchase agreements	7,659	—	—	7,660	7,660
Accrued interest payable	10,780	—	—	10,780	10,780
Long-term advances from Federal Home Loan Bank	155,000	—	—	152,143	152,143
Senior long-term debt	20,306	—	—	20,312	20,312
Junior subordinated debentures	15,000	—	—	15,000	15,000

The carrying amounts and estimated fair values of financial instruments at December 31, 2022 were as follows:

(in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2022 Using Level 1	Level 2	Level 3	Total
Assets					
Cash and due from banks	$ 82,796	$ 82,796	$ —	$ —	$ 82,796
Federal funds sold	423	423	—	—	423
Securities, available for sale	131,458	98,466	21,890	11,102	131,458
Securities, held for maturity	320,068	—	242,560	—	242,560
Loans, net	2,495,559	—	—	2,404,402	2,404,402
Cash surrender value of BOLI	5,712	—	—	5,712	5,712
Accrued interest receivable	13,002	—	—	13,002	13,002
Liabilities					
Deposits	$ 2,723,792	$ —	$ —	$ 2,717,471	2,717,471
Short-term advances from Federal Home Loan Bank	120,000	—	—	120,000	120,000
Short-term borrowings	20,000	—	—	20,000	20,000
Repurchase agreements	6,442	—	—	6,509	6,509
Accrued interest payable	4,289	—	—	4,289	4,289
Long-term advances from Federal Home Loan Bank	—	—	—	—	—
Senior long-term debt	21,927	—	—	21,938	21,938
Junior subordinated debentures	15,000	—	—	15,000	15,000

There is no material difference between the contract amount and the estimated fair value of off-balance sheet items that are primarily comprised of short-term unfunded loan commitments that are generally at market prices.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of First Guaranty's financial condition and results of operations is intended to highlight the significant factors affecting First Guaranty's financial condition and results of operations presented in the consolidated financial statements included in this Form 10-Q. This discussion is designed to provide readers with a more comprehensive view of the operating results and financial position than would be obtained from reading the consolidated financial statements alone. Reference should be made to those statements for an understanding of the following review and analysis. The financial data at September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022 have been derived from unaudited consolidated financial statements and include, in the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) necessary to present fairly First Guaranty's financial position and results of operations for such periods.

Special Note Regarding Forward-Looking Statements

Congress passed the Private Securities Litigation Act of 1995 in an effort to encourage corporations to provide information about a company's anticipated future financial performance. This act provides a safe harbor for such disclosure, which protects us from unwarranted litigation, if actual results are different from management expectations. This discussion and analysis contains forward-looking statements and reflects management's current views and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "may," "should," "expect," "anticipate," "intend," "plan," "continue," "believe," "seek," "estimate" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to a number of factors and uncertainties, including, changes in general economic conditions, either nationally or in our market areas, that are worse than expected; competition among depository and other financial institutions; inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments; adverse changes in the securities markets; changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements; our ability to enter new markets successfully and capitalize on growth opportunities; our ability to successfully integrate acquired entities; changes in consumer spending, borrowing and savings habits; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board; changes in our organization, compensation and benefit plans; changes in our financial condition or results of operations that reduce capital available to pay dividends; increases in our provision for loan losses and changes in the financial condition or future prospects of issuers of securities that we own, which could cause our actual results and experience to differ from the anticipated results and expectations, expressed in such forward-looking statements. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Third Quarter and Nine Months Ended September 30, 2023 Financial Overview

First Guaranty Bancshares is a Louisiana corporation and a financial holding company headquartered in Hammond, Louisiana. Our wholly-owned subsidiary, First Guaranty Bank, a Louisiana-chartered commercial bank, provides personalized commercial banking services primarily to Louisiana and Texas customers through 36 banking facilities primarily located in the MSAs of Hammond, Baton Rouge, Lafayette, Shreveport-Bossier City, Lake Charles and Alexandria, Louisiana and Dallas-Fort Worth-Arlington, Waco, Texas. First Guaranty expanded into Kentucky and West Virginia, our Mideast markets, in 2021 with loan and deposit production offices in Vanceburg, Kentucky and Bridgeport, West Virginia. The Vanceburg location is now a branch of the bank. We emphasize personal relationships and localized decision making to ensure that products and services are matched to customer needs. We compete for business principally on the basis of personal service to customers, customer access to officers and directors and competitive interest rates and fees.

Financial highlights for the third quarter and nine months ended September 30, 2023 are as follows:

- Total assets increased $266.9 million to $3.4 billion, or 8.5% at September 30, 2023 when compared with December 31, 2022. Total loans at September 30, 2023 were $2.7 billion, an increase of $180.3 million, or 7.2%, compared with December 31, 2022. Total deposits were $2.8 billion at September 30, 2023, an increase of $91.2 million, or 3.3%, compared with December 31, 2022. Retained earnings were $69.2 million at September 30, 2023, a decrease of $7.1 million compared to $76.4 million at December 31, 2022. Shareholders' equity was $238.8 million and $235.0 million at September 30, 2023 and December 31, 2022, respectively.

- Net income for the third quarter of 2023 and 2022 was $1.8 million and $8.1 million, respectively, a decrease of $6.3 million or 78.0%. Net income for the nine months ended September 30, 2023 and 2022 was $7.9 million and $23.8 million, respectively, a decrease of $15.8 million or 66.7%.

- Earnings per common share were $0.10 and $0.70 for the third quarter of 2023 and 2022, respectively, and $0.56 and $2.05 for the nine months ended September 30, 2023 and September 30, 2022, respectively. Total weighted average shares outstanding were 11,431,083 and 10,716,796 for the third quarter of 2023 and 2022, respectively, and 11,022,919 and 10,716,796 for the nine months ended September 30, 2023 and 2022, respectively. The change in shares was due to the issuance of 714,287 shares of stock in a private placement in May of 2023.

- First Guaranty participated in the SBA Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act authorized the SBA to guarantee loans under a new 7(a) loan program known as the PPP. As a qualified SBA lender, we were automatically authorized to originate PPP loans. The SBA guaranteed 100% of the PPP loans made to eligible borrowers and will forgive such loans. The program has been conducted in two phases which First Guaranty classifies as Round 1 loans (originated in 2020) and Round 2 loans (originated in 2021). As of September 30, 2023, First Guaranty had remaining Round 1 PPP loans of $0.1 million and Round 2 PPP loans of $3.1 million. No PPP fees were recognized in the third quarter of 2023 compared to $0.2 million in the third quarter of 2022. $16,000 in PPP fees were recognized during the nine months ended September 30, 2023 compared to $1.3 million for the nine months ended September 30, 2022.

- The allowance for credit losses was 1.18% of total loans at September 30, 2023 compared to 0.93% at December 31, 2022.

- Net interest income for the third quarter of 2023 was $20.4 million compared to $25.4 million for the same period in 2022. Net interest income for the nine months ended September 30, 2023 was $63.7 million compared to $76.7 million for the nine months ended September 30, 2022.

- The provision for credit losses for the third quarter of 2023 was $0.6 million compared to $1.5 million for the same period in 2022. The provision for credit losses for the nine months ended September 30, 2023 was $1.5 million compared to $2.9 million for the nine months ended September 30, 2022.

- First Guaranty had $1.1 million of other real estate owned as of September 30, 2023 compared to $0.1 million at December 31, 2022.

- Noninterest income for the third quarter of 2023 was $2.5 million compared to $4.0 million for the same period in 2022. Noninterest income for the nine months ended September 30, 2023 was $8.0 million compared to $8.5 million for the nine months ended September 30, 2022.

- The net interest margin for the three months ended September 30, 2023 was 2.54% which was a decrease of 92 basis points from the net interest margin of 3.46% for the same period in 2022. The net interest margin for the nine months ended September 30, 2023 was 2.75% which was a decrease of 84 basis points from the net interest margin of 3.59% for the same period in 2022. First Guaranty attributed the decrease in the net interest margin to the increase in market interest rates that began in 2022 and continued through the third quarter of 2023 that increased the cost of liabilities. Loans as a percentage of average interest earning assets increased to 83.2% at September 30, 2023 compared to 78.7% at September 30, 2022.

- Investment securities totaled $400.5 million at September 30, 2023, a decrease of $51.0 million when compared to $451.5 million at December 31, 2022. At September 30, 2023, available for sale securities, at fair value, totaled $79.9 million, a decrease of $51.6 million when compared to $131.5 million at December 31, 2022. At September 30, 2023, held to maturity securities, at amortized cost and net of the allowance for credit losses totaled $320.6 million, an increase of $0.6 million when compared to $320.1 million at December 31, 2022. The allowance for credit losses for HTM securities was $0.1 million at September 30, 2023. A provision for credit losses on HTM securities of $0.1 million was recorded in the third quarter of 2023.

- Total loans net of unearned income were $2.7 billion at September 30, 2023, a net increase of $180.3 million from December 31, 2022. Total loans net of unearned income are reduced by the allowance for credit losses which totaled $31.9 million at September 30, 2023 and $23.5 million at December 31, 2022, respectively. First Guaranty adopted ASC 326 effective January 1, 2023 and recorded a cumulative adoption adjustment to the allowance of $7.1 million.

- Nonaccrual loans increased $12.0 million to $25.6 million at September 30, 2023 compared to $13.6 million at December 31, 2022.

- First Guaranty adopted ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments." (CECL) effective January 1, 2023. The total adjustment for CECL was $10.0 million which includes $7.0 million for the ACL, $0.1 million for HTM securities, and $2.9 million for unfunded loan commitments. The $2.9 million for unfunded loan commitments is recorded in other liabilities.

- Return on average assets for the three months ended September 30, 2023 and 2022 was 0.21% and 1.06%, respectively. Return on average assets for the nine months ended September 30, 2023 and 2022 was 0.33% and 1.07%, respectively. Return on average common equity for the three months ended September 30, 2023 and 2022 was 2.27% and 15.15%, respectively. Return on average common equity for the nine months ended September 30, 2023 and 2022 was 4.06% and 15.29%, respectively. Return on average assets is calculated by dividing annualized net income by average assets. Return on average common equity is calculated by dividing annualized net income by average common equity.

- Book value per common share was $18.00 as of September 30, 2023 compared to $18.84 as of December 31, 2022. The decrease was due primarily to a decrease in retained earnings associated with the adoption of CECL, the recent issuances of new shares, and changes in accumulated other comprehensive income ("AOCI"). AOCI is comprised of unrealized gains and losses on available for sale securities, including unrealized losses on available for sale securities at the time of transfer to held to maturity.

- First Guaranty's Board of Directors declared cash dividends of $0.16 per common share in the third quarter of 2023 and 2022. First Guaranty has paid 121 consecutive quarterly dividends as of September 30, 2023.

- First Guaranty paid preferred stock dividends of $1.7 million during the first nine months of 2023 and 2022.

- First Guaranty was a defendant in a lawsuit alleging overpayment on a loan related to a disputed interest rate. First Guaranty settled this lawsuit in February of 2023 for $0.6 million.

- On January 6, 2023, we entered into a definitive agreement to acquire Lone Star Bank, a Texas state-chartered bank with its main office in Houston, Texas. On July 10, 2023, First Guaranty, First Guaranty Bank, and Lone Star entered into a Mutual Termination Agreement and Release pursuant to which the parties mutually agreed to terminate the Merger Agreement. First Guaranty estimates that total costs associated with the Lone Star acquisition was approximately $0.5 million through September 30, 2023.

Recent Developments

On October 5, 2023, we entered into a Loan Agreement (the “Loan Agreement”) with Summit Community Bank, Inc. (“Lender”) pursuant to which Lender made (i) a term loan in the principal amount of $40.3 million (the “Term Loan”), and (ii) a revolving line of credit in the maximum principal amount of up to $21.0 million (the “Line of Credit,” and, together with the Term Loan, the “Loans”). The principal sum outstanding under the Term Loan will bear interest at a rate equal to the Prime Index Rate as published by the Wall Street Journal, reset quarterly, minus 0.50% per annum, with a floor of 4.49% per annum. The principal sum outstanding under the Line of Credit will bear interest at a rate equal to the Prime Index Rate as published by the Wall Street Journal, reset monthly, with a floor of 4.49% per annum. The principal amount due and payable under the Term Loan will be amortized over a period of forty (40) quarters and will be in quarterly installments of principal, plus accrued interest, with the final payment equal to the then-outstanding principal balance and all accrued and unpaid interest, penalties and fees due thereon due at maturity of October 5, 2033. Any outstanding amounts under the Line of Credit will be repaid with monthly installments of interest only, followed by a final payment equal to the then-outstanding principal balance and all accrued and unpaid interest, penalties and fees due thereon at maturity on October 5, 2024, unless renewed. The proceeds of the Term Loan were used to repay in full all outstanding amounts under the existing indebtedness from First Horizon Bank (formerly known as First Tennessee Bank National Association).

Financial Condition

Changes in Financial Condition from December 31, 2022 to September 30, 2023

Assets

Total assets at September 30, 2023 were $3.4 billion, an increase of $266.9 million, or 8.5%, from December 31, 2022. Assets increased primarily due to increases in net loans of $171.9 million and cash and cash equivalents of $118.1 million, partially offset by a decrease in investment securities of $51.0 million at September 30, 2023 compared to December 31, 2022.

Loans

Net loans increased $171.9 million, or 6.9%, to $2.7 billion at September 30, 2023 from December 31, 2022. Construction and land development loans increased $109.2 million principally due to advances on existing construction lines and new originations that was partially offset by the conversion of loans to permanent financing. Non-farm non-residential loan balances increased $59.8 million due to new originations. One-to-four family residential loans increased $52.7 million primarily due to new originations. Agricultural loans increased $8.9 million due to seasonal activity. Farmland loans increased $6.5 million primarily due to seasonal activity. Multifamily loans increased $1.4 million primarily due to the conversion of existing construction loans to permanent financing and the origination of new loans. Consumer and other loans decreased $1.8 million primarily due to paydowns. Commercial lease loan balances decreased $25.4 million primarily due to paydowns. First Guaranty's commercial lease portfolio generally has higher yields than commercial real estate loans but shorter average lives. Commercial and industrial loans decreased $30.4 million primarily due to paydowns. SBA PPP loans totaled $3.1 million at September 30, 2023 compared to $5.9 million at December 31, 2022. These totals are included in commercial and industrial loans. Round 1 SBA PPP loans decreased from $2.0 million at December 31, 2022 to $0.1 million at September 30, 2023 due to SBA loan forgiveness and payments received. Round 2 SBA PPP loans decreased from $3.9 million at December 31, 2022 to $3.1 million at September 30, 2023 due to SBA loan forgiveness and payments received. First Guaranty had approximately 2.9% of funded and 2.0% of unfunded commitments in our loan portfolio to businesses engaged in support or service activities for oil and gas operations. First Guaranty's hotel and hospitality portfolio totaled $195.0 million at September 30, 2023. As part of the management of risks in our loan portfolio, First Guaranty had previously established an internal guidance limit of approximately $200.0 million for its hotel and hospitality portfolio. First Guaranty's office space portfolio totaled approximately $115.0 million at September 30, 2023. First Guaranty had $359.4 million in loans related to our Texas markets at September 30, 2023 which was an increase of $25.5 million or 7.7% from $333.8 million at December 31, 2022. First Guaranty anticipates additional growth opportunities in Texas. First Guaranty had $269.3 million in loans related to our new Mideast markets in Kentucky and West Virginia at September 30, 2023 which was an increase of $58.4 million or 27.7% from $210.9 million at December 31, 2022. Syndicated loans at September 30, 2023 were $76.2 million, of which $22.9 million were shared national credits. Syndicated loans decreased $12.1 million from $88.3 million at December 31, 2022.

As of September 30, 2023, 72.6% of our loan portfolio was secured by real estate. The largest portion of our loan portfolio, at 38.9% as of September 30, 2023, was non-farm non-residential loans secured by real estate. Approximately 44.0% of the loan portfolio was based on a floating rate tied to the prime rate, Secured Overnight Financing Rate ("SOFR"), or Treasury rates as of September 30, 2023. 57.4% of the loan portfolio is scheduled to mature within five years from September 30, 2023. First Guaranty initiated a process to transfer any LIBOR indexed loans to alternative reference rates such as the prime rate or SOFR as LIBOR was discontinued for repricings after June 30, 2023.

Special mention loans increased $21.1 million to $51.4 million at September 30, 2023 compared to $30.3 million at December 31, 2022. The increase in special mention loans was primarily the result of the downgrade of one commercial lease loan relationship from pass status to special mention totaling $14.0 million and the downgrade of one commercial and industrial loan relationship from pass status to special mention totaling $4.4 million.

Substandard loans increased $49.7 million to $92.5 million at September 30, 2023 compared to $42.7 million at December 31, 2022. The increase in substandard loans was primarily the result of the downgrade of one real estate secured loan relationship in the second quarter of 2023 with an aggregate principal balance of $36.3 million as of September 30 2023. The loans are secured by shopping centers. While the loans are over collateralized based upon recent appraisals totaling $47.4 million, there is no certainty that the Bank will receive full repayment upon liquidation should that become necessary.

Net loans are reduced by the allowance for credit losses which totaled $31.9 million at September 30, 2023 and $23.5 million at December 31, 2022. First Guaranty adopted ASC 326 effective January 1, 2023 and recorded a cumulative adjustment to the allowance of $7.0 million. Loan charge-offs were $2.0 million during the first nine months of 2023 and $5.1 million during the same period in 2022. Recoveries totaled $1.2 million during the first nine months of 2023 and $1.6 million during the same period in 2022. The provision for credit losses totaled $1.5 million for the first nine months of 2023 and $2.9 million for the same period in 2022. See Note 4 of the Notes to Consolidated Financial Statements for more information on loans and Note 5 for more information on the allowance for credit losses.

Investment Securities

Investment securities at September 30, 2023 totaled $400.5 million, a decrease of $51.0 million compared to $451.5 million at December 31, 2022. The portfolio consists of both available for sale (AFS) and held to maturity securities (HTM). The securities designated as held to maturity are agency and corporate debt securities that are part of First Guaranty’s investment strategy and public funds collateralization program. We purchase securities for our investment portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk and meet pledging requirements for public funds and borrowings.

The securities portfolio consisted principally of U.S. Government and Government agency securities, agency mortgage-backed securities, corporate debt securities and municipal bonds. U.S. government agencies consist of FHLB, Federal Farm Credit Bank ("FFCB"), Freddie Mac and Fannie Mae obligations. Mortgage-backed securities that we purchase are issued by Freddie Mac and Fannie Mae. Management monitors the securities portfolio for both credit and interest rate risk. We generally limit the purchase of corporate securities to individual issuers to manage concentration and credit risk. Corporate securities generally have a maturity of 10 years or less. U.S. Government securities consist of U.S. Treasury securities that have maturities of less than two years. Government agency securities generally have maturities of 15 years or less. Agency mortgage-backed securities have stated final maturities of 15 to 20 years.

Our available for sale securities portfolio totaled $79.9 million at September 30, 2023, a decrease of $51.6 million, or 39.3%, compared to $131.5 million at December 31, 2022. The decrease was primarily due to the maturity of U.S. Treasury securities.

Our held to maturity securities portfolio totaled $320.6 million at September 30, 2023, an increase of $0.6 million, or 0.2%, compared to $320.1 million at December 31, 2022.

At September 30, 2023, $50.3 million, or 12.6%, of the securities portfolio was scheduled to mature in less than one year. The majority of these securities were U.S. Treasury securities. $5.0 million, or 1.3%, of the securities portfolio, not including collateralized mortgage obligations and mortgage-backed securities, were scheduled to mature between one and five years. The majority of these securities were corporate bonds. $133.9 million, or 33.4%, of the securities portfolio, not including collateralized mortgage obligations and mortgage-backed securities, were scheduled to mature between five and ten years. Securities, not including collateralized mortgage obligations and mortgage-backed securities, with contractual maturity dates over 10 years totaled $209.1 million, or 52.2%, of the total securities portfolio at September 30, 2023. The average maturity of the securities portfolio is affected by call options that may be exercised by the issuer of the securities and are influenced by market interest rates. Prepayments of mortgages that collateralize mortgage-backed securities also affect the maturity of the securities portfolio. Based on internal forecasts as of September 30, 2023, management believes that the securities portfolio has a forecasted weighted average life of approximately 10.44 years based on the current interest rate environment. The portfolio had an estimated effective duration of 8.03 years at September 30, 2023.

There were no credit related impairment of available for sale securities during the nine months ended September 30, 2023. An allowance for credit losses of $0.1 million for held to maturity securities was recorded upon the adoption of ASC 326 and a provision of $0.1 million was recorded in the third quarter of 2023. The allowance for credit losses for held to maturity securities was $0.1 million at September 30, 2023.

Nonperforming Assets

Non-performing assets consist of non-performing loans and other real-estate owned. Non-performing loans are those on which the accrual of interest has stopped or loans which are contractually 90 days past due on which interest continues to accrue. Loans are ordinarily placed on nonaccrual status when principal and interest is delinquent for 90 days or more. However, management may elect to continue the accrual when the asset is well secured and in the process of collection. It is our policy to discontinue the accrual of interest income on any loan for which we have reasonable doubt as to the payment of interest or principal. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Nonaccrual loans are returned to accrual status when the financial position of the borrower indicates there is no longer any reasonable doubt as to the payment of principal or interest and a reasonable payment performance period is observed (generally considered six months or longer). Other real estate owned consists of property acquired through formal foreclosure, in-substance foreclosure or by deed in lieu of foreclosure.

The table below sets forth the amounts and categories of our nonperforming assets at the dates indicated.

(in thousands)	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real Estate:		
Construction and land development	$ 664	$ 225
Farmland	874	290
1- 4 family	6,827	3,826
Multifamily	537	—
Non-farm non-residential	8,403	3,746
Total Real Estate	**17,305**	**8,087**
Non-Real Estate:		
Agricultural	1,378	1,622
Commercial and industrial	2,827	819
Commercial leases	1,799	1,799
Consumer and other	2,246	1,239
Total Non-Real Estate	**8,250**	**5,479**
Total nonaccrual loans	**25,555**	**13,566**
Loans 90 days and greater delinquent & accruing:		
Real Estate:		
Construction and land development	182	427
Farmland	2,693	—
1- 4 family	593	332
Multifamily	—	157
Non-farm non-residential	956	103
Total Real Estate	**4,424**	**1,019**
Non-Real Estate:		
Agricultural	61	—
Commercial and industrial	3,659	123
Commercial leases	—	—
Consumer and other	—	—
Total Non-Real Estate	**3,720**	**123**
Total loans 90 days and greater delinquent & accruing	**8,144**	**1,142**
Total non-performing loans	**33,699**	**14,708**
Real Estate Owned:		
Construction and land development	251	—
Farmland	—	—
1- 4 family	194	113
Multifamily	—	—
Non-farm non-residential	690	—
Total Real Estate Owned	**1,135**	**113**
Total non-performing assets	**$ 34,834**	**$ 14,821**
Non-performing assets to total loans	**1.29 %**	**0.59 %**
Non-performing assets to total assets	**1.02 %**	**0.47 %**
Non-performing loans to total loans	**1.25 %**	**0.58 %**
Nonaccrual loans to total loans	**0.95 %**	**0.54 %**
Allowance for credit losses to nonaccrual loans	**124.97 %**	**173.36 %**
Net loan charge-offs to average loans	**0.05 %**	**0.18 %**

At September 30, 2023, nonperforming assets totaled $34.8 million, or 1.02% of total assets, compared to $14.8 million, or 0.47%, of total assets at December 31, 2022, which represented an increase of $20.0 million, or 135.0%. The increase in non-performing assets occurred primarily due to an increase in nonaccrual loans, 90 days greater delinquent and still accruing, and other real estate owned. Nonperforming loans included loans previously classified as purchase credit deteriorated following the adoption of CECL.

Nonaccrual loans increased from $13.6 million at December 31, 2022 to $25.6 million at September 30, 2023. The increase in nonaccrual loans was concentrated primarily in non-farm non-residential, one-to four family, and commercial and industrial loans. Nonaccrual loans included $2.5 million in loans with a government guarantee. These are structured as net loss guarantees in which up to 90% of loss exposure is covered.

At September 30, 2023, loans 90 days or greater delinquent and still accruing totaled $8.1 million, an increase of $7.0 million compared to $1.1 million at December 31, 2022. The increase in loans 90 days or greater delinquent and still accruing was concentrated primarily in farmland, commercial and industrial, non-farm non-residential, one-to four family, and agricultural loans.

Other real estate owned at September 30, 2023 totaled $1.1 million, an increase of $1.0 million compared to $0.1 million at December 31, 2022. The increase was primarily due to the addition of a $0.8 million non-farm non-residential property during the first quarter of 2023. This property was related to a loan that was on nonaccrual status at December 31, 2022.

At September 30, 2023, our largest non-performing assets were comprised of the following nonaccrual loans and 90 days or greater delinquent and still accruing loans: (1) a non-farm non-residential loan that totaled $4.7 million; (2) a commercial and industrial loan that totaled $2.4 million; (3) a $2.2 million loan relationship that is classified as purchased credit deteriorated; (4) a commercial lease loan that totaled $1.8 million; (5) a farmland loan that totaled $1.6 million; (6) a non-farm non-residential loan secured by a mobile home facility that totaled $1.3 million; and (7) a farmland loan that totaled $1.1 million.

Allowance for Credit Losses

First Guaranty adopted *FASB ASC Topic 326* "*Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*" *Update No. 2016-13 (*"*ASU 2016-13*"*).* ASU *2016-13* on *January 1, 2023.* ASU *2016-13,* referred to as the Current Expected Credit Loss ("CECL") standard, requires financial assets measured on an amortized cost basis, including loans and held-to-maturity debt securities, to be presented at an amount net of an allowance for credit losses, which reflects expected losses for the full life of the financial asset. Unfunded lending commitments are also within the scope of this topic. Under prior GAAP losses were not recognized until the occurrence of the loss was probable. *See Recent Accounting Pronouncements for more information on the adoption of ASC 326.*

The allowance for credit losses on loans is maintained to absorb potential losses in the loan portfolio. The allowance is increased by the provision for loan losses, offset by recoveries of previously charged-off loans and is decreased by loan charge-offs. The provision is a charge to current expense to provide for current expected loan losses and to maintain the allowance commensurate with management's evaluation of the risks inherent in the loan portfolio. Various factors are taken into consideration when determining the amount of the provision and the adequacy of the allowance. These factors include but are not limited to:

- past due and non-performing assets;
- specific internal analysis of loans requiring special attention;
- the current level of regulatory classified and criticized assets and the associated risk factors with each;
- changes in underwriting standards or lending procedures and policies;
- charge-off and recovery practices;
- national and local economic and business conditions;
- nature and volume of loans;
- overall portfolio quality;
- adequacy of loan collateral;
- quality of loan review system and degree of oversight by our board of directors;
- competition and legal and regulatory requirements on borrowers;
- examinations of the loan portfolio by federal and state regulatory agencies and examinations; and
- review by our internal loan review department and independent accountants.

The data collected from all sources in determining the adequacy of the allowance is evaluated on a regular basis by management with regard to current national and local economic trends, prior loss history, underlying collateral values, credit concentrations and industry risks. An estimate of potential loss on

specific loans is developed in conjunction with an overall risk evaluation of the total loan portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as new information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or collateral dependent. For such loans that are also classified as collateral dependent, an allowance is established when the collateral value is lower than the carrying value of that loan. The general component covers non-classified loans and special mention loans and is based on historical loss experience for the past three years adjusted for qualitative factors described above. An unallocated component is maintained to cover uncertainties that could affect the estimate of probable losses.

The balance in the allowance for credit losses is principally influenced by the provision for loan losses, recoveries, and by net loan loss experience. Additions to the allowance are charged to the provision for credit losses. Losses are charged to the allowance as incurred and recoveries on losses previously charged to the allowance are credited to the allowance at the time recovery is collected.

The allowance for credit losses on loans was $31.9 million, or 1.18% of total loans, and 94.8% of nonperforming loans at September 30, 2023.

Comparing September 30, 2023 to December 31, 2022, there were changes within the specific components of the allowance balance.

A provision for credit losses of $1.5 million was made during the nine months ended September 30, 2023 and $2.9 million for the same period in 2022. The $1.5 million provision included a $0.2 million provision for credit losses related to unfunded commitments and a $0.1 million provision for credit losses on HTM securities. The provisions made were taken to provide for current credit losses and to maintain the allowance proportionate to risks inherent in the loan portfolio.

The loan portfolio factors in the first nine months of 2023 that primarily affected the allocation of the allowance included the following:

- The adoption of the CECL methodology under ASU 2016-13 was the largest contributor to changes in both the size and allocation of the allowance for credit losses. First Guaranty also made adjustments of certain qualitative factors to take into account the current estimated impact of COVID-19, changes in other market conditions, loan concentrations including those related to commercial real estate and loan relationships and related economic conditions on borrowers' ability to repay loans and for allocations to impaired loans within their respective categories.

- Construction and land development loans increased during the first nine months of 2023 due to advances on existing construction lines of credit and new loan originations. The allowance increase related to this portfolio was due to growth in the portfolio along with changes in the qualitative analysis of the portfolio related to economic conditions.

- One-to four-family residential loans increased $52.7 million during the first nine months of 2023. The allowance increase related to this portfolio was due to changes in the qualitative analysis of the portfolio, portfolio growth, and also the adoption of CECL.

- Multifamily loans increased during the first nine months of 2023. The allowance related to this portfolio was increased due to the adoption of the CECL methodology and due to the growth in the portfolio which increased by $1.4 million during the first nine months of 2023.

- Non-farm non-residential loans increased by $59.8 million during the first nine months of 2023. The allowance increase related to this portfolio was due primarily to growth in the portfolio and also to the adoption of CECL.

- Commercial and industrial loans decreased during the first nine months of 2023. The allowance increase related to this portfolio was due to the adoption of the CECL methodology.

- Commercial leases decreased during the first nine months of 2023 from $317.6 million at December 31, 2022 to $292.2 million at September 30, 2023. The allowance decrease related to this portfolio was due to the reduction in this portfolio and due to changes in the qualitative analysis of the portfolio related.

- Consumer and other loans decreased slightly during the first nine months of 2023. The decrease in the related loan loss allowance balance was due primarily to qualitative analysis and the adoption of the CECL methodology.

First Guaranty charged off $2.0 million in loan balances during the first nine months of 2023. The details of the $2.0 million in charged-off loans were as follows:

1. First Guaranty charged off $0.3 million in consumer loans related to Hurricane Ida relief loans during the first nine months of 2023. These loans were originated in the fall of 2021 following Hurricane Ida that impacted Louisiana in August 2021.
2. First Guaranty charged off $0.1 million on a non-farm non-residential loan during the first quarter of 2023. This loan had no remaining principal balance at September 30, 2023. The $0.7 million property related to this loan was moved to other real estate owned during the first quarter of 2023.
3. Smaller loans and overdrawn deposit accounts comprised the remaining $1.6 million of charge-offs for the first nine months of 2023.

Other information related to the allowance for credit losses is as follows:

(in thousands)	**Nine Months Ended September 30, 2023**	**Nine Months Ended September 30, 2022**
Loans:		
Average outstanding balance	$ 2,576,793	$ 2,248,445
Balance at end of period	$ 2,699,393	$ 2,417,327
Allowance for Credit Losses:		
Balance at beginning of year	$ 23,518	$ 24,029
Adoption of ASC 326	8,120	—
Charge-offs	(2,045)	(5,079)
Recoveries	1,165	1,620
Provision	1,178	2,898
Balance at end of period	**$ 31,936**	**$ 23,468**

Deposits

Managing the mix and pricing the maturities of deposit liabilities is an important factor affecting our ability to maximize our net interest margin. The strategies used to manage interest-bearing deposit liabilities are designed to adjust as the interest rate environment changes. We regularly assess our funding needs, deposit pricing and interest rate outlooks. From December 31, 2022 to September 30, 2023, total deposits increased $91.2 million, or 3.3%, to $2.8 billion. Noninterest-bearing demand deposits decreased $66.0 million, or 12.6%, to $458.4 million at September 30, 2023. The decrease in noninterest-bearing demand deposits was primarily concentrated in individual and business noninterest-bearing demand deposits. Interest-bearing demand deposits decreased $24.7 million, or 1.7%, to $1.4 billion at September 30, 2023. The decrease in interest-bearing demand deposits was primarily concentrated in public funds and individual interest-bearing demand deposits that was partially offset by an increase in brokered interest-bearing demand deposits. Savings deposits increased $8.6 million, or 4.2%, to $214.4 million at September 30, 2023, primarily related to increases in business and individual savings deposits. Time deposits increased $173.3 million, or 32.5%, to $706.7 million at September 30, 2023, primarily due to increases in consumer and business time deposits along with increased brokered time deposits of approximately $85.6 million. First Guaranty issued $100 million of additional brokered deposits that subsequently settled in October 2023. These new brokered time deposits had maturities of two and three years. The proceeds from the new deposits were used to reduce short-term FHLB borrowings.

Management will continue to evaluate and update our product mix and related technology in its efforts to attract additional customers. We currently offer a number of deposit products that are competitively priced and designed to attract and retain customers with primary emphasis on noninterest-bearing deposits and other lower cost deposits.

As of September 30, 2023, the aggregate amount of outstanding certificates of deposit in amounts greater than $250,000 was approximately $162.7 million. At September 30, 2023, approximately $21.5 million of First Guaranty's certificates of deposit greater than $250,000 had a remaining term greater than one year.

The total amount of our uninsured deposits (deposits in excess of $250,000, as calculated in accordance with FDIC regulations) was estimated at $280.0 million at September 30, 2023. This total excludes public funds deposits that are collateralized by securities or FHLB letters of credit. The amount of uninsured deposits including collateralized public funds deposits was estimated at $858.2 million at September 30, 2023.

The following table sets forth the distribution of our time deposit accounts.

(in thousands)	**September 30, 2023**
Time deposits of less than $100,000	$ 199,224
Time deposits of $100,000 through $250,000	344,718
Time deposits of more than $250,000	162,749
Total Time Deposits	**$ 706,691**

The following table sets forth the maturity of the time deposits greater than $250,000 at September 30, 2023.

(in thousands)	**September 30, 2023**
Three months or less	$ 35,187
Three to six months	69,409
Six months to one year	36,670
One to three years	19,210
More than three years	2,273
Total Time Deposits greater than $250,000	**$ 162,749**

Public funds deposits totaled $1.1 billion at September 30, 2023 and December 31, 2022. Public funds time deposits totaled $42.5 million at September 30, 2023 compared to $32.4 million at December 31, 2022. Public funds deposits increased primarily due to increased public fund time deposits. First Guaranty has developed a program for the retention and management of public funds deposits. Since the end of 2012, First Guaranty has maintained public funds deposits in excess of $400.0 million. These deposits are from public entities such as school districts, hospital districts, sheriff departments and municipalities. The majority of these funds are under fiscal agency agreements with terms of three years or less. Deposits under fiscal agency agreements are generally stable but public entities may maintain the ability to negotiate term deposits on a specific basis including with other financial institutions. These deposits generally have stable balances as we maintain both operating accounts and time deposits for these entities. There is a seasonal component to public deposit levels associated with annual tax collections. Public funds will increase at the end of the year and during the first quarter. In addition to seasonal fluctuations, there are monthly fluctuations associated with internal payroll and short-term tax collection accounts for our public funds deposit accounts. Public funds deposit accounts are collateralized by FHLB letters of credit, by expanded reciprocal deposit insurance programs, by Louisiana municipal bonds and by eligible government and government agency securities such as those issued by the FHLB, FFCB, Fannie Mae, and Freddie Mac. First Guaranty continues to grow the proportion of its public funds portfolio that is collateralized by reciprocal deposit insurance as an alternative to pledging securities or utilizing FHLB letters of credit. First Guaranty initiated this strategy to more efficiently invest these deposits in higher yielding loans to improve the net interest margin and earnings. Total public funds collateralized by reciprocal deposit insurance programs decreased to $532.7 million at September 30, 2023 compared to $576.3 million at December 31, 2022.

The following table sets forth public funds as a percent of total deposits.

(in thousands except for %)	**September 30, 2023**	**December 31, 2022**
Public Funds:		
Noninterest-bearing Demand	$ 7,197	$ 11,730
Interest-bearing Demand	1,025,522	1,022,760
Savings	41,868	46,354
Time	42,452	32,427
Total Public Funds	**$ 1,117,039**	**$ 1,113,271**
Total Deposits	$ 2,815,009	$ 2,723,792
Total Public Funds as a percent of Total Deposits	**39.7 %**	**40.9 %**

Borrowings

First Guaranty maintains borrowing relationships with other financial institutions as well as the Federal Home Loan Bank on a short and long-term basis to meet liquidity needs. First Guaranty had $152.7 million in short-term borrowings outstanding at September 30, 2023 compared to $146.4 million at December 31, 2022. The short-term borrowings at September 30, 2023 were comprised of short-term Federal Home Loan Bank advances of $125.0 million, a line of credit of $20.0 million, with an outstanding balance of $20.0 million and repurchase agreements of $7.7 million. First Guaranty subsequently reduced short-term borrowings in October 2023 following the issuance of $100 million of brokered time deposits with maturities of two and three years. The short-term borrowings outstanding at December 31, 2022 were comprised of short-term Federal Home Loan Bank advances of $120.0 million, a line of credit of $20.0 million with an outstanding balance of $20.0 million and repurchase agreements of $6.4 million. First Guaranty had available lines of credit of $26.5 million, with $20.0 million outstanding at September 30, 2023. A net availability of $6.5 million remained.

First Guaranty had long-term borrowings from the FHLB that totaled $155.0 million at September 30, 2023. First Guaranty converted previous short-term floating rate borrowings from the FHLB into long-term lower fixed rate borrowings in order to reduce interest expense. First Guaranty has a $20.0 million FHLB advance that matures in the first quarter of 2025, a $100.0 million FHLB advance that matures in the second quarter of 2027, and $35.0 million FHLB advance that matures in the third quarter of 2027.

First Guaranty had senior long-term debt totaling $20.3 million as of September 30, 2023 and $21.9 million at December 31, 2022.

First Guaranty had subordinated debt totaling $15.0 million at September 30, 2023 and December 31, 2022.

First Guaranty had $503.1 million in Federal Home Loan Bank letters of credit as of September 30, 2023 compared to $388.6 million at December 31, 2022. Federal Home Loan Bank letters of credit are obtained primarily for collateralizing public deposits.

Total Shareholders' Equity

Total shareholders' equity increased to $238.8 million at September 30, 2023 from $235.0 million at December 31, 2022. The increase in shareholders' equity was principally the result of an increase of $9.3 million in surplus and a decrease of $0.9 million in accumulated other comprehensive loss, partially offset by a decrease of $7.1 million in retained earnings. The $9.3 million increase in surplus was due to common stock issued in a private placement in May 2023. The decrease in accumulated other comprehensive loss was primarily attributed to the decrease in unrealized losses on available for sale securities during the nine months ended September 30, 2023. The $7.1 million decrease in retained earnings was primarily due to the adoption of CECL which had a $7.9 million after tax reduction to retained earnings, $5.4 million in cash dividends paid on shares of our common stock and $1.7 million in cash dividends paid on shares of our preferred stock, partially offset by net income of $7.9 million during the nine months ended September 30, 2023.

Results of Operations for the Third Quarter Ended September 30, 2023 and 2022

Performance Summary

*Three months ended September 30, 2023 compared to the three months ended September 30, 2022.*Net income for the three months ended September 30, 2023 was $1.8 million, a decrease of $6.3 million, or 78.0%, from $8.1 million for the three months ended September 30, 2022. The decrease in net income for the three months ended September 30, 2023 as compared to the prior year period was the result of several factors. First Guaranty experienced an increase in interest income and a decrease in the provision for loan losses. This increased income was offset by an increase in interest expense, a decrease in noninterest income, and an increase in noninterest expense. Loan interest income increased due to the growth in First Guaranty's loan portfolio, repricing of existing loans to higher market rates, including loan fees recognized as an adjustment to yield. Securities interest income increased due to an increase in the average yield of the investment portfolio. The decrease in the provision was related to changes within the portfolio. Factors that offset the increase in net income included an increase in interest expense due to increases in volume and market interest rates. Noninterest income decreased primarily due to a decrease on gains on the sale of loans. Noninterest expense increased primarily due to increased personnel expenses, legal and professional fees, software expense, and regulatory assessment. Earnings per common share for the three months ended September 30, 2023 was $0.10 per common share, a decrease of 85.7% or $0.60 per common share from $0.70 per common share for the three months ended September 30, 2022.

*Nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.*Net income for the nine months ended September 30, 2023 was $7.9 million, a decrease of $15.8 million, or 66.7%, from $23.8 million for the nine months ended September 30, 2022. The decrease in net income for the nine months ended September 30, 2023 as compared to the prior year period was the result of several factors. First Guaranty experienced an increase in interest income and a decrease in the provision for loan losses. This increased income was offset by an increase in interest expense, a decrease in noninterest income, and an increase in noninterest expense. Loan interest income increased due to the growth in First Guaranty's loan portfolio and repricing of existing loans to higher market rates, including loan fees recognized as an adjustment to yield. Securities interest income increased due to an increase in the average yield of the investment portfolio. The decrease in the provision was related to changes within the portfolio. Factors that offset the increase in net income included an increase in interest expense due to increases in volume and market interest rates. Noninterest income decreased primarily due a decrease on the sale of loans. Noninterest expense increased primarily due to increased personnel expenses, legal and professional fees, software expense, regulatory assessment, and data processing expenses. Earnings per common share for the nine months ended September 30, 2023 was $0.56 per common share, a decrease of 72.7% or $1.49 per common share from $2.05 per common share for the nine months ended September 30, 2022.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income earned on interest-earning assets, including loans and securities, and interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest-earning assets and interest-bearing liabilities, combine to affect net interest income. First Guaranty's assets and liabilities are generally most affected by changes in the Federal Funds rate, LIBOR rate, SOFR rate, short term Treasury rates such as one month and three month Treasury bills, and longer term Treasury rates such as the U.S. ten year Treasury rate. Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities. There may also be a time lag in the effect of interest rate changes on assets and liabilities. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds.

A financial institution's asset and liability structure is substantially different from that of a non-financial company, in that virtually all assets and liabilities are monetary in nature. Accordingly, changes in interest rates may have a significant impact on a financial institution's performance. The impact of interest rate changes depends on the sensitivity to the change of our interest-earning assets and interest-bearing liabilities. The effects of the changing interest rate environment in recent periods and our interest sensitivity position is discussed below.

*Three months ended September 30, 2023 compared to the three months ended September 30, 2022.*Net interest income for the three months ended September 30, 2023 and 2022 was $20.4 million and $25.4 million, respectively. The decrease in net interest income for the three months ended September 30, 2023 as compared to the prior year period was primarily due to an increase in the average balance of our total interest-bearing liabilities and an increase in the average rate of our total interest-bearing liabilities, partially offset by an increase in the average balance of our total interest-earning assets and an increase in the average yield of our total interest-earning assets. For the three months ended September 30, 2023, the average balance of our total interest-bearing liabilities increased by $350.7 million to $2.6 billion primarily due to growth in interest-bearing deposits and borrowings. The average rate of our total interest-bearing liabilities increased by 244 basis points to 4.19% for the three months ended September 30, 2023 from 1.75% for the three months ended September 30, 2022. The rise in market interest rates, particularly associated with Treasury rates, contributed to the increase in our liabilities cost. The primary source of the increase in liabilities cost was associated with interest bearing demand deposits for public funds that are primarily indexed to Treasury rates. For the three months ended September 30, 2023, the average balance of our total interest-earning assets increased by $275.5 million to $3.2 billion due to strong growth in our loan portfolio. The average yield of our interest-earning assets increased by 112 basis points to 5.92% for the three months ended September 30, 2023 from 4.80% for the three months ended September 30, 2022 due to an improved mix of higher yielding assets. As a result, our net interest rate spread decreased 132 basis points to 1.73% for the three months ended September 30, 2023 from 3.05% for the three months ended September 30, 2022. Our net interest margin decreased 92 basis points to 2.54% for the three months ended September 30, 2023 from 3.46% for the three months ended September 30, 2022.

Nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Net interest income for the nine months ended September 30, 2023 and 2022 was $63.7 million and $76.7 million, respectively. The decrease in net interest income for the nine months ended September 30, 2023 as compared to the prior year period was primarily due to an increase in the average balance of our total interest-bearing liabilities and an increase in the average rate of our total interest-bearing liabilities, partially offset by an increase in the average balance of our total interest-earning assets and an increase in the average yield of our total interest-earning assets. For the nine months ended September 30, 2023, the average balance of our total interest-bearing liabilities increased by $285.8 million to $2.5 billion due to growth in interest-bearing deposits and borrowings. The average rate of our total interest-bearing liabilities increased by 243 basis points to 3.75% for the nine months ended September 30, 2023 from 1.32% for the nine months ended September 30, 2022. The rise in market interest rates, particularly associated with Treasury rates, contributed to the increase in our liabilities cost. The primary source of the increase in liabilities cost was associated with interest bearing demand deposits for public funds that are primarily indexed to Treasury rates. For the nine months ended September 30, 2023, the average balance of our total interest-earning assets increased by $238.6 million to $3.1 billion due to strong growth in our loan portfolio. The average yield of our interest-earning assets increased by 113 basis points to 5.73% for the nine months ended September 30, 2023 from 4.60% for the nine months ended September 30, 2022 due to an improved mix of higher yielding assets. As a result, our net interest rate spread decreased 130 basis points to 1.98% for the nine months ended September 30, 2023 from 3.28% for the nine months ended September 30, 2022. Our net interest margin decreased 84 basis points to 2.75% for the nine months ended September 30, 2023 from 3.59% for the nine months ended September 30, 2022.

Interest Income

*Three months ended September 30, 2023 compared to the three months ended September 30, 2022.*Interest income increased $12.4 million, or 35.1%, to $47.6 million for the three months ended September 30, 2023 as compared to the prior year period. First Guaranty's loan portfolio expanded during the third quarter of 2023 due to growth associated with our loan originations and existing loans repriced to higher market rates. These factors contributed to the increase in interest income as the average balance of our total interest-earning assets, primarily associated with loans, increased, and the average yield of interest-earning assets increased. The average balance of our interest-earning assets increased $275.5 million to $3.2 billion for the three months ended September 30, 2023 as compared to the prior year. The average yield of interest-earning assets increased by 112 basis points to 5.92% for the three months ended September 30, 2023 compared to 4.80% for the three months ended September 30, 2022.

Interest income on securities increased $20,000 to $2.3 million for the three months ended September 30, 2023 as compared to the prior year period primarily as a result of an increase in average yield of securities. The average yield on securities increased 26 basis points to 2.24% for the three months ended September 30, 2023 compared to 1.98% for the nine months ended September 30, 2022 due to the decrease in lower yielding Treasury securities that matured in the second quarter of 2023. The average balance of securities decreased $48.2 million to $412.2 million for the three months ended September 30, 2023 from $460.4 million for the three months ended September 30, 2022 primarily due to a decrease in the average balance of our U.S. Treasuries securities portfolio compared to the prior year.

Interest income on loans increased $11.0 million or 34.0%, to $43.4 million for the three months ended September 30, 2023 as compared to the prior year period as a result of an increase in the average balance and average yield of loans. The average balance of loans (excluding loans held for sale) increased by $287.7 million to $2.6 billion for the three months ended September 30, 2023 from $2.3 billion for the three months ended September 30, 2022 as a result of new loan originations. The average yield on loans (excluding loans held for sale) increased by 106 basis points to 6.54% for the three months ended September 30, 2023 from 5.48% for the three months ended September 30, 2022 due to the improved mix of loans along with an increase in market interest rates.

Nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Interest income increased $34.4 million, or 35.0%, to $132.7 million for the nine months ended September 30, 2023 as compared to the prior year period. First Guaranty's loan portfolio expanded during the first nine months of 2023 due to growth associated with our loan originations and existing loans repricing to higher market rates. These factors contributed to the increase in interest income as the average balance of our total interest-earning assets, primarily associated with loans, increased, and the average yield of interest-earning assets increased. The average balance of our interest-earning assets increased $238.6 million to $3.1 billion for the nine months ended September 30, 2023 as compared to the prior year. The average yield of interest-earning assets increased by 113 basis points to 5.73% for the nine months ended September 30, 2023 compared to 4.60% for the nine months ended September 30, 2022.

Interest income on securities increased $0.2 million to $7.1 million for the nine months ended September 30, 2023 as compared to the prior year period primarily as a result of an increase in average yield of securities. The average yield on securities increased 23 basis points to 2.29% for the nine months ended September 30, 2023 compared to 2.06% for the nine months ended September 30, 2022 due to the decrease in lower yielding Treasury securities that matured in the first nine months of 2023. The average balance of securities decreased $34.7 million to $415.4 million for the nine months ended September 30, 2023 from $450.1 million for the nine months ended September 30, 2022 primarily due to a decrease in the average balance of our U.S. Treasuries securities portfolio compared to the prior year.

Interest income on loans increased $31.4 million, or 34.8%, to $121.8 million for the nine months ended September 30, 2023 as compared to the prior year period as a result of an increase in the average balance and average yield of loans. The average balance of loans (excluding loans held for sale) increased by $328.3 million to $2.6 billion for the nine months ended September 30, 2023 from $2.2 billion for the nine months ended September 30, 2022 as a result of new loan originations. The average yield on loans (excluding loans held for sale) increased by 94 basis points to 6.32% for the nine months ended September 30, 2023 from 5.38% for the nine months ended September 30, 2022 due to the improved mix of loans along with an increase in market interest rates.

Interest Expense

Three months ended September 30, 2023 compared to the three months ended September 30, 2022. Interest expense increased $17.4 million, or 177.3%, to $27.2 million for the three months ended September 30, 2023 from $9.8 million for the three months ended September 30, 2022 due primarily to an increase in market interest rates and due to an increase in the average balance of interest-bearing liabilities. The average rate of interest-bearing demand deposits was 4.47% for the three months ended September 30, 2023 and 1.77% for the three months ended September 30, 2022. The increase in market interest rates, particularly U.S. Treasury rates, contributed to the increase in rates paid on interest-bearing demand deposits. The largest concentration of interest-bearing demand deposits is associated with public funds deposits that are primarily indexed to Treasury rates. Treasury rates increased as the Federal Reserve increased rates to address increased inflation in the U.S. economy. The average rate of time deposits increased 191 basis points during the three months ended September 30, 2023 to 3.80% as compared to the prior year period. The increase in the average rate of time deposits was due to changes in market rates. The average balance of interest-bearing liabilities increased by $350.7 million during the three months ended September 30, 2023 to $2.6 billion as compared to the prior year period. This increase was a result of a $31.7 million increase in the average balance of interest-bearing demand deposits, a $146.3 million increase in the average balance of time deposits, and a $177.2 million increase in the average balance of borrowings, offset by a $4.5 million decrease in the average balance of savings deposits.

Nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Interest expense increased $47.5 million, or 220.7%, to $69.0 million for the nine months ended September 30, 2023 from $21.5 million for the nine months ended September 30, 2022 due primarily to an increase in market interest rates and due to an increase in the average balance of interest-bearing liabilities. The average rate of interest-bearing demand deposits was 4.05% for the nine months ended September 30, 2023 and 1.13% for the nine months ended September 30, 2022. The increase in market interest rates, particularly U.S. Treasury rates, contributed to the increase in rates paid on interest-bearing demand deposits. The largest concentration of interest-bearing demand deposits is associated with public funds deposits that are primarily indexed to Treasury rates. Treasury rates increased as the Federal Reserve increased rates to address increased inflation in the U.S. economy. The average rate of time deposits increased 139 basis points during the nine months ended September 30, 2023 to 3.28% as compared to the prior year period. The increase in the average rate of time deposits was due to changes in market rates. The average balance of interest-bearing liabilities increased by $285.8 million during the nine months ended September 30, 2023 to $2.5 billion as compared to the prior year period. This increase was a result of a $108.2 million increase in the average balance of interest-bearing demand deposits, a $71.9 million increase in the average balance of time deposits, and a $106.2 million increase in the average balance of borrowings, offset by a $0.5 million decrease in the average balance of savings deposits.

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

The net interest income yield shown below in the average balance sheet is calculated by dividing net interest income by average interest-earning assets and is a measure of the efficiency of the earnings from balance sheet activities. It is affected by changes in the difference between interest on interest-earning assets and interest-bearing liabilities and the percentage of interest-earning assets funded by interest-bearing liabilities.

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
(in thousands except for %)	Average Balance	Interest	Yield/Rate (5)	Average Balance	Interest	Yield/Rate (5)
Assets						
Interest-earning assets:						
Interest-earning deposits with banks	$ 145,235	$ 1,897	5.18 %	$ 109,333	$ 561	2.04 %
Securities (including FHLB stock)	412,169	2,323	2.24 %	460,370	2,303	1.98 %
Federal funds sold	331	—	— %	272	—	— %
Loans held for sale	—	—	— %	—	—	— %
Loans, net of unearned income(6)	2,632,564	43,407	6.54 %	2,344,868	32,386	5.48 %
Total interest-earning assets	**3,190,299**	**$ 47,627**	**5.92 %**	**2,914,843**	**$ 35,250**	**4.80 %**
Noninterest-earning assets:						
Cash and due from banks	18,418			17,611		
Premises and equipment, net	62,348			58,126		
Other assets	27,420			27,430		
Total Assets	**$ 3,298,485**			**$ 3,018,010**		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits	$ 1,429,402	$ 16,102	4.47 %	$ 1,397,720	$ 6,243	1.77 %
Savings deposits	216,089	1,001	1.84 %	220,567	267	0.48 %
Time deposits	678,521	6,504	3.80 %	532,253	2,533	1.89 %
Borrowings	251,317	3,575	5.64 %	74,078	758	4.06 %
Total interest-bearing liabilities	**2,575,329**	**$ 27,182**	**4.19 %**	**2,224,618**	**$ 9,801**	**1.75 %**
Noninterest-bearing liabilities:						
Demand deposits	461,489			554,218		
Other	20,660			10,448		
Total Liabilities	**3,057,478**			**2,789,284**		
Shareholders' equity	241,007			228,726		
Total Liabilities and Shareholders' Equity	**$ 3,298,485**			**$ 3,018,010**		
Net interest income		**$ 20,445**			**$ 25,449**	
Net interest rate spread (1)			**1.73 %**			**3.05 %**
Net interest-earning assets (2)	**$ 614,970**			**$ 690,225**		
Net interest margin (3), (4)			**2.54 %**			**3.46 %**
Average interest-earning assets to interest-bearing liabilities			**123.88 %**			**131.03 %**

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average total interest-earning assets.

(4) The tax adjusted net interest margin was 2.55% and 3.47% for the above periods ended September 30, 2023 and 2022, respectively. A 21% tax rate was used to calculate the effect on securities income from tax exempt securities for the above periods ended September 30, 2023 and 2022, respectively.

(5) Annualized.

(6) Includes loan fees of $1.5 million and $1.8 million or the above periods ended September 30, 2023 and 2022, respectively. PPP loan fee income of $0 and $0.2 million was recognized for above periods ended September 30, 2023 and 2022, respectively.

(in thousands except for %)	Nine Months Ended September 30, 2023 Average Balance	Interest	Yield/Rate (5)	Nine Months Ended September 30, 2022 Average Balance	Interest	Yield/Rate (5)
Assets						
Interest-earning assets:						
Interest-earning deposits with banks	$ 102,976	$ 3,719	4.83 %	$ 158,206	$ 924	0.78 %
Securities (including FHLB stock)	415,442	7,130	2.29 %	450,100	6,922	2.06 %
Federal funds sold	391	—	— %	222	—	— %
Loans held for sale	—	—	— %	—	—	— %
Loans, net of unearned income(6)	2,576,793	121,846	6.32 %	2,248,445	90,423	5.38 %
Total interest-earning assets	**3,095,602**	**$ 132,695**	**5.73 %**	**2,856,973**	**$ 98,269**	**4.60 %**
Noninterest-earning assets:						
Cash and due from banks	18,706			18,472		
Premises and equipment, net	60,157			58,251		
Other assets	27,707			28,461		
Total Assets	**$ 3,202,172**			**$ 2,962,157**		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits	$ 1,458,405	$ 44,187	4.05 %	$ 1,350,190	$ 11,403	1.13 %
Savings deposits	211,515	2,418	1.53 %	212,013	429	0.27 %
Time deposits	624,190	15,304	3.28 %	552,340	7,828	1.89 %
Borrowings	165,508	7,127	5.76 %	59,263	1,867	4.21 %
Total interest-bearing liabilities	**2,459,618**	**$ 69,036**	**3.75 %**	**2,173,806**	**$ 21,527**	**1.32 %**
Noninterest-bearing liabilities:						
Demand deposits	489,154			554,388		
Other	16,954			8,424		
Total Liabilities	**2,965,726**			**2,736,618**		
Shareholders' equity	236,446			225,539		
Total Liabilities and Shareholders' Equity	**$ 3,202,172**			**$ 2,962,157**		
Net interest income		**$ 63,659**			**$ 76,742**	
Net interest rate spread (1)			**1.98 %**			**3.28 %**
Net interest-earning assets (2)	**$ 635,984**			**$ 683,167**		
Net interest margin (3), (4)			**2.75 %**			**3.59 %**
Average interest-earning assets to interest-bearing liabilities			**125.86 %**			**131.43 %**

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.
(4) The tax adjusted net interest margin was 2.75% and 3.60% for the above periods ended September 30, 2023 and 2022, respectively. A 21% tax rate was used to calculate the effect on securities income from tax exempt securities for the above periods ended September 30, 2023 and 2022, respectively.
(5) Annualized.
(6) Includes loan fees of $4.3 million and $6.3 million or the above periods ended September 30, 2023 and 2022, respectively. PPP loan fee income of $16,000 and $1.3 million was recognized for above periods ended September 30, 2023 and 2022, respectively.

Provision for Credit and Loan Losses

A provision for credit and loan losses is a charge to income in an amount that management believes is necessary to maintain an adequate allowance for credit losses. The provision is based on management's regular evaluation of current economic conditions in our specific markets as well as regionally and nationally, changes in the character and size of the loan portfolio, underlying collateral values securing loans, and other factors which deserve recognition in estimating loan losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change.

For the three months ended September 30, 2023, the provision for credit losses was $0.6 million compared to $1.5 million for the same period in 2022. The $0.6 million included a $0.1 million provision for credit losses related to unfunded commitments and a $0.1 million provision for credit losses on HTM securities. The decrease in the provision was attributable to the evaluation of the loan portfolio at September 30, 2023. Total charge-offs were $0.5 million for the three months ended September 30, 2023 and $1.8 million for the same period in 2022. Partially offsetting these charge-offs were recoveries that totaled $0.2 million for the three months ended September 30, 2023 and 2022.

For the nine months ended September 30, 2023, the provision for credit losses was $1.5 million compared to $2.9 million for the same period in 2022. The $1.5 million provision included a $0.2 million provision for credit losses related to unfunded commitments and a $0.1 million provision for credit losses on HTM securities. Total charge-offs were $2.0 million for the nine months ended September 30, 2023 and $5.1 million for the same period in 2022. Charge-offs for the nine months ended September 30, 2023 were concentrated in consumer relief loans associated with Hurricane Ida and a non-farm non-residential loan. Hurricane Ida consumer relief loans charge-offs totaled $0.3 million during the first nine months of 2023. Partially offsetting these charge-offs were recoveries that totaled $1.2 million for the nine months ended September 30, 2023 and $1.6 million for the same period in 2022.

We believe that the allowance is adequate to cover current expected losses in the loan portfolio given the current economic conditions, and current expected net charge-offs and non-performing asset levels. Economic uncertainty may result in additional increases to the allowance for credit losses in future periods.

Noninterest Income

Our primary sources of recurring noninterest income are customer service fees, ATM and debit card fees, loan fees, gains on the sales of loans and available for sale securities and other service fees. Noninterest income does not include loan origination fees which are recognized over the life of the related loan as an adjustment to yield using the interest method.

Noninterest income totaled $2.5 million for the three months ended September 30, 2023, a decrease of $1.5 million from $4.0 million for the three months ended September 30, 2022. The decrease was primarily due to decreased gains on the sale of loans. Service charges, commissions and fees totaled $0.9 million for the three months ended September 30, 2023 compared to $0.8 million for the same period in 2022. ATM and debit card fees totaled $0.8 million for the three months ended September 30, 2023 compared to $0.9 million for the same period in 2022. Net securities losses were $0 for the three months ended September 30, 2023 and 2022. Net gains on the sale of loans were $0 for the three months ended September 30, 2023 compared to $1.6 million for the same period in 2022. Other noninterest income totaled $0.8 million for the three months ended September 30, 2023 compared to $0.7 million for the same period in 2022.

Noninterest income totaled $8.0 million for the nine months ended September 30, 2023, a decrease of $0.5 million from $8.5 million for the nine months ended September 30, 2022. The decrease was primarily due decrease gains on the sale of loans. Service charges, commissions and fees totaled $2.5 million for the nine months ended September 30, 2023 compared to $2.4 million for the same period in 2022. ATM and debit card fees totaled $2.4 million for the nine months ended September 30, 2023 compared to $2.6 million for the same period in 2022. Net securities losses were $0 for the nine months ended September 30, 2023 and compared to $17,000 for the same period in 2022. Net gains on the sale of loans were $12,000 for the nine months ended September 30, 2023 compared to $1.7 million for the same period in 2022. Other noninterest income totaled $3.1 million for the nine months ended September 30, 2023 compared to $1.9 million for the same period in 2022.

Noninterest Expense

Noninterest expense includes salaries and employee benefits, occupancy and equipment expense and other types of expenses. Noninterest expense totaled $20.0 million for the three months ended September 30, 2023 and $17.8 million for the three months ended September 30, 2022. Salaries and benefits expense totaled $10.4 million for the three months ended September 30, 2023 and $9.2 million for the three months ended September 30, 2022. The increase was primarily due to the increase in personnel expense from new hires. Occupancy and equipment expense totaled $2.1 million for the three months ended September 30, 2023 and $2.3 million for the same period in 2022. Other noninterest expense totaled $7.4 million for the three months ended September 30, 2023 and $6.3 million for the same period in 2022.

Noninterest expense totaled $59.9 million for the nine months ended September 30, 2023 and $52.4 million for the nine months ended September 30, 2022. Salaries and benefits expense totaled $30.4 million for the nine months ended September 30, 2023 and $27.2 million for the nine months ended September 30, 2022. The increase was primarily due to the increase in personnel expense from new hires. Occupancy and equipment expense totaled $6.5 million for the nine months ended September 30, 2023 and $6.7 million for the same period in 2022. Other noninterest expense totaled $23.0 million for the nine months ended September 30, 2023 and $18.4 million for the same period in 2022. Legal and professional fees were higher due to the settlement of a lawsuit and the settlement payment made to the SEC for the Employee Stock Grant Program.

The following table presents, for the periods indicated, the major categories of other noninterest expense:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Other noninterest expense:				
Legal and professional fees	$ 1,296	$ 982	$ 4,829	$ 2,974
Data processing	497	430	1,559	1,101
ATM fees	448	381	1,271	1,233
Marketing and public relations	463	448	1,472	1,167
Taxes - sales, capital, and franchise	558	485	1,664	1,323
Operating supplies	224	160	664	484
Software expense and amortization	1,366	1,023	3,768	2,921
Travel and lodging	330	289	1,118	810
Telephone	96	127	264	337
Amortization of core deposit intangibles	174	174	522	522
Donations	148	176	574	514
Net costs from other real estate and repossessions	124	83	243	344
Regulatory assessment	676	531	2,112	1,581
Other	1,046	1,023	2,930	3,053
Total other noninterest expense	**$ 7,446**	**$ 6,312**	**$ 22,990**	**$ 18,364**

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other non-deductible expenses and the statutory tax rate. The provision for income taxes for the three months ended September 30, 2023 and 2022 was $0.5 million and $2.1 million, respectively. The provision for income taxes decreased due to a decrease in income before income taxes. First Guaranty's statutory tax rate was 21.0% for the three months ended September 30, 2023 and 2022.

The provision for income taxes for the nine months ended September 30, 2023 and 2022 was $2.4 million and $6.2 million, respectively. The provision for income taxes decreased due to a decrease in income before income taxes. First Guaranty's statutory tax rate was 21.0% for the nine months ended September 30, 2023 and 2022.

Liquidity and Capital Resources

Liquidity

Liquidity refers to the ability or flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available to meet customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Liquid assets include cash and due from banks, interest-earning demand deposits with banks, federal funds sold and available for sale investment securities.

First Guaranty's cash and cash equivalents totaled $201.3 million at September 30, 2023 compared to $83.2 million at December 31, 2022. Loans maturing within one year or less at September 30, 2023 totaled $384.8 million. At September 30, 2023, time deposits maturing within one year or less totaled $507.6 million compared to $312.9 million at December 31, 2022. Time deposits maturing after one year through three years totaled $109.2 million at September 30, 2023 compared to $183.0 million at December 31, 2022. Time deposits maturing after three years totaled $89.9 million at September 30, 2023 compared to $37.4 million at December 31, 2022. First Guaranty's held to maturity ("HTM") securities portfolio at September 30, 2023 was $320.6 million, or 80.1% of the investment portfolio, compared to $320.1 million, or 70.9% at December 31, 2022. First Guaranty's available for sale ("AFS") securities portfolio was $79.9 million, or 19.9% of the investment portfolio as of September 30, 2023 compared to $131.5 million, or 29.1% of the investment portfolio at December 31, 2022. The majority of the AFS portfolio was comprised of U.S. Government Treasuries, municipal bonds and subordinated debt securities.

First Guaranty maintained a net borrowing capacity at the Federal Home Loan Bank totaling $207.7 million and $369.5 million at September 30, 2023 and December 31, 2022, respectively with $280.0 million in FHLB advances outstanding at September 30, 2023 compared to $120.0 million at December 31, 2022, respectively. The advances outstanding at September 30, 2023 were comprised of short-term advances totaling $125.0 million along with long-term advances that totaled $155.0 million. The $20.0 million long-term FHLB advance matures in the first quarter of 2025, the $100.0 million FHLB long-term advance matures in the second quarter of 2027, and the $35.0 million FHLB long-term advance matures in the third quarter of 2027. The advances outstanding at December 31, 2022 were comprised of short-term advances that totaled $120.0 million. The change in borrowing capacity with the Federal Home Loan Bank was due to changes in the value that First Guaranty receives on pledged collateral and due to First Guaranty's usage of the line. First Guaranty has increasingly transitioned public funds deposits into reciprocal deposit programs for collateralization as an alternative to FHLB letters of credit. We also maintain federal funds lines of credit at various correspondent banks with borrowing capacity of $100.5 million. As of September 30, 2023, First Guaranty had two revolving lines of credit totaling $26.5 million at the parent company level secured by a pledge of the Bank's common stock, with an outstanding balance of $20.0 million at September 30, 2023. On October 5, 2023, First Guaranty entered into a loan agreement providing for term debt in the amount of $40.3 million and a revolving line of credit in the amount of $21.0 million. The proceeds of the term loan were used to repay the $20.0 million of the line of credit outstanding as of September 30, 2023, which previous line of credit was also terminated at that time. We also have a discount window line with the Federal Reserve Bank that totaled $214.7 million at September 30, 2023 which was an increase of $185.7 million compared to availability of $29.0 million at December 31, 2022. First Guaranty did not have any advances under this facility at September 30, 2023. Management believes there is sufficient liquidity to satisfy current operating needs.

Capital Resources

First Guaranty's capital position is reflected in shareholders' equity, subject to certain adjustments for regulatory purposes. Further, our capital base allows us to take advantage of business opportunities while maintaining the level of resources we deem appropriate to address business risks inherent in daily operations.

Total shareholders' equity increased to $238.8 million at September 30, 2023 from $235.0 million at December 31, 2022. The increase in shareholders' equity was principally the result of an increase of $9.3 million in surplus and a decrease of $0.9 million in accumulated other comprehensive loss, partially offset by a $7.1 million decrease in retained earnings, driven in large part by the one-time CECL adjustment. The $9.3 million increase in surplus was due to common stock issues in a private placement in May 2023. The decrease in accumulated other comprehensive loss was primarily attributed to the decrease in unrealized losses on available for sale securities during the nine months ended September 30, 2023. The $7.1 million decrease in retained earnings was due to an after tax CECL adjustment of $7.9 million, $5.4 million in cash dividends paid on shares of our common stock and $1.7 million in cash dividends paid on shares of our preferred stock, partially offset by net income of $7.9 million during the nine months ended September 30, 2023.

Regulatory Capital

Risk-based capital regulations adopted by the FDIC require banks to achieve and maintain specified ratios of capital to risk-weighted assets. Similar capital regulations apply to bank holding companies over $3.0 billion in assets. The risk-based capital rules are designed to measure "Tier 1" capital (consisting of common equity, retained earnings and a limited amount of qualifying perpetual preferred stock and trust preferred securities, net of goodwill and other intangible assets and accumulated other comprehensive income) and total capital in relation to the credit risk of both on- and off- balance sheet items. Under the guidelines, one of its risk weights is applied to the different on-balance sheet items. Off-balance sheet items, such as loan commitments, are also subject to risk weighting. Applicable bank holding companies and all banks must maintain a minimum total capital to total risk weighted assets ratio of 8.00%, at least half of which must be in the form of core or Tier 1 capital. These guidelines also specify that bank holding companies that are experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels.

In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements. As of September 30, 2023, the Bank's capital conservation buffer was 2.72% exceeding the minimum of 2.50%.

As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the Federal Reserve Board has amended its small bank holding company and savings and loan holding company policy statement to provide that holding companies with consolidated assets of less than $3 billion that are (i) not engaged in significant nonbanking activities, (ii) do not conduct significant off-balance sheet activities, and (3) do not have a material amount of SEC-registered debt or equity securities, other than trust preferred securities, that contribute to an organization's complexity, are no longer subject to regulatory capital requirements, effective August 30, 2018.

In addition, as a result of the legislation, the federal banking agencies have developed a "Community Bank Leverage Ratio" (the ratio of a bank's Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies set the new Community Bank Leverage Ratio at 9%. Pursuant to the CARES Act, the federal banking agencies set the Community Bank Leverage Ratio at 8% beginning in the second quarter of 2020 through the end of 2020. Beginning in 2021, the Community Bank Leverage Ratio increased to 8.5% for the calendar year. Community banks will have until January 1, 2022, before the Community Bank Leverage Ratio requirement will return to 9%. A financial institution can elect to be subject to this new definition. As of September 30, 2023, the Bank did not elect to follow the Community Bank Leverage Ratio.

At September 30, 2023, we satisfied the minimum regulatory capital requirements and were well capitalized within the meaning of federal regulatory requirements.

	"Well Capitalized Minimums"	As of September 30, 2023	As of December 31, 2022
Bank:			
Tier 1 Leverage Ratio	5.00 %	8.94 %	9.35 %
Tier 1 Risk-based Capital Ratio	8.00 %	9.79 %	10.31 %
Total Risk-based Capital Ratio	10.00 %	10.72 %	11.16 %
Common Equity Tier One Capital Ratio	6.50 %	9.79 %	10.31 %

Although we had over $3.0 billion in assets at September 30, 2023, under Federal Reserve guidance, First Guaranty will maintain its status as a "small bank holding company" until March 31, 2024 or earlier in certain circumstances. Once we are no longer a small bank holding company, both the Bank and First Guaranty will be required to maintain specified ratios of capital to risk-weighted assets.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management and Market Risk

Our asset/liability management (ALM) process consists of quantifying, analyzing and controlling interest rate risk (IRR) to maintain reasonably stable net interest income levels under various interest rate environments. The principal objective of ALM is to maximize net interest income while operating within acceptable limits established for interest rate risk and to maintain adequate levels of liquidity.

The majority of our assets and liabilities are monetary in nature. Consequently, one of our most significant forms of market risk is interest rate risk, which is inherent in our lending and deposit-taking activities. Our assets, consisting primarily of loans secured by real estate and fixed rate securities in our investment portfolio, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. The board of directors of First Guaranty Bank has established two committees, the management asset liability committee and the board investment committee, to oversee the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors. The management asset liability committee is comprised of senior officers of the Bank and meets as needed to review our asset liability policies and interest rate risk position. The board ALCO investment committee is comprised of certain members of the board of directors of the Bank and meets monthly. The management asset liability committee provides a monthly report to the board ALCO investment committee.

The need for interest sensitivity gap management is most critical in times of rapid changes in overall interest rates. We generally seek to limit our exposure to interest rate fluctuations by maintaining a relatively balanced mix of rate sensitive assets and liabilities on a one-year time horizon and greater than one-year time horizon. Because of the significant impact on net interest margin from mismatches in repricing opportunities, we monitor the asset-liability mix periodically depending upon the management asset liability committee's assessment of current business conditions and the interest rate outlook. We maintain exposure to interest rate fluctuations within prudent levels using varying investment strategies. These strategies include, but are not limited to, frequent internal modeling of asset and liability values and behavior due to changes in interest rates. We monitor cash flow forecasts closely and evaluate the impact of both prepayments and extension risk.

The following interest sensitivity analysis is one measurement of interest rate risk. This analysis reflects the contractual maturity characteristics of assets and liabilities over various time periods. This analysis does not factor in prepayments or interest rate floors on loans which may significantly change the report. This table includes nonaccrual loans in their respective maturity periods. The gap indicates whether more assets or liabilities are subject to repricing over a given time period. The interest sensitivity analysis at September 30, 2023 illustrated below reflects a liability-sensitive position with a negative cumulative gap on a one-year basis.

The interest spread and liability funding discussed below are directly related to changes in asset and liability mixes, volumes, maturities and repricing opportunities for interest-earning assets and interest-bearing liabilities. Interest-sensitive assets and liabilities are those which are subject to repricing in the near term, including both floating or adjustable rate instruments and instruments approaching maturity. The interest sensitivity gap is the difference between total interest-sensitive assets and total interest-sensitive liabilities. Interest rates on our various asset and liability categories do not respond uniformly to changing market conditions. Interest rate risk is the degree to which interest rate fluctuations in the marketplace can affect net interest income.

	September 30, 2023				
	Interest Sensitivity Within				
(in thousands except for %)	**3 Months Or Less**	**Over 3 Months thru 12 Months**	**Total One Year**	**Over One Year**	**Total**
Earning Assets:					
Loans (including loans held for sale)	$ 658,611	$ 337,109	$ 995,720	$ 1,703,673	$ 2,699,393
Securities (including FHLB stock)	13,435	50,122	63,557	350,165	413,722
Federal Funds Sold	450	—	450	—	450
Other earning assets	185,227	—	185,227	—	185,227
Total earning assets	**$ 857,723**	**$ 387,231**	**$ 1,244,954**	**$ 2,053,838**	**$ 3,298,792**
Source of Funds:					
Interest-bearing accounts:					
Demand deposits	$ 1,435,555	$ —	$ 1,435,555	$ —	$ 1,435,555
Savings deposits	214,371	—	214,371	—	214,371
Time deposits	129,200	378,413	507,613	199,078	706,691
Short-term borrowings	145,000	—	145,000	6,867	151,867
Long-term borrowings	20,306	—	20,306	155,000	175,306
Junior subordinated debt	15,000	—	15,000	—	15,000
Noninterest-bearing, net	—	—	—	600,002	600,002
Total source of funds	**$ 1,959,432**	**$ 378,413**	**$ 2,337,845**	**$ 960,947**	**$ 3,298,792**
Period gap	$ (1,101,709)	$ 8,818	$ (1,092,891)	$ 1,092,891	
Cumulative gap	$ (1,101,709)	$ (1,092,891)	$ (1,092,891)	$ —	
Cumulative gap as a percent of earning assets	(33.4)%	(33.1)%	(33.1)%		

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As defined by the Securities and Exchange Commission in Exchange Act Rules 13a-15(e) and 15d-15(e), a Company's "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within time periods specified in the Commission's rules and forms. First Guaranty maintains such controls designed to ensure this material information is communicated to Management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decision regarding required disclosure.

Management, with the participation of the CEO and CFO, have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, the CEO and CFO have concluded that the disclosure controls and procedures as of the end of the period covered by this quarterly report are effective. There were no changes in First Guaranty's internal control over financial reporting during the last fiscal quarter in the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, First Guaranty's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

First Guaranty is subject to various legal proceedings in the normal course of its business. First Guaranty assesses its liabilities and contingencies in connection with outstanding legal proceedings. Where it is probable that First Guaranty will incur a loss and the amount of the loss can be reasonably estimated, First Guaranty records a liability in its consolidated financial statements. First Guaranty does not record a loss if the loss is not probable or the amount of the loss is not estimable. First Guaranty was a defendant in a lawsuit alleging overpayment on a loan related to a disputed interest rate. This lawsuit was settled in the first quarter of 2023 for $0.6 million. First Guaranty Bank is a defendant in a lawsuit alleging fault for a loss of funds by a customer related to fraud by a third party, with a possible loss range of $0.0 million to $1.5 million. The Bank denies the allegations and intends to vigorously defend against this lawsuit, which is in early stages, and no trial has been set. No accrued liability has been recorded related to this lawsuit. First Guaranty settled a case in the third quarter of 2021 for $1.1 million. A receivable for $0.9 million has been recorded for recovery by a claim against First Guaranty's insurer. In the opinion of management, neither First Guaranty nor First Guaranty Bank is currently involved in such legal proceedings, either individually or in the aggregate, that the resolution is expected to have a material adverse effect on First Guaranty’s consolidated results of operations, financial condition, or cash flows. However, one or more unfavorable outcomes in these ordinary claims or litigation against First Guaranty or First Guaranty Bank could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or ultimate outcomes, such matters are costly, divert management’s attention, and may materially and adversely affect the reputation of First Guaranty and First Guaranty Bank, even if resolved favorably.

Item 1A. Risk Factors

There have been no material changes to our risk factors as disclosed in First Guaranty's Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference.

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger, by and among First Guaranty Bancshares, Inc., First Guaranty Bank and Lone Star Bank, dated January 6, 2023. (1)
3.1	Restated Articles of Incorporation of First Guaranty Bancshares, Inc. (2)
3.2	Articles of Amendment to the Restated Articles of Incorporation of First Guaranty Bancshares, Inc. (3)
3.3	Articles of Amendment to the Restated Articles of Incorporation of First Guaranty Bancshares, Inc. (4).
3.4	Bylaws of First Guaranty Bancshares, Inc. (5)
3.5	Amendment to Bylaws of First Guaranty Bancshares, Inc. (6)
4.1	Form of Common Stock Certificate of First Guaranty Bancshares, Inc. (7)
4.2	Subordinated Note, dated as of June 21, 2022, by and between First Guaranty Bancshares, Inc. and Edgar Ray Smith, III. (8)
4.3	Description of Common Stock. (9)
4.4	Preferred Stock Specimen Certificate (10)
4.5	Description of Preferred Stock. (11)
4.6	Deposit Agreement, dated as of April 27, 2021, by and between First Guaranty Bancshares, Inc. and Zions Bancorporation, National Association, and the holders from time to time of the depositary receipts described herein (12)
4.7	Form of Depositary Receipt representing Depositary Shares (12)
10.1	Mutual Termination Agreement and Release, dated July 10, 2023, by and among First Guaranty Bancshares, Inc., First Guaranty Bank and Lone Star Bank (13)
10.1	Loan Agreement, dated as of October 5, 2023, by and between First Guaranty Bancshares, Inc. and Summit Community Bank, Inc. (14)
10.2	Promissory Note (Term Loan) issued to Summit Community Bank, Inc. on October 5, 2023.
10.3	Promissory Note (Letter of Credit) issued to Summit Community Bank, Inc. on October 5, 2023.
10.4*	Stock Pledge and Security Agreement, dated as of October 5, 2023, by First Guaranty Bancshares, Inc. in favor of Summit Community Bank, Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.INS	XBRL Instance Document.

(1) Incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on January 9, 2023.

(2) Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K12G3 filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on August 2, 2007.

(3) Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on September 23, 2011.

(4) Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on April 27, 2021.

(5) Incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K12G3 filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on August 2, 2007.

(6) Incorporated by reference to Exhibit 3.3 of the Current Report on Form 8-K12G3 filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on August 2, 2007.

(7) Incorporated by reference to Exhibit 4 of the Current Report on Form 8-K12G3 filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on August 2, 2007.

(8) Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on June 23, 2022.

(9) Incorporated by reference to Exhibit 4.3 of the Annual Report on Form 10-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on March 16, 2023.

(10) Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on April 27, 2021.

(11) Incorporated by reference to Exhibit 4.5 of the Annual Report on Form 10-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on March 16, 2023.
(12) Incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on April 27, 2021.
(13) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on July 10, 2023.
(14) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on October 12, 2023.
(15) Incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on October 12, 2023.
(16) Incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on October 12, 2023.
(17) Incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K filed by First Guaranty Bancshares, Inc. with the Securities and Exchange Commission on October 12, 2023.

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

SIGNATURES

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

FIRST GUARANTY BANCSHARES, INC.

Date: November 9, 2023	By: /s/ Alton B. Lewis
	Alton B. Lewis
	Principal Executive Officer
Date: November 9, 2023	By: /s/ Eric J. Dosch
	Eric J. Dosch
	Principal Financial Officer
	Secretary and Treasurer

EX-31.1 2 exhibit31-1.htm CERTIFICATION OF CHIEF EXECUTIVE OFFICER

EXHIBIT 31.1

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Alton B. Lewis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Guaranty 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 annual 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 officers 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;

5. The registrant's other certifying officers 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.

November 9, 2023

/s/ Alton B. Lewis
Alton B. Lewis
Chief Executive Officer
(Principal Executive Officer)

EX-31.2 3 exhibit31-2.htm CERTIFICATION OF CHIEF FINANCIAL OFFICER

EXHIBIT 31.2

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric J. Dosch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Guaranty 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 annual 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 officers 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;

5. The registrant's other certifying officers 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.

November 9, 2023

/s/ Eric J. Dosch
Eric J. Dosch
Chief Financial Officer,
Secretary and Treasurer
(Principal Financial & Accounting Officer)

EX-32.1 4 exhibit 32-1.htm CERTIFICATION OF CHIEF EXECUTIVE OFFICER

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Guaranty Bancshares, Inc. (the "Company") on Form 10-Q as of and for the fiscal period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alton B. Lewis, Chief Executive Officer of the Company, certify that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2023
/s/ Alton B. Lewis
Alton B. Lewis
Chief Executive Officer
(Principal Executive Officer)

EX-32.2 5 exhibit32-2.htm CERTIFICATION OF CHIEF FINANCIAL OFFICER

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Guaranty Bancshares, Inc. (the "Company") on Form 10-Q as of and for the fiscal period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric J. Dosch, Chief Financial Officer of the Company, certify that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2023

/s/ Eric J. Dosch
Eric J. Dosch
Chief Financial Officer
Secretary and Treasurer
(Principal Financial & Accounting Officer)