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

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: September 30, 2022

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission File Number: 001-38888

Red River Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Louisiana	**72-1412058**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1412 Centre Court Drive, Suite 501, Alexandria, Louisiana	**71301**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (318) 561-5028

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, no par value	**RRBI**	**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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of October 31, 2022, the registrant had 7,183,915 shares of common stock, no par value, issued and outstanding.

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GLOSSARY OF TERMS

Unless the context indicates otherwise, references in this filing to "we," "our," "us," "the Company," and "our company" refer to Red River Bancshares, Inc., a Louisiana corporation and bank holding company, and its consolidated subsidiaries. All references in this filing to "Red River Bank," "the bank," and "the Bank" refer to Red River Bank, our wholly owned bank subsidiary.

Other abbreviations or acronyms used in this filing are defined below.

ABBREVIATION OR ACRONYM	DEFINITION
AFS	Available-for-sale
AOCI	Accumulated other comprehensive income or loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Basel III	Basel Committee's 2010 Regulatory Capital Framework (Third Accord)
BOLI	Bank-owned life insurance
bp(s)	Basis point(s)
CARES Act	Coronavirus Aid, Relief, and Economic Security Act, as amended
CBLR	Community bank leverage ratio
CCB	Capital conservation buffer
CECL	Current Expected Credit Losses, related to *ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
COVID-19	Coronavirus Disease 2019
CRA	Community Reinvestment Act
Director Compensation Program	Amended and Restated Director Compensation program, which allows directors of the Company and the Bank an opportunity to select how to receive their annual director fees.
Economic Aid Act	Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act
Economic Growth Act	Economic Growth, Regulatory Relief, and Consumer Protection Act
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FOMC	Federal Open Market Committee
FHLB	Federal Home Loan Bank of Dallas
FTE	Fully taxable equivalent basis
GAAP	Generally Accepted Accounting Principles in the United States of America
HFI	Held for investment
HFS	Held for sale
HTM	Held-to-maturity
LDPO	Loan and deposit production office
LIBOR	London Interbank Offered Rate
MSA	Metropolitan statistical area
NOW	Negotiable order of withdrawal
NPA(s)	Nonperforming asset(s)
OFI	Office of Financial Institutions
OTTI	Other-than-temporary impairment
Policy Statement	Federal Reserve's Small Bank Holding Company Policy Statement
PPP	Paycheck Protection Program
Report	Quarterly Report on Form 10-Q
SBA	Small Business Administration

ABBREVIATION OR ACRONYM	DEFINITION
SBIC	Small Business Investment Company
Securities Act	Securities Act of 1933, as amended
SEC	Securities and Exchange Commission
TDR(s)	Troubled debt restructuring(s)

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, which reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would,” and “outlook,” or the negative version of those words, or such other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs, and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- business and economic conditions generally and in the financial services industry, nationally and within our local market areas;
- the impact of COVID-19 (including the emergence of multiple COVID-19 variants) on our business, the communities where we have our banking centers, the state of Louisiana, and the United States, related to the economy and overall financial stability;
- government and regulatory responses to the COVID-19 pandemic;
- government intervention in the U.S. financial system, including the effects of recent and future legislative, tax, accounting, and regulatory actions and reforms, including the CARES Act, the American Rescue Plan Act of 2021, and the Economic Aid Act, which established the SBA PPP, the Inflation Reduction Act of 2022, and other stimulus legislation or changes in banking, securities, accounting, and tax laws and regulations, and their application by our regulators;
- changes in management personnel;
- increased competition in the financial services industry, particularly from regional and national institutions;
- volatility and direction of market interest rates;
- our ability to maintain important deposit customer relationships and our reputation, and to otherwise avoid liquidity risks;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers, and the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- changes in the value of collateral securing our loans;
- risks associated with system failures or failures to protect against cybersecurity threats, such as breaches of our network security;
- deterioration of our asset quality;
- the adequacy of our reserves, including our allowance for loan losses;
- operational risks associated with our business;
- natural disasters and adverse weather, acts of terrorism, pandemics, an outbreak of hostilities, including the ongoing military conflict between Russia and Ukraine, or other international or domestic calamities, and other matters beyond our control;
- our ability to prudently manage our growth and execute our strategy;
- compliance with the extensive regulatory framework that applies to us;
- the cessation of LIBOR effective June 30, 2023, and the impact of any replacement alternatives on our business;
- changes in the laws, rules, regulations, interpretations, or policies relating to financial institution, accounting, tax, trade, monetary, and fiscal matters; and
- the risk factors found in “Part I - Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021, as well as in “Part II - Item 1A. Risk Factors” of this Report and other reports and documents we file from time to time with the SEC.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report. Additional information on these and other risk factors can be found in “Part II - Item 1A. Risk Factors” of this Report and in “Part I - Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise, except as required by applicable law. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RED RIVER BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share amounts)	September 30, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 39,465	$ 23,143
Interest-bearing deposits in other banks	261,608	761,721
Total Cash and Cash Equivalents	301,073	784,864
Securities available-for-sale, at fair value	609,748	659,178
Securities held-to-maturity, at amortized cost	154,736	—
Equity securities, at fair value	—	7,846
Nonmarketable equity securities	3,460	3,450
Loans held for sale	1,536	4,290
Loans held for investment	1,879,669	1,683,832
Allowance for loan losses	(19,953)	(19,176)
Premises and equipment, net	52,820	48,056
Accrued interest receivable	7,782	6,245
Bank-owned life insurance	28,594	28,061
Intangible assets	1,546	1,546
Right-of-use assets	4,262	3,743
Other assets	34,405	12,775
Total Assets	$ 3,059,678	$ 3,224,710
LIABILITIES		
Noninterest-bearing deposits	$ 1,172,157	$ 1,149,672
Interest-bearing deposits	1,624,337	1,760,676
Total Deposits	2,796,494	2,910,348
Accrued interest payable	1,194	1,310
Lease liabilities	4,377	3,842
Accrued expenses and other liabilities	14,200	11,060
Total Liabilities	2,816,265	2,926,560
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value: Authorized - 1,000,000 shares; None Issued and Outstanding	—	—
Common stock, no par value: Authorized - 30,000,000 shares; Issued and Outstanding - 7,183,915 and 7,180,155 shares, respectively	60,050	60,233
Additional paid-in capital	2,014	1,814
Retained earnings	265,093	239,876
Accumulated other comprehensive income (loss)	(83,744)	(3,773)
Total Stockholders' Equity	243,413	298,150
Total Liabilities and Stockholders' Equity	$ 3,059,678	$ 3,224,710

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)	For the Three Months Ended September 30, 2022	2021	For the Nine Months Ended September 30, 2022	2021
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	$ 19,740	$ 16,993	$ 54,543	$ 50,509
Interest on securities	3,572	2,220	10,210	6,247
Interest on federal funds sold	317	20	458	67
Interest on deposits in other banks	1,238	202	2,160	432
Dividends on stock	19	7	22	9
Total Interest and Dividend Income	24,886	19,442	67,393	57,264
INTEREST EXPENSE				
Interest on deposits	1,798	1,333	4,428	4,317
Total Interest Expense	1,798	1,333	4,428	4,317
Net Interest Income	23,088	18,109	62,965	52,947
Provision for loan losses	600	150	1,000	1,750
Net Interest Income After Provision for Loan Losses	22,488	17,959	61,965	51,197
NONINTEREST INCOME				
Service charges on deposit accounts	1,488	1,258	4,205	3,457
Debit card income, net	934	1,094	2,926	3,344
Mortgage loan income	624	1,770	2,643	7,009
Brokerage income	870	851	2,536	2,491
Loan and deposit income	502	413	1,283	1,281
Bank-owned life insurance income	181	176	533	473
Gain (Loss) on equity securities	—	(41)	(447)	(100)
Gain (Loss) on sale and call of securities	16	—	(59)	193
SBIC income	231	136	401	616
Other income (loss)	21	(14)	107	57
Total Noninterest Income	4,867	5,643	14,128	18,821
OPERATING EXPENSES				
Personnel expenses	8,853	7,956	25,879	24,087
Occupancy and equipment expenses	1,531	1,412	4,496	4,019
Technology expenses	653	734	2,118	2,144
Advertising	316	282	841	691
Other business development expenses	436	283	1,079	889
Data processing expense	604	528	1,484	1,445
Other taxes	650	527	1,933	1,584
Loan and deposit expenses	164	325	479	773
Legal and professional expenses	553	453	1,446	1,189
Regulatory assessment expenses	280	251	781	665
Other operating expenses	1,001	933	3,037	2,753
Total Operating Expenses	15,041	13,684	43,573	40,239
Income Before Income Tax Expense	12,314	9,918	32,520	29,779
Income tax expense	2,128	1,780	5,795	5,337
Net Income	$ 10,186	$ 8,138	$ 26,725	$ 24,442
EARNINGS PER SHARE				
Basic	$ 1.42	$ 1.12	$ 3.72	$ 3.35
Diluted	$ 1.42	$ 1.12	$ 3.71	$ 3.34

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	**2022**	**2021**	**2022**	**2021**
Net income	$ 10,186	$ 8,138	$ 26,725	$ 24,442
Other comprehensive income (loss):				
Unrealized net gain (loss) on securities arising during period	(25,847)	(1,416)	(102,802)	(8,645)
Tax effect	5,428	297	21,589	1,815
(Gain) Loss on sale and call of securities included in net income	(16)	—	59	(193)
Tax effect	3	—	(13)	41
Amortization of unrealized net gain (loss) on securities transferred to held-to-maturity	623	—	1,513	—
Tax effect	(131)	—	(317)	—
Total other comprehensive income (loss)	(19,940)	(1,119)	(79,971)	(6,982)
Comprehensive Income (Loss)	$ (9,754)	$ 7,019	$ (53,246)	$ 17,460

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(dollars in thousands, except per share amounts)	Common Shares Issued	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of December 31, 2020	7,325,333	$ 68,055	$ 1,545	$ 208,957	$ 6,921	$ 285,478
Net income	—	—	—	8,065	—	8,065
Stock incentive plan	—	—	93	—	—	93
Issuance of shares of common stock as board compensation	1,075	56	—	—	—	56
Repurchase of common stock under stock repurchase program	(19,661)	(1,018)	—	—	—	(1,018)
Cash dividend - $0.07 per share	—	—	—	(511)	—	(511)
Other comprehensive income (loss)	—	—	—	—	(7,252)	(7,252)
Balance as of March 31, 2021	7,306,747	$ 67,093	$ 1,638	$ 216,511	$ (331)	$ 284,911
Net income	—	—	—	8,239	—	8,239
Stock incentive plan	—	—	54	—	—	54
Forfeiture of restricted shares of common stock	(100)	—	—	—	—	—
Repurchase of common stock under stock repurchase program	(21,653)	(1,159)	—	—	—	(1,159)
Cash dividend - $0.07 per share	—	—	—	(510)	—	(510)
Other comprehensive income (loss)	—	—	—	—	1,389	1,389
Balance as of June 30, 2021	7,284,994	$ 65,934	$ 1,692	$ 224,240	$ 1,058	$ 292,924
Net income	—	—	—	8,138	—	8,138
Stock incentive plan	—	—	59	—	—	59
Issuance of restricted shares of common stock through stock incentive plan, net	7,400	—	—	—	—	—
Repurchase of common stock under stock repurchase program	(15,994)	(804)	—	—	—	(804)
Cash dividend - $0.07 per share	—	—	—	(510)	—	(510)
Other comprehensive income (loss)	—	—	—	—	(1,119)	(1,119)
Balance as of September 30, 2021	7,276,400	$ 65,130	$ 1,751	$ 231,868	$ (61)	$ 298,688

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY (CONTINUED) (UNAUDITED)

(dollars in thousands, except per share amounts)	Common Shares Issued	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders’ Equity
Balance as of December 31, 2021	7,180,155	$ 60,233	$ 1,814	$ 239,876	$ (3,773)	$ 298,150
Net income	—	—	—	7,392	—	7,392
Stock incentive plan	—	—	63	—	—	63
Issuance of shares of common stock as board compensation	675	35	—	—	—	35
Repurchase of common stock under stock repurchase program	(4,465)	(218)	—	—	—	(218)
Cash dividend - $0.07 per share	—	—	—	(502)	—	(502)
Other comprehensive income (loss)	—	—	—	—	(40,046)	(40,046)
Balance as of March 31, 2022	7,176,365	$ 60,050	$ 1,877	$ 246,766	$ (43,819)	$ 264,874
Net income	—	—	—	9,147	—	9,147
Stock incentive plan	—	—	63	—	—	63
Cash dividend - $0.07 per share	—	—	—	(503)	—	(503)
Other comprehensive income (loss)	—	—	—	—	(19,985)	(19,985)
Balance as of June 30, 2022	7,176,365	$ 60,050	$ 1,940	$ 255,410	$ (63,804)	$ 253,596
Net income	—	—	—	10,186	—	10,186
Stock incentive plan	—	—	74	—	—	74
Issuance of restricted shares of common stock through stock incentive plan, net	7,550	—	—	—	—	—
Cash dividend - $0.07 per share	—	—	—	(503)	—	(503)
Other comprehensive income (loss)	—	—	—	—	(19,940)	(19,940)
Balance as of September 30, 2022	7,183,915	$ 60,050	$ 2,014	$ 265,093	$ (83,744)	$ 243,413

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	For the Nine Months Ended September 30, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,725	$ 24,442
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,516	1,409
Amortization	406	475
Share-based compensation earned	200	206
Share-based board compensation earned	59	34
(Gain) Loss on other assets owned	60	12
Net (accretion) amortization on securities AFS	278	1,888
(Gain) Loss on sale and call of securities	59	(193)
(Gain) Loss on equity securities	447	100
Provision for loan losses	1,000	1,750
Deferred income tax (benefit) expense	377	(660)
Net (increase) decrease in loans HFS	2,754	20,334
Net (increase) decrease in accrued interest receivable	(1,537)	953
Net (increase) decrease in BOLI	(533)	(473)
Net increase (decrease) in accrued interest payable	(116)	(434)
Net increase (decrease) in accrued income taxes payable	621	(96)
Other operating activities, net	3,027	323
Net cash provided by (used in) operating activities	35,343	50,070
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities AFS:		
Sales	31,762	111,522
Maturities, principal repayments, and calls	60,292	75,143
Purchases	(313,514)	(267,191)
Activity in securities HTM:		
Maturities, principal repayments, and calls	13,074	—
Sale of equity securities	7,399	—
Purchase of equity securities	—	(4,000)
Purchase of nonmarketable equity securities	(10)	(2)
Capital contribution in partnerships	(817)	(123)
Net (increase) decrease in loans HFI	(196,060)	(34,946)
Purchase of bank owned life insurance	—	(5,000)
Proceeds from sales of foreclosed assets	641	96
Purchases of premises and equipment	(6,321)	(1,917)
Net cash provided by (used in) investing activities	(403,554)	(126,418)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(113,854)	364,223
Repurchase of common stock	(218)	(2,981)
Cash dividends	(1,508)	(1,531)
Net cash provided by (used in) financing activities	(115,580)	359,711
Net change in cash and cash equivalents	(483,791)	283,363
Cash and cash equivalents - beginning of period	784,864	447,201
Cash and cash equivalents - end of period	$ 301,073	$ 730,564

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) (UNAUDITED)

	For the Nine Months Ended September 30,	
(in thousands)	**2022**	**2021**
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	$ 4,545	$ 4,751
Income taxes	$ 4,766	$ 6,114
SUPPLEMENTAL INFORMATION FOR NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired in settlement of loans	$ —	$ 266
Transfers of investment securities from AFS to HTM, prior to market value adjustment	$ 184,238	$ —

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RED RIVER BANCSHARES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company were prepared in accordance with GAAP for interim financial information, general practices within the financial services industry, and instructions for Form 10-Q and Regulation S-X. Accordingly, these interim financial statements do not include all of the information or footnotes required by GAAP for annual financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the entire fiscal year. These statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2021, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Certain prior period amounts have been reclassified to conform to the current period presentation. These changes in presentation did not have a material impact on the Company's financial condition or results of operations.

Critical Accounting Policies and Estimates

There were no material changes or developments during the reporting period with respect to methodologies the Company uses when applying critical accounting policies and developing critical accounting estimates as disclosed in Note 1 of the notes to the audited consolidated financial statements for the year ended December 31, 2021, that were included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the Company's financial condition, results of operations, comprehensive income, changes in stockholders' equity, and cash flows for the interim period presented. These adjustments are of a normal recurring nature and include appropriate estimated provisions.

Accounting Standards Adopted in 2022

ASU No. 2021-05, Leases (Topic 842): Lessors - Certain Leases with Variable Lease Payments. The guidance issued in this update addressed lessors' concerns by amending the lease classification requirements. The amendments in this update address an issue related to a lessor's accounting for certain leases with variable lease payments. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if two criteria are met. Those criteria are that the lease would have been classified as a sales-type lease or a direct financing lease in accordance with GAAP, and that the lessor would have otherwise recognized a day-one loss. *ASU 2021-05* was adopted as of January 1, 2022, and did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 sets forth the CECL model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. *ASU 2016-13* requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses. In addition, the update amends the accounting for credit losses on AFS securities. The Company does not expect a material impact due to this update. As an SEC registrant with smaller reporting company filing status as determined on June 30, 2019, CECL is effective for the Company on January 1, 2023. The Company continues to evaluate the impact of this ASU on the consolidated financial statements and disclosures. In that regard, the Company has formed a cross-functional working group and is currently working through an implementation plan. The implementation plan includes an assessment of data, model development and documentation, documentation of processes, and implementation of a third-party vendor solution to assist in the adoption of *ASU 2016-13*. Based upon its preliminary CECL analysis as of September 30, 2022, the Company expects the adoption of *ASU 2016-13* will result in a combined 1.0% to 5.0% increase in its allowance for credit losses and allowance for unfunded commitments. This increase is a result of changing from an “incurred loss” model, which encompasses allowances for current known and inherent losses within the portfolio, to an “expected loss” model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Also, *ASU 2016-13* requires an allowance for expected credit losses for certain securities HTM. The Company currently does not hold any municipal securities HTM; therefore, it does not expect CECL to have a material impact related to securities HTM. Additionally, the adoption of *ASU 2016-13* is not expected to have a significant impact on the Company's regulatory capital ratios. The ultimate impact of adoption on January 1, 2023, could be significantly different than the Company's current expectation as its modeling processes will be significantly influenced by the composition, characteristics, and quality of its loan and securities portfolios as well as the prevailing economic conditions and forecasts as of that date, notwithstanding any further refinements to its expected credit loss models.

ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments in this update address how to determine whether a contract liability is recognized by the acquirer in a business combination. The amendment also resolves the inconsistency of post-acquisition revenue recognition by providing specific guidance on how to recognize and measure acquired contract assets and contract liabilities from revenue contracts in a business combination. This update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. This standard will be adopted by the Company on January 1, 2023. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

ASU No. 2022-02 Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The guidance issued in this update eliminates the accounting guidance for TDRs by creditors in *Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors*, but also enhances the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The guidance requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of *Subtopic 326-20, Financial Instruments – Credit Losses – Measured at Amortized Cost*. This standard is effective for the Company on January 1, 2023. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

2. Securities

Securities are classified as AFS, HTM, and equity securities. Total securities were $764.5 million as of September 30, 2022.

Securities AFS and Securities HTM

Securities AFS and securities HTM are debt securities. Securities AFS are held for indefinite periods of time and are carried at estimated fair value. As of September 30, 2022, the estimated fair value of securities AFS was $609.7 million. The net unrealized loss on securities AFS increased $84.8 million for the nine months ended September 30, 2022, resulting in a net unrealized loss of $89.6 million as of September 30, 2022.

During the second quarter of 2022, the Company reclassified $166.3 million, net of $17.9 million of unrealized loss, or 20.5% of the securities portfolio from AFS to HTM. The securities were transferred at fair value, which became the cost basis for the securities HTM. The net unrealized loss will be amortized over the remaining life of the securities as a yield adjustment in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security. There were no gains or losses recognized as a result of the transfer. Securities HTM, which the Company has the intent and ability to hold until maturity, are carried at amortized cost. As of September 30, 2022, the amortized cost of securities HTM was $154.7 million.

Investment activity for the nine months ended September 30, 2022, included $313.5 million of securities purchased, partially offset by $31.8 million in sales and $73.4 million in maturities, principal repayments, and calls. There were no purchases or sales of securities HTM for the same period.

The amortized cost and estimated fair values of securities AFS and securities HTM are summarized in the following tables:

	September 30, 2022			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities AFS:				
Mortgage-backed securities	$ 295,166	$ —	$ (37,623)	$ 257,543
Municipal bonds	220,078	1	(44,780)	175,299
U.S. Treasury securities	176,500	—	(6,631)	169,869
U.S. agency securities	7,596	—	(559)	7,037
Total Securities AFS	$ 699,340	$ 1	$ (89,593)	$ 609,748
Securities HTM:				
Mortgage-backed securities	$ 153,826	$ —	$ (20,785)	$ 133,041
U.S. agency securities	910	—	(114)	796
Total Securities HTM	$ 154,736	$ —	$ (20,899)	$ 133,837

(in thousands)	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities AFS:				
Mortgage-backed securities	$ 386,874	$ 1,112	$ (8,460)	$ 379,526
Municipal bonds	227,248	3,665	(942)	229,971
U.S. Treasury securities	41,770	—	(154)	41,616
U.S. agency securities	8,062	61	(58)	8,065
Total Securities AFS	$ 663,954	$ 4,838	$ (9,614)	$ 659,178
Securities HTM:				
Mortgage-backed securities	$ —	$ —	$ —	$ —
U.S. agency securities	—	—	—	—
Total Securities HTM	$ —	$ —	$ —	$ —

The amortized cost and estimated fair value of securities AFS and securities HTM as of September 30, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers have the right to call or repay obligations with or without call or prepayment penalties.

(in thousands)	September 30, 2022 Amortized Cost	Fair Value
Securities AFS:		
Within one year	$ 59,393	$ 58,206
After one year but within five years	150,456	143,313
After five years but within ten years	84,773	76,233
After ten years	404,718	331,996
Total Securities AFS	$ 699,340	$ 609,748
Securities HTM:		
Within one year	$ —	$ —
After one year but within five years	—	—
After five years but within ten years	910	796
After ten years	153,826	133,041
Total Securities HTM	$ 154,736	$ 133,837

Information pertaining to securities AFS and securities HTM with gross unrealized losses as of September 30, 2022 and December 31, 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is described as follows:

	September 30, 2022			
	Less than twelve months		Twelve months or more	
(in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities AFS:				
Mortgage-backed securities	$ (23,966)	$ 192,032	$ (13,657)	$ 65,434
Municipal bonds	(33,939)	144,266	(10,841)	30,248
U.S. Treasury securities	(6,631)	169,870	—	—
U.S. agency securities	(269)	5,343	(290)	1,694
Total Securities AFS	$ (64,805)	$ 511,511	$ (24,788)	$ 97,376
Securities HTM:				
Mortgage-backed securities	$ (2,677)	$ 20,391	$ (18,108)	$ 112,650
U.S. agency securities	—	—	(114)	796
Total Securities HTM	$ (2,677)	$ 20,391	$ (18,222)	$ 113,446

	December 31, 2021			
	Less than twelve months		Twelve months or more	
(in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities AFS:				
Mortgage-backed securities	$ (6,627)	$ 282,705	$ (1,833)	$ 47,171
Municipal bonds	(918)	51,333	(24)	2,577
U.S. Treasury securities	(154)	41,616	—	—
U.S. agency securities	(58)	4,913	—	—
Total Securities AFS	$ (7,757)	$ 380,567	$ (1,857)	$ 49,748
Securities HTM:				
Mortgage-backed securities	$ —	$ —	$ —	$ —
U.S. agency securities	—	—	—	—
Total Securities HTM	$ —	$ —	$ —	$ —

As of September 30, 2022, the Company held 577 securities AFS and securities HTM that were in unrealized loss positions. The aggregate unrealized loss of these securities as of September 30, 2022, was 12.94% of the amortized cost basis of total debt securities.

Management and the Asset-Liability Management Committee continually monitor the securities portfolio and are able to effectively measure and monitor the unrealized loss positions on these securities. Management does not intend to sell these securities prior to recovery, and it is more likely than not that the Company will have the ability to hold them, primarily due to adequate liquidity, until each security has recovered its cost basis. The unrealized losses on these securities have been determined by management to be a function of the movement of interest rates since the time of purchase. Based on a review of available information, including recent changes in interest rates and credit rating information, management believes the decline in fair value of these securities is temporary. The Company does not consider these securities to have OTTI.

Management evaluates securities for OTTI on at least a quarterly basis and more frequently if economic or market concerns merit such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) whether the Company intends to, and it is more likely than not that it will be able to, retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, the Company annually performs a detailed credit review of the municipal securities owned to identify any potential credit concerns. There were no OTTI losses on debt securities related to credit losses recognized during the nine months ended September 30, 2022, or the year ended December 31, 2021.

The proceeds from sales and calls of debt securities and their gross gain (loss) for the three and nine months ended September 30, 2022 and 2021, are shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2022	2021	2022	2021
Proceeds [(1)]	$ 731	$ 1,675	$ 41,234	$ 116,843
Gross gain	$ 16	$ 1	$ 64	$ 851
Gross loss	$ —	$ (1)	$ (123)	$ (658)

(1) The proceeds include the gross gain and loss.

Equity Securities

Equity securities were an investment in a CRA mutual fund, consisting primarily of bonds. Equity securities were carried at fair value on the consolidated balance sheets with periodic changes in value recorded through the consolidated statements of income. As of December 31, 2021, equity securities had a fair value of $7.8 million with a recognized loss of $175,000 for the year ended December 31, 2021. Equity securities had a recognized loss of $447,000 for the nine months ended September 30, 2022. The loss on equity securities during 2022 was due to a significant increase in interest rates. In April 2022, the Company liquidated all shares invested in this fund.

Pledged Securities

Securities with carrying values of approximately $190.6 million and $118.6 million were pledged to secure public entity deposits as of September 30, 2022 and December 31, 2021, respectively.

3. Loans and Asset Quality

Loans

Loans HFI by category and loans HFS are summarized below:

(in thousands)	September 30, 2022	December 31, 2021
Real estate:		
Commercial real estate	$ 787,464	$ 670,293
One-to-four family residential	532,034	474,420
Construction and development	140,398	106,339
Commercial and industrial	307,159	311,373
SBA PPP, net of deferred income	1,350	17,550
Tax-exempt	84,947	80,726
Consumer	26,317	23,131
Total loans HFI	$ 1,879,669	$ 1,683,832
Total loans HFS	$ 1,536	$ 4,290

Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses by category for the nine months ended September 30, 2022:

(in thousands)	Beginning Balance December 31, 2021	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance September 30, 2022
Real estate:					
Commercial real estate	$ 6,749	$ 700	$ —	$ —	$ 7,449
One-to-four family residential	5,375	46	—	8	5,429
Construction and development	1,326	120	(18)	18	1,446
Commercial and industrial	4,440	(150)	(25)	81	4,346
SBA PPP, net of deferred income	25	(23)	—	—	2
Tax-exempt	749	(1)	—	—	748
Consumer	512	308	(384)	97	533
Total allowance for loan losses	$ 19,176	$ 1,000	$ (427)	$ 204	$ 19,953

The following table summarizes the activity in the allowance for loan losses by category for the twelve months ended December 31, 2021:

(in thousands)	Beginning Balance December 31, 2020	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance December 31, 2021
Real estate:					
Commercial real estate	$ 5,798	$ 1,401	$ (450)	$ —	$ 6,749
One-to-four family residential	5,390	(23)	(10)	18	5,375
Construction and development	1,699	(375)	—	2	1,326
Commercial and industrial	3,631	856	(74)	27	4,440
SBA PPP, net of deferred income	318	(293)	—	—	25
Tax-exempt	680	69	—	—	749
Consumer	435	265	(351)	163	512
Total allowance for loan losses	$ 17,951	$ 1,900	$ (885)	$ 210	$ 19,176

The balance in the allowance for loan losses and the related recorded investment in loans by category as of September 30, 2022, are as follows:

(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Allowance for loan losses:				
Real estate:				
Commercial real estate	$ 21	$ 7,428	$ —	$ 7,449
One-to-four family residential	17	5,412	—	5,429
Construction and development	—	1,446	—	1,446
Commercial and industrial	299	4,047	—	4,346
SBA PPP, net of deferred income	—	2	—	2
Tax-exempt	—	748	—	748
Consumer	123	410	—	533
Total allowance for loan losses	$ 460	$ 19,493	$ —	$ 19,953
Loans:				
Real estate:				
Commercial real estate	$ 4,567	$ 782,897	$ —	$ 787,464
One-to-four family residential	1,409	530,625	—	532,034
Construction and development	9	140,389	—	140,398
Commercial and industrial	1,620	305,539	—	307,159
SBA PPP, net of deferred income	—	1,350	—	1,350
Tax-exempt	—	84,947	—	84,947
Consumer	124	26,193	—	26,317
Total loans HFI	$ 7,729	$ 1,871,940	$ —	$ 1,879,669

The balance in the allowance for loan losses and the related recorded investment in loans by category as of December 31, 2021, are as follows:

(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Allowance for loan losses:				
Real estate:				
Commercial real estate	$ 68	$ 6,681	$ —	$ 6,749
One-to-four family residential	—	5,375	—	5,375
Construction and development	—	1,326	—	1,326
Commercial and industrial	40	4,400	—	4,440
SBA PPP, net of deferred income	—	25	—	25
Tax-exempt	—	749	—	749
Consumer	118	394	—	512
Total allowance for loan losses	$ 226	$ 18,950	$ —	$ 19,176
Loans:				
Real estate:				
Commercial real estate	$ 5,011	$ 665,282	$ —	$ 670,293
One-to-four family residential	434	473,986	—	474,420
Construction and development	501	105,838	—	106,339
Commercial and industrial	77	311,296	—	311,373
SBA PPP, net of deferred income	—	17,550	—	17,550
Tax-exempt	—	80,726	—	80,726
Consumer	126	23,005	—	23,131
Total loans HFI	$ 6,149	$ 1,677,683	$ —	$ 1,683,832

Past Due and Nonaccrual Loans

A summary of current, past due, and nonaccrual loans as of September 30, 2022, is as follows:

	Accruing				
(in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Real estate:					
Commercial real estate	$ 786,742	$ —	$ —	$ 722	$ 787,464
One-to-four family residential	531,495	167	—	372	532,034
Construction and development	140,389	—	—	9	140,398
Commercial and industrial	305,605	50	6	1,498	307,159
SBA PPP, net of deferred income	1,350	—	—	—	1,350
Tax-exempt	84,947	—	—	—	84,947
Consumer	26,193	16	6	102	26,317
Total loans HFI	$ 1,876,721	$ 233	$ 12	$ 2,703	$ 1,879,669

A summary of current, past due, and nonaccrual loans as of December 31, 2021, is as follows:

	Accruing				
(in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Real estate:					
Commercial real estate	$ 669,781	$ 461	$ —	$ 51	$ 670,293
One-to-four family residential	473,658	546	—	216	474,420
Construction and development	106,300	—	39	—	106,339
Commercial and industrial	311,321	39	—	13	311,373
SBA PPP, net of deferred income	17,550	—	—	—	17,550
Tax-exempt	80,726	—	—	—	80,726
Consumer	23,121	10	—	—	23,131
Total loans HFI	$ 1,682,457	$ 1,056	$ 39	$ 280	$ 1,683,832

Impaired Loans

Balances

Impaired loans include TDRs and performing and nonperforming loans. Information pertaining to impaired loans as of September 30, 2022, is as follows:

(in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate:				
Commercial real estate	$ 3,850	$ 3,844	$ —	$ 3,043
One-to-four family residential	1,356	1,288	—	650
Construction and development	9	9	—	127
Commercial and industrial	70	70	—	60
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	1	1	—	5
Total with no related allowance	5,286	5,212	—	3,885
With allowance recorded:				
Real estate:				
Commercial real estate	723	723	21	1,400
One-to-four family residential	121	121	17	30
Construction and development	—	—	—	—
Commercial and industrial	1,564	1,550	299	441
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	124	123	123	125
Total with related allowance	2,532	2,517	460	1,996
Total impaired loans	$ 7,818	$ 7,729	$ 460	$ 5,881

Information pertaining to impaired loans as of December 31, 2021, is as follows:

(in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate:				
Commercial real estate	$ 1,599	$ 1,595	$ —	$ 1,969
One-to-four family residential	483	434	—	539
Construction and development	501	501	—	400
Commercial and industrial	—	—	—	355
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	8	8	—	4
Total with no related allowance	2,591	2,538	—	3,267
With allowance recorded:				
Real estate:				
Commercial real estate	3,416	3,416	68	2,111
One-to-four family residential	—	—	—	145
Construction and development	—	—	—	—
Commercial and industrial	85	77	40	1,570
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	118	118	118	112
Total with related allowance	3,619	3,611	226	3,938
Total impaired loans	$ 6,210	$ 6,149	$ 226	$ 7,205

Interest Income

The interest income recognized on impaired loans for the three months ended September 30, 2022 and September 30, 2021, was $78,000 and $46,000, respectively. The interest income recognized on impaired loans for the nine months ended September 30, 2022 and September 30, 2021, was $180,000 and $132,000, respectively.

Troubled Debt Restructurings

The restructuring of a loan is considered a TDR if the borrower is experiencing financial difficulties and the bank has granted a concession. Concessions grant terms to the borrower that would not be offered for new debt with similar risk characteristics. Concessions typically include interest rate reductions or below market interest rates, revising amortization schedules to defer principal and interest payments, and other changes necessary to provide payment relief to the borrower and minimize the risk of loss. There were no unfunded commitments to extend credit related to these loans as of September 30, 2022 or December 31, 2021.

A summary of current, past due, and nonaccrual TDR loans as of September 30, 2022, is as follows:

(dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total TDRs
Real estate:					
Commercial real estate	$ 3,238	$ —	$ —	$ 44	$ 3,282
One-to-four family residential	955	—	—	—	955
Construction and development	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
SBA PPP, net of deferred income	—	—	—	—	—
Tax-exempt	—	—	—	—	—
Consumer	11	—	—	103	114
Total	$ 4,204	$ —	$ —	$ 147	$ 4,351
Number of TDR loans	14	—	—	2	16

A summary of current, past due, and nonaccrual TDR loans as of December 31, 2021, is as follows:

(dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual[1]	Total TDRs
Real estate:					
Commercial real estate	$ 3,634	$ —	$ —	$ —	$ 3,634
One-to-four family residential	289	—	—	—	289
Construction and development	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
SBA PPP, net of deferred income	—	—	—	—	—
Tax-exempt	—	—	—	—	—
Consumer	21	—	—	—	21
Total	$ 3,944	$ —	$ —	$ —	$ 3,944
Number of TDR loans	11	—	—	1	12

[1] This loan has a contractual obligation to the Company despite carrying a zero balance.

A summary of loans modified as TDRs that occurred during the nine months ended September 30, 2022 and September 30, 2021, is as follows:

	September 30, 2022			September 30, 2021		
		Recorded Investment			Recorded Investment	
(dollars in thousands)	Loan Count	Pre Modification	Post Modification	Loan Count	Pre Modification	Post Modification
Real estate:						
Commercial real estate	1	$ 50	$ 50	—	$ —	$ —
One-to-four family residential	4	673	677	—	—	—
Construction and development	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
SBA PPP, net of deferred income	—	—	—	—	—	—
Tax-exempt	—	—	—	—	—	—
Consumer	1	104	104	2	20	27
Total	6	$ 827	$ 831	2	$ 20	$ 27

The loans modified as TDRs during the nine months ended September 30, 2022 and September 30, 2021, increased the allowance for loan losses by $103,000 and $13,000, respectively. Additionally, there were no defaults on loans during the nine months ended September 30, 2022 or September 30, 2021, that had been modified as a TDR during the prior twelve months.

Credit Quality Indicators

Loans are categorized based on the degree of risk inherent in the credit and the ability of the borrower to service the debt. A description of the general characteristics of the Bank's risk rating grades follows:

Pass - These loans are of satisfactory quality and do not require a more severe classification.

Special Mention - This category includes loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan.

Substandard - Loans in this category have well-defined weaknesses that jeopardize normal repayment of principal and interest.

Doubtful - Loans in this category have well-defined weaknesses that make full collection improbable.

Loss - Loans classified in this category are considered uncollectible and charged-off to the allowance for loan losses.

The following table summarizes loans by risk rating as of September 30, 2022:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Commercial real estate	$ 779,036	$ 5,836	$ 2,592	$ —	$ —	$ 787,464
One-to-four family residential	531,017	304	713	—	—	532,034
Construction and development	140,389	—	9	—	—	140,398
Commercial and industrial	290,925	14,529	1,705	—	—	307,159
SBA PPP, net of deferred income	1,350	—	—	—	—	1,350
Tax-exempt	84,947	—	—	—	—	84,947
Consumer	26,191	12	114	—	—	26,317
Total loans HFI	$ 1,853,855	$ 20,681	$ 5,133	$ —	$ —	$ 1,879,669

The following table summarizes loans by risk rating as of December 31, 2021:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Commercial real estate	$ 666,838	$ 499	$ 2,956	$ —	$ —	$ 670,293
One-to-four family residential	473,638	321	461	—	—	474,420
Construction and development	105,838	—	501	—	—	106,339
Commercial and industrial	306,925	1,551	2,897	—	—	311,373
SBA PPP, net of deferred income	17,550	—	—	—	—	17,550
Tax-exempt	80,726	—	—	—	—	80,726
Consumer	23,003	21	107	—	—	23,131
Total loans HFI	$ 1,674,518	$ 2,392	$ 6,922	$ —	$ —	$ 1,683,832

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer if all conditions of the commitment have been met. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's evaluation of the customer's ability to repay. As of September 30, 2022, unfunded loan commitments totaled approximately $384.6 million. As of December 31, 2021, unfunded loan commitments totaled approximately $357.9 million.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. As of September 30, 2022, commitments under standby letters of credit totaled approximately $14.5 million. As of December 31, 2021, commitments under standby letters of credit totaled approximately $12.5 million. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

4. Deposits

Deposits were $2.80 billion and $2.91 billion as of September 30, 2022 and December 31, 2021, respectively. This decrease was primarily a result of expected customer deposit account activity and customer response to the changing interest rate environment. Deposits are summarized below:

(in thousands)	September 30, 2022	December 31, 2021
Noninterest-bearing deposits	$ 1,172,157	$ 1,149,672
Interest-bearing deposits:		
NOW accounts	449,543	503,383
Money market accounts	644,318	733,044
Savings accounts	198,741	191,076
Time deposits less than or equal to $250,000	238,614	243,596
Time deposits greater than $250,000	93,121	89,577
Total interest-bearing deposits	1,624,337	1,760,676
Total deposits	$ 2,796,494	$ 2,910,348

5. Contingencies

The Company and the Bank are involved, from time to time, in various legal matters arising in the ordinary course of business. While the outcome of these claims or litigation cannot be determined at this time, in the opinion of management, neither the Company nor the Bank are involved in such legal proceedings that the resolution is expected to have a material adverse effect on the consolidated results of operations, financial condition, or cash flows.

6. Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Disclosure

Securities AFS, loans HFS, and equity securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, foreclosed assets, and other certain assets. The nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

ASC 820, Fair Value Measurements and Disclosures indicates that assets and liabilities are recorded at fair value according to a fair value hierarchy comprised of three levels:

- Level 1 pricing represents quotes on the exact financial instrument that is traded in active markets. Quoted prices on actively traded equities, for example, are in this category.
- Level 2 pricing is derived from observable data including market spreads, current and projected rates, prepayment data, and credit quality. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 pricing is derived without the use of observable data. In such cases, mark-to-model strategies are typically employed. Often, these types of instruments have no active market, possess unique characteristics, and are thinly traded.

The Company used the following methods and significant assumptions to estimate fair value:

Securities AFS and Equity Securities: The fair values for securities AFS are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans HFS: Residential mortgage loans originated and held for sale are carried at the lower of cost or estimated fair value on an individual basis. The fair values of mortgage loans HFS are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans HFS are recurring Level 2.

Loans HFI: The Company does not record loans HFI at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Foreclosed Assets: Foreclosed assets, consisting of properties obtained through foreclosure or in satisfaction of loans, are reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, foreclosed assets are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market, and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals.

Fair Value of Assets Measured on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
September 30, 2022				
Loans HFS	$ 1,536	$ —	$ 1,536	$ —
Securities AFS:				
Mortgage-backed securities	$ 257,543	$ —	$ 257,543	$ —
Municipal bonds	$ 175,299	$ —	$ 175,299	$ —
U.S. Treasury securities	$ 169,869	$ —	$ 169,869	$ —
U.S. agency securities	$ 7,037	$ —	$ 7,037	$ —
December 31, 2021				
Loans HFS	$ 4,290	$ —	$ 4,290	$ —
Securities AFS:				
Mortgage-backed securities	$ 379,526	$ —	$ 379,526	$ —
Municipal bonds	$ 229,971	$ —	$ 229,971	$ —
U.S. Treasury securities	$ 41,616	$ —	$ 41,616	$ —
U.S. agency securities	$ 8,065	$ —	$ 8,065	$ —
Equity securities	$ 7,846	$ 7,846	$ —	$ —

There were no transfers between Level 1, 2, or 3 during the nine months ended September 30, 2022 or the year ended December 31, 2021.

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis

Financial Assets and Financial Liabilities: Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances. Financial assets measured at fair value on a nonrecurring basis include certain impaired collateral dependent loans reported at fair value of the underlying collateral if repayment is expected solely from the collateral. Prior to foreclosure of these loans, fair value of the collateral is estimated using Level 3 inputs based on customized discounting criteria.

The table below presents certain impaired loans that were remeasured and reported at fair value through the allowance for loan losses based upon the fair value of the underlying collateral during the reported periods:

(in thousands)	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Carrying value of impaired loans before allowance for loan losses	$ 3,141	$ 1,833
Specific allowance for loan losses	(299)	(27)
Fair value of impaired loans	$ 2,842	$ 1,806

The Company had no financial liabilities measured at fair value on a nonrecurring basis for the nine months ended September 30, 2022 and September 30, 2021.

Nonfinancial Assets and Liabilities: Certain nonfinancial assets and nonfinancial liabilities are measured at fair value on a nonrecurring basis. These include certain foreclosed assets, which are remeasured and reported at fair value through a charge-off to the allowance for loan losses upon initial recognition as a foreclosed asset. Subsequent to their initial recognition, certain foreclosed assets are remeasured at fair value through an adjustment included in other noninterest income. The fair value of foreclosed assets is estimated using Level 3 inputs based on customized discounting criteria less estimated selling costs.

The following table presents foreclosed assets that were remeasured and reported at fair value during the reported periods:

(in thousands)	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ —	$ 266
Charge-offs	—	—
Fair value of foreclosed assets	$ —	$ 266

The following table presents foreclosed assets that were remeasured subsequent to initial recognition and reported at fair value during the reported periods:

(in thousands)	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ —	$ 133
Write-downs	—	(34)
Fair value of foreclosed assets	$ —	$ 99

The Company had no nonfinancial liabilities measured at fair value on a nonrecurring basis for the nine months ended September 30, 2022 and September 30, 2021.

The unobservable inputs used for the Level 3 fair value measurements on a nonrecurring basis were as follows:

(dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Discount Ranges	Weighted Average Discount
September 30, 2022					
Impaired loans	$ 7,268	Discounted appraisals	Collateral discounts and costs to sell	0% - 100%	5.96%
Foreclosed assets	$ —	Discounted appraisals	Collateral discounts and costs to sell	N/A	N/A
December 31, 2021					
Impaired loans	$ 5,923	Discounted appraisals	Collateral discounts and costs to sell	0% - 100%	3.67%
Foreclosed assets	$ 660	Discounted appraisals	Collateral discounts and costs to sell	N/A	N/A

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments as of September 30, 2022 and December 31, 2021, were as follows:

(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2022					
Financial assets:					
Cash and due from banks	$ 39,465	$ 39,465	$ 39,465	$ —	$ —
Interest-bearing deposits in other banks	261,608	261,608	261,608	—	—
Securities AFS	609,748	609,748	—	609,748	—
Securities HTM	154,736	133,837	—	133,837	—
Nonmarketable equity securities	3,460	3,460	—	3,460	—
Loans HFS	1,536	1,536	—	1,536	—
Loans HFI, net of allowance	1,859,716	1,787,252	—	—	1,787,252
Accrued interest receivable	7,782	7,782	—	—	7,782
Financial liabilities:					
Deposits	2,796,494	2,784,940	—	2,784,940	—
Accrued interest payable	1,194	1,194	—	1,194	—
December 31, 2021					
Financial assets:					
Cash and due from banks	$ 23,143	$ 23,143	$ 23,143	$ —	$ —
Interest-bearing deposits in other banks	761,721	761,721	761,721	—	—
Securities AFS	659,178	659,178	—	659,178	—
Equity securities	7,846	7,846	7,846	—	—
Nonmarketable equity securities	3,450	3,450	—	3,450	—
Loans HFS	4,290	4,290	—	4,290	—
Loans HFI, net of allowance	1,664,656	1,674,900	—	—	1,674,900
Accrued interest receivable	6,245	6,245	—	—	6,245
Financial liabilities:					
Deposits	2,910,348	2,911,118	—	2,911,118	—
Accrued interest payable	1,310	1,310	—	1,310	—

7. Regulatory Capital Requirements

Red River Bank

The Bank is subject to various regulatory capital requirements administered by the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is subject to Basel III capital guidelines. Basel III requires the Bank to maintain certain minimum ratios to meet capital adequacy requirements. In addition, a CCB was established above the minimum regulatory capital requirements. Effective January 1, 2019, the final CCB was fully phased in at 2.50%. It is management's belief that, as of September 30, 2022, the Bank met all capital adequacy requirements under Basel III. Management expects that the capital ratios for the Bank under Basel III will continue to exceed capital adequacy requirements. The most recent notification from the FDIC (as of June 30, 2021) categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action.

Capital amounts and ratios for Red River Bank as of September 30, 2022 and December 31, 2021, are presented in the following table, including the minimum Basel III requirements:

	Actual		Regulatory Requirements			
			Minimum		Minimum Plus CCB	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2022						
Total Risk-Based Capital	$ 333,797	16.57 %	$ 161,189	8.00 %	$ 211,560	10.50 %
Tier I Risk-Based Capital	$ 313,844	15.58 %	$ 120,892	6.00 %	$ 171,263	8.50 %
Common Equity Tier I Capital	$ 313,844	15.58 %	$ 90,669	4.50 %	$ 141,040	7.00 %
Tier I Leverage Capital	$ 313,844	9.94 %	$ 126,253	4.00 %	$ 126,253	4.00 %
December 31, 2021						
Total Risk-Based Capital	$ 305,771	17.06 %	$ 143,372	8.00 %	$ 188,176	10.50 %
Tier I Risk-Based Capital	$ 286,595	15.99 %	$ 107,529	6.00 %	$ 152,333	8.50 %
Common Equity Tier I Capital	$ 286,595	15.99 %	$ 80,647	4.50 %	$ 125,451	7.00 %
Tier I Leverage Capital	$ 286,595	9.23 %	$ 124,241	4.00 %	$ 124,241	4.00 %

Red River Bancshares, Inc.

As a general matter, bank holding companies are subject to Basel III capital adequacy requirements under applicable Federal Reserve regulations on a consolidated basis. However, bank holding companies that qualify as “small bank holding companies” under the Policy Statement are exempt from the Federal Reserve’s consolidated capital adequacy ratios at the holding company level and instead are evaluated at the bank level. In May 2018, the Economic Growth Act was enacted. One of the Economic Growth Act’s highlights, with implications for us, was the asset threshold under the Policy Statement being increased from $1.0 billion to $3.0 billion, which benefits bank holding companies by, among various other items, allowing for an 18-month safety and soundness examination cycle as opposed to a 12-month examination cycle, scaled biannual regulatory reporting requirements as opposed to quarterly regulatory reporting requirements, and not being subject to capital adequacy guidelines on a consolidated basis. Because the Company had less than $3.0 billion in assets as of each of the June 30th measurement dates starting with the Economic Growth Act’s enactment and going through June 30, 2021, the Company has received benefits under the Policy Statement and will continue to do so through 2022, except with regard to the timing of the Red River Bank safety and soundness exam by the FDIC and the OFI. Due to the timing of the asset balance determination for the Red River Bank safety and soundness examination, a 12-month examination cycle will begin in 2022. As of June 30, 2022, the last applicable measurement date, the Company had more than $3.0 billion in assets. Therefore, beginning in 2023, the Company expects to no longer receive any benefits under the Policy Statement. Although the minimum regulatory capital requirements are not currently applicable to the Company, the Company calculates these ratios for its own planning and monitoring purposes.

Capital amounts and ratios for Red River Bancshares, Inc. as of September 30, 2022 and December 31, 2021, are presented in the following table:

	Actual	
(dollars in thousands)	Amount	Ratio
September 30, 2022		
Total Risk-Based Capital	$ 345,564	17.15 %
Tier I Risk-Based Capital	$ 325,611	16.16 %
Common Equity Tier I Capital	$ 325,611	16.16 %
Tier I Leverage Capital	$ 325,611	10.31 %
December 31, 2021		
Total Risk-Based Capital	$ 319,553	17.83 %
Tier I Risk-Based Capital	$ 300,377	16.76 %
Common Equity Tier I Capital	$ 300,377	16.76 %
Tier I Leverage Capital	$ 300,377	9.67 %

Community Bank Leverage Ratio Framework

As part of the directive under the Economic Growth Act, on September 17, 2019, the FDIC and other federal bank regulatory agencies approved the CBLR framework. This optional framework became effective January 1, 2020, and is available as an alternative to the Basel III risk-based capital framework. The CBLR framework provides for a simple measure of capital adequacy for certain community banking organizations. Specifically, depository institutions and depository institution holding companies that have less than $10.0 billion in total consolidated assets and meet other qualifying criteria, including a Tier 1 leverage ratio of greater than 9.00% (subsequently temporarily reduced to 8.00% for 2020 and 8.50% for 2021 as a COVID-19 relief measure), are considered qualifying community banking organizations and are eligible to opt into the CBLR framework and replace the applicable Basel III risk-based capital requirements.

As of September 30, 2022, the Company and the Bank qualify for the CBLR framework. Management does not intend to utilize the CBLR framework.

8. Earnings Per Common Share

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock splits. Diluted EPS includes accrued but unissued shares relating to the Director Compensation Program and restricted stock determined using the treasury stock method. The dilutive EPS calculation assumes all outstanding stock options to purchase common stock have been exercised at the beginning of the year, and the pro forma proceeds from the exercised options and restricted stock are used to purchase common stock at the average fair market valuation price.

The computations of basic and diluted earnings per common share for the Company were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except share amounts)	2022	2021	2022	2021
Numerator:				
Net income - basic	$ 10,186	$ 8,138	$ 26,725	$ 24,442
Net income - diluted	$ 10,186	$ 8,138	$ 26,725	$ 24,442
Denominator:				
Weighted average shares outstanding - basic	7,183,915	7,278,192	7,179,984	7,298,597
Plus: Effect of Director Compensation Program	394	156	1,183	678
Plus: Effect of restricted stock	12,791	15,663	12,791	15,663
Weighted average shares outstanding - diluted	7,197,100	7,294,011	7,193,958	7,314,938
Earnings per common share:				
Basic	$ 1.42	$ 1.12	$ 3.72	$ 3.35
Diluted	$ 1.42	$ 1.12	$ 3.71	$ 3.34

9. Equity

Stock Repurchase Program

On February 4, 2022, the Company's Board of Directors approved the renewal of its stock repurchase program that was completed in the fourth quarter of 2021 after reaching its purchase limit. The renewed repurchase program authorizes the Company to purchase up to $5.0 million of its outstanding shares of common stock from February 4, 2022 through December 31, 2022. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions. For the three months ended September 30, 2022, the Company did not repurchase any shares of its common stock. For the nine months ended September 30, 2022, the Company repurchased 4,465 shares of its common stock at an aggregate cost of $218,000. As of September 30, 2022, the Company had $4.8 million available for repurchasing its common stock under this program.

AOCI - Transfer of Unrealized Gain (Loss) of Securities AFS and HTM

During the second quarter of 2022, the Company reclassified certain securities from AFS to HTM. Such transfers are made at fair value on the date of transfer. The net unrealized holding loss on the date of transfer is retained, net of tax, in AOCI, with no immediate change to the total balance in AOCI. The unrealized holding loss will be amortized over the remaining life of the securities.

At the date of transfer, the net unamortized, unrealized loss on the transferred securities included in the consolidated balance sheets totaled $17.9 million, of which $14.2 million, net of tax, was included in AOCI. As of September 30, 2022, the net unamortized, unrealized loss remaining on the transferred securities included in the consolidated balance sheets totaled $16.0 million, of which $13.0 million, net of tax, was included in AOCI.

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Red River Bancshares, Inc. on a consolidated basis from December 31, 2021 through September 30, 2022, and on our results of operations for the quarters ended September 30, 2022 and June 30, 2022, and for the nine months ended September 30, 2022 and September 30, 2021.

This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2021, included in our Annual Report on Form 10-K for the year ended December 31, 2021, and information presented elsewhere in this Report, particularly the unaudited consolidated financial statements and related notes appearing in Item 1.

The following discussion contains forward-looking statements that reflect our current views with respect to, among other things, future events and our financial performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. See "Cautionary Note Regarding Forward-Looking Statements" and "Part II - Item 1A. Risk Factors" in this Report. Also, see risk factors and other cautionary statements described in "Part I - Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2021. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

CORPORATE SUMMARY

Red River Bancshares, Inc. is the bank holding company for Red River Bank, a Louisiana state-chartered bank established in 1999 that provides a fully integrated suite of banking products and services tailored to the needs of our commercial and retail customers. Red River Bank operates from a network of 28 banking centers throughout Louisiana and one combined LDPO in New Orleans, Louisiana. Banking centers are located in the following Louisiana markets: Central, which includes the Alexandria MSA; Northwest, which includes the Shreveport-Bossier City MSA; Capital, which includes the Baton Rouge MSA; Southwest, which includes the Lake Charles MSA; the Northshore, which includes Covington; Acadiana, which includes the Lafayette MSA; and New Orleans.

Our priority is to drive shareholder value through the establishment of a market-leading commercial banking franchise based in Louisiana. We provide our services through relationship-oriented bankers who are committed to their customers and the communities where we offer our products and services. Our strategy is to expand market share in existing markets and engage in opportunistic new market *de novo* expansion, supplemented by strategic acquisitions of financial institutions with customer-oriented, compatible philosophies and in desirable geographic areas.

THIRD QUARTER 2022 FINANCIAL AND OPERATIONAL HIGHLIGHTS

The third quarter of 2022 financial results included record-high quarterly net income for the second consecutive quarter and an improved net interest margin FTE. Our balance sheet reflects continued solid loan growth, as well as lower securities, deposits, and assets. We also continued to execute our organic expansion plan in the New Orleans market.

- Net income for the third quarter of 2022 was $10.2 million, or $1.42 diluted EPS, an increase of $1.0 million, or 11.4%, compared to $9.1 million, or $1.27 diluted EPS for the second quarter of 2022. These increases were mainly due to a $1.9 million increase in net interest income.
- For the third quarter of 2022, the return on assets was 1.30%, and the return on equity was 15.48%.
- Net interest income and net interest margin FTE increased in the third quarter of 2022, compared to the prior quarter. Net interest income for the third quarter of 2022 was $23.1 million, compared to $21.1 million for the prior quarter. Net interest margin FTE was 3.06% for the third quarter of 2022, compared to 2.75% for the prior quarter. These increases were a result of the impact of a higher interest rate environment and an improved asset mix.
- As of September 30, 2022, assets were $3.06 billion, a decrease of $61.4 million from June 30, 2022. The decrease in assets was mainly due to a $53.7 million decrease in deposits primarily due to customer deposit activity in response to the changing interest rate environment.
- Our participation in the SBA PPP is substantially complete. As of September 30, 2022, PPP loans were $1.4 million, net of $28,000 of deferred income, or 0.1% of loans HFI.
- As of September 30, 2022, loans HFI were $1.88 billion, an increase of $38.1 million, or 2.1%, from June 30, 2022. The growth in loans HFI was primarily a result of loan activity in various markets across Louisiana.
- As of September 30, 2022, total securities were $764.5 million, or 25.0% of assets, compared to $810.7 million, or 26.0% of assets, as of June 30, 2022. Securities decreased primarily due to a larger unrealized loss and principal repayments in the securities portfolio.
- NPAs were $2.7 million, or 0.09% of assets, as of September 30, 2022. As of September 30, 2022, the allowance for loan losses was $20.0 million, or 1.06% of loans HFI.

- We paid a quarterly cash dividend of $0.07 per common share in the third quarter of 2022.
- We did not repurchase any shares through our stock repurchase program in the third quarter of 2022.
- We continued implementing our organic expansion plan in the New Orleans market. We remodeled and received regulatory approval on a leased banking center location in downtown New Orleans, which we opened as the Bank's first full-service banking center in New Orleans on August 1, 2022.

The following tables contain selected financial information regarding our financial position and performance as of and for the periods indicated:

	As of		Change from December 31, 2021 to September 30, 2022	
(dollars in thousands)	September 30, 2022	December 31, 2021	$ Change	% Change
Selected Period End Balance Sheet Data:				
Total assets	$ 3,059,678	$ 3,224,710	$ (165,032)	(5.1)%
Interest-bearing deposits in other banks	261,608	761,721	(500,113)	(65.7)%
Securities available-for-sale, at fair value	609,748	659,178	(49,430)	(7.5)%
Securities held-to-maturity, at amortized cost	154,736	—	154,736	— %
Loans held for investment	1,879,669	1,683,832	195,837	11.6 %
Total deposits	2,796,494	2,910,348	(113,854)	(3.9)%
Total stockholders' equity	243,413	298,150	(54,737)	(18.4)%

(dollars in thousands, except per share data)	As of and for the Three Months Ended September 30, 2022	June 30, 2022	September 30, 2021	As of and for the Nine Months Ended September 30, 2022	September 30, 2021
Net Income	$ 10,186	$ 9,147	$ 8,138	$ 26,725	$ 24,442
Per Common Share Data:					
Earnings per share, basic	$ 1.42	$ 1.27	$ 1.12	$ 3.72	$ 3.35
Earnings per share, diluted	$ 1.42	$ 1.27	$ 1.12	$ 3.71	$ 3.34
Book value per share	$ 33.88	$ 35.34	$ 41.05	$ 33.88	$ 41.05
Tangible book value per share[1,2]	$ 33.67	$ 35.12	$ 40.84	$ 33.67	$ 40.84
Realized book value per share[1,3]	$ 45.54	$ 44.23	$ 41.06	$ 45.54	$ 41.06
Cash dividends per share	$ 0.07	$ 0.07	$ 0.07	$ 0.21	$ 0.21
Shares outstanding	7,183,915	7,176,365	7,276,400	7,183,915	7,276,400
Weighted average shares outstanding, basic	7,183,915	7,176,365	7,278,192	7,179,984	7,298,597
Weighted average shares outstanding, diluted	7,197,100	7,196,643	7,294,011	7,193,958	7,314,938
Summary Performance Ratios:					
Return on average assets	1.30 %	1.15 %	1.11 %	1.13 %	1.15 %
Return on average equity	15.48 %	14.30 %	10.83 %	13.25 %	11.17 %
Net interest margin	3.00 %	2.70 %	2.54 %	2.70 %	2.57 %
Net interest margin FTE[4]	3.06 %	2.75 %	2.60 %	2.76 %	2.63 %
Efficiency ratio[5]	53.80 %	55.64 %	57.61 %	56.52 %	56.07 %
Loans HFI to deposits ratio	67.22 %	64.61 %	59.99 %	67.22 %	59.99 %
Noninterest-bearing deposits to deposits ratio	41.92 %	41.46 %	42.29 %	41.92 %	42.29 %
Noninterest income to average assets	0.62 %	0.61 %	0.77 %	0.60 %	0.89 %
Operating expense to average assets	1.93 %	1.82 %	1.86 %	1.84 %	1.90 %
Summary Credit Quality Ratios:					
NPAs to total assets	0.09 %	0.03 %	0.08 %	0.09 %	0.08 %
Nonperforming loans to loans HFI	0.14 %	0.02 %	0.09 %	0.14 %	0.09 %
Allowance for loan losses to loans HFI	1.06 %	1.05 %	1.18 %	1.06 %	1.18 %
Net charge-offs to average loans	0.00 %	0.01 %	0.03 %	0.01 %	0.03 %
Capital Ratios:					
Total stockholders' equity to total assets	7.96 %	8.13 %	9.89 %	7.96 %	9.89 %
Tangible common equity to tangible assets[1,6]	7.91 %	8.08 %	9.84 %	7.91 %	9.84 %
Total risk-based capital to risk-weighted assets	17.15 %	16.89 %	18.74 %	17.15 %	18.74 %
Tier 1 risk-based capital to risk-weighted assets	16.16 %	15.92 %	17.60 %	16.16 %	17.60 %
Common equity Tier 1 capital to risk-weighted assets	16.16 %	15.92 %	17.60 %	16.16 %	17.60 %
Tier 1 risk-based capital to average assets	10.31 %	9.73 %	10.21 %	10.31 %	10.21 %

(1) Non-GAAP financial measure. Calculations of this measure and reconciliations to GAAP are included in " - Non-GAAP Financial Measures" in this Report. This measure has not been audited.
(2) We calculate tangible book value per share as total stockholders' equity, less intangible assets, divided by the outstanding number of shares of our common stock at the end of the relevant period.
(3) We calculate realized book value per share as total stockholders' equity, less AOCI, divided by the outstanding number of shares of our common stock at the end of the relevant period.
(4) Net interest margin FTE includes an FTE adjustment using a 21.0% federal income tax rate on tax-exempt securities and tax-exempt loans.
(5) Efficiency ratio represents operating expenses divided by the sum of net interest income and noninterest income.
(6) We calculate tangible common equity as total stockholders' equity, less intangible assets, net of accumulated amortization, and we calculate tangible assets as total assets, less intangible assets, net of accumulated amortization.

RESULTS OF OPERATIONS

Net income for the third quarter of 2022 was $10.2 million, or $1.42 diluted EPS, an increase of $1.0 million, or 11.4%, compared to $9.1 million, or $1.27 diluted EPS, for the second quarter of 2022. The increase in net income was due to a $1.9 million increase in net interest income, a $13,000 decrease in income tax expense, and a $7,000 increase in noninterest income, partially offset by a $570,000 increase in operating expenses and a $350,000 increase in provision for loan losses. The return on assets for the third quarter of 2022 was 1.30%, compared to 1.15% for the second quarter of 2022. The return on equity was 15.48% for the third quarter of 2022, compared to 14.30% for the second quarter of 2022. Our efficiency ratio for the third quarter of 2022 was 53.80%, compared to 55.64% for the second quarter of 2022.

Net income for the nine months ended September 30, 2022, was $26.7 million, or $3.71 diluted EPS, an increase of $2.3 million, or 9.3%, compared to $24.4 million, or $3.34 diluted EPS, for the nine months ended September 30, 2021. The increase in net income was due to a $10.0 million increase in net interest income and a $750,000 decrease in the provision for loan losses, partially offset by a $4.7 million decrease in noninterest income, a $3.3 million increase in operating expenses, and a $458,000 increase in income tax expense. The return on assets for the nine months ended September 30, 2022, was 1.13%, compared to 1.15% for the nine months ended September 30, 2021. The return on equity was 13.25% for the nine months ended September 30, 2022, compared to 11.17% for the nine months ended September 30, 2021. Our efficiency ratio for the nine months ended September 30, 2022, was 56.52%, compared to 56.07% for the nine months ended September 30, 2021.

Net Interest Income and Net Interest Margin

Our operating results depend primarily on our net interest income. Fluctuations in market interest rates impact the yield on interest-earning assets and the rate paid on interest-bearing liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities impact our net interest income. To evaluate net interest income, we measure and monitor: (1) yields on loans and other interest-earning assets; (2) the cost of deposits and other funding sources; (3) net interest spread; and (4) net interest margin. Since noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing funding sources.

Beginning March 2020, we were in a low interest rate environment that impacted both the net interest income and net interest margin FTE. In March 2020, the target federal funds rate decreased 150 bps to a range of 0.00% to 0.25% and remained at that rate until March 2022, when the FOMC began increasing the target federal funds rate. The FOMC increased the target federal funds rate by 25 bps in March 2022, 50 bps in May 2022, and 75 bps in each of June, July, and September 2022, resulting in a range of 3.00% to 3.25% as of September 30, 2022. The average effective federal funds rate for the third quarter of 2022 was 2.19% compared to 0.77% for the second quarter of 2022. For the nine months ended September 30, 2022, the average effective federal funds rate was 1.03% compared to 0.08% for the nine months ended September 30, 2021. The 2022 net interest income and net interest margin FTE were positively impacted by the 2022 target federal funds rate increases by the FOMC.

Third Quarter of 2022 vs. Second Quarter of 2022

Net interest income for the third quarter of 2022 was $23.1 million, which was $1.9 million, or 9.2%, higher than the second quarter of 2022, due to a $2.4 million increase in interest and dividend income, partially offset by a $449,000 increase in interest expense. The increase in interest and dividend income was primarily due to an increase in non-PPP loan income and an increase in income on short-term liquid assets. Non-PPP loan income increased $1.9 million due to higher rates on new and renewed non-PPP loans and a $78.4 million increase in the average balance of non-PPP loans when compared to the prior quarter. Income on short-term liquid assets increased $768,000 due to the FOMC's increases to the target federal funds rate. The increase in interest expense in the third quarter of 2022 was primarily a result of an increase in the rates on interest-bearing transaction deposits.

The net interest margin FTE increased 31 bps to 3.06% for the third quarter of 2022, compared to 2.75% for the prior quarter. This increase was driven primarily by the higher interest rate environment and an improved asset mix in the third quarter of 2022. The yield on non-PPP loans increased 18 bps driven by higher rates on new and renewed loans, and the yield on short-term liquid assets increased 144 bps due to the higher interest rate environment. These increases were partially offset by a 12 bp increase in the rate on interest-bearing deposits.

The FOMC raised the target federal funds rate by 75 bps in November 2022 and is expected to raise the target federal funds rate one additional time in the fourth quarter of 2022 and in early 2023. Our balance sheet is asset sensitive, and interest income on earning assets generally improves in a higher interest rate environment. However, we also expect additional pressure on deposit interest rates due to the higher interest rate environment. As of September 30, 2022, floating rate loans were 14.5% of loans HFI, and floating rate transaction deposits were 3.6% of interest-bearing transaction deposits. Depending on balance sheet activity and excluding PPP loans, we expect an increasing interest rate environment to positively impact our net interest income and net interest margin FTE in the fourth quarter of 2022.

The following table presents average balance sheet information, interest income, interest expense, and the corresponding average yields earned and rates paid for the three months ended September 30, 2022 and June 30, 2022:

	For the Three Months Ended					
	September 30, 2022			June 30, 2022		
(dollars in thousands)	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate
Assets						
Interest-earning assets:						
Loans[1,2]	$ 1,871,834	$ 19,740	4.13 %	$ 1,796,322	$ 18,032	3.97 %
Securities - taxable	658,245	2,536	1.54 %	690,772	2,615	1.52 %
Securities - tax-exempt	207,182	1,036	2.00 %	211,672	1,062	2.01 %
Federal funds sold	55,201	317	2.25 %	53,216	116	0.86 %
Interest-bearing balances due from banks	219,845	1,238	2.21 %	351,092	671	0.76 %
Nonmarketable equity securities	3,452	19	2.24 %	3,451	2	0.22 %
Total interest-earning assets	3,015,759	$ 24,886	3.24 %	3,106,525	$ 22,498	2.87 %
Allowance for loan losses	(19,667)			(19,293)		
Noninterest-earning assets	100,685			99,687		
Total assets	$ 3,096,777			$ 3,186,919		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction deposits	$ 1,323,081	$ 938	0.28 %	$ 1,410,270	$ 547	0.16 %
Time deposits	321,547	860	1.06 %	328,420	802	0.98 %
Total interest-bearing deposits	1,644,628	1,798	0.43 %	1,738,690	1,349	0.31 %
Other borrowings	—	—	— %	—	—	— %
Total interest-bearing liabilities	1,644,628	$ 1,798	0.43 %	1,738,690	$ 1,349	0.31 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,173,387			1,175,251		
Accrued interest and other liabilities	17,756			16,459		
Total noninterest-bearing liabilities	1,191,143			1,191,710		
Stockholders' equity	261,006			256,519		
Total liabilities and stockholders' equity	$ 3,096,777			$ 3,186,919		
Net interest income		$ 23,088			$ 21,149	
Net interest spread			2.81 %			2.56 %
Net interest margin			3.00 %			2.70 %
Net interest margin FTE[3]			3.06 %			2.75 %
Cost of deposits			0.25 %			0.19 %
Cost of funds			0.24 %			0.17 %

(1) Includes average outstanding balances of loans HFS of $2.7 million and $3.8 million for the three months ended September 30, 2022 and June 30, 2022, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Net interest margin FTE includes an FTE adjustment using a 21.0% federal income tax rate on tax-exempt securities and tax-exempt loans.

For the third quarter of 2022, PPP loans had a minimal impact on loan yield and the net interest margin FTE. For the third quarter of 2022, PPP loan interest and fees totaled $6,000, compared to $150,000 in interest and fees for the prior quarter. As of September 30, 2022, deferred PPP fees were $28,000. For additional information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

The following table presents interest income for total loans, PPP loans, and total non-PPP loans (non-GAAP), as well as net interest income and net interest ratios excluding PPP loans (non-GAAP) for the three months ended September 30, 2022 and June 30, 2022:

	For the Three Months Ended					
	September 30, 2022			June 30, 2022		
(dollars in thousands)	Average Balance Outstanding	Interest/Fee Earned	Average Yield	Average Balance Outstanding	Interest/Fee Earned	Average Yield
Loans[1,2]	$ 1,871,834	$ 19,740	4.13 %	$ 1,796,322	$ 18,032	3.97 %
Less: PPP loans, net						
Average	1,350			4,202		
Interest		4			11	
Fees		2			139	
Total PPP loans, net	1,350	6	1.62 %	4,202	150	14.30 %
Non-PPP loans (non-GAAP)[3]	$ 1,870,484	$ 19,734	4.13 %	$ 1,792,120	$ 17,882	3.95 %
Net interest income, excluding PPP loan income (non-GAAP)						
Net interest income		$ 23,088			$ 21,149	
PPP loan income		(6)			(150)	
Net interest income, excluding PPP loan income (non-GAAP)[3]		$ 23,082			$ 20,999	
Ratios excluding PPP loans, net (non-GAAP)[3]						
Net interest spread			2.81 %			2.55 %
Net interest margin			3.00 %			2.68 %
Net interest margin FTE[4]			3.06 %			2.73 %

(1) Includes average outstanding balances of loans HFS of $2.7 million and $3.8 million for the three months ended September 30, 2022 and June 30, 2022, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Non-GAAP financial measure. See also " - Non-GAAP Financial Measures" in this Report.
(4) Net interest margin FTE includes an FTE adjustment using a 21.0% federal income tax rate on tax-exempt securities and tax-exempt loans.

Nine Months Ended September 30, 2022 vs. Nine Months Ended September 30, 2021

Net interest income for the nine months ended September 30, 2022 was $63.0 million, which was $10.0 million, or 18.9%, higher than $52.9 million for the nine months ended September 30, 2021. Net interest income increased due to a $10.1 million increase in interest and dividend income, partially offset by a $111,000 increase in interest expense.

The increase in interest and dividend income for the nine months ended September 30, 2022, when compared to the nine months ended September 30, 2021, was primarily due to an increase in non-PPP loan income, an increase in securities income, and an increase in income on short-term liquid assets, partially offset by a decrease in PPP loan income. Non-PPP loan income increased $8.0 million due to a $264.3 million increase in the average balance of non-PPP loans, when compared to the same period prior year. Securities income increased $4.0 million primarily due to a higher average balance of securities due to our deployment of lower-yielding short-term liquid assets into higher-yielding securities during the first half of 2022. Income on short-term liquid assets increased $2.1 million due to the FOMC's increases to the target federal funds rate in 2022. PPP loan income decreased $3.9 million due to lower average PPP loan balances outstanding and lower fees recognized to income on PPP loans.

Interest expense was slightly higher for the nine months ended September 30, 2022, compared to the same period in 2021 mainly due to a higher balance of interest-bearing transaction deposits. For the nine months ended September 30, 2022, average interest-bearing transaction deposits increased $206.4 million, or 17.5%, compared to the nine months ended September 30, 2021; however, interest expense on time deposits decreased due to time deposits being priced downward as we adjusted rates on new and renewed time deposits in 2021.

Net interest margin FTE increased 13 bps to 2.76% for the nine months ended September 30, 2022, from 2.63% for the nine months ended September 30, 2021, primarily due to the higher interest rate environment and an improved asset mix. The FOMC's increases to the target federal funds rate during the first nine months of 2022 increased the yield on short-term liquid assets by 68 bps when compared to the same period in 2021. Our deployment of lower-yielding short-term liquid assets into higher-yielding securities in 2022 also benefited the net interest margin FTE. This deployment increased the average balance of higher-yielding taxable securities from $318.4 million in 2021 to $635.6 million in 2022, an increase of $317.2 million or 99.7%. The yield on taxable securities also benefited from higher market interest rates on securities purchased during 2022, compared to the interest rate on taxable securities during 2021. The yield on taxable securities increased 16 bps for the nine months ended September 30, 2022, when compared to the nine months ended September 30, 2021. The net interest margin FTE was further benefited by a two bp decrease in the cost of deposits. The cost of deposits decreased from 0.23% to 0.21% for the nine months ended September 30, 2022, due to a 19 bp decrease in the rate on time deposits as we adjusted rates on new and renewed time deposits in 2021. These increases were partially offset by an 11 bp decrease in loan yield. The loan yield decreased primarily as a result of a $3.2 million decrease in PPP loan fee income. PPP loan income decreased due to lower fees recognized to income on PPP loans and a lower average balance of PPP loans outstanding. The yield on non-PPP loans decreased slightly to 3.99% from 4.00% due to lower rates on new and renewed non-PPP loans through the first quarter of 2022, offset by higher loan rates in the second and third quarters of 2022.

The following table presents average balance sheet information, interest income, interest expense, and the corresponding average yields earned and rates paid for the nine months ended September 30, 2022 and 2021:

	For the Nine Months Ended					
	September 30, 2022			September 30, 2021		
(dollars in thousands)	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate
Assets						
Interest-earning assets:						
Loans[1,2]	$ 1,786,864	$ 54,543	4.03 %	$ 1,610,449	$ 50,509	4.14 %
Securities - taxable	635,594	7,029	1.48 %	318,354	3,145	1.32 %
Securities - tax-exempt	211,375	3,181	2.01 %	199,556	3,102	2.07 %
Federal funds sold	53,896	458	1.12 %	70,841	67	0.13 %
Interest-bearing balances due from banks	385,556	2,160	0.74 %	521,118	432	0.11 %
Nonmarketable equity securities	3,451	22	0.86 %	3,448	9	0.34 %
Total interest-earning assets	$ 3,076,736	$ 67,393	2.90 %	$ 2,723,766	$ 57,264	2.78 %
Allowance for loan losses	(19,390)			(19,152)		
Noninterest-earning assets	108,124			133,400		
Total assets	$ 3,165,470			$ 2,838,014		
Liabilities and Stockholders’ Equity						
Interest-bearing liabilities:						
Interest-bearing transaction deposits	$ 1,383,628	$ 1,940	0.19 %	$ 1,177,220	$ 1,238	0.14 %
Time deposits	327,477	2,488	1.02 %	341,847	3,079	1.20 %
Total interest-bearing deposits	1,711,105	4,428	0.35 %	1,519,067	4,317	0.38 %
Other borrowings	—	—	— %	—	—	— %
Total interest-bearing liabilities	1,711,105	$ 4,428	0.35 %	1,519,067	$ 4,317	0.38 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,167,412			1,009,188		
Accrued interest and other liabilities	17,244			17,324		
Total noninterest-bearing liabilities	1,184,656			1,026,512		
Stockholders’ equity	269,709			292,435		
Total liabilities and stockholders’ equity	$ 3,165,470			$ 2,838,014		
Net interest income		$ 62,965			$ 52,947	
Net interest spread			2.55 %			2.40 %
Net interest margin			2.70 %			2.57 %
Net interest margin FTE[3]			2.76 %			2.63 %
Cost of deposits			0.21 %			0.23 %
Cost of funds			0.19 %			0.21 %

(1) Includes average outstanding balances of loans HFS of $3.6 million and $9.4 million for the nine months ended September 30, 2022 and 2021, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Net interest margin FTE includes an FTE adjustment using a 21.0% federal income tax rate on tax-exempt securities and tax-exempt loans.

Excluding PPP loan income, net interest income (non-GAAP) for the nine months ended September 30, 2022, was $62.3 million, which was $13.9 million, or 28.8%, higher than the nine months ended September 30, 2021. Also, with PPP loans excluded for the nine months ended September 30, 2022, the yield on non-PPP loans (non-GAAP) was 3.99%, and the net interest margin FTE (non-GAAP) was 2.73%. For the nine months ended September 30, 2022, PPP loans had a four bp accretive impact to the yield on loans and a three bp accretive impact to the net interest margin FTE. For additional information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

The following table presents interest income for total loans, PPP loans, and total non-PPP loans (non-GAAP), as well as net interest income and net interest ratios excluding PPP loans (non-GAAP) for the nine months ended September 30, 2022 and 2021.

	For the Nine Months Ended					
	September 30, 2022			September 30, 2021		
(dollars in thousands)	Average Balance Outstanding	Interest/Fee Earned	Average Yield	Average Balance Outstanding	Interest/Fee Earned	Average Yield
Loans[1,2]	$ 1,786,864	$ 54,543	4.03 %	$ 1,610,449	$ 50,509	4.14 %
Less: PPP loans, net						
Average	5,502			93,408		
Interest		42			734	
Fees		598			3,827	
Total PPP loans, net	5,502	640	15.54 %	93,408	4,561	6.51 %
Non-PPP loans (non-GAAP)[3]	$ 1,781,362	$ 53,903	3.99 %	$ 1,517,041	$ 45,948	4.00 %
Net interest income, excluding PPP loan income (non-GAAP)						
Net interest income		$ 62,965			$ 52,947	
PPP loan income		(640)			(4,561)	
Net interest income, excluding PPP loan income (non-GAAP)[3]		$ 62,325			$ 48,386	
Ratios excluding PPP loans, net (non-GAAP)[3]						
Net interest spread			2.52 %			2.27 %
Net interest margin			2.68 %			2.43 %
Net interest margin FTE[4]			2.73 %			2.49 %

(1) Includes average outstanding balances of loans HFS of $3.6 million and $9.4 million for the nine months ended September 30, 2022 and 2021, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Non-GAAP financial measure. See also " - Non-GAAP Financial Measures" in this Report.
(4) Net interest margin FTE includes an FTE adjustment using a 21.0% federal income tax rate on tax-exempt securities and tax-exempt loans.

Rate/Volume Analysis

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to changes in interest rates. The change in interest attributable to rate has been determined by applying the change in rate between periods to average balances outstanding in the earlier period. The change in interest due to volume has been determined by applying the rate from the earlier period to the change in average balances outstanding between periods. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended September 30, 2022 vs. June 30, 2022			For the Nine Months Ended September 30, 2022 vs. September 30, 2021		
	Increase (Decrease) Due to Change in		Total Increase	Increase (Decrease) Due to Change in		Total Increase
(in thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
Interest-earning assets:						
Loans	$ 759	$ 949	$ 1,708	$ 5,542	$ (1,508)	$ 4,034
Securities - taxable	(123)	44	(79)	3,134	750	3,884
Securities - tax-exempt	(23)	(3)	(26)	184	(105)	79
Federal funds sold	4	197	201	(16)	407	391
Interest-bearing balances due from banks	(253)	820	567	(92)	1,820	1,728
Nonmarketable equity securities	—	17	17	—	13	13
Total interest-earning assets	$ 364	$ 2,024	$ 2,388	$ 8,752	$ 1,377	$ 10,129
Interest-bearing liabilities:						
Interest-bearing transaction deposits	$ (24)	$ 415	$ 391	$ 219	$ 483	$ 702
Time deposits	(17)	75	58	(129)	(462)	(591)
Total interest-bearing deposits	(41)	490	449	90	21	111
Other borrowings	—	—	—	—	—	—
Total interest-bearing liabilities	$ (41)	$ 490	$ 449	$ 90	$ 21	$ 111
Increase (decrease) in net interest income	$ 405	$ 1,534	$ 1,939	$ 8,662	$ 1,356	$ 10,018

Provision for Loan Losses

The provision for loan losses is a charge to income necessary to maintain the allowance for loan losses at a level considered appropriate by management. Factors impacting the provision include loan portfolio growth, changes in the quality and composition of the loan portfolio, the level of nonperforming loans, delinquency and charge-off trends, and current economic conditions.

The table below presents, for the periods indicated, the provision for loan losses:

	For the Three Months Ended			
(dollars in thousands)	September 30, 2022	June 30, 2022	Increase (Decrease)	
Provision for loan losses	$ 600	$ 250	$ 350	140.0 %

The provision for loan losses for the third quarter of 2022 was $600,000, which was $350,000 higher than the provision for loan losses of $250,000 for the prior quarter. This increase was due to potential economic challenges resulting from the current inflationary environment, changing monetary policy, and loan growth. We will continue to evaluate future provision needs in relation to current economic situations, loan growth, and trends in asset quality.

The table below presents, for the periods indicated, the provision for loan losses:

	For the Nine Months Ended			
(dollars in thousands)	September 30, 2022	September 30, 2021	Increase (Decrease)	
Provision for loan losses	$ 1,000	$ 1,750	$ (750)	(42.9)%

The provision for loan losses for the nine months ended September 30, 2022, was $1.0 million, a decrease of $750,000, or 42.9%, from $1.8 million for the nine months ended September 30, 2021. The provision for loan losses for 2022 was due to the current inflationary environment, changing monetary policy, and loan growth. The provision for loan losses in the same period of 2021 was due to the anticipated adverse effects of the COVID-19 pandemic at that time.

Noninterest Income

Our primary sources of noninterest income are fees related to the sale of mortgage loans, service charges on deposit accounts, debit card fees, brokerage income from advisory services, and other loan and deposit fees.

Third Quarter of 2022 vs. Second Quarter of 2022

Noninterest income was consistent at $4.9 million for the third and second quarters of 2022. The slight increase in noninterest income was mainly due to a gain on the sale and call of securities, higher loan and deposit income, no impact related to equity securities due to their liquidation in the second quarter, and higher SBIC income, all of which was partially offset by lower mortgage loan income and net debit card income.

The table below presents, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended			
(dollars in thousands)	September 30, 2022	June 30, 2022	Increase (Decrease)	
Noninterest income:				
Service charges on deposit accounts	$ 1,488	$ 1,410	$ 78	5.5 %
Debit card income, net	934	1,056	(122)	(11.6)%
Mortgage loan income	624	892	(268)	(30.0)%
Brokerage income	870	890	(20)	(2.2)%
Loan and deposit income	502	410	92	22.4 %
Bank-owned life insurance income	181	180	1	0.6 %
Gain (Loss) on equity securities	—	(82)	82	100.0 %
Gain (Loss) on sale and call of securities	16	(114)	130	(114.0)%
SBIC income	231	151	80	53.0 %
Other income (loss)	21	67	(46)	(68.7)%
Total noninterest income	$ 4,867	$ 4,860	$ 7	0.1 %

The gain on the sale and call of securities was $16,000 for the third quarter of 2022 as a result of a municipal security that was called. In the second quarter of 2022, the loss on the sale and call of securities was $114,000 as a result of portfolio restructuring transactions.

Loan and deposit income increased $92,000 to $502,000 for the third quarter of 2022 from the previous quarter. This increase was primarily related to annual renewals of letters of credit.

Equity securities were an investment in a CRA mutual fund consisting primarily of bonds. The gain or loss on equity securities is a fair value adjustment primarily driven by changes in the interest rate environment. The mutual fund had a loss of $82,000 in the second quarter of 2022. In April 2022, we liquidated all shares invested in the mutual fund.

SBIC income for the third quarter of 2022 increased $80,000 to $231,000 from the prior quarter primarily due to a $95,000 dividend received from the SBIC.

Mortgage loan income decreased $268,000 to $624,000 for the third quarter of 2022, compared to $892,000 for the previous quarter. This decrease was primarily driven by reduced purchase activity due to higher mortgage interest rates.

Debit card income, net, decreased $122,000 to $934,000 for the third quarter of 2022 from the prior quarter. This decrease was mainly due to a decrease in the number of debit card transactions and higher debit card processing fees.

Nine Months Ended September 30, 2022 vs. Nine Months Ended September 30, 2021

Noninterest income decreased $4.7 million to $14.1 million for the nine months ended September 30, 2022, compared to $18.8 million for the nine months ended September 30, 2021. The decrease in noninterest income was due to lower mortgage loan income and net debit card income, losses on equity securities and the sale and call of securities, and reduced income from an SBIC limited partnership of which Red River Bank is a member. These decreases were partially offset by increased service charges on deposit accounts.

The table below presents, for the periods indicated, the major categories of noninterest income:

(dollars in thousands)	For the Nine Months Ended September 30, 2022	September 30, 2021	Increase (Decrease)	
Noninterest income:				
Service charges on deposit accounts	$ 4,205	$ 3,457	$ 748	21.6 %
Debit card income, net	2,926	3,344	(418)	(12.5)%
Mortgage loan income	2,643	7,009	(4,366)	(62.3)%
Brokerage income	2,536	2,491	45	1.8 %
Loan and deposit income	1,283	1,281	2	0.2 %
Bank-owned life insurance income	533	473	60	12.7 %
Gain (Loss) on equity securities	(447)	(100)	(347)	(347.0)%
Gain (Loss) on sale and call of securities	(59)	193	(252)	(130.6)%
SBIC income	401	616	(215)	(34.9)%
Other income (loss)	107	57	50	87.7 %
Total noninterest income	$ 14,128	$ 18,821	$ (4,693)	(24.9)%

Mortgage loan income decreased $4.4 million to $2.6 million for the nine months ended September 30, 2022, compared to $7.0 million for the same period prior year due to rising mortgage interest rates and home prices, as well as limited housing stock available for purchase. The low mortgage interest rate environment in the nine months ended September 30, 2021, contributed to the high levels of mortgage lending activity for that period.

Debit card income, net, decreased $418,000 to $2.9 million for the nine months ended September 30, 2022, compared to the same period in the prior year. This decrease was primarily related to higher debit card expense as a result of upgrading our debit card stock in the first quarter of 2022 and higher debit card processing fees.

Due to a significant increase in interest rates, equity securities had a fair value loss of $447,000 for the nine months ended September 30, 2022, compared to a loss of $100,000 for the same period in 2021. In April 2022, we liquidated all shares invested in the mutual fund.

The loss on the sale and call of securities was $59,000 for the nine months ended September 30, 2022, and consisted of a loss of $114,000 related to portfolio restructuring transactions in the second quarter of 2022, offset by a $55,000 gain from municipal securities being called in 2022. For the nine months ended September 30, 2021, the gain on the sale and call of securities was $193,000 as a result of portfolio restructuring transactions to improve the structure and yield of the portfolio.

SBIC income decreased $215,000 to $401,000 for the nine months ended September 30, 2022, due to lower operating income being distributed by the SBIC in 2022.

Service charges on deposit accounts increased $748,000 to $4.2 million for the nine months ended September 30, 2022, compared to the same period in the prior year. This increase was mainly due to a larger number of non-sufficient fund transactions and related fee income in 2022.

Operating Expenses

Operating expenses are composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships, and providing services.

Third Quarter of 2022 vs. Second Quarter of 2022

Operating expenses increased $570,000 to $15.0 million for the third quarter of 2022, compared to $14.5 million for the second quarter of 2022. The increase was mainly due to higher personnel expenses, other business development expenses, legal and professional expenses, and occupancy and equipment expenses.

The following table presents, for the periods indicated, the major categories of operating expenses:

	For the Three Months Ended			
(dollars in thousands)	September 30, 2022	June 30, 2022	Increase (Decrease)	
Operating expenses:				
Personnel expenses	$ 8,853	$ 8,574	$ 279	3.3 %
Non-staff expenses:				
Occupancy and equipment expenses	1,531	1,473	58	3.9 %
Technology expenses	653	695	(42)	(6.0)%
Advertising	316	306	10	3.3 %
Other business development expenses	436	340	96	28.2 %
Data processing expense	604	564	40	7.1 %
Other taxes	650	647	3	0.5 %
Loan and deposit expenses	164	185	(21)	(11.4)%
Legal and professional expenses	553	475	78	16.4 %
Regulatory assessment expenses	280	251	29	11.6 %
Other operating expenses	1,001	961	40	4.2 %
Total operating expenses	$ 15,041	$ 14,471	$ 570	3.9 %

Personnel expenses increased $279,000 to $8.9 million for the third quarter of 2022, compared to the prior quarter. This increase was primarily due to an increase in headcount. As of September 30, 2022 and June 30, 2022, we had 358 and 348 total employees, respectively.

Other business development expenses increased $96,000 to $436,000 for the third quarter of 2022, compared to the prior quarter. This increase was primarily the result of an increase in community sponsorships and CRA related contributions, as well as expenses associated with an SBIC limited partnership.

Legal and professional expenses increased $78,000 to $553,000 for the third quarter of 2022, compared to the prior quarter. This increase was primarily due to higher professional fees and auditing fees.

Occupancy and equipment expenses increased $58,000 to $1.5 million for the third quarter of 2022, compared to the prior quarter. This increase was primarily due to $44,000 of nonrecurring expenses related to the third-quarter opening of a new location in our New Orleans market, partially offset by lower expenses due to relocating the staff and closing the Lafayette LDPO on June 30, 2022.

Nine Months Ended September 30, 2022 vs. Nine Months Ended September 30, 2021

Operating expenses increased $3.3 million to $43.6 million for the nine months ended September 30, 2022, compared to $40.2 million for the nine months ended September 30, 2021. The increase in operating expenses was mainly due to higher personnel expenses, occupancy and equipment expenses, other taxes, other operating expenses, and legal and professional expenses, partially offset by lower loan and deposit expenses.

The following table presents, for the periods indicated, the major categories of operating expenses:

	For the Nine Months Ended			
(dollars in thousands)	September 30, 2022	September 30, 2021	Increase (Decrease)	
Operating expenses:				
Personnel expenses	$ 25,879	$ 24,087	$ 1,792	7.4 %
Non-staff expenses:				
Occupancy and equipment expenses	4,496	4,019	477	11.9 %
Technology expenses	2,118	2,144	(26)	(1.2)%
Advertising	841	691	150	21.7 %
Other business development expenses	1,079	889	190	21.4 %
Data processing expense	1,484	1,445	39	2.7 %
Other taxes	1,933	1,584	349	22.0 %
Loan and deposit expenses	479	773	(294)	(38.0)%
Legal and professional expenses	1,446	1,189	257	21.6 %
Regulatory assessment expenses	781	665	116	17.4 %
Other operating expenses	3,037	2,753	284	10.3 %
Total operating expenses	$ 43,573	$ 40,239	$ 3,334	8.3 %

Personnel expenses increased $1.8 million to $25.9 million for the nine months ended September 30, 2022, compared to the same period in 2021. This increase was primarily due to having nine months of expenses for new staff that were added in the fourth quarter of 2021 in our expansion markets, as well as additional staff in our existing markets, which was partially offset by lower commission compensation in 2022 due to lower mortgage loan activity, when compared to the same period in 2021. As of September 30, 2022 and 2021, we had 358 and 344 total employees, respectively.

Occupancy and equipment expenses increased $477,000 to $4.5 million for the nine months ended September 30, 2022, compared to the same period in 2021. This increase was primarily a result of opening new locations in our expansion markets.

Other taxes increased $349,000 to $1.9 million for the nine months ended September 30, 2022, compared to the same period in 2021. This increase was due to a $353,000 increase in State of Louisiana bank stock tax resulting from higher deposit account balances and higher net income for the applicable tax years.

Other operating expenses increased $284,000 to $3.0 million for the nine months ended September 30, 2022, compared to the same period in 2021. This increase was primarily the result of opening new locations in our expansion markets and an increase in employee related events due to removal of COVID-19 pandemic restrictions.

Legal and professional expenses increased $257,000 to $1.4 million for the nine months ended September 30, 2022, compared to the same period in 2021. This increase was primarily due to higher professional fees and public company expenses due to organizational growth, partially offset by lower attorney fees as a result of the completion of various legal matters.

Loan and deposit expenses decreased $294,000 to $479,000 for the nine months ended September 30, 2022, compared to the same period in 2021. The decrease in loan expenses was primarily due to decreased mortgage loan activity, which was largely driven by rising mortgage interest rates. Deposit expenses decreased due to receipt of a $122,000 negotiated, variable rebate from a vendor in the first quarter of 2022.

Income Tax Expense

The amount of income tax expense is influenced by the amount of our pre-tax income, tax-exempt income, and other nondeductible expenses. Deferred tax assets and liabilities are reflected at currently enacted income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Our effective income tax rates have differed from the U.S. statutory rate due to the effect of tax-exempt income from loans, securities, life insurance policies, and the income tax effects associated with stock-based compensation.

The table below presents, for the periods indicated, income tax expense:

	For the Three Months Ended			
(dollars in thousands)	September 30, 2022	June 30, 2022	Increase (Decrease)	
Income tax expense	$ 2,128	$ 2,141	$ (13)	(0.6)%

For the three months ended September 30, 2022, income tax expense totaled $2.1 million, which was consistent with the second quarter of 2022. The slight decrease in income tax expense was a result of an adjustment to the income tax accrual for the third quarter due to the liquidation of equity securities in the second quarter of 2022. Our effective income tax rates for each of the quarters ended September 30, 2022 and June 30, 2022, were 17.3% and 19.0%, respectively.

The table below presents, for the periods indicated, income tax expense:

	For the Nine Months Ended			
(dollars in thousands)	September 30, 2022	September 30, 2021	Increase (Decrease)	
Income tax expense	$ 5,795	$ 5,337	$ 458	8.6 %

For the nine months ended September 30, 2022 and 2021, income tax expense totaled $5.8 million and $5.3 million, respectively. The increase in income tax expense was primarily due to the increase in pre-tax income. Our effective income tax rates for the nine months ended September 30, 2022 and 2021, were 17.8% and 17.9%, respectively.

FINANCIAL CONDITION

General

As of September 30, 2022, assets were $3.06 billion, which was $165.0 million, or 5.1%, lower than assets of $3.22 billion as of December 31, 2021, primarily due to a decrease in deposits. Total deposits decreased $113.9 million, or 3.9%, to $2.80 billion as of September 30, 2022, from $2.91 billion as of December 31, 2021. During the nine months ended September 30, 2022, we made several changes to the asset mix, including deploying short-term liquid assets into loans and the securities portfolio, as well as restructuring the securities portfolio. However, in the third quarter of 2022, we did not engage in any securities purchases or sales. Due to the securities purchased in the first half of 2022, total securities increased $97.5 million, or 14.6%, to $764.5 million during the first nine months of 2022, and were 25.0% of assets as of September 30, 2022. As a result of the increase in loans and securities, interest-bearing deposits in other banks decreased $500.1 million, or 65.7%, to $261.6 million and were 8.6% of assets as of September 30, 2022. Loans HFI increased $195.8 million, or 11.6%, which included a $212.0 million, or 12.7%, increase in non-PPP loans compared to December 31, 2021. Stockholders' equity decreased $54.7 million during the first nine months of 2022 to $243.4 million as of September 30, 2022. As of September 30, 2022, the loans HFI to deposits ratio was 67.22%, compared to 57.86% as of December 31, 2021, and the noninterest-bearing deposits to total deposits ratio was 41.92%, compared to 39.50% as of December 31, 2021.

Interest-bearing Deposits in Other Banks

Interest-bearing deposits in other banks are the third-largest component of earning assets as of September 30, 2022. Excess liquidity that is not being deployed into loans or securities is placed in these accounts. Starting during the COVID-19 pandemic, which began in the first quarter of 2020, and continuing into the first quarter of 2022, interest-bearing deposits in other banks had become the second-largest component of earning assets as deposit growth exceeded loan growth. As of September 30, 2022, interest-bearing deposits in other banks were $261.6 million and were 8.6% of assets, a decrease of $500.1 million, or 65.7%, compared to $761.7 million and 23.6% of assets as of December 31, 2021. In the first nine months of 2022, we deployed excess liquidity into loans and the securities portfolio, although we did not engage in any securities purchases or sales in the third quarter of 2022.

Securities

Our securities portfolio is the second-largest component of earning assets and provides a significant source of revenue. Securities are classified as AFS, HTM, and equity securities. As of September 30, 2022, our total securities portfolio was 25.0% of assets. It is designed primarily to provide and maintain liquidity, generate a favorable return on investments without incurring unnecessary interest rate and credit risk, and complement our lending activities. We may invest in various types of liquid assets that are permissible under governing regulations and approved by our investment policy, which include U.S. Treasury obligations, U.S. government agency obligations, certificates of deposit of insured domestic banks, mortgage-backed and mortgage-related securities, corporate notes having an investment rating of "A" or better, municipal bonds, and certain equity securities.

Securities AFS and Securities HTM

Securities AFS and securities HTM are debt securities. Total debt securities were $764.5 million as of September 30, 2022, an increase of $105.3 million, or 16.0%, from $659.2 million as of December 31, 2021.

Securities AFS are held for indefinite periods of time and are carried at estimated fair value. As of September 30, 2022, the estimated fair value of securities AFS was $609.7 million. The net unrealized loss on securities AFS increased $84.8 million for the nine months ended September 30, 2022, resulting in a net unrealized loss of $89.6 million as of September 30, 2022.

Over the past year, due to the increase in our securities portfolio size, the current and projected balance sheet mix and growth, cash flows, and available liquidity sources, we evaluated transferring selected securities from AFS to HTM. In the second quarter of 2022, we reclassified $166.3 million, net of $17.9 million of unrealized loss, or 20.5% of the securities portfolio from AFS to HTM. Securities HTM, which we have the intent and ability to hold until maturity, are carried at amortized cost. As of September 30, 2022, the amortized cost of securities HTM was $154.7 million.

Investment activity for the nine months ended September 30, 2022, included $313.5 million of securities purchased, partially offset by $31.8 million in sales and $73.4 million in maturities, principal repayments, and calls. There were no purchases or sales of securities HTM for the same period.

Securities AFS purchased during the nine months ended September 30, 2022, primarily consisted of $159.8 million in U.S. Treasuries and $139.1 million in mortgage-backed securities. The U.S. Treasuries purchased had a yield of 1.78% and an average life of 1.85 years, and the mortgage-backed securities had a yield of 1.78% and an average life of 3.63 years. The overall price risk of the securities AFS and securities HTM portfolio decreased 210 bps, compared to December 31, 2021, primarily due to the short-term U.S. Treasury securities purchased in the first and second quarters of 2022 and the rising interest rate environment.

During the first six months of 2022, we reallocated $260.5 million from overnight funds yielding 0.39% to securities AFS yielding 1.80% and purchased $53.0 million of securities yielding 1.91% as we reinvested cash flows from the securities portfolio. In the third quarter of 2022, we did not engage in any purchases or sales transactions; however, we will continue to monitor our portfolio.

The securities AFS portfolio tax-equivalent yield was 1.74% for the nine months ended September 30, 2022, compared to 1.82% for the nine months ended September 30, 2021. The decrease in yield for the nine months ended September 30, 2022, compared to the same period for 2021, was due to purchasing a significant amount of securities in the second half of 2021 and the first half of 2022 with lower yields than the overall portfolio yield at the time of purchase.

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected lives because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and collateralized mortgage obligations are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly pay downs on mortgage-backed securities may cause the average lives of the securities to be much different than the stated contractual maturity. During a period of rising interest rates, fixed rate mortgage-backed securities are not likely to experience heavy prepayments of principal, and consequently, the average lives of these securities are typically lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated average lives of these securities. As of September 30, 2022, the average life of our securities portfolio was 6.9 years with an estimated effective duration of 5.0 years. As of December 31, 2021, the average life of our securities portfolio was 4.9 years with an estimated effective duration of 4.1 years. Both the average life and the effective duration increased due to the increase in market rates and the resulting impact on mortgage-backed securities and our callable municipal securities.

The carrying values of our securities AFS are adjusted for unrealized gain or loss, and any unrealized gain or loss is reported on an after-tax basis as a component of AOCI in stockholders' equity. As of September 30, 2022, the net unrealized loss of the securities AFS portfolio was $89.6 million, an increase of $84.8 million, compared to a net unrealized loss of $4.8 million as of December 31, 2021. This change is attributed to a significant increase in market rates, which resulted in lower prices on securities and therefore, an overall lower market value of the portfolio.

The following tables summarize the amortized cost and estimated fair value of our securities by type as of the dates indicated. As of September 30, 2022, other than securities issued by U.S. government agencies or government-sponsored enterprises, our securities portfolio did not contain securities of any one issuer with an aggregate book value in excess of 10.0% of our stockholders' equity.

	September 30, 2022			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities AFS:				
Mortgage-backed securities	$ 295,166	$ —	$ (37,623)	$ 257,543
Municipal bonds	220,078	1	(44,780)	175,299
U.S. Treasury securities	176,500	—	(6,631)	169,869
U.S. agency securities	7,596	—	(559)	7,037
Total Securities AFS	$ 699,340	$ 1	$ (89,593)	$ 609,748
Securities HTM:				
Mortgage-backed securities	$ 153,826	$ —	$ (20,785)	$ 133,041
U.S. agency securities	910	—	(114)	796
Total Securities HTM	$ 154,736	$ —	$ (20,899)	$ 133,837

	December 31, 2021			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities AFS:				
Mortgage-backed securities	$ 386,874	$ 1,112	$ (8,460)	$ 379,526
Municipal bonds	227,248	3,665	(942)	229,971
U.S. Treasury securities	41,770	—	(154)	41,616
U.S. agency securities	8,062	61	(58)	8,065
Total Securities AFS	$ 663,954	$ 4,838	$ (9,614)	$ 659,178
Securities HTM:				
Mortgage-backed securities	$ —	$ —	$ —	$ —
U.S. agency securities	—	—	—	—
Total Securities HTM	$ —	$ —	$ —	$ —

The following table shows the fair value of securities AFS that mature during each of the periods indicated. The contractual maturity of a mortgage-backed security is the date the last underlying mortgage matures. Yields are weighted-average tax equivalent yields that are calculated by dividing projected annual income by the average amortized cost of the applicable securities while using a 21.0% federal income tax rate, when applicable.

	Contractual Maturity as of September 30, 2022									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
(dollars in thousands)	Amount	Yield[(1)]	Amount	Yield[(1)]	Amount	Yield[(1)]	Amount	Yield[(1)]	Amount	Yield[(1)]
Securities AFS:										
Mortgage-backed securities	$ 136	1.59 %	$ 795	2.02 %	$ 60,900	1.50 %	$ 195,712	1.83 %	$ 257,543	1.76 %
Municipal bonds	4,948	1.33 %	20,428	1.80 %	13,639	2.89 %	136,284	2.56 %	175,299	2.48 %
U.S. Treasury securities	53,067	1.48 %	116,802	1.43 %	—	— %	—	— %	169,869	1.45 %
U.S. agency securities	55	1.66 %	5,288	1.75 %	1,694	1.26 %	—	— %	7,037	1.62 %
Total Securities AFS	$ 58,206	1.47 %	$ 143,313	1.50 %	$ 76,233	1.74 %	$ 331,996	2.15 %	$ 609,748	1.91 %

(1) Tax equivalent projected book yield as of September 30, 2022.

The following table shows the amortized cost of securities HTM that mature during each of the periods indicated. The contractual maturity of a mortgage-backed security is the date the last underlying mortgage matures. Yields are weighted-average tax equivalent yields that are calculated by dividing projected annual income by the average amortized cost of the applicable securities while using a 21.0% federal income tax rate, when applicable.

	Contractual Maturity as of September 30, 2022									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
(dollars in thousands)	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]
Securities HTM:										
Mortgage-backed securities	$ —	—%	$ —	—%	$ —	—%	$ 153,826	2.95%	$ 153,826	2.95%
U.S. agency securities	—	—%	—	—%	910	2.61%	—	—%	910	2.61%
Total Securities HTM	$ —	—%	$ —	—%	$ 910	2.61%	$ 153,826	2.95%	$ 154,736	2.95%

[1] Tax equivalent projected book yield as of September 30, 2022.

Equity Securities

Equity securities were an investment in a CRA mutual fund, consisting primarily of bonds. Equity securities were carried at fair value on the consolidated balance sheets with periodic changes in value recorded through the consolidated statements of income. As of December 31, 2021, equity securities had a fair value of $7.8 million with a recognized loss of $175,000 for the year ended December 31, 2021. Equity securities had a recognized loss of $447,000 for the nine months ended September 30, 2022. The loss on equity securities during 2022 was due to a significant increase in interest rates. In April 2022, we liquidated all shares invested in this fund.

Loan Portfolio

Our loan portfolio is our largest category of earning assets, and interest income earned on our loan portfolio is our primary source of income. We maintain a diversified loan portfolio with a focus on commercial real estate, one-to-four family residential, and commercial and industrial loans. As of September 30, 2022, loans HFI were $1.88 billion, an increase of $195.8 million, or 11.6%, compared to $1.68 billion as of December 31, 2021.

As of September 30, 2022, our participation in the SBA PPP was substantially complete. As of September 30, 2022, PPP loans totaled $1.4 million, net of $28,000 of deferred income, and were 0.1% of loans HFI.

As of September 30, 2022, non-PPP loans HFI (non-GAAP) were $1.88 billion, an increase of $212.0 million, or 12.7%, from December 31, 2021, due to new customer activity associated with new lenders in our expansion markets and increased loan activity across Louisiana. For calculations and reconciliations to GAAP of non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

Loans by Category

Loans HFI by category, non-PPP loans HFI (non-GAAP), and loans HFS are summarized below as of the dates indicated:

	September 30, 2022		December 31, 2021	
(dollars in thousands)	Amount	Percent	Amount	Percent
Real estate:				
Commercial real estate	$ 787,464	41.9 %	$ 670,293	39.8 %
One-to-four family residential	532,034	28.3 %	474,420	28.2 %
Construction and development	140,398	7.5 %	106,339	6.3 %
Commercial and industrial	307,159	16.3 %	311,373	18.5 %
SBA PPP, net of deferred income	1,350	0.1 %	17,550	1.0 %
Tax-exempt	84,947	4.5 %	80,726	4.8 %
Consumer	26,317	1.4 %	23,131	1.4 %
Total loans HFI	$ 1,879,669	100.0 %	$ 1,683,832	100.0 %
Total non-PPP loans HFI (non-GAAP)[1]	$ 1,878,319		$ 1,666,282	
Total loans HFS	$ 1,536		$ 4,290	

[1] Non-GAAP financial measure. Calculations of this measure and reconciliations to GAAP are included in " - Non-GAAP Financial Measures" in this Report.

Industry Concentrations

Health care loans are our largest loan industry concentration and are made up of a diversified portfolio of health care providers. As of September 30, 2022, health care loans were $145.7 million, or 7.8% of non-PPP loans HFI (non-GAAP), compared to $138.1 million, or 8.3% of non-PPP loans HFI (non-GAAP) as of December 31, 2021. The average health care loan size was $344,000 as of September 30, 2022, and $295,000 as of December 31, 2021. Within the health care sector, loans to nursing and residential care facilities were 3.9% of non-PPP loans HFI (non-GAAP) as of September 30, 2022, and 3.6% as of December 31, 2021. Loans to physician and dental practices were 3.8% of non-PPP loans HFI (non-GAAP) as of September 30, 2022, and 4.6% as of December 31, 2021.

Energy loans were 2.1% of non-PPP loans HFI (non-GAAP) as of September 30, 2022, and 1.2% as of December 31, 2021. For additional information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

Geographic Markets

As of September 30, 2022, Red River Bank operates in seven geographic markets throughout the state of Louisiana. We entered the Acadiana market in the fourth quarter of 2020 and the New Orleans market in the fourth quarter of 2021. The following table summarizes non-PPP loans HFI (non-GAAP) by market of origin:

	September 30, 2022	
(dollars in thousands)	**Amount**	**Percent of Non-PPP Loans HFI (non-GAAP)**
Central	$ 610,692	32.5 %
Capital	511,572	27.2 %
Northwest	369,374	19.7 %
Southwest	140,977	7.5 %
Northshore	127,609	6.8 %
New Orleans	66,676	3.6 %
Acadiana	51,419	2.7 %
Total non-PPP loans HFI	$ 1,878,319	100.0 %

For additional information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

LIBOR

In July 2017, the United Kingdom Financial Conduct Authority, the authority that regulates LIBOR, announced its intent to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Subsequently, on March 5, 2021, it was announced that certain U.S. Dollar LIBOR rates would cease to be published after June 30, 2023. As of September 30, 2022, 2.1% of our non-PPP loans HFI (non-GAAP) were LIBOR-based with a setting that expires June 30, 2023. Alternative rate language is present in each credit agreement with a LIBOR-based rate. We do not anticipate any issue with transitioning each loan to a non-LIBOR-based rate. For additional information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

Nonperforming Assets

NPAs consist of nonperforming loans and property acquired through foreclosures or repossession. Nonperforming loans include loans that are contractually past due 90 days or more and loans that are on nonaccrual status. Loans are considered past due when principal and interest payments have not been received as of the date such payments are due.

Asset quality is managed through disciplined underwriting policies, continual monitoring of loan performance, and focused management of NPAs. There can be no assurance, however, that the loan portfolio will not become subject to losses due to declines in economic conditions, deterioration in the financial condition of our borrowers, or a decline in the value of collateral.

NPAs totaled $2.7 million as of September 30, 2022, an increase of $1.7 million, or 177.3%, from $979,000 as of December 31, 2021. This increase was primarily due to additional loans placed on nonaccrual status in the third quarter of 2022, partially offset by payments on nonaccrual loans and the sale of foreclosed assets during the year. The ratio of NPAs to total assets was 0.09% as of September 30, 2022, and 0.03% as of December 31, 2021.

Nonperforming loan and asset information is summarized below:

(dollars in thousands)	September 30, 2022	December 31, 2021
Nonperforming loans:		
Nonaccrual loans	$ 2,703	$ 280
Accruing loans 90 or more days past due	12	39
Total nonperforming loans	2,715	319
Foreclosed assets:		
Real estate	—	660
Total foreclosed assets	—	660
Total NPAs	$ 2,715	$ 979
Troubled debt restructurings:[1,2]		
Nonaccrual loans	$ 147	$ —
Performing loans	4,204	3,944
Total TDRs	$ 4,351	$ 3,944
Nonaccrual loans to loans HFI	0.14%	0.02 %
Nonperforming loans to loans HFI[1]	0.14%	0.02 %
NPAs to total assets	0.09%	0.03 %

(1) Troubled debt restructurings – nonaccrual and accruing loans 90 or more days past due are included in the respective components of nonperforming loans.
(2) In accordance with interagency regulatory guidance issued in March 2020, and revised in April 2020, COVID-19 pandemic-related short-term deferrals are not deemed to be TDRs to the extent they meet the terms of such guidance.

Nonaccrual loans are summarized below by category:

(in thousands)	September 30, 2022	December 31, 2021
Real estate:		
Commercial real estate	$ 722	$ 51
One-to-four family residential	372	216
Construction and development	9	—
Commercial and industrial	1,498	13
SBA PPP, net of deferred income	—	—
Tax-exempt	—	—
Consumer	102	—
Total nonaccrual loans	$ 2,703	$ 280

Potential Problem Loans

From a credit risk standpoint, we classify loans in one of five categories: pass, special mention, substandard, doubtful, or loss. Loan classifications reflect a judgment about the risk of default and loss associated with the loans. Classifications are reviewed periodically and adjusted to reflect the degree of risk and loss believed to be inherent in each loan. The methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Loans classified as pass are of satisfactory quality and do not require a more severe classification.

Loans classified as special mention have potential weaknesses that deserve management’s close attention. If these weaknesses are not corrected, repayment possibilities for the loan may deteriorate. However, the loss potential does not warrant substandard classification.

Loans classified as substandard have well-defined weaknesses that jeopardize normal repayment of principal and interest. Prompt corrective action is required to reduce exposure and to assure adequate remedial actions are taken by the borrower. If these weaknesses do not improve, loss is possible.

Loans classified as doubtful have well-defined weaknesses that make full collection improbable.

Loans classified as loss are considered uncollectible and charged-off to the allowance for loan losses.

As of September 30, 2022, loans classified as pass were 98.6% of loans HFI, and loans classified as special mention and substandard were 1.1% and 0.3%, respectively, of loans HFI. There were no loans as of September 30, 2022, classified as doubtful or loss. As of December 31, 2021, loans classified as pass were 99.5% of loans HFI, and loans classified as special mention and substandard were 0.1% and 0.4%, respectively, of loans HFI. There were no loans as of December 31, 2021, classified as doubtful or loss.

Allowance for Loan Losses

The allowance for loan losses is established for known and inherent losses in the loan portfolio based upon management's best assessment of the loan portfolio at each balance sheet date. It is maintained at a level estimated to be adequate to absorb potential losses through periodic changes to loan losses.

In connection with the review of the loan portfolio, risk elements attributable to particular loan types or categories are considered in assessing the quality of individual loans. Some of the risk elements considered include:

- for commercial real estate loans, the debt service coverage ratio (income from the business in excess of operating expenses compared to loan repayment requirements); operating results of the owner in the case of owner occupied properties; the loan-to-value ratio; the age and condition of the collateral; and the volatility of income, property value, and future operating results typical of properties of that type;
- for one-to-four family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability; the loan-to-value ratio; and the age, condition, and marketability of the collateral;
- for construction and development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease; the quality and nature of contracts for presale or prelease, if any; experience and ability of the developer; and the loan-to-value ratio; and
- for commercial and industrial loans, the debt service coverage ratio; the operating results of the commercial, industrial, or professional enterprise; the borrower's business, professional, and financial ability and expertise; the specific risks and volatility of income and operating results typical for businesses in that category; the value, nature, and marketability of collateral; and the financial resources of the guarantor(s), if any.

As an SEC registrant with smaller reporting company filing status as determined on June 30, 2019, CECL is effective for us on January 1, 2023. When effective, the CECL allowance model, prescribed by *ASU No. 2016-13*, will require measurement of expected credit losses based on historical experience, current conditions, and reasonable and supportable forecasts. This model will replace the existing incurred loss model. Based upon our preliminary CECL analysis as of September 30, 2022, we expect the adoption of CECL will result in a combined 1.0% to 5.0% increase in our allowance for credit losses and allowance for unfunded commitments. Refer to "Item 1. Financial Statements - Note 1 - Summary of Significant Accounting Policies - Recent Accounting Pronouncements" in this Report for more information on *ASU No. 2016-13*.

As of September 30, 2022, the allowance for loan losses was $20.0 million, or 1.06% of both loans HFI and non-PPP loans HFI (non-GAAP). As of December 31, 2021, the allowance for loan losses totaled $19.2 million, or 1.14% of loans HFI, and 1.15% of non-PPP loans HFI (non-GAAP). The $777,000 increase in the allowance for loan losses for the nine months ended September 30, 2022, was mainly due to $1.0 million from the provision for loan losses, partially offset by $223,000 of net charge-offs. For additional information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Report.

The provision for loan losses for the nine months ended September 30, 2022, was $1.0 million, a decrease of $750,000, or 42.9%, from $1.8 million for the nine months ended September 30, 2021. The provision for loan losses for 2022 was due to the current inflationary environment, changing monetary policy, and loan growth. The provision for loan losses in the same period of 2021 was due to the anticipated adverse effects of the COVID-19 pandemic at that time. We will continue to evaluate future provision needs in relation to current economic situations, loan growth, and trends in asset quality.

The following table displays activity in the allowance for loan losses for the periods shown:

	As of and for the Nine Months Ended	
(dollars in thousands)	September 30, 2022	September 30, 2021
Loans HFI	$ 1,879,669	$ 1,622,593
Non-PPP Loans HFI (non-GAAP)[1]	$ 1,878,319	$ 1,576,631
Nonaccrual loans	$ 2,703	$ 1,375
Average loans	$ 1,786,864	$ 1,610,449
Allowance for loan losses at beginning of period	$ 19,176	$ 17,951
Provision for loan losses	1,000	1,750
Charge-offs:		
Real estate:		
Commercial real estate	—	(410)
One-to-four family residential	—	(10)
Construction and development	(18)	—
Commercial and industrial	(25)	(47)
Consumer	(384)	(243)
Total charge-offs	(427)	(710)
Recoveries:		
Real estate:		
One-to-four family residential	8	15
Construction and development	18	2
Commercial and industrial	81	26
Consumer	97	134
Total recoveries	204	177
Net (charge-offs)/recoveries	(223)	(533)
Allowance for loan losses at end of period	$ 19,953	$ 19,168
Allowance for loan losses to loans HFI	1.06 %	1.18 %
Allowance for loan losses to non-PPP loans HFI (non-GAAP)[1]	1.06 %	1.22 %
Allowance for loan losses to nonaccrual loans	738.18%	1,394.04%
Net charge-offs to average loans	0.01 %	0.03 %

[1] Non-GAAP financial measure. Calculations of this measure and reconciliations to GAAP are included in “ - Non-GAAP Financial Measures” in this Report.

We believe the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above. Future provisions for loan losses are subject to ongoing evaluations of the factors and loan portfolio risks described above, including economic pressures related to inflation, labor market and supply chain constraints, and natural disasters affecting the state of Louisiana. A decline in market area economic conditions, deterioration of asset quality, or growth in portfolio size could cause the allowance to become inadequate, and material additional provisions for loan losses could be required.

Deposits

Deposits are the primary funding source for loans and investments. We offer a variety of deposit products designed to attract and retain consumer, commercial, and public entity customers. These products consist of noninterest and interest-bearing checking accounts, savings accounts, money market accounts, and time deposit accounts. Deposits are gathered from individuals, partnerships, corporations, and public entities located primarily in our market areas. We do not have any internet-sourced or brokered deposits.

Total deposits decreased $113.9 million, or 3.9%, to $2.80 billion as of September 30, 2022, from $2.91 billion as of December 31, 2021. This decrease was primarily a result of expected customer deposit account activity and customer response to the changing interest rate environment. Noninterest-bearing deposits increased by $22.5 million, or 2.0%, to $1.17 billion as of September 30, 2022. Noninterest-bearing deposits as a percentage of total deposits were 41.92% as of

September 30, 2022, compared to 39.50% as of December 31, 2021. Interest-bearing deposits decreased by $136.3 million, or 7.7%, to $1.62 billion as of September 30, 2022.

The following table presents our deposits by account type as of the dates indicated:

	September 30, 2022		December 31, 2021		Change from December 31, 2021 to September 30, 2022	
(dollars in thousands)	Balance	% of Total	Balance	% of Total	$ Change	% Change
Noninterest-bearing deposits	$ 1,172,157	41.9 %	$ 1,149,672	39.5 %	$ 22,485	2.0 %
Interest-bearing deposits:						
NOW accounts	449,543	16.1 %	503,383	17.3 %	(53,840)	(10.7)%
Money market accounts	644,318	23.1 %	733,044	25.2 %	(88,726)	(12.1)%
Savings accounts	198,741	7.1 %	191,076	6.5 %	7,665	4.0 %
Time deposits less than or equal to $250,000	238,614	8.5 %	243,596	8.4 %	(4,982)	(2.0)%
Time deposits greater than $250,000	93,121	3.3 %	89,577	3.1 %	3,544	4.0 %
Total interest-bearing deposits	1,624,337	58.1 %	1,760,676	60.5 %	(136,339)	(7.7)%
Total deposits	$ 2,796,494	100.0 %	$ 2,910,348	100.0 %	$ (113,854)	(3.9)%

The following table presents deposits by customer type as of the dates indicated:

	September 30, 2022		December 31, 2021		Change from December 31, 2021 to September 30, 2022	
(dollars in thousands)	Balance	% of Total	Balance	% of Total	$ Change	% Change
Consumer	$ 1,333,893	47.7 %	$ 1,400,369	48.1 %	$ (66,476)	(4.7)%
Commercial	1,296,758	46.4 %	1,283,992	44.1 %	12,766	1.0 %
Public	165,843	5.9 %	225,987	7.8 %	(60,144)	(26.6)%
Total deposits	$ 2,796,494	100.0 %	$ 2,910,348	100.0 %	$ (113,854)	(3.9)%

Our uninsured deposits, which are the portion of deposit accounts that exceed the FDIC insurance limit (currently $250,000), were approximately $1.05 billion and $1.22 billion at September 30, 2022 and December 31, 2021, respectively. These amounts were estimated based on the same methodologies and assumptions used for regulatory reporting purposes.

The following table presents the amount of time deposits, by account, that are in excess of the FDIC insurance limit (currently $250,000) by time remaining until maturity for the period indicated:

(in thousands)	September 30, 2022
Three months or less	$ 10,368
Over three months through six months	16,914
Over six months through 12 months	9,280
Over 12 months	13,559
Total	$ 50,121

Borrowings

Although deposits are our primary source of funds, we may, from time to time, utilize borrowings as a cost-effective source of funds when such borrowings can then be invested at a positive interest rate spread for additional capacity to fund loan demand or to meet our liquidity needs. We had no outstanding borrowings as of September 30, 2022 or December 31, 2021.

Equity and Regulatory Capital Requirements

Total stockholders' equity as of September 30, 2022, was $243.4 million, compared to $298.2 million as of December 31, 2021, a decrease of $54.7 million, or 18.4%. This decrease was attributed to an $80.0 million, net of tax, market adjustment to AOCI related to securities, $1.5 million in cash dividends, and the repurchase of 4,465 shares of common stock for $218,000, partially offset by $26.7 million of net income for the nine months ended September 30, 2022, and $235,000 of stock compensation.

During the second quarter of 2022, the Company reclassified certain securities from AFS to HTM. Such transfers are made at fair value on the date of transfer. The net unrealized holding loss on the date of transfer is retained, net of tax, in AOCI, with no immediate change to the total balance in AOCI. The unrealized holding loss will be amortized over the remaining life of the securities.

At the date of transfer, the net unamortized, unrealized loss on the transferred securities included in the consolidated balance sheets totaled $17.9 million, of which $14.2 million, net of tax, was included in AOCI. As of September 30, 2022, the net unamortized, unrealized loss remaining on the transferred securities included in the consolidated balance sheets totaled $16.0 million, of which $13.0 million, net of tax, was included in AOCI.

On February 4, 2022, our Board of Directors approved the renewal of the stock repurchase program that was completed in the fourth quarter of 2021 after reaching its purchase limit. The renewed repurchase program authorizes us to purchase up to $5.0 million of our outstanding shares of common stock from February 4, 2022 through December 31, 2022. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions. For the three months ended September 30, 2022, the Company did not repurchase any shares of its common stock. For the nine months ended September 30, 2022, the Company repurchased 4,465 shares of its common stock at an aggregate cost of $218,000. As of September 30, 2022, we had $4.8 million available for repurchasing our common stock under this program.

On November 4, 2022, our Board of Directors approved the renewal of the stock repurchase program that will expire on December 31, 2022. This renewed repurchase program has similar terms to the previous program and authorizes us to purchase $5.0 million of our outstanding shares of common stock from January 1, 2023 through December 31, 2023. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions.

The Economic Growth Act, which was signed into law in May 2018, provides, among other items, certain targeted modifications to prior financial services reform regulatory requirements. One of the Economic Growth Act's highlights, with implications for us, was the asset threshold under the Policy Statement being increased from $1.0 billion to $3.0 billion, which benefits bank holding companies by, among various other items, allowing for an 18-month safety and soundness examination cycle as opposed to a 12-month examination cycle, scaled biannual regulatory reporting requirements as opposed to quarterly regulatory reporting requirements, and not being subject to capital adequacy guidelines on a consolidated basis. Because we had less than $3.0 billion in assets as of each of the June 30th measurement dates starting with the Economic Growth Act's enactment and going through June 30, 2021, we have received benefits under the Policy Statement and will continue to do so through 2022, except with regard to the timing of the Red River Bank safety and soundness exam by the FDIC and the OFI. Due to the timing of the asset balance determination for the Red River Bank safety and soundness examination, a 12-month examination cycle will begin in 2022. As of June 30, 2022, the last applicable measurement date, we had more than $3.0 billion in assets. Therefore, beginning in 2023, we expect to no longer receive any benefits under the Policy Statement.

Another significant provision was the Economic Growth Act's directive that federal bank regulatory agencies adopt a threshold for a CBLR framework. As part of the directive under the Economic Growth Act, on September 17, 2019, the FDIC and other federal bank regulatory agencies approved the CBLR framework. This optional framework became effective January 1, 2020, and is available as an alternative to the Basel III risk-based capital framework. The CBLR framework provides for a simple measure of capital adequacy for certain community banking organizations. Specifically, depository institutions and depository institution holding companies that have less than $10.0 billion in total consolidated assets and meet other qualifying criteria, including a Tier 1 leverage ratio of greater than 9.00% (subsequently temporarily reduced to 8.00% for 2020 and 8.50% for 2021 as a COVID-19 relief measure), are considered qualifying community banking organizations and are eligible to opt into the CBLR framework and replace the applicable Basel III risk-based capital requirements.

As of September 30, 2022, the Company and the Bank qualify for the CBLR framework. Management does not intend to utilize the CBLR framework.

LIQUIDITY AND ASSET-LIABILITY MANAGEMENT

Liquidity

Liquidity involves our ability to raise funds to support asset growth and potential acquisitions or to reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements, and otherwise to operate on an ongoing basis and manage unexpected events. For the nine months ended September 30, 2022, and the year ended December 31, 2021, liquidity needs were primarily met by core deposits, security and loan maturities, and cash flows from amortizing security and loan portfolios. While maturities and scheduled amortization of loans are predictable sources of funds, deposit outflows, mortgage prepayments, and prepayments on amortizing securities are greatly influenced by market interest rates, economic conditions, and the competitive environment in which we operate, and therefore, these cash flows are monitored regularly.

Our most liquid assets are cash and short-term investments that include both interest-earning demand deposits and securities AFS. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. Access to purchased funds from correspondent banks and overnight advances from the FHLB and the Federal Reserve Bank of Atlanta are also available. Purchased funds from correspondent banks and overnight advances can be utilized to meet funding obligations, although we do not generally rely on these external funding sources.

Our primary source of funds is deposits, and our primary use of funds is the funding of loans. We invest excess deposits in interest-earning deposits at other banks or at the Federal Reserve, federal funds sold, securities, or other short-term liquid investments until the deposits are needed to fund loan growth or other obligations. Our average deposits increased $284.7 million, or 11.0%, for the nine months ended September 30, 2022, compared to the average deposits for the twelve months ended December 31, 2021. The increase in average total deposits was primarily a result of customers maintaining higher deposit balances. Our average total loans increased $165.3 million, or 10.2%, for the nine months ended September 30, 2022, compared to average total loans for the twelve months ended December 31, 2021.

Our securities AFS portfolio is an alternative source for meeting liquidity needs, and was our second-largest component of assets as of September 30, 2022. Securities generate cash flow through principal repayments, calls, and maturities, and they generally have readily available markets that allow for their conversion to cash. As of September 30, 2022, securities AFS totaled $609.7 million, or 19.9% of assets, compared to $659.2 million, or 20.4% of assets as of December 31, 2021. However, certain investments within our securities AFS portfolio are also used to secure specific deposit types, such as for public entities, which impacts their liquidity. As of September 30, 2022, securities AFS with a carrying value of $164.8 million, or 27.0% of the securities AFS portfolio, were pledged to secure public entity deposits as compared to securities AFS with a carrying value of $118.6 million, or 18.0% of the securities AFS portfolio, similarly pledged as of December 31, 2021. The increase of $46.2 million, or 39.0%, was primarily the result of utilizing securities to replace FHLB letters of credit as pledged collateral, combined with an increase in several public entity deposit accounts that occurred during 2022. During the second quarter of 2022, the Company reclassified $166.3 million, or 20.5%, of the securities portfolio from AFS to HTM. Significant limitations exist for selling debt securities classified as HTM, and therefore, are excluded from liquidity sources. For additional information, see “Part I. Financial Information - Item. 1 Financial Statements (Unaudited) - Notes to Unaudited Consolidated Financial Statements - Note 2. Securities - Securities AFS and Securities HTM.”

Interest-bearing deposits in other banks are our main source for meeting daily liquidity needs and were our third-largest component of assets as of September 30, 2022. Interest-bearing deposits in other banks were $261.6 million, or 8.6% of assets as of September 30, 2022, compared to $761.7 million, or 23.6% of assets as of December 31, 2021. The decrease of $500.1 million, or 65.7%, was primarily a result of deploying funds into securities and loans, combined with an outflow of deposits, during the first nine months of the year.

We also utilize the FHLB as needed as a viable funding source. FHLB advances may be used to meet short-term liquidity needs, particularly if the prevailing interest rate on an FHLB advance compares favorably to the rates that would be required to attract the necessary deposits. As of September 30, 2022 and December 31, 2021, our total borrowing availability from the FHLB was $874.0 million and $748.6 million, respectively. At various times, we may obtain letters of credit from the FHLB as collateral for our public entity deposits. As of September 30, 2022 and December 31, 2021, we held unfunded letters of credit in the amount of $15.0 million and $143.8 million, respectively. As of September 30, 2022 and December 31, 2021, our net borrowing capacity from the FHLB was $859.0 million and $604.8 million, respectively.

Other sources available for meeting liquidity needs include federal funds lines, repurchase agreements, and other lines of credit. We maintain four federal funds lines of credit with commercial banks that provided for the availability to borrow up to an aggregate of $95.0 million in federal funds as of September 30, 2022 and December 31, 2021. We also maintain an additional $6.0 million revolving line of credit at one of our correspondent banks. As of September 30, 2022 and December 31, 2021, we had total borrowing capacity of $101.0 million through these combined funding sources. We had no outstanding balances from either of these sources as of September 30, 2022 and December 31, 2021.

Commitments to Extend Credit

In the normal course of business, we enter into certain financial instruments, such as commitments to extend credit and letters of credit, to meet the financing needs of our customers. These commitments involve elements of credit risk, interest rate risk, and liquidity risk. Some instruments may not be reflected in the accompanying consolidated financial statements until they are funded, although they expose us to varying degrees of credit risk and interest rate risk in much the same way as funded loans.

Commitments to extend credit are agreements to lend to a customer if all conditions of the commitment have been met. Commitments include revolving and nonrevolving credit lines and are primarily issued for commercial purposes. Commitments to extend credit generally have fixed expiration dates or other termination clauses. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions.

As of September 30, 2022, we had $384.6 million in unfunded loan commitments and $14.5 million in commitments associated with outstanding standby letters of credit. As of December 31, 2021, we had $357.9 million in unfunded loan commitments and $12.5 million in commitments associated with outstanding standby letters of credit. As commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding commitments may not necessarily reflect the actual future cash funding requirements.

Investment Commitments

The Company is party to various investment commitments in the normal course of business. The Company's exposure is represented by the contractual amount of these commitments.

In 2014, the Company committed to an investment into an SBIC limited partnership. As of September 30, 2022, there was a $226,000 outstanding commitment to this partnership.

In 2020, the Company committed to an additional investment into an SBIC limited partnership. As of September 30, 2022, there was a $4.3 million outstanding commitment to this partnership.

In the second quarter of 2021, the Company committed to an investment into a bank technology limited partnership. As of September 30, 2022, there was a $727,000 outstanding commitment to this partnership.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset-liability management policies provide management with guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our rate sensitivity position within our established policy guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, other than those that have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage exposure to interest rates by structuring the balance sheet appropriately during the ordinary course of business. We have the ability to enter into interest rate swaps to mitigate interest rate risk in limited circumstances, but it is not our policy to enter into such transactions on a regular basis. We do not enter into instruments such as financial options, financial futures contracts, or forward delivery contracts for the purpose of reducing interest rate risk. We are not subject to foreign exchange risk, and our commodity price risk is immaterial, as the percentage of our agricultural loans to loans HFI was only 0.64% as of September 30, 2022.

Our exposure to interest rate risk is managed by Red River Bank's Asset-Liability Management Committee. The committee formulates strategies based on appropriate levels of interest rate risk and monitors the results of those strategies. In determining the appropriate level of interest rate risk, the committee considers the impact on both earnings and capital given the current outlook on interest rates, regional economies, liquidity, business strategies, and other related factors.

The committee meets quarterly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and economic values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans, and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits, and consumer and commercial deposit activity. We employ methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, as well as an interest rate shock simulation model.

In conjunction with our interest rate risk management process, on a quarterly basis, we run various simulations within a static balance sheet model. This model tests the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Rates are shocked instantaneously and ramped rates change over a 12-month and 24-month horizon based upon parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Our nonparallel rate shock simulation involves analysis of interest income and expense under various changes in the shape of the yield curve.

Bank policy regarding interest rate risk simulations performed by our risk model currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 10.0% for a 100 bp shift and 15.0% for a 200 bp shift. Bank policy regarding economic value at risk simulations performed by our risk model currently specifies that for instantaneous parallel shifts of the yield curve, estimated fair value of equity for the subsequent one-year period should not decline by more than 20.0% for a 100 bp shift and 25.0% for a 200 bp shift.

The following table shows the impact of an instantaneous and parallel change in rates, at the levels indicated, and summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated.

	As of September 30, 2022		As of December 31, 2021	
	% Change in Net Interest Income	% Change in Fair Value of Equity	% Change in Net Interest Income	% Change in Fair Value of Equity
Change in Interest Rates (Bps)				
+300	10.7 %	(1.6)%	45.7 %	16.7 %
+200	7.1 %	(0.7)%	30.6 %	13.3 %
+100	3.7 %	0.2 %	15.3 %	8.0 %
Base	0.0 %	0.0 %	0.0 %	0.0 %
-100	(4.9)%	(1.9)%	(0.4)%	(18.9)%
-200	(9.9)%	(6.1)%	(2.6)%	(32.8)%

The results above, as of September 30, 2022 and December 31, 2021, demonstrate that our balance sheet is asset sensitive, which means our assets have the opportunity to reprice at a faster pace than our liabilities, over the 12-month horizon. We have also observed that, historically, our deposit interest rates have adjusted more slowly than the change in the federal funds rate. This assumption is incorporated into the risk simulation model and is generally not reflected in a gap analysis, which is the process by which we measure the repricing gap between interest rate-sensitive assets versus interest rate-sensitive liabilities.

As of September 30, 2022, the reported percentage changes in net interest income and fair value of equity remained within the policy thresholds. These values are reported at each quarterly Asset-Liability Committee meeting. The net interest income at risk and the fair value of equity will continue to be monitored, and appropriate mitigating action will be taken if needed.

The impact of our floating rate loans and floating rate transaction deposits are also reflected in the results shown in the above table. As of September 30, 2022, floating rate loans were 14.5% of the loans HFI, and floating rate transaction deposits were 3.6% of interest-bearing transaction deposits.

The assumptions incorporated into the model are inherently uncertain, and as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies and the slope of the yield curve.

NON-GAAP FINANCIAL MEASURES

Our accounting and reporting policies conform to GAAP and the prevailing practices in the banking industry. Certain financial measures used by management to evaluate our operating performance are discussed in this Report as supplemental non-GAAP performance measures. In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the U.S.

Management and the board of directors review tangible book value per share, tangible common equity to tangible assets, realized book value per share, and PPP-adjusted metrics as part of managing operating performance. However, these non-GAAP financial measures that we discuss in this Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner that we calculate the non-GAAP financial measures that are discussed in this Report may differ from that of other companies reporting measures with similar names. It is important to understand how such other banking organizations calculate and name their financial measures similar to the non-GAAP financial measures discussed in this Report when comparing such non-GAAP financial measures.

Tangible Assets, Tangible Equity, Tangible Book Value, and Realized Book Value

Tangible Book Value Per Share. Tangible book value per share is a non-GAAP measure commonly used by investors, financial analysts, and investment bankers to evaluate financial institutions. We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. We calculate tangible book value per share as total stockholders' equity, less intangible assets, divided by the outstanding number of shares of our common stock at the end of the relevant period. Intangible assets have the effect of increasing total book value while not increasing tangible book value. The most directly comparable GAAP financial measure for tangible book value per share is book value per share.

Tangible Common Equity to Tangible Assets. Tangible common equity to tangible assets is a non-GAAP measure generally used by investors, financial analysts, and investment bankers to evaluate financial institutions. We believe that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period of tangible common equity to tangible assets, each exclusive of changes in intangible assets. Intangible assets have the effect of increasing both total stockholders' equity and assets while not increasing our tangible common equity or tangible assets. We calculate tangible common equity as total stockholders' equity less intangible assets, and we calculate tangible assets as total assets less intangible assets. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common stockholders' equity to total assets.

As a result of previous acquisitions, we have a small amount of intangible assets. As of September 30, 2022, total intangible assets were $1.5 million, which is less than 1.0% of total assets.

Realized Book Value Per Share. Realized book value per share is a non-GAAP measure that we use to evaluate our operating performance. We believe that this measure is important because it allows us to monitor changes from period to period in book value per share exclusive of changes in AOCI. Our AOCI is impacted primarily by the unrealized gains and losses on securities AFS. These unrealized gains or losses on securities AFS are driven by market factors and may also be temporary and vary greatly from period to period. Due to the possibly temporary and greatly variable nature of these changes, we find it useful to monitor realized book value per share. We calculate realized book value per share as total stockholders' equity, less AOCI, divided by the outstanding number of shares of our common stock at the end of the relevant period. AOCI has the effect of increasing or decreasing total book value while not increasing or decreasing realized book value. The most directly comparable GAAP financial measure for realized book value per share is book value per share.

The following table reconciles, as of the dates set forth below, stockholders' equity to tangible common equity, stockholders' equity to realized common equity, and assets to tangible assets, and presents related resulting ratios.

(dollars in thousands, except per share data)	September 30, 2022	June 30, 2022	September 30, 2021
Tangible common equity			
Total stockholders' equity	$ 243,413	$ 253,596	$ 298,688
Adjustments:			
Intangible assets	(1,546)	(1,546)	(1,546)
Total tangible common equity (non-GAAP)	$ 241,867	$ 252,050	$ 297,142
Realized common equity			
Total stockholders' equity	$ 243,413	$ 253,596	$ 298,688
Adjustments:			
Accumulated other comprehensive (income) loss	83,744	63,804	61
Total realized common equity (non-GAAP)	$ 327,157	$ 317,400	$ 298,749
Common shares outstanding	7,183,915	7,176,365	7,276,400
Book value per share	$ 33.88	$ 35.34	$ 41.05
Tangible book value per share (non-GAAP)	$ 33.67	$ 35.12	$ 40.84
Realized book value per share (non-GAAP)	$ 45.54	$ 44.23	$ 41.06
Tangible assets			
Total assets	$ 3,059,678	$ 3,121,113	$ 3,020,784
Adjustments:			
Intangible assets	(1,546)	(1,546)	(1,546)
Total tangible assets (non-GAAP)	$ 3,058,132	$ 3,119,567	$ 3,019,238
Total stockholders' equity to assets	7.96 %	8.13 %	9.89 %
Tangible common equity to tangible assets (non-GAAP)	7.91 %	8.08 %	9.84 %

PPP-Adjusted Metrics

Red River Bank has participated in the SBA PPP and originated 1,888 PPP loans totaling $260.8 million. PPP loan originations were concluded in the second quarter of 2021. Through September 30, 2022, we had received $259.5 million in SBA forgiveness and borrower payments on 99.9% of the PPP loans originated. As of September 30, 2022, PPP loans totaled $1.4 million, net of $28,000 of deferred income, and were 0.1% of loans HFI.

PPP loans were implemented as a response to the COVID-19 pandemic and have characteristics that are different than the rest of our loan portfolio, including being short-term in nature (24 or 60 months or less depending on loan forgiveness timing), having a lower than market interest rate, and only being originated during specified time periods during the COVID-19 pandemic. Because of these factors, management believes that PPP-adjusted metrics provide a more accurate portrayal of certain aspects of the Company's financial condition and performance. Accordingly, we believe it is important to investors to see certain of our metrics with PPP loans excluded. The most directly comparable GAAP financial measure for PPP-adjusted metrics is total loans HFI.

The following table reconciles, as of the dates set forth below, non-PPP loans to total loans HFI and presents certain ratios using non-PPP loans:

(dollars in thousands)	September 30, 2022	December 31, 2021	September 30, 2021
Non-PPP loans HFI			
Loans HFI	$ 1,879,669	$ 1,683,832	$ 1,622,593
Adjustments:			
PPP loans, net	(1,350)	(17,550)	(45,962)
Non-PPP loans HFI (non-GAAP)	$ 1,878,319	$ 1,666,282	$ 1,576,631
Allowance for loan losses	$ 19,953	$ 19,176	$ 19,168
Allowance for loan losses to loans HFI	1.06 %	1.14 %	1.18 %
Allowance for loan losses to non-PPP loans HFI (non-GAAP)	1.06 %	1.15 %	1.22 %

CRITICAL ACCOUNTING ESTIMATES

There were no material changes or developments during the reporting period with respect to methodologies that we use when developing critical accounting estimates as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Our consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

See "Item 1. Financial Statements – Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are presented in our Annual Report on Form 10-K for the year ended December 31, 2021, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Asset-Liability Management - Interest Rate Sensitivity and Market Risk." Additional information as of September 30, 2022, is included herein under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Asset-Liability Management - Interest Rate Sensitivity and Market Risk." The foregoing information is incorporated into this Item 3 by reference.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the period covered by this Report, an evaluation was performed by the Company, under the supervision and with the participation of its management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this Report.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we, including our subsidiaries, are or may be involved in various legal matters arising in the ordinary course of business. In the opinion of management, neither we, nor any of our subsidiaries, are involved in such legal proceedings that the resolution is expected to have a material adverse effect on our consolidated results of operations, financial condition, or cash flows. However, one or more unfavorable outcomes in these ordinary claims or litigation against us or our subsidiaries 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 our reputation or that of our subsidiaries, even if resolved favorably.

Item 1A. Risk Factors

For information regarding risk factors that could affect our business, financial condition, and results of operations, see the information in "Part I - Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes to the risk factors disclosed in our most recent Annual Report on Form 10-K.

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

Our purchases of shares of common stock made during the quarter under our publicly announced stock repurchase program are summarized in the table below:

(dollars in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program[(1)(2)]
July 1 - July 31, 2022	—	$ —	—	$ 4,782
August 1 - August 31, 2022	—	$ —	—	$ 4,782
September 1 - September 30, 2022	—	$ —	—	$ 4,782
Total	—	$ —	—	$ 4,782

(1) On February 4, 2022, our Board of Directors approved the renewal of the stock repurchase program that was completed in the fourth quarter of 2021 after reaching its purchase limit. The renewed repurchase program authorizes us to purchase up to $5.0 million of our outstanding shares of common stock from February 4, 2022 through December 31, 2022. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions.

(2) On November 4, 2022, our Board of Directors approved the renewal of the stock repurchase program that will expire on December 31, 2022. This renewed repurchase program has similar terms to the previous program and authorizes us to purchase $5.0 million of our outstanding shares of common stock from January 1, 2023 through December 31, 2023. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

NUMBER	DESCRIPTION
3.1	Restated Articles of Incorporation of Red River Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to Red River Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 10, 2019, file number 333-230798)
3.2	Red River Bancshares, Inc. Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to Red River Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on March 1, 2021, file number 001-38888)
10.1	Supplemental Executive Retirement Benefits Agreement between Red River Bank and G. Bridges Hall, IV (incorporated by reference to Exhibit 10.1 to Red River Bancshares, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 11, 2022, file number 001-38888)+#
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, is formatted in Inline Extensible Business Reporting Language (XBRL): (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document* - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File* - Formatted as Inline XBRL and contained within the Inline XBRL Instance Document in Exhibit 101.
*	Filed herewith
**	These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.
+	Indicates a management contract or compensatory plan.
#	Certain exhibits to the Agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. We will furnish the omitted exhibits to the SEC upon request.

SIGNATURES

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

RED RIVER BANCSHARES, INC.

Date: November 10, 2022	By:	/s/ R. Blake Chatelain
		R. Blake Chatelain President and Chief Executive Officer (Principal Executive Officer)
Date: November 10, 2022	By:	/s/ Isabel V. Carriere
		Isabel V. Carriere, CPA, CGMA Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, R. Blake Chatelain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Red River Bancshares, Inc. (the “registrant”);

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

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

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

Date: November 10, 2022

By: /s/ R. Blake Chatelain
R. Blake Chatelain
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Isabel V. Carriere, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Red River Bancshares, Inc. (the “registrant”);

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

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

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

Date: November 10, 2022

By: /s/ Isabel V. Carriere
Isabel V. Carriere, CPA, CGMA
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Red River Bancshares, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, R. Blake Chatelain, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 10, 2022	By:	/s/ R. Blake Chatelain
		R. Blake Chatelain
		President and Chief Executive Officer
		(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Red River Bancshares, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Isabel V. Carriere, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 10, 2022

By: /s/ Isabel V. Carriere
Isabel V. Carriere, CPA, CGMA
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)