**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: June 30, 2023**

**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 301, Alexandria, Louisiana** | **71301** |
| (Address of Principal Executive Offices) | (Zip Code) |

**Registrant's telephone number, including area code: (318) 561-4000**

**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 July 31, 2023, the registrant had 7,175,056 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 |
|---|---|
| ACL | Allowance for credit losses |
| AFS | Available-for-sale |
| ALL | Allowance for loan losses |
| 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 |
| FHLB | Federal Home Loan Bank of Dallas |
| FOMC | Federal Open Market Committee |
| 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 |
| Policy Statement | Federal Reserve’s Small Bank Holding Company Policy Statement |
| PPP | Paycheck Protection Program |
| Report | Quarterly Report on Form 10-Q |

| ABBREVIATION OR ACRONYM | DEFINITION |
|---|---|
| SBA | Small Business Administration |
| 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 institutions, 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, 2022, 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, 2022. 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 risks emerge from time to time, and it is not possible for us to predict what risks 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)* | **June 30, 2023** | **December 31, 2022** |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 36,662 | $ 37,824 |
| Interest-bearing deposits in other banks | 185,409 | 240,568 |
| Total Cash and Cash Equivalents | 222,071 | 278,392 |
| Securities available-for-sale, at fair value | 588,478 | 614,407 |
| Securities held-to-maturity, at amortized cost | 146,569 | 151,683 |
| Equity securities, at fair value | 3,946 | 9,979 |
| Nonmarketable equity securities | 4,330 | 3,478 |
| Loans held for sale | 4,586 | 518 |
| Loans held for investment | 1,947,631 | 1,916,267 |
| Allowance for credit losses | (21,085) | (20,628) |
| Premises and equipment, net | 55,566 | 54,383 |
| Accrued interest receivable | 8,239 | 8,830 |
| Bank-owned life insurance | 29,141 | 28,775 |
| Intangible assets | 1,546 | 1,546 |
| Right-of-use assets | 3,885 | 4,137 |
| Other assets | 32,291 | 30,919 |
| **Total Assets** | $ 3,027,194 | $ 3,082,686 |
| LIABILITIES | | |
| Noninterest-bearing deposits | $ 989,509 | $ 1,090,539 |
| Interest-bearing deposits | 1,674,674 | 1,708,397 |
| Total Deposits | 2,664,183 | 2,798,936 |
| Other borrowed funds | 60,000 | — |
| Accrued interest payable | 4,098 | 1,563 |
| Lease liabilities | 4,015 | 4,258 |
| Accrued expenses and other liabilities | 11,526 | 12,176 |
| Total Liabilities | 2,743,822 | 2,816,933 |
| 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 - 7,175,056 and 7,183,915 shares, respectively | 59,187 | 60,050 |
| Additional paid-in capital | 2,248 | 2,088 |
| Retained earnings | 291,630 | 274,781 |
| Accumulated other comprehensive income (loss) | (69,693) | (71,166) |
| Total Stockholders' Equity | 283,372 | 265,753 |
| **Total Liabilities and Stockholders' Equity** | $ 3,027,194 | $ 3,082,686 |

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 June 30, 2023 | For the Three Months Ended June 30, 2022 | For the Six Months Ended June 30, 2023 | For the Six Months Ended June 30, 2022 |
|---|---|---|---|---|
| INTEREST AND DIVIDEND INCOME | | | | |
| Interest and fees on loans | $ 22,851 | $ 18,032 | $ 44,616 | $ 34,802 |
| Interest on securities | 3,665 | 3,677 | 7,231 | 6,639 |
| Interest on federal funds sold | 251 | 116 | 886 | 141 |
| Interest on deposits in other banks | 1,671 | 671 | 3,409 | 922 |
| Dividends on stock | 33 | 2 | 61 | 3 |
| Total Interest and Dividend Income | 28,471 | 22,498 | 56,203 | 42,507 |
| INTEREST EXPENSE | | | | |
| Interest on deposits | 6,933 | 1,349 | 11,756 | 2,630 |
| Interest on other borrowed funds | 28 | — | 28 | — |
| Total Interest Expense | 6,961 | 1,349 | 11,784 | 2,630 |
| **Net Interest Income** | 21,510 | 21,149 | 44,419 | 39,877 |
| Provision for credit losses | 300 | 250 | 300 | 400 |
| **Net Interest Income After Provision for Credit Losses** | 21,210 | 20,899 | 44,119 | 39,477 |
| NONINTEREST INCOME | | | | |
| Service charges on deposit accounts | 1,435 | 1,410 | 2,828 | 2,718 |
| Debit card income, net | 924 | 1,056 | 1,858 | 1,992 |
| Mortgage loan income | 645 | 892 | 920 | 2,018 |
| Brokerage income | 923 | 890 | 1,730 | 1,666 |
| Loan and deposit income | 517 | 410 | 995 | 781 |
| Bank-owned life insurance income | 188 | 180 | 366 | 352 |
| Gain (Loss) on equity securities | (64) | (82) | (32) | (447) |
| Gain (Loss) on sale and call of securities | — | (114) | — | (75) |
| SBIC income | 1,380 | 151 | 1,559 | 171 |
| Other income (loss) | 59 | 67 | 123 | 86 |
| Total Noninterest Income | 6,007 | 4,860 | 10,347 | 9,262 |
| OPERATING EXPENSES | | | | |
| Personnel expenses | 9,547 | 8,574 | 18,547 | 17,026 |
| Occupancy and equipment expenses | 1,554 | 1,473 | 3,271 | 2,965 |
| Technology expenses | 642 | 695 | 1,390 | 1,466 |
| Advertising | 343 | 306 | 624 | 526 |
| Other business development expenses | 494 | 340 | 930 | 642 |
| Data processing expense | 638 | 564 | 1,038 | 880 |
| Other taxes | 693 | 647 | 1,378 | 1,283 |
| Loan and deposit expenses | 284 | 185 | 489 | 315 |
| Legal and professional expenses | 580 | 475 | 1,097 | 893 |
| Regulatory assessment expenses | 397 | 251 | 804 | 501 |
| Other operating expenses | 960 | 961 | 2,052 | 2,036 |
| Total Operating Expenses | 16,132 | 14,471 | 31,620 | 28,533 |
| **Income Before Income Tax Expense** | 11,085 | 11,288 | 22,846 | 20,206 |
| Income tax expense | 2,117 | 2,141 | 4,280 | 3,667 |
| **Net Income** | $ 8,968 | $ 9,147 | $ 18,566 | $ 16,539 |
| EARNINGS PER SHARE | | | | |
| Basic | $ 1.25 | $ 1.27 | $ 2.59 | $ 2.30 |
| Diluted | $ 1.25 | $ 1.27 | $ 2.58 | $ 2.30 |

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 June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in thousands)* | **2023** | **2022** | **2023** | **2022** |
| Net income | $ 8,968 | $ 9,147 | $ 18,566 | $ 16,539 |
| Other comprehensive income (loss): | | | | |
| Unrealized net gain (loss) on securities arising during period | (1,849) | (26,302) | 1,108 | (76,954) |
| Tax effect | 389 | 5,523 | (231) | 16,160 |
| (Gain) Loss on sale and call of securities included in net income | — | 114 | — | 75 |
| Tax effect | — | (24) | — | (16) |
| Change in unrealized net loss on securities transferred to held-to-maturity | 390 | 891 | 755 | 891 |
| Tax effect | (82) | (187) | (159) | (187) |
| Total other comprehensive income (loss) | (1,152) | (19,985) | 1,473 | (60,031) |
| **Comprehensive Income (Loss)** | $ 7,816 | $ (10,838) | $ 20,039 | $ (43,492) |

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, 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 |
| | | | | | | |
| **Balance as of December 31, 2022** | 7,183,915 | $ 60,050 | $ 2,088 | $ 274,781 | $ (71,166) | $ 265,753 |
| Net income | — | — | — | 9,598 | — | 9,598 |
| Stock incentive plan | — | — | 69 | — | — | 69 |
| Forfeiture of restricted shares of common stock | (1,130) | — | — | — | — | — |
| Issuance of shares of common stock as board compensation | 1,660 | 84 | — | — | — | 84 |
| Repurchase of common stock under stock repurchase program | (6,795) | (346) | — | — | — | (346) |
| Cash dividend - $0.08 per share | — | — | — | (574) | — | (574) |
| Cumulative effect of change in accounting principle | — | — | — | (569) | — | (569) |
| Other comprehensive income (loss) | — | — | — | — | 2,625 | 2,625 |
| **Balance as of March 31, 2023** | 7,177,650 | $ 59,788 | $ 2,157 | $ 283,236 | $ (68,541) | $ 276,640 |
| Net income | — | — | — | 8,968 | — | 8,968 |
| Stock incentive plan | — | — | 91 | — | — | 91 |
| Issuance of restricted shares of common stock through stock incentive plan | 9,300 | — | — | — | — | — |
| Repurchase of common stock under stock repurchase program | (11,894) | (601) | — | — | — | (601) |
| Cash dividend - $0.08 per share | — | — | — | (574) | — | (574) |
| Other comprehensive income (loss) | — | — | — | — | (1,152) | (1,152) |
| **Balance as of June 30, 2023** | 7,175,056 | $ 59,187 | $ 2,248 | $ 291,630 | $ (69,693) | $ 283,372 |

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 Six Months Ended June 30, 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 18,566 | $ 16,539 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,068 | 1,003 |
| Amortization | 277 | 281 |
| Share-based compensation earned | 160 | 126 |
| Share-based board compensation earned | 22 | 39 |
| (Gain) Loss on other assets owned | 1 | 25 |
| Net (accretion) amortization on securities AFS | 851 | 322 |
| Net (accretion) amortization on securities HTM | (736) | — |
| (Gain) Loss on sale and call of securities | — | 75 |
| (Gain) Loss on equity securities | 32 | 447 |
| Provision for credit losses | 300 | 400 |
| Deferred income tax (benefit) expense | (459) | (293) |
| Net (increase) decrease in loans HFS | (4,068) | (234) |
| Net (increase) decrease in accrued interest receivable | 591 | (1,111) |
| Net (increase) decrease in BOLI | (366) | (352) |
| Net increase (decrease) in accrued interest payable | 2,535 | (134) |
| Net increase (decrease) in accrued income taxes payable | (747) | 226 |
| Other operating activities, net | (109) | 836 |
| **Net cash provided by (used in) operating activities** | 17,918 | 18,195 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Activity in securities AFS: | | |
| Sales | — | 31,762 |
| Maturities, principal repayments, and calls | 54,754 | 45,335 |
| Purchases | (28,568) | (313,514) |
| Activity in securities HTM: | | |
| Maturities, principal repayments, and calls | 5,850 | 7,632 |
| Sale of equity securities | 6,000 | 7,399 |
| Purchase of nonmarketable equity securities | (852) | (2) |
| Capital contribution in partnerships | (816) | (817) |
| Net (increase) decrease in loans HFI | (31,507) | (157,934) |
| Purchases of premises and equipment | (2,252) | (5,144) |
| **Net cash provided by (used in) investing activities** | 2,609 | (385,283) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposits | (134,753) | (60,153) |
| Proceeds from other borrowed funds | 60,000 | — |
| Repurchase of common stock | (947) | (218) |
| Cash dividends | (1,148) | (1,005) |
| **Net cash provided by (used in) financing activities** | (76,848) | (61,376) |
| **Net change in cash and cash equivalents** | (56,321) | (428,464) |
| Cash and cash equivalents - beginning of period | 278,392 | 784,864 |
| **Cash and cash equivalents - end of period** | $ 222,071 | $ 356,400 |

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

| (in thousands) | For the Six Months Ended June 30, 2023 | 2022 |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid during the year for: | | |
| Interest | $ 9,249 | $ 2,764 |
| Income taxes | $ 5,480 | $ 3,703 |
| SUPPLEMENTAL INFORMATION FOR NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Assets acquired in settlement of loans | $ 22 | $ — |
| 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, 2022, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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*

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.

On January 1, 2023, the Company adopted *ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changed the impairment model for most financial assets that are measured at amortized cost, including loans HFI, securities, and unfunded commitments, from an incurred loss model to an expected loss model. Accounting policies related to the allowance for credit losses are considered critical as these policies involve considerable subjective judgment and estimation by management. Changes in factors and forecasts used in evaluating the overall loan portfolio may result in significant changes in the allowance for credit losses and related provision expense in future periods. The allowance level is influenced by loan portfolio growth, changes in the quality and composition of the loan portfolio, the level of nonperforming loans, delinquency and charge-off trends, current economic conditions, forecasted information, and other conditions influencing loss expectations. Changes to the assumptions in the model in future periods could have a material impact on the Company's Consolidated Financial Statements. Refer to "- Accounting Standards Adopted in 2023" for a detailed discussion on the Company's methodologies for estimating expected credit losses.

*Accounting Standards Adopted in 2023*

*ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* On January 1, 2023*,* the Company adopted *ASC 326*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans HFI, securities HTM, and unfunded commitments. In addition, *ASC 326* made changes to the accounting for securities AFS, which requires credit losses to be presented as an allowance rather than as a write-down on securities AFS that management does not intend to sell or believes that it is more likely than not that the Company will have the ability to hold until each security has recovered its cost basis.

The Company adopted *ASC 326* using the modified retrospective method for all financial assets measured at amortized cost and unfunded commitments. Results for reporting periods beginning after January 1, 2023, are presented under *ASC 326* while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a $569,000, net of tax, decrease to stockholders' equity as of January 1, 2023, for the cumulative effect of adopting *ASC 326*. The transition adjustment included a $278,000 increase to the December 31, 2022 allowance for loan losses and established a $442,000 reserve for unfunded commitments as presented in the following table.

| *(in thousands)* | December 31, 2022 ALL | Impact of *ASC 326* Adoption | January 1, 2023 ACL |
|---|---|---|---|
| Real estate: | | | |
| Commercial real estate | $ 7,720 | $ 876 | $ 8,596 |
| One-to-four family residential | 5,682 | 1,231 | 6,913 |
| Construction and development | 1,654 | (444) | 1,210 |
| Commercial and industrial | 4,350 | (822) | 3,528 |
| Tax-exempt | 751 | (427) | 324 |
| Consumer | 471 | (136) | 335 |
| Total | $ 20,628 | $ 278 | $ 20,906 |
| | | | |
| Reserve for unfunded commitments | $ — | $ 442 | $ 442 |

*Loans Held for Investment*

Loans that management has the intent and ability to hold, for the foreseeable future or until maturity or payoff, are reported at amortized cost. Amortized cost is the principal balance outstanding, net of deferred fees and costs. Accrued interest receivable is reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on loans is discontinued, and the loans are placed on nonaccrual status at the time the loan is 90 days past due unless the loan is well secured and in process of collection. Loans, excluding credit cards, are charged-off to the extent management is relatively certain that principal and interest will be uncollectible. Credit card loans continue to accrue interest until they are charged-off no later than 120 days past due unless the loan is in the process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, uncollected accrued interest is reversed, reducing interest income, and future income accrual is discontinued. Subsequent payments, if any, of interest and fees are applied as reductions to the loan's outstanding principal balance. Once the principal balance of a loan placed on nonaccrual status has been fully recovered, subsequent payments received are recognized as interest income on a cash basis. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

*Allowance for Credit Losses - Loans*

The ACL is a valuation account that is deducted from the amortized cost basis of loans HFI to present management's best estimate of the expected credit losses to be collected over the lifetime of the loans. The amount of the ACL should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. Loans are charged-off against the allowance when management is relatively certain that principal and interest will be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Subsequent recoveries, if any, are credited to the allowance.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. This reasonable and supportable forecast period is currently one year and incorporates Company and peer historical losses. After the forecast period, the Company reverts to an average historical loss rate over a two-year period. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in economic conditions, such as changes in unemployment rates, property values, or other relevant factors. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historic loss factors. The determination of the amount of allowance involves a high degree of judgement and subjectivity.

The ACL is measured on a collective pool basis when similar risk characteristics and risk profiles exist. The Company utilizes cohort loss rate (static pool analysis) and remaining life loss rate methodologies to estimate the quantitative portion of the ACL for loan pools. The cohort loss rate methodology tracks a closed pool of loans over their remaining lives to determine their loss behavior. The remaining life loss rate methodology takes the calculated loss rate and applies that rate to a pool of loans on a periodic basis based on the remaining life expectation of that pool.

The portfolio pools are based primarily on regulatory call report codes. These pools and certain of the inherent risks in the Company's loan portfolio are summarized in the following table.

| Loan Pool | Risk Characteristics |
|---|---|
| Residential construction | This category consists of loans to residential developers and to individual clients for construction of single-family homes. Risks inherent in this portfolio pool include fluctuations in the value of real estate, project completion risk, and change in market trends. |
| Commercial construction | This category consists of loans to small and medium-sized businesses to construct owner occupied facilities and developers of commercial real estate investment properties. Risks inherent in this portfolio pool include fluctuations in the value of real estate, project completion risk, change in market trends, and the ability to sell the property upon completion. |
| Farmland | This category consists of loans secured by real estate that is used or usable for agricultural purposes, including land used for crops, livestock production, grazing/pastureland, and timberland. Risks inherent in this portfolio pool include adverse changes in climate, fluctuations in feed and livestock prices, and changes in property values. |
| Home equity loans and lines | This category consists of home equity loans and lines of credit. Risks inherent in this portfolio pool include local unemployment rates, local residential real estate market conditions, and the interest rate environment. |
| Secured closed-liens | This category consists of loans secured by primary and secondary liens on residential real estate. Risks inherent in this portfolio pool include local unemployment rates, local residential real estate market conditions, and the interest rate environment. Generally, these loans are for longer terms than home equity loans and lines of credit. |
| Multifamily | This category consists of loans secured by apartment or residential buildings with five or more units used to accommodate households on a temporary or permanent basis. Risks inherent in this portfolio pool include local unemployment rates, changes in the local economy, and factors that would impact property values. |
| Owner occupied commercial real estate | This category consists of loans to established operating companies and secured by owner occupied offices and industrial real estate properties. Risks inherent in this portfolio pool include fluctuations in the value of real estate, the overall strength of the economy, new job creation trends, environmental contamination, and the quality of the borrower's management. |
| Non-owner occupied commercial real estate | This category consists of loans to developers and other persons or entities and secured by non-owner occupied commercial real estate properties. Risks inherent in this portfolio pool include fluctuations in the value of real estate, the overall strength of the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrower's management. |
| Commercial and industrial | This category consists of secured and unsecured loans to purchase capital equipment, agriculture operating loans, and other business loans for working capital and operating purposes. Secured loans are primarily secured by accounts receivable, inventory, and other business assets. The performance of commercial and industrial loans may be adversely affected by, among other factors, conditions specific to the relevant industry, fluctuations in the value of the collateral, and individual performance factors related to the borrower such as the quality of the borrower's management. |
| Consumer | This category consists of loans to individuals for household, family, and other personal use. Risks inherent in this portfolio pool include the borrower's financial condition, local unemployment rates, local economic conditions, and the interest rate environment. |
| Tax-exempt | This category consists of loans to political subdivisions primarily of the State of Louisiana including parishes, municipalities, utility districts, school districts, and development authorities. These loans undergo the same underwriting as any of our other loans and are typically paid for by ad valorem taxes or specific revenue sources. |
| Other loans | This category consists of loans not included in any other category. Risks inherent in this portfolio pool include local unemployment rates, local economic conditions, and the interest rate environment. |

Loans that do not share similar risk characteristics are evaluated on an individual basis and excluded from the collective evaluation. For loans evaluated on an individual basis that are collateral dependent, the specific allowance is estimated by calculating the difference between the fair value of the underlying collateral less estimated selling costs and the Bank's exposure. If the loan is not collateral dependent, the discounted cash flow methodology is used. Either of these determinations are highly subjective and based on information available at the time of valuation.

*Reserve for Unfunded Commitments*

Commitments to extend credit are agreements to lend to a customer if all conditions of the commitment have been met. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The reserve for unfunded commitments is recorded within accrued interest payable on the consolidated balance sheets, and the related provision is recorded in other operating expenses on the consolidated statements of income. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The loss rates computed for each pool and expected pool-level funding rates are applied to the related unfunded commitment balance to obtain the reserve amount.

*Securities AFS*

*ASC 326* requires the Company to measure expected credit losses on securities AFS. Impairment is evaluated when there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. Management evaluates each security by considering the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, volatility of the security's fair value, and historical loss information for financial assets secured with similar collateral, along with other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the investments. If a decline in the fair value related to creditworthiness or other factors is determined, an ACL will be calculated using a discounted cash flow method, whereby management will compare the present value of expected cash flows with the amortized cost basis of the security. The credit loss component would be recognized through the provision for credit losses in the consolidated statements of income. Accrued interest receivable is excluded from the amortized cost basis in measuring expected credit losses on the investment securities and no ACL is recorded on accrued interest receivable. The Company's current securities AFS portfolio consists of U.S. Treasury securities, mortgage-backed securities, U.S. agency securities, and municipal bonds. The Company's securities AFS, other than the municipal bonds, are considered treasuries, agencies, and instrumentalities of the U.S. government, which have a zero credit loss assumption. These securities have the full faith and credit backing of the U.S. government or one of its agencies. Municipal bonds AFS do not fall under the zero credit loss assumption and are evaluated quarterly using the considerations mentioned above to determine whether there is a credit loss associated with a decline in fair value. Due to the zero credit loss assumption and the considerations applied to the securities AFS, no ACL was recorded on January 1, 2023 for securities AFS.

*Securities HTM*

*ASC 326* requires the Company to measure expected credit losses on securities HTM. Securities HTM are measured on a collective basis by major security type with those sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the securities HTM portfolio. Management monitors the HTM portfolio to determine whether an ACL should be recorded. The Company's current securities HTM portfolio consists of mortgage-backed securities and U.S. agency securities. The Company's securities HTM are considered agencies and instrumentalities of the U.S. government that have a zero credit loss assumption. These securities have the full faith and credit backing of the U.S. government or one of its agencies. Due to the zero credit loss assumption, no ACL was recorded on January 1, 2023 for securities HTM.

*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. On January 1, 2023, the Company adopted *ASU No. 2021-08.* Adoption of this ASU did not have an 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* 3*10-40, 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*. On January 1, 2023, the Company adopted *ASU No. 2022-02* on a prospective basis*.* Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

*ASU No. 2023-01, Leases (Topic 842): Common Control Arrangements.* The guidance issued in this update addresses two issues. First, the standard requires entities to determine whether a related party arrangement between entities under common control is a lease. If the arrangement is a lease, the accounting for the lease is treated the same as an arrangement with an unrelated party. This is a change in the requirement under *Topic 840, Leases,* which used the basis of economic substance. Secondly, the standard requires leasehold improvements associated with common control leases be amortized by the lessee over the useful life of the leasehold improvements to the common control group as long as the lessee controls the use of the underlying asset. If the lessor obtained control of the use of the underlying asset through a lease with another entity not within the common control group, the amortization period may not exceed the amortization period of the common control group. If the lessee no longer controls the use of the underlying asset, the improvement is accounted for as a transfer between entities under common control through an adjustment to equity. These leasehold improvements are subject to the impairment guidance in *Topic 360 Property, Plant and Equipment*. Both items of this amendment are effective for fiscal years beginning after December 15, 2023. Early adoption is permitted for both interim periods and annual financial statements that have not been issued. On January 1, 2023, the Company early adopted *ASU No. 2023-01,* and it did not have an impact on the Company's consolidated financial statements.

*Recent Accounting Pronouncements*

As of June 30, 2023, there were no recent accounting pronouncements that were applicable and not adopted.

**2. Securities**

Securities are classified as AFS, HTM, and equity securities. Total securities were $739.0 million as of June 30, 2023.

*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 June 30, 2023, the estimated fair value of securities AFS was $588.5 million. The net unrealized loss on securities AFS decreased $1.1 million for the six months ended June 30, 2023, resulting in a net unrealized loss of $73.0 million as of June 30, 2023.

Securities HTM, which the Company has the intent and ability to hold until maturity, are carried at amortized cost. As of June 30, 2023, the amortized cost of securities HTM was $146.6 million.

Investment activity for the six months ended June 30, 2023, included $60.6 million in maturities, principal repayments, and calls, partially offset by $28.6 million of securities purchased. There were no sales of securities AFS, and there were no purchases or sales of securities HTM for the same period.

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

| | June 30, 2023 | | | |
|---|---|---|---|---|
| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities AFS: | | | | |
| Mortgage-backed securities | $ 259,244 | $ — | $ (33,496) | $ 225,748 |
| Municipal bonds | 216,112 | 2 | (33,383) | 182,731 |
| U.S. Treasury securities | 164,119 | — | (4,315) | 159,804 |
| U.S. agency securities | 22,027 | 1 | (1,833) | 20,195 |
| Total Securities AFS | $ 661,502 | $ 3 | $ (73,027) | $ 588,478 |
| | | | | |
| Securities HTM: | | | | |
| Mortgage-backed securities | $ 145,652 | $ — | $ (21,966) | $ 123,686 |
| U.S. agency securities | 917 | — | (122) | 795 |
| Total Securities HTM | $ 146,569 | $ — | $ (22,088) | $ 124,481 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities AFS: | | | | |
| Mortgage-backed securities | $ 272,253 | $ — | $ (31,272) | $ 240,981 |
| Municipal bonds | 219,305 | 6 | (35,219) | 184,092 |
| U.S. Treasury securities | 176,380 | — | (5,902) | 170,478 |
| U.S. agency securities | 20,601 | — | (1,745) | 18,856 |
| Total Securities AFS | $ 688,539 | $ 6 | $ (74,138) | $ 614,407 |
| | | | | |
| Securities HTM: | | | | |
| Mortgage-backed securities | $ 150,771 | $ — | $ (19,142) | $ 131,629 |
| U.S. agency securities | 912 | — | (134) | 778 |
| Total Securities HTM | $ 151,683 | $ — | $ (19,276) | $ 132,407 |

The amortized cost and estimated fair value of securities AFS and securities HTM as of June 30, 2023, 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.

| | June 30, 2023 | |
|---|---|---|
| (in thousands) | Amortized Cost | Fair Value |
| Securities AFS: | | |
| Within one year | $ 128,298 | $ 126,163 |
| After one year but within five years | 77,266 | 73,318 |
| After five years but within ten years | 82,004 | 74,791 |
| After ten years | 373,934 | 314,206 |
| Total Securities AFS | $ 661,502 | $ 588,478 |
| | | |
| Securities HTM: | | |
| Within one year | $ — | $ — |
| After one year but within five years | — | — |
| After five years but within ten years | 917 | 795 |
| After ten years | 145,652 | 123,686 |
| Total Securities HTM | $ 146,569 | $ 124,481 |

*Accounting for Credit Losses – Securities AFS and Securities HTM*

The Company evaluates securities AFS for impairment when there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Due to the zero credit loss assumption and the considerations applied to the securities AFS, no ACL was recorded on January 1, 2023, and there was no ACL for securities AFS as of June 30, 2023. Also, as part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy, and interest rate risk position. 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.

Due to the zero credit loss assumption on the securities HTM portfolio, no ACL was recorded on January 1, 2023, and there was no ACL for securities HTM as of June 30, 2023.

Accrued interest receivable totaled $2.9 million and $3.0 million as of June 30, 2023 and December 31, 2022, respectively, for securities AFS and securities HTM and was reported in accrued interest receivable on the consolidated balance sheets.

Information pertaining to securities AFS and securities HTM with gross unrealized losses as of June 30, 2023 and December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is described as follows:

| | June 30, 2023 | | | |
|---|---|---|---|---|
| | 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 | $ (65) | $ 4,385 | $ (33,431) | $ 221,162 |
| Municipal bonds | (185) | 10,425 | (33,198) | 170,888 |
| U.S. Treasury securities | (12) | 9,942 | (4,303) | 149,861 |
| U.S. agency securities | (7) | 1,993 | (1,826) | 17,214 |
| Total Securities AFS | $ (269) | $ 26,745 | $ (72,758) | $ 559,125 |
| | | | | |
| Securities HTM: | | | | |
| Mortgage-backed securities | $ — | $ — | $ (21,966) | $ 123,686 |
| U.S. agency securities | — | — | (122) | 795 |
| Total Securities HTM | $ — | $ — | $ (22,088) | $ 124,481 |

| | December 31, 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 | $ (10,214) | $ 105,030 | $ (21,058) | $ 135,607 |
| Municipal bonds | (11,340) | 84,691 | (23,879) | 98,607 |
| U.S. Treasury securities | (3,852) | 131,107 | (2,050) | 39,371 |
| U.S. agency securities | (608) | 10,289 | (1,137) | 8,564 |
| Total Securities AFS | $ (26,014) | $ 331,117 | $ (48,124) | $ 282,149 |
| | | | | |
| Securities HTM: | | | | |
| Mortgage-backed securities | $ (19,142) | $ 131,629 | $ — | $ — |
| U.S. agency securities | (134) | 778 | — | — |
| Total Securities HTM | $ (19,276) | $ 132,407 | $ — | $ — |

As of June 30, 2023, the Company held 566 securities AFS and securities HTM that were in unrealized loss positions. The aggregate unrealized loss of these securities as of June 30, 2023, was 11.77% of the amortized cost basis of total debt securities.

The proceeds from sales and calls of debt securities and their gross gain (loss) for the three and six months ended June 30, 2023 and 2022, are shown below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (in thousands) | 2023 | 2022 | 2023 | 2022 |
| Proceeds [1] | $ — | $ 32,429 | $ — | $ 40,503 |
| Gross gain | $ — | $ 9 | $ — | $ 48 |
| Gross loss | $ — | $ (123) | $ — | $ (123) |

[1] The proceeds include the gross gain and loss.

*Equity Securities*

Equity securities are an investment in a CRA mutual fund, consisting primarily of bonds. Equity securities are 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, 2022, equity securities had a fair value of $10.0 million with a recognized loss of $468,000 for the year ended December 31, 2022. The loss on equity securities during 2022 was due to a significant increase in interest rates. In March 2023, we sold $6.0 million of the mutual fund. As of June 30, 2023, equity securities had a fair value of $3.9 million with a recognized loss of $32,000 for the six months ended June 30, 2023.

*Pledged Securities*

Securities with carrying values of approximately $201.5 million and $168.2 million were pledged to secure public entity deposits as of June 30, 2023 and December 31, 2022, respectively.

## 3. Loans and Asset Quality

*Loans*

Loans HFI by category and loans HFS are summarized below:

| *(in thousands)* | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Real estate: | | |
| Commercial real estate | $ 819,260 | $ 794,723 |
| One-to-four family residential | 565,725 | 543,511 |
| Construction and development | 138,450 | 157,364 |
| Commercial and industrial | 320,257 | 310,053 |
| SBA PPP, net of deferred income | 13 | 14 |
| Tax-exempt | 75,697 | 83,166 |
| Consumer | 28,229 | 27,436 |
| Total loans HFI | $ 1,947,631 | $ 1,916,267 |
| Total loans HFS | $ 4,586 | $ 518 |

Accrued interest receivable on loans HFI totaled $5.3 million and $5.8 million as of June 30, 2023 and December 31, 2022, respectively, and was reported in accrued interest receivable on the accompanying consolidated balance sheets.

*Allowance for Credit Losses*

Effective January 1, 2023, the Company adopted the provisions of *ASC 326* using the modified retrospective method. For reporting periods beginning on and after January 1, 2023, the Company maintains an ACL on all loans that reflects management's estimate of expected credit losses for the full life of the loan portfolio.

The following table summarizes the activity in the ACL by category for the six months ended June 30, 2023:

| *(in thousands)* | Beginning Balance December 31, 2022 | Impact of *ASC 326* Adoption | Provision for Credit Losses | Charge-offs | Recoveries | Ending Balance June 30, 2023 |
|---|---|---|---|---|---|---|
| Real Estate: | | | | | | |
| Commercial real estate | $ 7,720 | $ 876 | $ (293) | $ — | $ — | $ 8,303 |
| One-to-four family residential | 5,682 | 1,231 | 91 | — | 5 | 7,009 |
| Construction and development | 1,654 | (444) | 184 | (9) | — | 1,385 |
| Commercial and industrial | 4,350 | (822) | (18) | (33) | 23 | 3,500 |
| SBA PPP, net of deferred income | — | — | — | — | — | — |
| Tax-exempt | 751 | (427) | 264 | — | — | 588 |
| Consumer | 471 | (136) | 72 | (182) | 75 | 300 |
| Total allowance for credit losses | $ 20,628 | $ 278 | $ 300 | $ (224) | $ 103 | $ 21,085 |

*Allowance for Loan Losses*

For reporting periods prior to January 1, 2023, the Company maintained an ALL on loans that represented management's estimate of probable losses incurred in the portfolio category.

The following table summarizes the activity in the allowance for loan losses by category for the twelve months ended December 31, 2022:

| (in thousands) | Beginning Balance December 31, 2021 | Provision for Loan Losses | Charge-offs | Recoveries | Ending Balance December 31, 2022 |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial real estate | $ 6,749 | $ 970 | $ — | $ 1 | $ 7,720 |
| One-to-four family residential | 5,375 | 296 | — | 11 | 5,682 |
| Construction and development | 1,326 | 328 | (18) | 18 | 1,654 |
| Commercial and industrial | 4,440 | (137) | (39) | 86 | 4,350 |
| SBA PPP, net of deferred income | 25 | (25) | — | — | — |
| Tax-exempt | 749 | 2 | — | — | 751 |
| Consumer | 512 | 316 | (490) | 133 | 471 |
| Total allowance for loan losses | $ 19,176 | $ 1,750 | $ (547) | $ 249 | $ 20,628 |

*Nonaccrual and Past Due Loans*

The following table presents nonaccrual loans as of June 30, 2023:

| (in thousands) | Nonaccrual with No ACL | Nonaccrual with ACL | Total Nonaccrual |
|---|---|---|---|
| Real estate: | | | |
| Commercial real estate | $ 678 | $ 40 | $ 718 |
| One-to-four family residential | 57 | 250 | 307 |
| Construction and development | — | — | — |
| Commercial and industrial | — | 718 | 718 |
| SBA PPP, net of deferred income | — | — | — |
| Tax-exempt | — | — | — |
| Consumer | — | 97 | 97 |
| Total loans HFI | $ 735 | $ 1,105 | $ 1,840 |

No material interest income was recognized in the consolidated statements of income on nonaccrual loans for the six months ended June 30, 2023 and 2022.

The following table presents the aging analysis of the past due loans and loans 90 days or more past due and still accruing interest by loan category as of June 30, 2023:

| | Past Due | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | 30-59 Days | 60-89 Days | 90 Days or More | Current | Total Loans HFI | 90 Days or More Past Due and Accruing |
| Real estate: | | | | | | |
| Commercial real estate | $ 39 | $ — | $ 747 | $ 818,474 | $ 819,260 | $ 69 |
| One-to-four family residential | — | 134 | 214 | 565,377 | 565,725 | 38 |
| Construction and development | — | — | — | 138,450 | 138,450 | — |
| Commercial and industrial | 142 | 85 | 721 | 319,309 | 320,257 | 3 |
| SBA PPP, net of deferred income | 13 | — | — | — | 13 | — |
| Tax-exempt | — | — | — | 75,697 | 75,697 | — |
| Consumer | 97 | 6 | 8 | 28,118 | 28,229 | 8 |
| Total loans HFI | $ 291 | $ 225 | $ 1,690 | $ 1,945,425 | $ 1,947,631 | $ 118 |

The following table presents the current, past due, and nonaccrual loans by loan category as of December 31, 2022:

| (in thousands) | Current | Accruing 30-89 Days Past Due | Accruing 90 Days or More Past Due | Nonaccrual | Total Loans |
|---|---|---|---|---|---|
| Real estate: | | | | | |
| Commercial real estate | $ 793,540 | $ 463 | $ — | $ 720 | $ 794,723 |
| One-to-four family residential | 542,666 | 602 | — | 243 | 543,511 |
| Construction and development | 157,355 | — | — | 9 | 157,364 |
| Commercial and industrial | 308,597 | 165 | — | 1,291 | 310,053 |
| SBA PPP, net of deferred income | 14 | — | — | — | 14 |
| Tax-exempt | 83,166 | — | — | — | 83,166 |
| Consumer | 27,291 | 42 | 2 | 101 | 27,436 |
| Total loans HFI | $ 1,912,629 | $ 1,272 | $ 2 | $ 2,364 | $ 1,916,267 |

*Impaired Loans*

For reporting periods prior to January 1, 2023, when *ASC 326* was adopted, the Company individually evaluated impaired loans, including TDRs and performing and nonperforming loans. Once a loan was deemed to be impaired, the difference between the loan value and the Bank's exposure was charged-off or a specific reserve was established.

Information pertaining to impaired loans as of December 31, 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 | $ 3,804 | $ 3,796 | $ — | $ 3,194 |
| One-to-four family residential | 1,458 | 1,387 | — | 797 |
| Construction and development | 9 | 9 | — | 104 |
| Commercial and industrial | 51 | 51 | — | 58 |
| SBA PPP, net of deferred income | — | — | — | — |
| Tax-exempt | — | — | — | — |
| Consumer | 26 | 26 | — | 9 |
| Total with no related allowance | 5,348 | 5,269 | — | 4,162 |
| With allowance recorded: | | | | |
| Real estate: | | | | |
| Commercial real estate | 717 | 717 | 15 | 1,264 |
| One-to-four family residential | 120 | 120 | 16 | 48 |
| Construction and development | — | — | — | — |
| Commercial and industrial | 1,360 | 1,351 | 172 | 623 |
| SBA PPP, net of deferred income | — | — | — | — |
| Tax-exempt | — | — | — | — |
| Consumer | 113 | 111 | 111 | 122 |
| Total with related allowance | 2,310 | 2,299 | 314 | 2,057 |
| Total impaired loans | $ 7,658 | $ 7,568 | $ 314 | $ 6,219 |

The interest income recognized on impaired loans for the year ended December 31, 2022 was $252,000.

*Loan Modifications*

The Company adopted *ASU No. 2022-02 Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* effective January 1, 2023, using the prospective method. This ASU eliminates the TDR recognition and measurement guidance and requires all loan modifications to be evaluated based on whether the modification represents a new loan or a continuation of an existing loan. Modifications are made to a borrower experiencing financial difficulty, and the modified terms are in the form of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension in the current reporting period. As of June 30, 2023, no loan modifications were made to borrowers experiencing financial difficulty.

*Troubled Debt Restructurings*

For reporting periods prior to January 1, 2023, when *ASC 326* was adopted, the restructuring of a loan was considered a TDR if the borrower was experiencing financial difficulties and the Bank had granted a concession. There were no loans modified during the six months ended June 30, 2022. Additionally, there were no defaults on loans during the six months ended June 30, 2022 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. However, the loss potential does not warrant substandard classification.

Substandard - Loans in this category 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.

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 credit losses.

As of June 30, 2023, the Company had no loans classified as doubtful or loss. The following table summarizes loans by risk rating and year of origination as of June 30, 2023:

| | Year of Origination | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | **2023** | **2022** | **2021** | **2020** | **2019** | **Prior Years** | **Revolving Lines** | **Total** |
| Real estate: | | | | | | | | |
| Commercial real estate | | | | | | | | |
| Pass | $ 41,906 | $ 264,422 | $ 242,840 | $ 95,484 | $ 68,893 | $ 77,928 | $ 20,012 | $ 811,485 |
| Special mention | 73 | — | 3,246 | — | 1,086 | 839 | — | 5,244 |
| Substandard | — | 808 | 671 | 335 | — | 717 | — | 2,531 |
| Total | $ 41,979 | $ 265,230 | $ 246,757 | $ 95,819 | $ 69,979 | $ 79,484 | $ 20,012 | $ 819,260 |
| One-to-four family residential | | | | | | | | |
| Pass | $ 54,709 | $ 142,877 | $ 135,643 | $ 95,429 | $ 33,621 | $ 83,987 | $ 18,178 | $ 564,444 |
| Special mention | — | — | — | — | — | 56 | — | 56 |
| Substandard | — | 105 | — | 38 | 81 | 981 | 20 | 1,225 |
| Total | $ 54,709 | $ 142,982 | $ 135,643 | $ 95,467 | $ 33,702 | $ 85,024 | $ 18,198 | $ 565,725 |
| Construction and development | | | | | | | | |
| Pass | $ 21,704 | $ 81,860 | $ 27,121 | $ 2,218 | $ 2,342 | $ 1,147 | $ 2,058 | $ 138,450 |
| Special mention | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — |
| Total | $ 21,704 | $ 81,860 | $ 27,121 | $ 2,218 | $ 2,342 | $ 1,147 | $ 2,058 | $ 138,450 |
| Commercial and industrial | | | | | | | | |
| Pass | $ 42,985 | $ 67,973 | $ 59,760 | $ 18,617 | $ 9,848 | $ 2,369 | $ 107,156 | $ 308,708 |
| Special mention | — | — | 4,935 | — | 535 | 1,867 | 3,336 | 10,673 |
| Substandard | 5 | — | 32 | 9 | 63 | 55 | 712 | 876 |
| Total | $ 42,990 | $ 67,973 | $ 64,727 | $ 18,626 | $ 10,446 | $ 4,291 | $ 111,204 | $ 320,257 |
| SBA PPP, net of deferred income | | | | | | | | |
| Pass | $ — | $ — | $ — | $ 13 | $ — | $ — | $ — | $ 13 |
| Special mention | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — |
| Total | $ — | $ — | $ — | $ 13 | $ — | $ — | $ — | $ 13 |
| Tax-exempt | | | | | | | | |
| Pass | $ 511 | $ 15,679 | $ 8,173 | $ 14,885 | $ 4,530 | $ 31,919 | $ — | $ 75,697 |
| Special mention | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — |
| Total | $ 511 | $ 15,679 | $ 8,173 | $ 14,885 | $ 4,530 | $ 31,919 | $ — | $ 75,697 |
| Consumer | | | | | | | | |
| Pass | $ 10,985 | $ 10,265 | $ 3,226 | $ 1,325 | $ 606 | $ 556 | $ 1,160 | $ 28,123 |
| Special mention | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | 97 | 9 | 106 |
| Total | $ 10,985 | $ 10,265 | $ 3,226 | $ 1,325 | $ 606 | $ 653 | $ 1,169 | $ 28,229 |
| Total loans HFI | $ 172,878 | $ 583,989 | $ 485,647 | $ 228,353 | $ 121,605 | $ 202,518 | $ 152,641 | $ 1,947,631 |
| Current period gross charge-offs | $ 1 | $ 8 | $ — | $ — | $ 9 | $ 1 | $ 205 | $ 224 |

The following table summarizes loans by risk rating as of December 31, 2022:

| (in thousands) | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| Real estate: | | | | | | |
| Commercial real estate | $ 786,394 | $ 5,759 | $ 2,570 | $ — | $ — | $ 794,723 |
| One-to-four family residential | 542,112 | 62 | 1,337 | — | — | 543,511 |
| Construction and development | 157,355 | — | 9 | — | — | 157,364 |
| Commercial and industrial | 297,152 | 11,428 | 1,473 | — | — | 310,053 |
| SBA PPP, net of deferred income | 14 | — | — | — | — | 14 |
| Tax-exempt | 83,166 | — | — | — | — | 83,166 |
| Consumer | 27,298 | — | 138 | — | — | 27,436 |
| Total loans HFI | $ 1,893,491 | $ 17,249 | $ 5,527 | $ — | $ — | $ 1,916,267 |

*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 June 30, 2023 and December 31, 2022, unfunded loan commitments totaled approximately $347.0 million and $377.6 million, respectively.

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 June 30, 2023 and December 31, 2022, commitments under standby letters of credit totaled approximately $14.1 million and $14.6 million, respectively. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Effective January 1, 2023, the Company adopted the provision of *ASC 326* using the modified retrospective method and established a reserve for unfunded commitments based on estimates of expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. As of June 30, 2023, the reserve on unfunded commitments was $442,000.

## 4. Deposits

Deposits were $2.66 billion and $2.80 billion as of June 30, 2023 and December 31, 2022, respectively. The $134.8 million decrease was primarily a result of the changing interest rate environment impacting customer deposit movement and activity, combined with normal tax payments. Also in 2023, there was a deposit mix shift between deposit categories as customers moved funds from lower yielding categories to higher yielding categories. Deposits are summarized below:

| (in thousands) | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Noninterest-bearing demand deposits | $ 989,509 | $ 1,090,539 |
| Interest-bearing deposits: | | |
| Interest-bearing demand deposits | 94,058 | 89,144 |
| NOW accounts | 384,676 | 503,308 |
| Money market accounts | 537,890 | 578,161 |
| Savings accounts | 179,053 | 195,479 |
| Time deposits less than or equal to $250,000 | 328,870 | 250,875 |
| Time deposits greater than $250,000 | 150,127 | 91,430 |
| Total interest-bearing deposits | 1,674,674 | 1,708,397 |
| Total deposits | $ 2,664,183 | $ 2,798,936 |

## 5. Other Borrowed Funds

The Company has established various lines of credit with the FHLB and other correspondent banks to provide additional sources of operating funds. As of June 30, 2023, the Company had $60.0 million in short-term advances at an interest rate of 5.49% from the FHLB under its existing line of credit. The Company's FHLB line of credit is collateralized by eligible Red River Bank loans. The $60.0 million advance matured and was repaid in July 2023.

**6. 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.

**7. 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 may be established. Loans for which it was 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 determined 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 |
|---|---|---|---|---|
| June 30, 2023 | | | | |
| Loans HFS | $ 4,586 | $ — | $ 4,586 | $ — |
| Securities AFS: | | | | |
| Mortgage-backed securities | $ 225,748 | $ — | $ 225,748 | $ — |
| Municipal bonds | $ 182,731 | $ — | $ 182,731 | $ — |
| U.S. Treasury securities | $ 159,804 | $ — | $ 159,804 | $ — |
| U.S. agency securities | $ 20,195 | $ — | $ 20,195 | $ — |
| Equity securities | $ 3,946 | $ 3,946 | $ — | $ — |
| | | | | |
| December 31, 2022 | | | | |
| Loans HFS | $ 518 | $ — | $ 518 | $ — |
| Securities AFS: | | | | |
| Mortgage-backed securities | $ 240,981 | $ — | $ 240,981 | $ — |
| Municipal bonds | $ 184,092 | $ — | $ 184,092 | $ — |
| U.S. Treasury securities | $ 170,478 | $ — | $ 170,478 | $ — |
| U.S. agency securities | $ 18,856 | $ — | $ 18,856 | $ — |
| Equity securities | $ 9,979 | $ 9,979 | $ — | $ — |

There were no transfers between Level 1, 2, or 3 during the six months ended June 30, 2023 or the year ended December 31, 2022.

*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 or credit losses based upon the fair value of the underlying collateral during the reported periods:

| | For the Six Months Ended | |
|---|---|---|
| *(in thousands)* | June 30, 2023 | June 30, 2022 |
| Carrying value of impaired loans before allowance | $ 214 | $ 129 |
| Specific allowance | (38) | (15) |
| Fair value of impaired loans | $ 176 | $ 114 |

The Company had no financial liabilities measured at fair value on a nonrecurring basis for the six months ended June 30, 2023 and June 30, 2022.

*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 credit 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 Six Months Ended June 30, 2023 | For the Six Months Ended June 30, 2022 |
|---|---|---|
| Foreclosed assets remeasured at initial recognition: | | |
| Carrying value of foreclosed assets prior to remeasurement | $ 22 | $ — |
| Charge-offs | — | — |
| Fair value of foreclosed assets | $ 22 | $ — |

There were no foreclosed assets that were remeasured subsequent to initial recognition for the six months ended June 30, 2023 and June 30, 2022.

The Company had no nonfinancial liabilities measured at fair value on a nonrecurring basis for the six months ended June 30, 2023 and June 30, 2022.

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 |
|---|---|---|---|---|---|
| June 30, 2023 | | | | | |
| Impaired loans | $ 2,134 | Discounted appraisals | Collateral discounts and costs to sell | 0% - 100% | 15.21% |
| Foreclosed assets | $ 22 | Discounted appraisals | Collateral discounts and costs to sell | N/A | N/A |
| December 31, 2022 | | | | | |
| Impaired loans | $ 7,254 | Discounted appraisals | Collateral discounts and costs to sell | 0% - 100% | 4.16% |
| Foreclosed assets | $ — | 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 June 30, 2023 and December 31, 2022, were as follows:

| *(in thousands)* | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| June 30, 2023 | | | | | |
| Financial assets: | | | | | |
| Cash and due from banks | $ 36,662 | $ 36,662 | $ 36,662 | $ — | $ — |
| Interest-bearing deposits in other banks | $ 185,409 | $ 185,409 | $ 185,409 | $ — | $ — |
| Securities AFS | $ 588,478 | $ 588,478 | $ — | $ 588,478 | $ — |
| Securities HTM | $ 146,569 | $ 124,481 | $ — | $ 124,481 | $ — |
| Equity securities | $ 3,946 | $ 3,946 | $ 3,946 | $ — | $ — |
| Nonmarketable equity securities | $ 4,330 | $ 4,330 | $ — | $ 4,330 | $ — |
| Loans HFS | $ 4,586 | $ 4,586 | $ — | $ 4,586 | $ — |
| Loans HFI, net of allowance | $ 1,926,546 | $ 1,790,906 | $ — | $ — | $ 1,790,906 |
| Accrued interest receivable | $ 8,239 | $ 8,239 | $ — | $ — | $ 8,239 |
| Financial liabilities: | | | | | |
| Deposits | $ 2,664,183 | $ 2,654,145 | $ — | $ 2,654,145 | $ — |
| Other borrowed funds | $ 60,000 | $ 60,000 | $ — | $ 60,000 | $ — |
| Accrued interest payable | $ 4,098 | $ 4,098 | $ — | $ 4,098 | $ — |
| | | | | | |
| December 31, 2022 | | | | | |
| Financial assets: | | | | | |
| Cash and due from banks | $ 37,824 | $ 37,824 | $ 37,824 | $ — | $ — |
| Interest-bearing deposits in other banks | $ 240,568 | $ 240,568 | $ 240,568 | $ — | $ — |
| Securities AFS | $ 614,407 | $ 614,407 | $ — | $ 614,407 | $ — |
| Securities HTM | $ 151,683 | $ 132,407 | $ — | $ 132,407 | $ — |
| Equity securities | $ 9,979 | $ 9,979 | $ 9,979 | $ — | $ — |
| Nonmarketable equity securities | $ 3,478 | $ 3,478 | $ — | $ 3,478 | $ — |
| Loans HFS | $ 518 | $ 518 | $ — | $ 518 | $ — |
| Loans HFI, net of allowance | $ 1,895,639 | $ 1,807,772 | $ — | $ — | $ 1,807,772 |
| Accrued interest receivable | $ 8,830 | $ 8,830 | $ — | $ — | $ 8,830 |
| Financial liabilities: | | | | | |
| Deposits | $ 2,798,936 | $ 2,787,198 | $ — | $ 2,787,198 | $ — |
| Accrued interest payable | $ 1,563 | $ 1,563 | $ — | $ 1,563 | $ — |

## 8. Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of 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. Prompt corrective action provisions are not applicable to bank holding companies.

*Basel III Capital Requirements*

The Company and the Bank are subject to Basel III capital guidelines. Basel III requires the Company and the Bank to maintain certain minimum ratios to meet capital adequacy requirements. It is management's belief that, as of June 30, 2023, both the Company and the Bank met all capital adequacy requirements under Basel III. Management expects that the capital ratios for the Company and the Bank under Basel III will continue to exceed capital adequacy requirements.

The most recent notification from the FDIC (as of September 30, 2022) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

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, changing to scaled biannual regulatory reporting requirements as opposed to quarterly regulatory reporting requirements, and not subjecting bank holding companies 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 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 began in the second half of 2022. As of June 30, 2022, the Company had more than $3.0 billion in assets. Therefore, effective January 1, 2023, the Company no longer receives any benefits under the Policy Statement and became subject to consolidated capital requirements. As of June 30, 2023, the last applicable measurement date, the Company has more than $3.0 billion in assets.

Capital amounts and ratios for the Company as of June 30, 2023 and December 31, 2022, are presented in the following table:

| | | | Regulatory Requirements | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum[1] | | Well Capitalized[2] | |
| *(dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| June 30, 2023 | | | | | | |
| Total Risk-Based Capital | $ 373,046 | 18.13 % | $ 215,996 | 10.50 % | N/A | N/A |
| Tier I Risk-Based Capital | $ 351,519 | 17.09 % | $ 174,854 | 8.50 % | N/A | N/A |
| Common Equity Tier I Capital | $ 351,519 | 17.09 % | $ 143,997 | 7.00 % | N/A | N/A |
| Tier I Leverage Capital | $ 351,519 | 11.48 % | $ 122,433 | 4.00 % | N/A | N/A |
| December 31, 2022 | | | | | | |
| Total Risk-Based Capital | $ 356,001 | 17.39 % | N/A | N/A | N/A | N/A |
| Tier I Risk-Based Capital | $ 335,373 | 16.38 % | N/A | N/A | N/A | N/A |
| Common Equity Tier I Capital | $ 335,373 | 16.38 % | N/A | N/A | N/A | N/A |
| Tier I Leverage Capital | $ 335,373 | 10.71 % | N/A | N/A | N/A | N/A |

[1] Due to the full phase-in of the CCB, these are the regulatory minimum amounts and ratios. These amounts and ratios were labeled as "Minimum Plus CCB" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, and prior filings.
[2] This column refers to the prompt corrective action requirements applicable to banks. Bank holding companies are not subject to prompt corrective action requirements.

Capital amounts and ratios for the Bank as of June 30, 2023 and December 31, 2022, are presented in the following table:

| | Actual | | Regulatory Requirements Minimum[(1)] | | Regulatory Requirements Well Capitalized[(2)] | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| June 30, 2023 | | | | | | |
| Total Risk-Based Capital | $ 363,601 | 17.68 % | $ 215,928 | 10.50 % | $ 205,645 | 10.00 % |
| Tier I Risk-Based Capital | $ 342,074 | 16.63 % | $ 174,799 | 8.50 % | $ 164,516 | 8.00 % |
| Common Equity Tier I Capital | $ 342,074 | 16.63 % | $ 143,952 | 7.00 % | $ 133,670 | 6.50 % |
| Tier I Leverage Capital | $ 342,074 | 11.18 % | $ 122,400 | 4.00 % | $ 153,000 | 5.00 % |
| December 31, 2022 | | | | | | |
| Total Risk-Based Capital | $ 344,867 | 16.85 % | $ 214,915 | 10.50 % | $ 204,681 | 10.00 % |
| Tier I Risk-Based Capital | $ 324,239 | 15.84 % | $ 173,979 | 8.50 % | $ 163,745 | 8.00 % |
| Common Equity Tier I Capital | $ 324,239 | 15.84 % | $ 143,277 | 7.00 % | $ 133,043 | 6.50 % |
| Tier I Leverage Capital | $ 324,239 | 10.35 % | $ 125,252 | 4.00 % | $ 156,565 | 5.00 % |

(1) Due to the full phase-in of the CCB, these are the regulatory minimum amounts and ratios. These amounts and ratios were labeled as "Minimum Plus CCB" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, and prior filings.
(2) This column refers to the prompt corrective action requirements applicable to banks.

*Community Bank Leverage Ratio Framework*

As part of the directive under the Economic Growth Act, in September 2019, the FDIC and other federal bank regulatory agencies approved the CBLR framework. This optional framework became effective January 1, 2020, and is available to the Company and the Bank 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%, are considered qualifying community banking organizations eligible to opt into the CBLR framework and replace the applicable Basel III risk-based capital requirements.

As of June 30, 2023, the Company and the Bank qualify for the CBLR framework. Management does not intend to utilize the CBLR framework.

**9. 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, stock options, 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:

| (in thousands, except share amounts) | For the Three Months Ended June 30, 2023 | For the Three Months Ended June 30, 2022 | For the Six Months Ended June 30, 2023 | For the Six Months Ended June 30, 2022 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income - basic | $ 8,968 | $ 9,147 | $ 18,566 | $ 16,539 |
| Net income - diluted | $ 8,968 | $ 9,147 | $ 18,566 | $ 16,539 |
| Denominator: | | | | |
| Weighted average shares outstanding - basic | 7,177,621 | 7,176,365 | 7,180,187 | 7,177,986 |
| Plus: Effect of Director Compensation Program | 238 | 361 | 450 | 721 |
| Plus: Effect of restricted stock | 16,775 | 19,917 | 16,775 | 19,917 |
| Weighted average shares outstanding - diluted | 7,194,634 | 7,196,643 | 7,197,412 | 7,198,624 |
| Earnings per common share: | | | | |
| Basic | $ 1.25 | $ 1.27 | $ 2.59 | $ 2.30 |
| Diluted | $ 1.25 | $ 1.27 | $ 2.58 | $ 2.30 |

## 10. Equity

*Stock Repurchase Program*

On November 4, 2022, the Company's board of directors approved the renewal of its 2022 stock repurchase program that expired on December 31, 2022. The renewed program authorizes the Company to purchase up to $5.0 million of its 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. For the three months ended June 30, 2023, the Company repurchased 11,894 shares of its common stock at an aggregate cost of $601,000. For the six months ended June 30, 2023, the Company repurchased 18,689 shares of its common stock at an aggregate cost of $947,000. As of June 30, 2023, the Company had $4.1 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 $166.3 million, net of $17.9 million of unrealized loss, from AFS to HTM. The securities were transferred at fair value, which became the cost basis for the securities HTM. The net unrealized loss of $17.9 million, of which $14.2 million, net of tax, was included in AOCI, is being 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. As of June 30, 2023, the net unamortized, unrealized loss remaining on the transferred securities included in the consolidated balance sheets totaled $15.2 million, of which $12.0 million, net of tax, was included in AOCI.

*CECL Adjustment - Implementation of Current Expected Credit Losses Methodology related to ASU No. 2016-13*

On January 1, 2023, the Company adopted the CECL methodology for estimating credit losses. In the first quarter of 2023, the implementation of CECL resulted in a $720,000 adjustment to the ACL and reserve for unfunded commitments, and a $569,000, net of tax, adjustment to retained earnings.

## 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, 2022 through June 30, 2023, and on our results of operations for the quarters ended June 30, 2023 and March 31, 2023, and for the six months ended June 30, 2023 and June 30, 2022.

This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2022, included in our Annual Report on Form 10-K for the year ended December 31, 2022, 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, 2022. 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 27 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.

### SECOND QUARTER 2023 FINANCIAL AND OPERATIONAL HIGHLIGHTS

In the second quarter of 2023, we had a fairly consistent balance sheet, increased capital ratios, steady liquidity, and reduced earnings. Net interest income, net interest margin, and net income decreased as a result of higher interest expense on deposits. Activity in the stock repurchase program was higher than in the prior quarter.

- Net income for the second quarter of 2023 was $9.0 million, or $1.25 diluted EPS, a decrease of $630,000, or 6.6%, compared to $9.6 million, or $1.33 diluted EPS, for the first quarter of 2023. These decreases were mainly due to higher interest expense on deposits. Net income benefited from a $1.2 million, or 666.7%, increase in SBIC income between the second quarter of 2023 and the prior quarter.
- For the second quarter of 2023, the return on assets was 1.20%, and the return on equity was 12.78%.
- As of June 30, 2023, assets were $3.03 billion, consistent with March 31, 2023. Total assets were impacted by a $67.2 million decrease in deposits, offset by $60.0 million of new FHLB advances.
- Deposits totaled $2.66 billion as of June 30, 2023, a decrease of $67.2 million, or 2.5%, compared to $2.73 billion as of March 31, 2023. During the second quarter of 2023, in addition to the slight decrease in total deposits, there was also a shift of balances between deposit categories due to customers moving funds from lower yielding categories to higher yielding categories.
- As of June 30, 2023, loans HFI were $1.95 billion, an increase of $25.8 million, or 1.3%, compared to $1.92 billion as of March 31, 2023. During the second quarter of 2023, new loan originations were partially offset by loan payments and paydowns.
- As of June 30, 2023, total securities were $739.0 million compared to $765.2 million as of March 31, 2023. Securities decreased $26.2 million primarily due to maturities and principal repayments exceeding purchases.
- In the second quarter of 2023, the Company maintained an average of $182.0 million of liquid assets, which are cash and cash equivalents. The liquid assets to assets ratio was 7.34% as of June 30, 2023.
- In the second quarter of 2023, the Bank recorded $60.0 million in borrowings from the FHLB.

- Net interest income and net interest margin FTE decreased in the second quarter of 2023 compared to the prior quarter. Net interest income was $21.5 million for the second quarter of 2023 compared to $22.9 million for the prior quarter. Net interest margin FTE was 2.96% for the second quarter of 2023 compared to 3.13% for the prior quarter. These decreases were mainly due to the higher interest rate environment resulting in intensified deposit rate pressure and higher deposit costs.
- The CECL methodology became effective for the Bank on January 1, 2023. No provision expense was recorded in the first quarter of 2023. Provision expense for the second quarter of 2023 was $300,000.
- As of June 30, 2023, NPAs were $2.0 million, or 0.07% of assets, and the ACL was $21.1 million, or 1.08% of loans HFI.
- Capital ratios increased in the second quarter of 2023. The June 30, 2023 leverage ratio was 11.48%, and the equity to assets ratio was 9.36%.
- We paid a quarterly cash dividend of $0.08 per common share in the second quarter of 2023.
- The 2023 stock repurchase program authorizes us to purchase up to $5.0 million of our outstanding shares of common stock from January 1, 2023 through December 31, 2023. In the second quarter of 2023, we repurchased 11,894 shares of our common stock at an aggregate cost of $601,000.
- Recently, S&P Market Intelligence ranked Red River Bank 45th of the top 50 best-performing community banks in 2022 with assets between $3.0 and $10.0 billion.

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, 2022 to June 30, 2023 | |
|---|---|---|---|---|
| *(in thousands)* | June 30, 2023 | December 31, 2022 | $ Change | % Change |
| **Selected Period End Balance Sheet Data:** | | | | |
| Total assets | $ 3,027,194 | $ 3,082,686 | (55,492) | (1.8)% |
| Interest-bearing deposits in other banks | $ 185,409 | $ 240,568 | (55,159) | (22.9)% |
| Securities available-for-sale, at fair value | $ 588,478 | $ 614,407 | (25,929) | (4.2)% |
| Securities held-to-maturity, at amortized cost | $ 146,569 | $ 151,683 | (5,114) | (3.4)% |
| Loans held for investment | $ 1,947,631 | $ 1,916,267 | 31,364 | 1.6 % |
| Total deposits | $ 2,664,183 | $ 2,798,936 | (134,753) | (4.8)% |
| Total stockholders’ equity | $ 283,372 | $ 265,753 | 17,619 | 6.6 % |

| (dollars in thousands, except per share data) | As of and for the Three Months Ended June 30, 2023 | March 31, 2023 | June 30, 2022 | As of and for the Six Months Ended June 30, 2023 | June 30, 2022 |
|---|---|---|---|---|---|
| **Net Income** | $ 8,968 | $ 9,598 | $ 9,147 | $ 18,566 | $ 16,539 |
| | | | | | |
| **Per Common Share Data:** | | | | | |
| Earnings per share, basic | $ 1.25 | $ 1.34 | $ 1.27 | $ 2.59 | $ 2.30 |
| Earnings per share, diluted | $ 1.25 | $ 1.33 | $ 1.27 | $ 2.58 | $ 2.30 |
| Book value per share | $ 39.49 | $ 38.54 | $ 35.34 | $ 39.49 | $ 35.34 |
| Tangible book value per share[1,2] | $ 39.28 | $ 38.33 | $ 35.12 | $ 39.28 | $ 35.12 |
| Realized book value per share[1,3] | $ 49.21 | $ 48.09 | $ 44.23 | $ 49.21 | $ 44.23 |
| Cash dividends per share | $ 0.08 | $ 0.08 | $ 0.07 | $ 0.16 | $ 0.14 |
| Shares outstanding | 7,175,056 | 7,177,650 | 7,176,365 | 7,175,056 | 7,176,365 |
| Weighted average shares outstanding, basic | 7,177,621 | 7,182,782 | 7,176,365 | 7,180,187 | 7,177,986 |
| Weighted average shares outstanding, diluted | 7,194,634 | 7,196,354 | 7,196,643 | 7,197,412 | 7,198,624 |
| | | | | | |
| **Summary Performance Ratios:** | | | | | |
| Return on average assets | 1.20 % | 1.28 % | 1.15 % | 1.24 % | 1.04 % |
| Return on average equity | 12.78 % | 14.33 % | 14.30 % | 13.54 % | 12.17 % |
| Net interest margin | 2.91 % | 3.07 % | 2.70 % | 2.99 % | 2.55 % |
| Net interest margin FTE[4] | 2.96 % | 3.13 % | 2.75 % | 3.04 % | 2.61 % |
| Efficiency ratio[5] | 58.63 % | 56.84 % | 55.64 % | 57.74 % | 58.07 % |
| Loans HFI to deposits ratio | 73.10 % | 70.36 % | 64.61 % | 73.10 % | 64.61 % |
| Noninterest-bearing deposits to deposits ratio | 37.14 % | 38.81 % | 41.46 % | 37.14 % | 41.46 % |
| Noninterest income to average assets | 0.81 % | 0.58 % | 0.61 % | 0.69 % | 0.58 % |
| Operating expense to average assets | 2.16 % | 2.06 % | 1.82 % | 2.11 % | 1.80 % |
| | | | | | |
| **Summary Credit Quality Ratios:** | | | | | |
| NPAs to assets | 0.07 % | 0.08 % | 0.03 % | 0.07 % | 0.03 % |
| Nonperforming loans to loans HFI | 0.10 % | 0.12 % | 0.02 % | 0.10 % | 0.02 % |
| Allowance for credit losses to loans HFI | 1.08 % | 1.09 % | 1.05 % | 1.08 % | 1.05 % |
| Net charge-offs to average loans | 0.00 % | 0.00 % | 0.01 % | 0.01 % | 0.01 % |
| | | | | | |
| **Capital Ratios:** | | | | | |
| Stockholders' equity to assets | 9.36 % | 9.13 % | 8.13 % | 9.36 % | 8.13 % |
| Tangible common equity to tangible assets[1,6] | 9.31 % | 9.08 % | 8.08 % | 9.31 % | 8.08 % |
| Total risk-based capital to risk-weighted assets | 18.13 % | 17.89 % | 16.89 % | 18.13 % | 16.89 % |
| Tier 1 risk-based capital to risk-weighted assets | 17.09 % | 16.85 % | 15.92 % | 17.09 % | 15.92 % |
| Common equity Tier 1 capital to risk-weighted assets | 17.09 % | 16.85 % | 15.92 % | 17.09 % | 15.92 % |
| Tier 1 risk-based capital to average assets | 11.48 % | 11.02 % | 9.73 % | 11.48 % | 9.73 % |

[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 second quarter of 2023 was $9.0 million, or $1.25 diluted EPS, a decrease of $630,000, or 6.6%, compared to $9.6 million, or $1.33 diluted EPS, for the first quarter of 2023. The decrease in net income was due to a $1.4 million decrease in net interest income, a $644,000 increase in operating expenses, and a $300,000 increase in the provision for credit losses, partially offset by a $1.7 million increase in noninterest income and a $46,000 decrease in income tax expense. The return on assets for the second quarter of 2023 was 1.20%, compared to 1.28% for the first quarter of 2023. The return on equity was 12.78% for the second quarter of 2023, compared to 14.33% for the first quarter of 2023. Our efficiency ratio for the second quarter of 2023 was 58.63%, compared to 56.84% for the first quarter of 2023.

Net income for the six months ended June 30, 2023, was $18.6 million, or $2.58 diluted EPS, an increase of $2.0 million, or 12.3%, compared to $16.5 million, or $2.30 diluted EPS, for the six months ended June 30, 2022. The increase in net income was due to a $4.5 million increase in net interest income, a $1.1 million increase in noninterest income, and a $100,000 decrease in the provision for credit losses, partially offset by a $3.1 million increase in operating expenses and a $613,000 increase in income tax expense. The return on assets for the six months ended June 30, 2023, was 1.24%, compared to 1.04% for the six months ended June 30, 2022. The return on equity was 13.54% for the six months ended June 30, 2023, compared to 12.17% for the six months ended June 30, 2022. Our efficiency ratio for the six months ended June 30, 2023, was 57.74%, compared to 58.07% for the six months ended June 30, 2022.

### *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.

Between March 2020 and June 2023, the interest rate environment has changed significantly. In March 2020, the target federal funds range decreased 150 bps to a range of 0.00% to 0.25% and remained at that level until March 2022, when the FOMC began increasing the target federal funds range. The FOMC increased the federal funds rate by 425 bps in 2022, by 50 bps in the first quarter of 2023, and an additional 25 bps in the second quarter of 2023. The average effective federal funds rate for the second quarter of 2023 was 4.99% compared to 4.52% for the first quarter of 2023. For the six months ended June 30, 2023, the average effective federal funds rate was 4.75% compared to 2.92% for the six months ended June 30, 2022. The net interest income and net interest margin FTE for the three months ended June 30, 2023, and the six months ended June 30, 2023, were both impacted by the federal funds rate increases by the FOMC over the last year.

*Second Quarter of 2023 vs. First Quarter of 2023*

Net interest income for the second quarter of 2023 was $21.5 million, which was $1.4 million, or 6.1%, lower than the first quarter of 2023, due to a $2.1 million increase in interest expense, partially offset by a $739,000 increase in interest and dividend income. The increase in interest expense was due to increased deposit rates combined with larger balances in higher cost deposit accounts. In responding to deposit rate competition, we increased the rates on time deposits and certain interest-bearing transaction deposits. The cost of deposits increased 32 bps to 1.03% for the second quarter of 2023 from 0.71% for the prior quarter. The increase in interest and dividend income was primarily due to an increase in income on loans, partially offset by a decrease in interest income on short-term liquid assets. Loan income increased $1.1 million due to higher rates on new, renewed, and floating rate loans. The rate on these loans was 7.09% for the second quarter of 2023 compared to 6.68% for the prior quarter. Income on short-term liquid assets decreased $451,000 due a decrease in these balances during the second quarter.

The net interest margin FTE decreased 17 bps to 2.96% for the second quarter of 2023, compared to 3.13% for the prior quarter. This decrease was driven primarily by higher deposit rates as a result of the deposit rate pressures. As we increased rates on several of our deposit products, we continued to experience a change in the deposit mix due to customers moving deposits from lower yielding accounts to higher yielding accounts. The rate on time deposits increased 71 bps, and the rate on interest-bearing transaction deposits increased by 37 bps. The shift in deposit mix, combined with the increase in rates on these accounts, increased the total cost of deposits by 32 bps. The higher cost of deposits was partially offset by a 14 bp increase in the yield on loans and a 49 bp increase in the yield on short-term liquid assets, which were driven by the higher interest rate environment.

On July 26, 2023, the FOMC increased the federal funds rate by 25 bps. The current expectation is that the FOMC will keep the rate consistent through December 2023. For the remainder of 2023, we anticipate receiving approximately $100.0 million in cash flows from our securities portfolio that should be redeployed into higher yielding assets and should benefit both net interest income and net interest margin FTE. We continue to experience additional pressure on deposit interest rates due to the higher interest rate environment and competition for deposits. As of June 30, 2023, floating rate loans were 13.3% of loans HFI, and floating rate transaction deposits were 3.9% of interest-bearing transaction deposits.

Depending on balance sheet activity, movement in interest rates, deposit rate pressure, and deposit mix shift, we expect the net interest margin FTE to remain fairly consistent for the remainder of 2023.

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 June 30, 2023 and March 31, 2023:

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2023 | | | March 31, 2023 | | |
| *(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] | $ 1,933,225 | $ 22,851 | 4.68 % | $ 1,918,336 | $ 21,764 | 4.54 % |
| Securities - taxable | 630,103 | 2,628 | 1.67 % | 641,237 | 2,533 | 1.59 % |
| Securities - tax-exempt | 204,208 | 1,037 | 2.03 % | 205,512 | 1,034 | 2.01 % |
| Federal funds sold | 19,780 | 251 | 5.02 % | 55,411 | 635 | 4.58 % |
| Interest-bearing deposits in other banks | 131,361 | 1,671 | 5.04 % | 153,667 | 1,738 | 4.53 % |
| Nonmarketable equity securities | 3,533 | 33 | 3.72 % | 3,478 | 28 | 3.24 % |
| Total interest-earning assets | 2,922,210 | $ 28,471 | 3.86 % | 2,977,641 | $ 27,732 | 3.73 % |
| Allowance for credit losses | (20,824) | | | (20,885) | | |
| Noninterest-earning assets | 89,021 | | | 89,031 | | |
| Total assets | $ 2,990,407 | | | $ 3,045,787 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing transaction deposits | $ 1,240,078 | $ 4,013 | 1.30 % | $ 1,326,547 | $ 3,029 | 0.93 % |
| Time deposits | 433,112 | 2,920 | 2.70 % | 366,214 | 1,794 | 1.99 % |
| Total interest-bearing deposits | 1,673,190 | 6,933 | 1.66 % | 1,692,761 | 4,823 | 1.16 % |
| Other borrowings | 1,978 | 28 | 5.50 % | 1 | — | 5.08 % |
| Total interest-bearing liabilities | 1,675,168 | $ 6,961 | 1.67 % | 1,692,762 | $ 4,823 | 1.16 % |
| Noninterest-bearing liabilities: | | | | | | |
| Noninterest-bearing deposits | 1,014,205 | | | 1,061,135 | | |
| Accrued interest and other liabilities | 19,612 | | | 20,219 | | |
| Total noninterest-bearing liabilities | 1,033,817 | | | 1,081,354 | | |
| Stockholders' equity | 281,422 | | | 271,671 | | |
| Total liabilities and stockholders' equity | $ 2,990,407 | | | $ 3,045,787 | | |
| Net interest income | | $ 21,510 | | | $ 22,909 | |
| Net interest spread | | | 2.19 % | | | 2.57 % |
| Net interest margin | | | 2.91 % | | | 3.07 % |
| Net interest margin FTE[3] | | | 2.96 % | | | 3.13 % |
| Cost of deposits | | | 1.03 % | | | 0.71 % |
| Cost of funds | | | 0.96 % | | | 0.66 % |

(1) Includes average outstanding balances of loans HFS of $3.5 million and $1.3 million for the three months ended June 30, 2023 and March 31, 2023, 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.

*Six Months Ended June 30, 2023 vs. Six Months Ended June 30, 2022*

Net interest income for the six months ended June 30, 2023 was $44.4 million, which was $4.5 million, or 11.4%, higher than $39.9 million for the six months ended June 30, 2022. Net interest income increased due to a $13.7 million increase in interest and dividend income, partially offset by a $9.2 million increase in interest expense.

The increase in interest and dividend income for the six months ended June 30, 2023, when compared to the six months ended June 30, 2022, was primarily due to an increase in loan income and an increase in income on short-term liquid assets. Loan income increased $9.8 million due to higher rates on new, renewed, and floating rate loans and a $182.1 million increase in the average balance of loans, when compared to the same period prior year. Income on short-term liquid assets increased $3.2 million due to the FOMC's increases to the target federal funds range, partially offset by a $343.1 million decrease in the average balance of these short-term liquid assets. Interest expense increased during the

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six months ended June 30, 2023, compared to the same period in 2022 due to increased deposit rates, combined with larger balances in higher cost deposit accounts in 2023.

Net interest margin FTE increased 43 bps to 3.04% for the six months ended June 30, 2023, from 2.61% for the six months ended June 30, 2022, primarily due to the higher interest rate environment and an improved asset mix. The yield on loans increased 64 bps due to higher rates on new, renewed, and floating rate loans due to the higher interest rate environment. Our deployment of lower-yielding short-term liquid assets into higher-yielding loans also benefited the net interest margin FTE. In addition, the yield on short-term liquid assets was 435 bps higher during the six months ended June 30, 2023, compared to the six months ended June 30, 2022.

The net interest margin FTE was negatively impacted by an increase in the cost of deposits. The cost of deposits increased 69 bps to 0.87% for the six months ended June 30, 2023, from 0.18% for the six months ended June 30, 2022, due to a 111 bp increase in the rate on interest-bearing deposits, combined with customers moving deposits from lower yielding accounts to higher yielding accounts in 2023. Within total interest-bearing deposits, the rate on time deposits and interest-bearing transaction deposits increased 139 and 97 bps, respectively. These rates increased as we responded to deposit rate competition that began in the second half of 2022 and continued into 2023.

The following table presents average balance sheet information, interest income, interest expense, and the corresponding average yields earned and rates paid for the six months ended June 30, 2023 and 2022:

| | For the Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2023 | | | 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] | $ 1,925,821 | $ 44,616 | 4.61 % | $ 1,743,676 | $ 34,802 | 3.97 % |
| Securities - taxable | 635,640 | 5,160 | 1.63 % | 624,081 | 4,494 | 1.44 % |
| Securities - tax-exempt | 204,856 | 2,071 | 2.02 % | 213,506 | 2,145 | 2.01 % |
| Federal funds sold | 37,497 | 886 | 4.70 % | 53,232 | 141 | 0.53 % |
| Interest-bearing deposits in other banks | 142,452 | 3,409 | 4.77 % | 469,784 | 922 | 0.39 % |
| Nonmarketable equity securities | 3,506 | 61 | 3.48 % | 3,450 | 3 | 0.16 % |
| Total interest-earning assets | 2,949,772 | $ 56,203 | 3.79 % | 3,107,729 | $ 42,507 | 2.72 % |
| Allowance for credit losses | (20,854) | | | (19,249) | | |
| Noninterest-earning assets | 89,026 | | | 111,905 | | |
| Total assets | $ 3,017,944 | | | $ 3,200,385 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing transaction deposits | $ 1,283,073 | $ 7,042 | 1.11 % | $ 1,414,404 | $ 1,002 | 0.14 % |
| Time deposits | 399,848 | 4,714 | 2.38 % | 330,491 | 1,628 | 0.99 % |
| Total interest-bearing deposits | 1,682,921 | 11,756 | 1.41 % | 1,744,895 | 2,630 | 0.30 % |
| Other borrowings | 995 | 28 | 5.50 % | — | — | — % |
| Total interest-bearing liabilities | 1,683,916 | $ 11,784 | 1.41 % | 1,744,895 | $ 2,630 | 0.30 % |
| Noninterest-bearing liabilities: | | | | | | |
| Noninterest-bearing deposits | 1,037,540 | | | 1,164,375 | | |
| Accrued interest and other liabilities | 19,914 | | | 16,983 | | |
| Total noninterest-bearing liabilities | 1,057,454 | | | 1,181,358 | | |
| Stockholders' equity | 276,574 | | | 274,132 | | |
| Total liabilities and stockholders' equity | $ 3,017,944 | | | $ 3,200,385 | | |
| Net interest income | | $ 44,419 | | | $ 39,877 | |
| Net interest spread | | | 2.38 % | | | 2.42 % |
| Net interest margin | | | 2.99 % | | | 2.55 % |
| Net interest margin FTE[3] | | | 3.04 % | | | 2.61 % |
| Cost of deposits | | | 0.87 % | | | 0.18 % |
| Cost of funds | | | 0.81 % | | | 0.17 % |

(1) Includes average outstanding balances of loans HFS of $2.4 million and $4.0 million for the six months ended June 30, 2023 and 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.

***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 June 30, 2023 vs. March 31, 2023 | | | For the Six Months Ended June 30, 2023 vs. June 30, 2022 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 169 | $ 918 | $ 1,087 | $ 3,638 | $ 6,176 | $ 9,814 |
| Securities - taxable | (44) | 139 | 95 | 83 | 583 | 666 |
| Securities - tax-exempt | (7) | 10 | 3 | (87) | 13 | (74) |
| Federal funds sold | (408) | 24 | (384) | (42) | 787 | 745 |
| Interest-bearing deposits in other banks | (249) | 182 | (67) | (634) | 3,121 | 2,487 |
| Nonmarketable equity securities | — | 5 | 5 | — | 58 | 58 |
| Total interest-earning assets | $ (539) | $ 1,278 | $ 739 | $ 2,958 | $ 10,738 | $ 13,696 |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing transaction deposits | $ (197) | $ 1,181 | $ 984 | $ (93) | $ 6,133 | $ 6,040 |
| Time deposits | 328 | 798 | 1,126 | 342 | 2,744 | 3,086 |
| Total interest-bearing deposits | 131 | 1,979 | 2,110 | 249 | 8,877 | 9,126 |
| Other borrowings | 25 | 3 | 28 | 28 | — | 28 |
| Total interest-bearing liabilities | $ 156 | $ 1,982 | $ 2,138 | $ 277 | $ 8,877 | $ 9,154 |
| Increase (decrease) in net interest income | $ (695) | $ (704) | $ (1,399) | $ 2,681 | $ 1,861 | $ 4,542 |

***Provision for Credit Losses***

Effective January 1, 2023, we adopted *ASC 326*, the CECL methodology for estimating credit losses. The guidance for CECL replaces our previous incurred loss methodology with a methodology that reflects the current expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit losses.

The provision for credit losses is the amount necessary to maintain the ACL 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 credit losses:

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 30, 2023 | March 31, 2023 | Increase (Decrease) | |
| Provision for credit losses | $ 300 | $ — | $ 300 | 100.0 % |

The provision for credit losses for the second quarter of 2023 was $300,000. No provision expense was recorded in the first quarter of 2023 under the new CECL methodology. The provision in the second quarter 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, trends in asset quality, forecasted information, and other conditions influencing loss expectations.

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

| | For the Six Months Ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 30, 2023 | June 30, 2022 | Increase (Decrease) | |
| Provision for credit losses | $ 300 | $ 400 | $ (100) | (25.0)% |

The provision for credit losses for the six months ended June 30, 2023, was $300,000, a decrease of $100,000, or 25.0%, from $400,000 for the six months ended June 30, 2022. The primary drivers of the decrease were the current inflationary environment, changing monetary policy, current economic forecasts, and a slower pace of loan growth.

***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.

*Second Quarter of 2023 vs. First Quarter of 2023*

Noninterest income increased $1.7 million to $6.0 million for the second quarter of 2023 compared to $4.3 million for the first quarter of 2023. The increase in noninterest income was mainly due to higher income from an SBIC limited partnership of which Red River Bank is a member, and higher mortgage and brokerage income.

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

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 30, 2023 | March 31, 2023 | Increase (Decrease) | |
| Noninterest income: | | | | |
| Service charges on deposit accounts | $ 1,435 | $ 1,393 | $ 42 | 3.0 % |
| Debit card income, net | 924 | 934 | (10) | (1.1)% |
| Mortgage loan income | 645 | 275 | 370 | 134.5 % |
| Brokerage income | 923 | 807 | 116 | 14.4 % |
| Loan and deposit income | 517 | 477 | 40 | 8.4 % |
| Bank-owned life insurance income | 188 | 179 | 9 | 5.0 % |
| Gain (Loss) on equity securities | (64) | 31 | (95) | (306.5)% |
| SBIC income | 1,380 | 180 | 1,200 | 666.7 % |
| Other income (loss) | 59 | 64 | (5) | (7.8)% |
| Total noninterest income | $ 6,007 | $ 4,340 | $ 1,667 | 38.4 % |

SBIC income for the second quarter of 2023 increased $1.2 million to $1.4 million from the prior quarter primarily due to the sale of an investment by the SBIC. We expect this income to be lower in future quarters.

Mortgage loan income increased $370,000 to $645,000 for the second quarter of 2023, compared to the prior quarter. This increase was mainly driven by improved purchase activity as consumers adjusted to the higher interest rate environment.

Brokerage income increased $116,000 to $923,000 for the second quarter of 2023, compared to the prior quarter. This increase was largely due to investing activities of new and existing clients. Assets under management were $997.3 million as of June 30, 2023.

*Six Months Ended June 30, 2023 vs. Six Months Ended June 30, 2022*

Noninterest income increased $1.1 million to $10.3 million for the six months ended June 30, 2023, compared to $9.3 million for the six months ended June 30, 2022. The increase in noninterest income was due to higher SBIC income, a decreased loss on equity securities, and increased loan and deposit income. These increases were partially offset by lower mortgage loan income.

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

| (dollars in thousands) | For the Six Months Ended June 30, 2023 | June 30, 2022 | Increase (Decrease) | |
|---|---|---|---|---|
| Noninterest income: | | | | |
| Service charges on deposit accounts | $ 2,828 | $ 2,718 | $ 110 | 4.0 % |
| Debit card income, net | 1,858 | 1,992 | (134) | (6.7)% |
| Mortgage loan income | 920 | 2,018 | (1,098) | (54.4)% |
| Brokerage income | 1,730 | 1,666 | 64 | 3.8 % |
| Loan and deposit income | 995 | 781 | 214 | 27.4 % |
| Bank-owned life insurance income | 366 | 352 | 14 | 4.0 % |
| Gain (Loss) on equity securities | (32) | (447) | 415 | 92.8 % |
| Gain (Loss) on sale and call of securities | — | (75) | 75 | 100.0 % |
| SBIC income | 1,559 | 171 | 1,388 | 811.7 % |
| Other income (loss) | 123 | 86 | 37 | 43.0 % |
| Total noninterest income | $ 10,347 | $ 9,262 | $ 1,085 | 11.7 % |

SBIC income increased $1.4 million to $1.6 million for the six months ended June 30, 2023, primarily due to the sale of an investment by the SBIC in the second quarter of 2023.

Equity securities are 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. In the first quarter of 2023, we sold $6.0 million of the CRA mutual fund. The mutual fund had a loss of $32,000 for the six months ended June 30, 2023, compared to a loss of $447,000 for the same period in 2022.

Loan and deposit income increased $214,000 to $995,000 for the six months ended June 30, 2023, compared to the same period prior year. This increase was primarily associated with fees related to customers moving funds from lower yielding deposit accounts to higher yielding deposit accounts.

Mortgage loan income decreased $1.1 million to $920,000 for the six months ended June 30, 2023, compared to the same period prior year due to higher mortgage interest rates and reduced purchase activity.

***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.

*Second Quarter of 2023 vs. First Quarter of 2023*

Operating expenses increased $644,000 to $16.1 million for the second quarter of 2023, compared to $15.5 million for the first quarter of 2023. The increase in operating expenses was mainly due to higher personnel expenses and data processing expense, partially offset by lower occupancy and equipment expenses and technology expenses.

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

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 30, 2023 | March 31, 2023 | Increase (Decrease) | |
| Operating expenses: | | | | |
| Personnel expenses | $ 9,547 | $ 9,000 | $ 547 | 6.1 % |
| Non-staff expenses: | | | | |
| Occupancy and equipment expenses | 1,554 | 1,717 | (163) | (9.5)% |
| Technology expenses | 642 | 748 | (106) | (14.2)% |
| Advertising | 343 | 281 | 62 | 22.1 % |
| Other business development expenses | 494 | 436 | 58 | 13.3 % |
| Data processing expense | 638 | 400 | 238 | 59.5 % |
| Other taxes | 693 | 686 | 7 | 1.0 % |
| Loan and deposit expenses | 284 | 205 | 79 | 38.5 % |
| Legal and professional expenses | 580 | 516 | 64 | 12.4 % |
| Regulatory assessment expenses | 397 | 406 | (9) | (2.2)% |
| Other operating expenses | 960 | 1,093 | (133) | (12.2)% |
| Total operating expenses | $ 16,132 | $ 15,488 | $ 644 | 4.2 % |

Personnel expenses increased $547,000 to $9.5 million for the second quarter of 2023, compared to the prior quarter. This increase was primarily due to annual merit raises effective April 2023, higher personnel health insurance expenses, and higher commission compensation. As of June 30, 2023 and March 31, 2023, we had 353 and 352 total employees, respectively.

Data processing expense increased $238,000 to $638,000 for the second quarter of 2023, compared to the prior quarter. This increase was primarily attributable to receipt of a $252,000 periodic refund from our data processing center in the first quarter of 2023.

Occupancy and equipment expenses decreased $163,000 to $1.6 million for the second quarter of 2023, compared to the prior quarter. This decrease was primarily attributable to $161,000 of nonrecurring expenses related to opening our new operations center building in the first quarter of 2023, compared to $28,000 of nonrecurring expenses related to the expansion of a banking center in the Southwest market in the second quarter of 2023.

Technology expenses decreased $106,000 to $642,000 for the second quarter of 2023, compared to the prior quarter. This decrease was mainly due to the renegotiation of a contract with a technology vendor, which resulted in lower expenses effective in the second quarter of 2023.

*Six Months Ended June 30, 2023 vs. Six Months Ended June 30, 2022*

Operating expenses increased $3.1 million to $31.6 million for the six months ended June 30, 2023, compared to $28.5 million for the six months ended June 30, 2022. The increase in operating expenses was mainly due to higher personnel expenses, occupancy and equipment expenses, regulatory assessment expenses, other business development expenses, and legal and professional expenses.

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

| (dollars in thousands) | For the Six Months Ended June 30, 2023 | June 30, 2022 | Increase (Decrease) | |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Personnel expenses | $ 18,547 | $ 17,026 | $ 1,521 | 8.9 % |
| Non-staff expenses: | | | | |
| Occupancy and equipment expenses | 3,271 | 2,965 | 306 | 10.3 % |
| Technology expenses | 1,390 | 1,466 | (76) | (5.2)% |
| Advertising | 624 | 526 | 98 | 18.6 % |
| Other business development expenses | 930 | 642 | 288 | 44.9 % |
| Data processing expense | 1,038 | 880 | 158 | 18.0 % |
| Other taxes | 1,378 | 1,283 | 95 | 7.4 % |
| Loan and deposit expenses | 489 | 315 | 174 | 55.2 % |
| Legal and professional expenses | 1,097 | 893 | 204 | 22.8 % |
| Regulatory assessment expenses | 804 | 501 | 303 | 60.5 % |
| Other operating expenses | 2,052 | 2,036 | 16 | 0.8 % |
| Total operating expenses | $ 31,620 | $ 28,533 | $ 3,087 | 10.8 % |

Personnel expenses increased $1.5 million to $18.5 million for the six months ended June 30, 2023, compared to the same period prior year. This increase was primarily due to higher personnel health insurance expenses, additional employees, and annual merit increases. As of June 30, 2023 and 2022, we had 353 and 348 total employees, respectively.

Occupancy and equipment expenses increased $306,000 to $3.3 million for the six months ended June 30, 2023, compared to the same period prior year. This increase was due to opening our new operations center building in the first quarter of 2023, the expansion of a banking center in the Southwest market in the second quarter of 2023, and a full period of expenses related to opening a new full-service banking center in our New Orleans market in the third quarter of 2022.

Regulatory assessment expenses increased $303,000 to $804,000 for the six months ended June 30, 2023, compared to the same period prior year. This increase was primarily due to the FDIC raising the deposit insurance assessment rate by two bps, effective January 1, 2023, for all insured depository institutions.

Other business development expenses increased $288,000 to $930,000 for the six months ended June 30, 2023, compared to the same period prior year. This increase was mainly 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 $204,000 to $1.1 million for the six months ended June 30, 2023, compared to the same period prior year. This increase was primarily due to higher audit and compliance fees.

***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 accrued tax rate is based on an annualized projection and changes considering our most recent financial results and balances. 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, income tax effects associated with stock-based compensation, and permanent and temporary tax differences.

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

| (dollars in thousands) | For the Three Months Ended June 30, 2023 | March 31, 2023 | Increase (Decrease) | |
|---|---|---|---|---|
| Income tax expense | $ 2,117 | $ 2,163 | $ (46) | (2.1)% |

For the quarters ended June 30, 2023 and March 31, 2023, income tax expense totaled $2.1 million and $2.2 million, respectively. The decrease in income tax expense was primarily due to a decrease in pre-tax income, partially offset by an increase in our accrued tax rate during the quarter ended June 30, 2023. Our effective income tax rates for each of the quarters ended June 30, 2023 and March 31, 2023, were 19.1% and 18.4%, respectively.

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

| | For the Six Months Ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | **June 30, 2023** | **June 30, 2022** | **Increase (Decrease)** | |
| Income tax expense | $ 4,280 | $ 3,667 | $ 613 | 16.7 % |

For the six months ended June 30, 2023 and 2022, income tax expense totaled $4.3 million and $3.7 million, respectively. The increase in income tax expense was primarily due to an increase in pre-tax income combined with an increase in our accrued tax rate. Our effective income tax rates for the six months ended June 30, 2023 and 2022, were 18.7% and 18.1%, respectively.

**FINANCIAL CONDITION**

As of June 30, 2023, assets were $3.03 billion, which was $55.5 million, or 1.8%, lower than $3.08 billion as of December 31, 2022, primarily due to a decrease in deposits. Total deposits decreased $134.8 million, or 4.8%, to $2.66 billion as of June 30, 2023, from $2.80 billion as of December 31, 2022. Within assets, during the first half of the year, cash and cash equivalents decreased $56.3 million, or 20.2%, to $222.1 million and were 7.34% of assets as of June 30, 2023. Total securities decreased $37.1 million, or 4.8%, to $739.0 million and were 24.4% of assets as of June 30, 2023. Loans HFI increased $31.4 million, or 1.6%, during the first half of 2023 to $1.95 billion as of June 30, 2023. We had no borrowings as of December 31, 2022; however, in the second quarter of 2023, we recorded $60.0 million in short-term advances from the FHLB. Stockholders' equity increased $17.6 million during the first six months of 2023 to $283.4 million as of June 30, 2023. As of June 30, 2023, the loans HFI to deposits ratio was 73.10%, compared to 68.46% as of December 31, 2022, and the noninterest-bearing deposits to total deposits ratio was 37.14%, compared to 38.96% as of December 31, 2022.

***Interest-bearing Deposits in Other Banks***

Interest-bearing deposits in other banks were the third-largest component of earning assets as of June 30, 2023. Excess liquidity that is not being deployed into loans or securities is placed in these accounts. As of June 30, 2023, interest-bearing deposits in other banks were $185.4 million and were 6.1% of assets, a decrease of $55.2 million, or 22.9%, compared to $240.6 million and 7.8% of assets as of December 31, 2022. In the first six months of 2023, our interest-bearing deposits in other banks decreased as our deposits decreased.

***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 June 30, 2023, our total securities portfolio was 24.4% 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 $735.0 million as of June 30, 2023, a decrease of $31.0 million, or 4.1%, from $766.1 million as of December 31, 2022.

Securities AFS are held for indefinite periods of time and are carried at estimated fair value. As of June 30, 2023, the estimated fair value of securities AFS was $588.5 million. 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. The net unrealized loss on securities AFS decreased $1.1 million for the six months ended June 30, 2023, resulting in a net unrealized loss of $73.0 million as of June 30, 2023, compared to a net unrealized loss of $74.1 million as of December 31, 2022.

Securities HTM, which we have the intent and ability to hold until maturity, are carried at amortized cost. As of June 30, 2023, the amortized cost of securities HTM was $146.6 million. Securities HTM had an unrealized loss of $22.1 million as of June 30, 2023, compared to an unrealized loss of $19.3 million as of December 31, 2022.

Investment activity for the six months ended June 30, 2023, included $60.6 million in maturities, principal repayments, and calls, partially offset by $28.6 million of securities purchased. There were no sales of securities AFS, and there were no purchases or sales of securities HTM for the same period.

The securities AFS portfolio tax-equivalent yield was 1.85% for the six months ended June 30, 2023, compared to 1.72% for the six months ended June 30, 2022. The increase in yield for the six months ended June 30, 2023, was due to the higher yielding securities purchased in 2023 compared to the purchases in the same period for 2022, combined with the positive impact from our floating rate securities that have repriced over the last year.

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 June 30, 2023, the average life of our securities portfolio was 7.0 years with an estimated effective duration of 5.0 years. As of December 31, 2022, the average life of our securities portfolio was 6.8 years with an estimated effective duration of 5.0 years.

The following tables summarize the amortized cost and estimated fair value of our securities by type as of the dates indicated. As of June 30, 2023, 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.

| | June 30, 2023 | | | |
|---|---|---|---|---|
| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities AFS: | | | | |
| Mortgage-backed securities | $ 259,244 | $ — | $ (33,496) | $ 225,748 |
| Municipal bonds | 216,112 | 2 | (33,383) | 182,731 |
| U.S. Treasury securities | 164,119 | — | (4,315) | 159,804 |
| U.S. agency securities | 22,027 | 1 | (1,833) | 20,195 |
| Total Securities AFS | $ 661,502 | $ 3 | $ (73,027) | $ 588,478 |
| | | | | |
| Securities HTM: | | | | |
| Mortgage-backed securities | $ 145,652 | $ — | $ (21,966) | $ 123,686 |
| U.S. agency securities | 917 | — | (122) | 795 |
| Total Securities HTM | $ 146,569 | $ — | $ (22,088) | $ 124,481 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities AFS: | | | | |
| Mortgage-backed securities | $ 272,253 | $ — | $ (31,272) | $ 240,981 |
| Municipal bonds | 219,305 | 6 | (35,219) | 184,092 |
| U.S. Treasury securities | 176,380 | — | (5,902) | 170,478 |
| U.S. agency securities | 20,601 | — | (1,745) | 18,856 |
| Total Securities AFS | $ 688,539 | $ 6 | $ (74,138) | $ 614,407 |
| | | | | |
| Securities HTM: | | | | |
| Mortgage-backed securities | $ 150,771 | $ — | $ (19,142) | $ 131,629 |
| U.S. agency securities | 912 | — | (134) | 778 |
| Total Securities HTM | $ 151,683 | $ — | $ (19,276) | $ 132,407 |

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 June 30, 2023 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 235 | 1.44 % | $ 7,146 | 3.56 % | $ 54,048 | 1.53 % | $ 164,319 | 1.59 % | $ 225,748 | 1.63 % |
| Municipal bonds | 7,899 | 1.38 % | 15,634 | 1.84 % | 18,491 | 2.38 % | 140,707 | 2.08 % | 182,731 | 2.06 % |
| U.S. Treasury securities | 114,077 | 1.80 % | 45,727 | 1.36 % | — | — % | — | — % | 159,804 | 1.67 % |
| U.S. agency securities | 3,952 | 2.72 % | 4,811 | 2.34 % | 2,252 | 2.23 % | 9,180 | 2.47 % | 20,195 | 2.21 % |
| Total Securities AFS | $ 126,163 | 1.80 % | $ 73,318 | 1.74 % | $ 74,791 | 1.69 % | $ 314,206 | 1.84 % | $ 588,478 | 1.80 % |

(1) Tax equivalent projected book yield as of June 30, 2023.

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 June 30, 2023 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ — | —% | $ — | —% | $ — | —% | $ 145,652 | 2.48% | $ 145,652 | 2.48% |
| U.S. agency securities | — | —% | — | —% | 917 | 2.61% | — | —% | 917 | 2.61% |
| Total Securities HTM | $ — | —% | $ — | —% | $ 917 | 2.61% | $ 145,652 | 2.48% | $ 146,569 | 2.48% |

(1) Tax equivalent projected book yield as of June 30, 2023.

*Equity Securities*

Equity securities are an investment in a CRA mutual fund, consisting primarily of bonds. Equity securities are 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, 2022, equity securities had a fair value of $10.0 million with a recognized loss of $468,000 for the year ended December 31, 2022. The loss on equity securities during 2022 was due to a significant increase in interest rates. In March 2023, we sold $6.0 million of the mutual fund. As of June 30, 2023, equity securities had a fair value of $3.9 million with a recognized loss of $32,000 for the six months ended June 30, 2023.

***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 June 30, 2023, loans HFI were $1.95 billion, an increase of $31.4 million, or 1.6%, compared to $1.92 billion as of December 31, 2022. In the first six months of 2023, new loan originations were partially offset by payments and paydowns.

*Loans by Category*

Loans HFI by category, loans HFI, and loans HFS are summarized below as of the dates indicated:

| | June 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| *(dollars in thousands)* | Amount | Percent | Amount | Percent |
| Real estate: | | | | |
| Commercial real estate | $ 819,260 | 42.1 % | $ 794,723 | 41.5 % |
| One-to-four family residential | 565,725 | 29.1 % | 543,511 | 28.4 % |
| Construction and development | 138,450 | 7.1 % | 157,364 | 8.2 % |
| Commercial and industrial | 320,257 | 16.4 % | 310,053 | 16.2 % |
| SBA PPP, net of deferred income | 13 | — % | 14 | — % |
| Tax-exempt | 75,697 | 3.9 % | 83,166 | 4.3 % |
| Consumer | 28,229 | 1.4 % | 27,436 | 1.4 % |
| Total loans HFI | $ 1,947,631 | 100.0 % | $ 1,916,267 | 100.0 % |
| Total loans HFS | $ 4,586 | | $ 518 | |
| Average loan HFI size, excluding credit cards | $ 237 | | $ 236 | |

Investor-owned office properties were $56.3 million, or 2.9% of loans HFI, as of June 30, 2023, and $44.7 million, or 2.3% of loans HFI, as of December 31, 2022.

*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 June 30, 2023, health care loans were $159.6 million, or 8.2% of loans HFI, compared to $160.3 million, or 8.4% of loans HFI, as of December 31, 2022. The average health care loan size was $338,000 as of June 30, 2023, and December 31, 2022. Within the health care sector, loans to physician and dental practices were 4.1% of loans HFI as of June 30, 2023, and 3.9% as of December 31, 2022. Loans to nursing and residential care facilities were 4.0% of loans HFI as of June 30, 2023, and 4.4% as of December 31, 2022.

Energy loans were 1.9% of loans HFI as of June 30, 2023 and December 31, 2022.

*Geographic Markets*

As of June 30, 2023, Red River Bank operates in seven geographic markets throughout the state of Louisiana. The following table summarizes loans HFI by market of origin:

| | June 30, 2023 | |
|---|---|---|
| *(dollars in thousands)* | Amount | Percent |
| Central | $ 603,201 | 31.0 % |
| Capital | 518,568 | 26.6 % |
| Northwest | 371,926 | 19.1 % |
| Southwest | 156,365 | 8.0 % |
| Northshore | 144,076 | 7.4 % |
| New Orleans | 91,273 | 4.7 % |
| Acadiana | 62,222 | 3.2 % |
| Total loans HFI | $ 1,947,631 | 100.0 % |

*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 June 30, 2023, 1.2% of our loans HFI were LIBOR-based with a setting that expired June 30, 2023. Alternative rate language was present in each credit agreement with a LIBOR-based rate. Effective July 1, 2023, these loans were converted to the alternative reference rate.

***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 $2.0 million as of June 30, 2023 and $2.4 million as of December 31, 2022. The ratio of NPAs to assets was 0.07% as of June 30, 2023 and 0.08% as of December 31, 2022.

Nonperforming loan and asset information is summarized below:

| *(dollars in thousands)* | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Nonperforming loans: | | |
| Nonaccrual loans | $ 1,840 | $ 2,364 |
| Accruing loans 90 days or more past due | 118 | 2 |
| Total nonperforming loans | 1,958 | 2,366 |
| Foreclosed assets: | | |
| Real estate | 22 | — |
| Total foreclosed assets | 22 | — |
| Total NPAs | $ 1,980 | $ 2,366 |
| | | |
| Nonaccrual loans to loans HFI | 0.09% | 0.12 % |
| Nonperforming loans to loans HFI | 0.10% | 0.12 % |
| NPAs to assets | 0.07% | 0.08 % |

Nonaccrual loans are summarized below by category:

| *(in thousands)* | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Real estate: | | |
| Commercial real estate | $ 718 | $ 720 |
| One-to-four family residential | 307 | 243 |
| Construction and development | — | 9 |
| Commercial and industrial | 718 | 1,291 |
| SBA PPP, net of deferred income | — | — |
| Tax-exempt | — | — |
| Consumer | 97 | 101 |
| Total nonaccrual loans | $ 1,840 | $ 2,364 |

***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 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 credit losses.

The following table summarizes loans HFI by risk rating:

| (in thousands) | June 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Pass | $ 1,926,920 | 98.9 % | $ 1,893,491 | 98.8 % |
| Special Mention | 15,973 | 0.8 % | 17,249 | 0.9 % |
| Substandard | 4,738 | 0.3 % | 5,527 | 0.3 % |
| Total loans HFI | $ 1,947,631 | 100.0 % | $ 1,916,267 | 100.0 % |

There were no loans as of June 30, 2023 or December 31, 2022, classified as doubtful or loss.

***Allowance for Credit Losses***

On January 1, 2023, we adopted *ASC 326*, as amended, using the modified retrospective method. For reporting periods beginning on or after January 1, 2023, we maintain an ACL on all loans that reflects management's best estimate of expected credit losses to be collected over the lifetime of the loans. The determination of the amount of allowance involves a high degree of judgement and subjectivity. Refer to "Item 1. Financial Statements - Note 1. Summary of Significant Accounting Policies - Accounting Standards Adopted in 2023" in this Report for more information regarding our ACL methodologies.

In determining the ACL for loans HFI, we estimate losses on a collective pool basis when similar risk characteristics and risk profiles exist. Loans that do not share similar risk characteristics are evaluated individually and excluded from the collective evaluation. The ACL is determined using the CECL model, which considers relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

For reporting periods prior to January 1, 2023, the ALL was established for known and inherent losses in the loan portfolio based upon management's best assessment of the loan portfolio. It was maintained at a level estimated to be adequate to absorb potential losses through periodic changes to loan losses.

As of June 30, 2023, the ACL was $21.1 million, or 1.08% of loans HFI. As of December 31, 2022, the ALL totaled $20.6 million, or 1.08% of loans HFI. The $457,000 increase in the ACL for the six months ended June 30, 2023, was due to the $278,000 increase in the ACL from the adoption of *ASC 326* and $300,000 from the provision for credit losses, offset by $121,000 of net-charge-offs.

The provision for credit losses for the six months ended June 30, 2023, was $300,000, a decrease of $100,000, or 25.0%, from $400,000 for the six months ended June 30, 2022. The primary drivers of the decrease were the current inflationary environment, changing monetary policy, current economic forecasts, and a slower pace of loan growth. We will continue to evaluate future provision needs in relation to current economic situations, loan growth, trends in asset quality, forecasted information, and other conditions influencing loss expectations.

The following table displays activity in the ACL for June 30, 2023, and the ALL for June 30, 2022:

| | As of and for the Six Months Ended | |
|---|---|---|
| *(dollars in thousands)* | June 30, 2023 | June 30, 2022 |
| Loans HFI | $ 1,947,631 | $ 1,841,585 |
| Nonaccrual loans | $ 1,840 | $ 248 |
| Average loans | $ 1,925,821 | $ 1,743,676 |
| | | |
| Allowance at beginning of period | $ 20,628 | $ 19,176 |
| Impact of adopting *ASC 326* | 278 | — |
| Provision expense | 300 | 400 |
| Charge-offs: | | |
| Real estate: | | |
| Construction and development | (9) | (18) |
| Commercial and industrial | (33) | (9) |
| Consumer | (182) | (250) |
| Total charge-offs | (224) | (277) |
| Recoveries: | | |
| Real estate: | | |
| One-to-four family residential | 5 | 5 |
| Construction and development | — | 18 |
| Commercial and industrial | 23 | 7 |
| Consumer | 75 | 66 |
| Total recoveries | 103 | 96 |
| Net (charge-offs)/recoveries | (121) | (181) |
| Allowance at end of period | $ 21,085 | $ 19,395 |
| | | |
| Allowance for credit losses to loans HFI | 1.08 % | 1.05 % |
| Allowance for credit losses to nonaccrual loans | 1,145.92% | 7,820.56% |
| Net charge-offs to average loans | 0.01 % | 0.01 % |

We believe that we have established our ACL in accordance with GAAP and that the ACL was adequate to provide for known and inherent losses in the portfolio at all times shown above. Future provisions for credit losses are subject to ongoing evaluations of the factors and loan portfolio risks, 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 credit 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 $134.8 million, or 4.8%, to $2.66 billion as of June 30, 2023, from $2.80 billion as of December 31, 2022. This decrease was primarily a result of the changing interest rate environment impacting customer deposit movement and activity, combined with normal tax payments. Also in 2023, there was a deposit mix shift between deposit categories as customers moved funds from lower yielding categories to higher yielding categories. Noninterest-bearing deposits decreased by $101.0 million, or 9.3%, to $989.5 million as of June 30, 2023. Noninterest-bearing deposits as a percentage of total deposits were 37.14% as of June 30, 2023, compared to 38.96% as of December 31, 2022. Interest-bearing deposits decreased by $33.7 million, or 2.0%, to $1.67 billion as of June 30, 2023.

Red River Bank has a granular, diverse deposit portfolio with customers in a variety of industries throughout Louisiana. As of June 30, 2023, the average deposit account size was approximately $27,000, compared to $30,000 as of December 31, 2022.

In 2022, we implemented the IntraFi Network Insured Cash Sweep and related reciprocal balance programs for qualified commercial customers. The IntraFi Network Insured Cash Sweep program provides our customers a demand deposit sweep account that has a competitive interest rate as well as full FDIC insurance coverage. As of June 30, 2023, we had $96.0 million swept off our balance sheet. The related reciprocal program brings deposit balances back on to our balance sheet as interest-bearing demand deposit accounts. As of June 30, 2023, we had $94.1 million of interest-bearing demand deposit accounts.

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

| | June 30, 2023 | | December 31, 2022 | | Change from December 31, 2022 to June 30, 2023 | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **Balance** | **% of Total** | **Balance** | **% of Total** | **$ Change** | **% Change** |
| Noninterest-bearing demand deposits | $ 989,509 | 37.1 % | $ 1,090,539 | 39.0 % | $ (101,030) | (9.3)% |
| Interest-bearing deposits: | | | | | | |
| Interest-bearing demand deposits | 94,058 | 3.5 % | 89,144 | 3.2 % | 4,914 | 5.5 % |
| NOW accounts | 384,676 | 14.5 % | 503,308 | 18.0 % | (118,632) | (23.6)% |
| Money market accounts | 537,890 | 20.2 % | 578,161 | 20.6 % | (40,271) | (7.0)% |
| Savings accounts | 179,053 | 6.7 % | 195,479 | 7.0 % | (16,426) | (8.4)% |
| Time deposits less than or equal to $250,000 | 328,870 | 12.4 % | 250,875 | 8.9 % | 77,995 | 31.1 % |
| Time deposits greater than $250,000 | 150,127 | 5.6 % | 91,430 | 3.3 % | 58,697 | 64.2 % |
| Total interest-bearing deposits | 1,674,674 | 62.9 % | 1,708,397 | 61.0 % | (33,723) | (2.0)% |
| Total deposits | $ 2,664,183 | 100.0 % | $ 2,798,936 | 100.0 % | $ (134,753) | (4.8)% |

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

| | June 30, 2023 | | December 31, 2022 | | Change from December 31, 2022 to June 30, 2023 | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **Balance** | **% of Total** | **Balance** | **% of Total** | **$ Change** | **% Change** |
| Consumer | $ 1,296,827 | 48.7 % | $ 1,341,312 | 47.9 % | $ (44,485) | (3.3)% |
| Commercial | 1,196,156 | 44.9 % | 1,231,949 | 44.0 % | (35,793) | (2.9)% |
| Public | 171,200 | 6.4 % | 225,675 | 8.1 % | (54,475) | (24.1)% |
| Total deposits | $ 2,664,183 | 100.0 % | $ 2,798,936 | 100.0 % | $ (134,753) | (4.8)% |

We manage our interest expense on deposits through a deposit pricing strategy that is based on competitive pricing, economic conditions, and current or anticipated funding needs. We adjust deposit rates in part based upon our anticipated funding needs and liquidity position. We also consider the potential interest rate risk caused by extended maturities of time deposits when adjusting deposit rates.

Our average deposit balance was $2.69 billion for the three months ended June 30, 2023, a decrease of $66.5 million, or 2.4%, from $2.75 billion for the three months ended March 31, 2023. The average cost of interest-bearing deposits and total deposits for the second quarter of 2023 was 1.66% and 1.03%, respectively, compared to 1.16% and 0.71% for the prior quarter, respectively. The increase in the average cost of interest-bearing deposits and total deposits in the second quarter of 2023 as compared to the prior quarter was due to increased deposit rates in response to deposit rate competition created by rising interest rates. Also, as of June 30, 2023, 3.9% of interest-bearing transaction deposits had floating rates, which adjust with market rates.

The following table presents our average deposits by account type and the average rate paid for the periods indicated:

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2023 | | March 31, 2023 | |
| (dollars in thousands) | Average Balance | Average Rate | Average Balance | Average Rate |
| Noninterest-bearing demand deposits | $ 1,014,205 | 0.00 % | $ 1,061,135 | 0.00 % |
| Interest-bearing deposits: | | | | |
| Interest-bearing demand deposits | 94,316 | 3.66 % | 88,567 | 3.41 % |
| NOW accounts | 422,074 | 0.88 % | 492,177 | 0.69 % |
| Money market accounts | 538,706 | 1.61 % | 553,117 | 1.01 % |
| Savings accounts | 184,982 | 0.15 % | 192,686 | 0.15 % |
| Time deposits | 433,112 | 2.70 % | 366,214 | 1.99 % |
| Total interest-bearing deposits | 1,673,190 | 1.66 % | 1,692,761 | 1.16 % |
| Total average deposits | $ 2,687,395 | 1.03 % | $ 2,753,896 | 0.71 % |

As of June 30, 2023, our estimated uninsured deposits, which are the portion of deposit accounts that exceed the FDIC insurance limit (currently $250,000), were approximately $805.0 million, or 30.2% of total deposits, compared to $975.1 million, or 34.8% of total deposits, as of December 31, 2022. These amounts were estimated based on the same methodologies and assumptions used for regulatory reporting purposes. Also, as of June 30, 2023, our estimated uninsured deposits, excluding collateralized public entity deposits, were approximately $672.6 million, or 25.2% of total deposits, compared to $786.9 million, or 28.1% of total deposits, as of December 31, 2022. As of June 30, 2023, our cash and cash equivalents of $222.1 million combined with our available borrowing capacity of $1.27 billion equaled 185.4% of our estimated uninsured deposits and 221.9% of our estimated uninsured deposits, excluding collateralized public entity deposits.

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) | June 30, 2023 |
|---|---|
| Three months or less | $ 8,930 |
| Over three months through six months | 24,253 |
| Over six months through 12 months | 37,811 |
| Over 12 months | 12,133 |
| Total | $ 83,127 |

***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. As of June 30, 2023, we had $60.0 million in a short-term advances at an interest rate of 5.49% from the FHLB under its existing line of credit. Our FHLB line of credit is collateralized by eligible Red River Bank loans. The $60.0 million advance matured and was repaid in July 2023.

***Equity and Regulatory Capital Requirements***

Total stockholders' equity as of June 30, 2023 was $283.4 million compared to $265.8 million as of December 31, 2022. The $17.6 million, or 6.6%, increase in stockholders' equity was attributable to $18.6 million of net income for the six months ended June 30, 2023, $1.5 million of other comprehensive income related to securities, and $244,000 of stock compensation, partially offset by $1.1 million in cash dividends, the repurchase of 18,689 shares of common stock for $947,000, and a $569,000, net of tax, adjustment to retained earnings related to the adoption of CECL.

On November 4, 2022, our board of directors approved the renewal of the 2022 stock repurchase program that expired on December 31, 2022. The renewed program authorizes us to purchase up to $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. For the three months ended June 30, 2023, the Company repurchased 11,894 shares of its common stock at an aggregate cost of $601,000. Repurchases may be subject to a nondeductible excise tax under the Inflation Reduction Act of 2022 equal to 1.0% of the fair market value of the shares repurchased, subject to certain limitations. While we may complete transactions subject to the new excise tax, we do not expect a material impact to our financial condition or results of operations. For the six months ended June 30, 2023, we repurchased 18,689 shares of our common stock at an aggregate cost of $947,000. As of June 30, 2023, we had $4.1 million available for repurchasing our common stock under this program.

On January 1, 2023, we adopted *ASC 326,* the CECL methodology for estimating credit losses. In the first quarter of 2023, the implementation of CECL resulted in a $720,000 adjustment to the ACL and reserve for unfunded commitments, and a $569,000, net of tax, adjustment to retained earnings.

During the second quarter of 2022, the Company reclassified $166.3 million, net of $17.9 million of unrealized loss, from AFS to HTM. The securities were transferred at fair value, which became the cost basis for the securities HTM. The net unrealized loss of $17.9 million, of which $14.2 million, net of tax, was included in AOCI, is being 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. As of June 30, 2023, the net unamortized, unrealized loss remaining on the transferred securities included in the consolidated balance sheets totaled $15.2 million, of which $12.0 million, net of tax, was included in AOCI.

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, changing to scaled biannual regulatory reporting requirements as opposed to quarterly regulatory reporting requirements, and not subjecting bank holding companies to capital adequacy guidelines on a consolidated basis. Because we had less than $3.0 billion in assets as of each of the June 30$^{th}$ measurement dates starting with the Economic Growth Act's enactment and going through June 30, 2021, we received benefits under the Policy Statement 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 began in the second half of 2022. As of June 30, 2022, we had more than $3.0 billion in assets. Therefore, effective January 1, 2023, we no longer receive any benefits under the Policy Statement and became subject to consolidated capital requirements. As of June 30, 2023, the last applicable measurement date, we had more than $3.0 billion in assets.

Another significant provision of the Economic Growth Act was the directive that federal bank regulatory agencies adopt a threshold for a CBLR framework. As part of the directive under the Economic Growth Act, in September 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%, are considered qualifying community banking organizations eligible to opt into the CBLR framework and replace the applicable Basel III risk-based capital requirements.

As of June 30, 2023, 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***

As of June 30, 2023, we had sufficient liquid assets available and $1.27 billion in available borrowing capacity.

Liquidity involves our ability to raise funds to support asset growth and potential acquisitions, reduce assets to meet deposit withdrawals and other payment obligations, maintain reserve requirements, and otherwise operate on an ongoing basis and manage unexpected events. For the six months ended June 30, 2023, and the year ended December 31, 2022, 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; therefore, these cash flows are monitored regularly.

Liquidity levels 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.

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 deposit accounts 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 decreased $131.6 million, or 4.6%, for the six months ended June 30, 2023, compared to the average deposits for the twelve months ended December 31, 2022. The decrease in average total deposits was primarily a result of the changing interest rate environment impacting customer deposit movement and activity, combined with normal tax payments. Our average total loans increased $109.3 million, or 6.0%, for the six months ended June 30, 2023, compared to average total loans for the twelve months ended December 31, 2022.

As of June 30, 2023, liquid assets were $222.1 million, compared to $278.4 million as of December 31, 2022. The decrease of $56.3 million, or 20.2%, was primarily due to the decrease in deposits during the first half of the year partially offset by $60.0 million of new short-term borrowings from the FHLB. The liquid assets to assets ratio was 7.34% as of June 30, 2023, compared to 9.03% as of December 31, 2022.

Our securities AFS portfolio is an alternative source for meeting liquidity needs and was our second-largest component of assets as of June 30, 2023. Securities generate cash flow through principal repayments, calls, and maturities. As of June 30, 2023, we project receipt of approximately $100.0 million of principal repayments through December 31, 2023. Securities AFS can also generally be sold or used as collateral in borrowings that allow for their conversion to cash. As of June 30, 2023, securities AFS totaled $588.5 million, or 19.4% of assets, compared to $614.4 million, or 19.9% of assets, as of December 31, 2022. However, certain investments within our securities AFS portfolio are also used to secure specific deposit types, such as public entities, which impacts their liquidity. As of June 30, 2023, securities AFS with a carrying value of $189.4 million, or 32.2% of the securities AFS portfolio, were pledged to secure public entity deposits as compared to securities AFS with a carrying value of $156.7 million, or 25.5% of the securities AFS portfolio, similarly pledged as of December 31, 2022. Public entity account balances generally fluctuate throughout the year.

As of June 30, 2023 and December 31, 2022, we also held debt securities classified as HTM. However, significant limitations exist for selling debt securities classified as HTM; therefore, they are excluded from liquidity sources. For additional information on securities HTM, see "- Securities - Securities AFS and Securities HTM."

We also utilize the FHLB as needed as a viable funding source. FHLB advances may be used to meet the Bank's 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. We currently are classified as having "blanket lien collateral status," which means that advances can be executed at any time without further collateral requirements. As of June 30, 2023 and December 31, 2022, our total borrowing availability from the FHLB was $901.6 million and $875.8 million, respectively. In the second quarter of 2023, we recorded $60.0 million in short-term advances from the FHLB. This borrowing was a result of the uncertainty regarding deposit activity and the decision to bolster liquidity, while also testing our borrowing lines. Also, at various times, we may obtain letters of credit from the FHLB as collateral for our public entity deposits. As of June 30, 2023 and December 31, 2022, we held letters of credit in the amount of $10.9 million and $100.9 million, respectively. As of June 30, 2023 and December 31, 2022, our net borrowing capacity from the FHLB was $830.7 million and $774.9 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 June 30, 2023 and December 31, 2022. The rates for the federal funds lines are determined by the applicable commercial bank at the time of borrowing. We also maintain an additional $6.0 million revolving line of credit at one of our correspondent banks. As of June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022.

The Bank can participate in the Federal Reserve's Bank Term Funding Program as an additional liquidity source. If needed, the Bank Term Funding Program gives us the option to use eligible securities as collateral for a loan of up to one year from the Federal Reserve. As of June 30, 2023, our eligible securities totaled approximately $336.7 million.

***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 June 30, 2023, we had $347.0 million in unfunded loan commitments and $14.1 million in commitments associated with outstanding standby letters of credit. As of December 31, 2022, we had $377.6 million in unfunded loan commitments and $14.6 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 June 30, 2023, 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 June 30, 2023, there was a $3.6 million outstanding commitment to this partnership.

In 2021, the Company committed to an investment into a bank technology limited partnership. As of June 30, 2023, there was a $532,000 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 0.57% as of June 30, 2023.

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 simulation model and shock analysis.

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.

| | June 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | % 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 | 4.6 % | (5.0)% | 6.4 % | (2.0)% |
| +200 | 3.2 % | (3.1)% | 4.1 % | (1.2)% |
| +100 | 1.7 % | (1.3)% | 2.2 % | 0.0 % |
| Base | 0.0 % | 0.0 % | 0.0 % | 0.0 % |
| -100 | (1.3)% | 1.1 % | (2.6)% | (1.2)% |
| -200 | (3.8)% | (0.7)% | (6.3)% | (5.4)% |

The results above, as of June 30, 2023 and December 31, 2022, 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. However, due to recent deposit rate pressure, our deposit interest rates have adjusted more quickly than the change in the federal funds rate. This assumption 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 June 30, 2023, 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 June 30, 2023, floating rate loans were 13.3% of loans HFI, and floating rate transaction deposits were 3.9% 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, and realized book value per share 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 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 June 30, 2023, 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)* | June 30, 2023 | March 31, 2023 | June 30, 2022 |
|---|---|---|---|
| Tangible common equity | | | |
| Total stockholders' equity | $ 283,372 | $ 276,640 | $ 253,596 |
| Adjustments: | | | |
| Intangible assets | (1,546) | (1,546) | (1,546) |
| Total tangible common equity (non-GAAP) | $ 281,826 | $ 275,094 | $ 252,050 |
| Realized common equity | | | |
| Total stockholders' equity | $ 283,372 | $ 276,640 | $ 253,596 |
| Adjustments: | | | |
| Accumulated other comprehensive (income) loss | 69,693 | 68,541 | 63,804 |
| Total realized common equity (non-GAAP) | $ 353,065 | $ 345,181 | $ 317,400 |
| Common shares outstanding | 7,175,056 | 7,177,650 | 7,176,365 |
| Book value per share | $ 39.49 | $ 38.54 | $ 35.34 |
| Tangible book value per share (non-GAAP) | $ 39.28 | $ 38.33 | $ 35.12 |
| Realized book value per share (non-GAAP) | $ 49.21 | $ 48.09 | $ 44.23 |
| | | | |
| Tangible assets | | | |
| Total assets | $ 3,027,194 | $ 3,030,582 | $ 3,121,113 |
| Adjustments: | | | |
| Intangible assets | (1,546) | (1,546) | (1,546) |
| Total tangible assets (non-GAAP) | $ 3,025,648 | $ 3,029,036 | $ 3,119,567 |
| Total stockholders' equity to assets | 9.36 % | 9.13 % | 8.13 % |
| Tangible common equity to tangible assets (non-GAAP) | 9.31 % | 9.08 % | 8.08 % |

## CRITICAL ACCOUNTING ESTIMATES

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.

On January 1, 2023, the Company adopted *ASC 326*, which created changes to the allowance for loan losses critical accounting policy that existed as of December 31, 2022. The allowance for loan losses critical accounting policy was replaced with the ACL critical accounting policy. The ACL is a valuation account that is deducted from the amortized cost basis of loans HFI to present management's best estimate of the expected credit losses to be collected over the lifetime of the loans. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. This reasonable and supportable forecast period is currently one year and incorporates Company and peer historical losses. After the forecast period, the Company reverts to an average historical loss rate over a two-year period. The determination of the amount of allowance involves a high degree of judgement and subjectivity.

The ACL is available to absorb losses on loans HFI, and the reserve for unfunded commitments is a liability established to absorb credit losses for the expected life of the contractual term of off-balance sheet exposures as of the date of the determination. The process and methodology employed to establish an ACL consist of two components: (1) a component involving individual loans that do not share similar risk characteristics with other loans and the measurement of expected credit losses for such individual loans and (2) a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Management establishes an allowance for individual loans that do not share similar risk characteristics with other loans based on the amount of expected credit losses calculated on those individual loans and any amounts determined to be uncollectible. Factors considered in measuring the extent of expected credit losses include payment status, collateral value, borrower financial condition, guarantor support, and the probability of collecting scheduled principal and interest payments when due. For loans evaluated on an individual bases that are collateral dependent, the specific allowance is estimated by calculating the difference between the fair value of the underlying collateral less estimated selling costs and the Bank's exposure. If the loan is not collateral dependent, the discounted cash flow methodology is used.

In estimating an allowance for loans that share similar risk characteristics, loans are segmented into pools based on regulatory call report codes that are considered to share similar risk characteristics or areas of risk concentration. Expected credit losses are estimated using the cohort loss rate and remaining life loss rate methodologies. The cohort loss rate methodology tracks a closed pool of loans over their remaining lives to determine their loss behavior. Once the losses have been tracked, the results are averaged together to determine the average remaining life loss rate to be applied to the current loans in the cohort and are adjusted for reasonable and supportable forecast periods, which is not to exceed a two-year period. Additionally, a lookback period and delay period are established for each pool, which affects the average remaining life loss rate. The lookback period defines how many quarterly cohort periods will be averaged together to form the average remaining life loss rate and varies by pool in order to capture the performance of cohorts under a variety of different conditions, both internal and external. The delay period defines the most recent cohort that will be used in the historical average and varies by pool due to the differing terms and remaining lives that may exist in different pools. The remaining life loss rate methodology takes the calculated loss rate and applies that rate to a pool of loans on a periodic basis based on the remaining life expectation of that pool and further adjusts for current conditions and for reasonable and supportable forecast periods.

Additionally, for loans that share similar risk characteristics, the ACL considers factors for each loan pool to adjust for differences between the historical period and expected conditions over the remaining lives of the loans in the portfolio related to:

- Lending policies and procedures;
- International, national, regional, and local economic business conditions;
- The nature of the loan portfolio, including the volume of the portfolio and terms of the loans;
- The experience, depth, and ability of our lending management;
- The volume and severity of past due loans and other similar conditions;
- The quality of the loan review and process;
- The value of underlying collateral for collateral dependent loans;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the existing portfolio.

These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in the historical loss experience for these expectations.

Management considers the appropriateness of these critical assumptions as part of its allowance review and believes the ACL level is appropriate based on information available through the financial statement date.

There were no other 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, 2022. For details on the significant accounting principles and practices we follow, see "Part I - Item 1.

Financial Statements - Note 1. Summary of Significant Accounting Policies” in this Report and “Part II - Item 8. Financial Statements and Supplementary Data - Note 1. Significant Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2022

**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, 2022, 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 June 30, 2023, 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 second quarter of 2023 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, 2022. Due to recent bank failures in the financial services industry and Progress Software Corporation's MOVEit Transfer managed file transfer software ("MOVEit Transfer") vulnerability, several of the risk factors presented in our Annual Report on Form 10-K for the year ended December 31, 2022, have heightened risk or have been updated and can be seen below.

***A lack of liquidity could impair our ability to fund operations.***

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. As can be seen from recent events regarding the operations and failures of other banks in the U.S., an inability to mitigate deposit withdrawals and to raise funds through new deposits, borrowings, the sale of investment securities at or above the value of such securities on our books, and other sources could have a material adverse effect on liquidity. Our most important source of funds is deposits. Historically, our deposits have provided a stable source of funds. However, deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff or when customers have negative views related to disruption in the financial markets or the prospects for the financial services industry as a whole. If our customers move money out of bank deposits, our liquidity position could be impacted, and we would lose a relatively low-cost source of funds, increasing our funding costs, and reducing our net interest income and net income. Even though a majority of our certificates of deposit renew upon maturity with what we believe are competitive rates, some of our more rate-sensitive customers may move those and other deposit funds to higher-yielding alternatives.

Our other primary sources of liquidity consist of cash flows from operations, maturities and sales of investment securities, and proceeds from the issuance and sale of our equity to investors. As a secondary source of liquidity, we have the ability to borrow overnight funds from other financial institutions with whom we have a correspondent relationship. We also have the ability to borrow from the FHLB and the Federal Reserve's Bank Term Funding Program. Historically, we have not utilized brokered or internet deposits to meet liquidity needs.

Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us, could be impaired by factors that affect us, the financial services industry, or the economy in general. These factors may include disruptions in the financial markets or negative expectations about the industry's prospects. Our access to funding sources could also be affected by regulatory actions against us or by a decrease in the level of our business activity due to a downturn in the Louisiana economy or in economic conditions generally. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as meeting deposit withdrawal demands or repaying our borrowings.

***We may be adversely affected by the soundness of other financial institutions.***

Our ability to engage in routine funding transactions could be adversely affected by the actions and soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties and exposure through transactions with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, and other financial intermediaries. In addition, we participate in loans originated by other institutions, and we participate in syndicated transactions (including shared national credits) in which other lenders serve as the lead bank. Further, recent high-profile bank failures have resulted in some degree of public awareness and caused widespread questions about potential concerns in the financial institutions industry. Defaults by, declines in the financial condition of, or even rumors or questions about one or more financial institutions, financial service companies, or the financial services industry generally, may lead to a decline in market-wide liquidity, asset quality problems, or other problems and could lead to losses or defaults by us or by other institutions.

***We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance.***

Deposits are insured by the FDIC up to legal limits and subject to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by the level of its assessment base and its risk classification under an FDIC risk-based assessment system. The FDIC has the power to change deposit insurance assessment rates, the manner deposit insurance is calculated, and also to charge special assessments to FDIC-insured institutions. Following the recent bank failures, banking regulators announced that the FDIC will ensure that all depositors in the failed banks will receive full coverage of all of their deposits, at no cost to taxpayers. The FDIC has issued a proposed rule, which would impose special assessments on certain banks. As currently written, we would not be impacted by this special assessment; however, this rule is not final. Any future additional assessments, increases, or required prepayments in FDIC insurance premiums could adversely impact our operating expenses and earnings.

***We are subject to laws regarding the privacy, information security, and protection of personal information. Unauthorized access, cyber-crime, and other threats to data security may require significant resources, harm our reputation, and otherwise cause harm to our business.***

In the ordinary course of our business, we necessarily collect, use, and retain, on various information systems that we maintain and in those maintained by third party providers and, in some cases, vendors retained by those third parties, personal and financial information concerning individuals and businesses with which we have a banking relationship. We also maintain important internal company data such as personally identifiable information about our employees and information about our operations. Threats to data security such as unauthorized access and cyber-attacks emerge and change rapidly. These threats may increase our costs for protection or remediation. They may also result in competing time constraints between applicable privacy and other requirements and our ability to secure data in accordance with customer expectations and evolving laws and regulations governing the privacy and protection of personal information.

It is difficult or impossible to defend against every risk posed by changing technologies and cyber-crime. Cyber incidents could include actual or attempted unauthorized access, tampering, malware insertion, ransomware attacks, or other system integrity events. Increasing sophistication of cyber-attacks makes it increasingly difficult to prevent a security breach. For example, we have received notice that certain of our customer data was involved in the global incident involving the MOVEit Transfer vulnerability. Our internal network systems were not impacted by the MOVEit Transfer vulnerability. However, several of our third party financial institution vendors who utilized MOVIEit Transfer in their service offerings to us have notified us that their systems may have been compromised. Based on the investigation to date, we have been notified that certain of our customers have had personal information exfiltrated through the cyber-attack. For additional information on the MOVEit Transfer vulnerability, see "- Item 5. Other Information." Controls employed by our information technology department, our other employees, and our vendors could prove inadequate and in the case of the MOVEit Transfer vulnerability, did prove to be inadequate for several of our vendors. We, or any of our vendors or third-party providers, could also experience a breach due to circumstances such as intentional or negligent conduct on the part of employees or other internal and external sources, software bugs, or other technical malfunctions. Any of these threats may cause our customer accounts and financial systems to become vulnerable to takeover schemes or cyber-fraud. If personal, confidential, or proprietary information of customers, employees, or others were to be mishandled or misused by us or third parties with access to that information, we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. A breach of our security that results in unauthorized access to our data could expose us to disruption or challenges relating to our daily operations as well as to data loss, litigation, fines, penalties, damages, inquiries, examinations, investigations, significant increases in compliance costs, and reputational damage, which could cause us to lose customers or potential customers.

**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] |
|---|---|---|---|---|
| April 1 - April 30, 2023 | — | $ — | — | $ 4,654 |
| May 1 - May 31, 2023 | 5,393 | $ 47.76 | 5,393 | $ 4,396 |
| June 1 - June 30, 2023 | 6,501 | $ 52.76 | 6,501 | $ 4,053 |
| Total | 11,894 | $ 50.49 | 11,894 | $ 4,053 |

(1) On November 4, 2022, we announced that our board of directors approved the renewal of the 2022 stock repurchase program that expired on December 31, 2022. The renewed repurchase program authorizes us to purchase up to $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**

We have received notice that certain of our customer data was involved in the global incident involving Progress Software Corporation in its MOVEit Transfer managed file transfer software. Our internal network systems were not impacted by the MOVEit Transfer vulnerability. However, several of our third party financial institution vendors who utilized MOVEit Transfer in their service offerings to us have notified us that their systems may have been compromised. Based on the investigation to date, we have been notified that certain of our customers have had personal information exfiltrated through the cyberattack. The vendors have confirmed that they implemented the recommended security patches released by Progress Software Corporation for MOVEit Transfer. We have worked with these vendors to determine the impacted customers and the extent of information exposed, and we are in process of notifying affected customers appropriately. The incident did not have an impact on our ongoing operations. We do carry cyber insurance coverage; however, we expect the majority of the costs related to this incident to be covered by the related third parties. For additional information, see "- Item 1A. Risk Factors."

**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 | First Amendment to the Endorsement Method Split-Dollar Agreement between Red River Bank and Tammi R. Salazar dated October 1, 2004*+ |
| 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 June 30, 2023, 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. |

## 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: August 9, 2023 | By: | /s/ R. Blake Chatelain |
| | | R. Blake Chatelain<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: August 9, 2023 | By: | /s/ Isabel V. Carriere |
| | | Isabel V. Carriere, CPA, CGMA<br>Executive Vice President, Chief Financial Officer, and Assistant Corporate Secretary<br>(Principal Financial Officer and Principal Accounting Officer) |

**FIRST AMENDMENT**
**TO THE**
**ENDORSEMENT METHOD SPLIT-DOLLAR AGREEMENT**

THIS FIRST AMENDMENT is entered into this 23rd day of June 2023, effective as of June 1, 2023, by and between Red River Bank, a Louisiana banking corporation (the "Bank"), and Tammi Salazar (the "Insured").

The Bank and the Insured executed the Endorsement Method Split-Dollar Agreement effective on October 1, 2004 (the "Agreement"). The undersigned desire to amend the Agreement for the purpose of endorsing another life insurance policy to the Agreement.

NOW, THEREFORE, the parties do hereby agree, effective as of June 1, 2023,

To add a second life insurance policy to Section 1. of the Agreement as follows:

"(b) Policy number: **77256716**
Insurer: **New York Life Insurance Company**
Insured: **Tammi Salazar**
Owner of Policy: **Bank**
Relationship of Bank to Insured: **Insured is an employee and officer of Bank**"

Except as specifically amended hereby, the Agreement shall remain in full force and effect as prior to this FIRST AMENDMENT.

**IN WITNESS OF THE ABOVE**, the Bank and the Insured have executed this FIRST AMENDMENT on the date first set forth above.

Insured:

/s/ Tammi Salazar
Tammi Salazar

Red River Bank

By /s/ Andrew B. Cutrer
Title Senior Vice President and Director of Human Resources

**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 the registrant’s board of directors (or persons performing the equivalent functions):

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

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

Date: August 9, 2023

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 the registrant’s board of directors (or persons performing the equivalent functions):

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

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

Date: August 9, 2023

By: /s/ Isabel V. Carriere
Isabel V. Carriere, CPA, CGMA
Executive Vice President, Chief Financial Officer, and Assistant Corporate Secretary
(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 June 30, 2023, 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: August 9, 2023 | 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 June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Isabel V. Carriere, Executive Vice President, Chief Financial Officer, and Assistant Corporate Secretary 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: August 9, 2023 | By: | /s/ Isabel V. Carriere |
| | | Isabel V. Carriere, CPA, CGMA |
| | | Executive Vice President, Chief Financial Officer, and Assistant Corporate Secretary |
| | | (Principal Financial Officer and Principal Accounting Officer) |