Risk Factors Comparison 2024-03-15 to 2023-03-16 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

An investment in shares of our common stock involves substantial risks. You should carefully consider, among other matters, the factors set forth below as well as the other information included in this Annual Report on Form 10- K. If any of the risks described herein develop into actual events, our business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected, the market price of our common stock could decline and you may lose all or part of your investment. Risks Related to Our Lending Adverse events in Louisiana and Texas, where our business is concentrated, along with our new Mideast markets in Kentucky and West Virginia could adversely affect our results of operations and future growth. Our business, the location of our branches and the real estate used as collateral on our real estate loans are primarily concentrated in Louisiana and North Central Texas. We anticipate continued future loan growth in our new Mideast markets located in Kentucky and West Virginia. At December 31, ~~2022~~ **2023**, approximately ~~80~~ **78**. ~~4~~ **8** % of the secured loans in our loan portfolio were secured by real estate and other collateral located in our market area. As a result, we are exposed to risks associated with a lack of geographic diversification. The occurrence of an economic downturn in Louisiana and North Central Texas, or adverse changes in laws or regulations in Louisiana and Texas could impact the credit quality of our assets, the businesses of our customers and our ability to expand our business. Our success significantly depends upon the growth in population, income levels, deposits and housing in our market area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may be negatively affected. Material fluctuations in the price of oil and gas could adversely affect our business. At December 31, ~~2022~~ **2023**, approximately $ ~~119~~ **77**. ~~9~~ **3** million, or ~~4~~ **2**. 8 % of our total loan portfolio was comprised of loans to businesses engaged in support or service activities for oil and gas operations. At December 31, ~~2022~~ **2023** we had $ ~~57~~ **55**. ~~5~~ **0** million in unfunded loan commitments related to these businesses. In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio. In addition, substantially all of our loans are to individuals and businesses in Louisiana and North Central Texas. Our business customers may not have customer bases that are as diverse as businesses serving regional or national markets. Consequently, any decline in the economy of our market area could have an adverse impact on our revenues and financial condition. In particular, we may experience increased loan delinquencies, which could result in a higher provision for loan losses and increased charge- offs. Any sustained period of increased non- payment, delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, results of operations and financial condition. We have a significant number of loans secured by real estate, and a downturn in the local or national real estate market could negatively impact our profitability. At December 31, ~~2022~~ **2023**, approximately ~~68~~ **74**. ~~7~~ **0** % of our total loan portfolio was secured by real estate, most of which is located in Louisiana and North Central Texas. Future declines in the real estate values in our Louisiana and North Central Texas markets could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower' s obligations to us. First Guaranty may participate in or purchase real estate loans located outside of our traditional markets which may be affected by national or other localized market trends. This could require increasing our allowance for credit losses to address the decrease in the value of the real estate securing our loans which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Our loan portfolio consists of a high percentage of loans secured by non- farm non- residential real estate. These loans carry a greater credit risk than loans secured by one- to four- family properties. Our loan portfolio includes non- farm non- residential real estate loans, primarily loans secured by commercial real estate such as office buildings, hotels and retail facilities. At December 31, ~~2022~~ **2023**, our non- farm non- residential loans totaled $ ~~992~~ **1. 0 billion, or 37**. 9 ~~million, or 39. 3~~ % of our total loan portfolio **. Commercial real estate values have decreased in recent quarters in response to higher interest rates and a number of other factors; in response, bank regulators have been increasing scrutiny on banks' exposure to commercial real estate**. Our non- farm non- residential real estate loans expose us to greater risk of nonpayment and loss than one- to four- family family residential mortgage loans because repayment of the loans often depends on the successful operation and income stream of the borrowers. If we foreclose on these loans, our holding period for the collateral typically is longer than for a one- to four- family residential property because there are fewer potential purchasers of the collateral. In addition, non- farm non- residential real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four- family residential loans. Accordingly, charge- offs on non- farm non- residential loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. An unexpected adverse development on one or more of these types of loans can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four- family residential mortgage loan.- 22- A portion of our loan portfolio is comprised of commercial and industrial loans secured by accounts receivables, inventory, equipment or other commercial collateral, the deterioration in value of which could increase the potential for future losses. At December 31, ~~2022~~ **2023**, $ ~~385~~ **335**. ~~3~~ **0** million, or ~~15~~ **12**. ~~3~~ **1** % of our total loans, was comprised of commercial and industrial loans to businesses collateralized by general business assets including, among other things, accounts receivable, inventory and equipment and generally backed by a personal guaranty of the borrower or principal. These commercial and industrial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial and industrial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes movable property such as equipment and inventory, which may decline in value more rapidly than we anticipate, or may be difficult to market and sell, exposing us to increased credit risk. Significant adverse changes in the economy or local market conditions in which our commercial lending customers operate could cause rapid declines in loan collectability and the values associated with general business assets, resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations. A portion of our loan portfolio is comprised of commercial leases secured by equipment or other commercial collateral, the deterioration in value of which could increase the potential for future losses. At December 31, ~~2022~~ **2023** , $ ~~317~~ **285** . ~~6~~ **4** million, or ~~12~~ **10** . ~~6~~ **4** % of our total loans, was comprised of commercial leases. These commercial leases are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial leases is subject to the ongoing business operations of the borrower. The collateral securing leases includes equipment and other assets which may decline in value more rapidly than we anticipate, or may be difficult to market and sell, exposing us to increased credit risk. Significant adverse changes in the economy or local market conditions in which our commercial leasing customers operate could cause rapid declines in loan collectability and the values associated with lease assets, resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations. A portion of our loan portfolio consists of syndicated loans, including syndicated loans known as shared national credits, secured by assets located generally outside of our market area. Syndicated loans may have a higher risk of loss than other loans we originate because we are not the lead lender and we have limited control over credit monitoring. Over the last ~~15~~ **16** years, we have pursued a focused program to participate in select syndicated loans (loans made by a group of lenders, including us, who share or participate in a specific loan) with a larger regional financial institution as the lead lender. Syndicated loans are typically made to large businesses (which are referred to as shared national credits) or middle market companies (which do not meet the regulatory definition of shared national credits), both of which are secured by business assets or equipment, and commercial real estate located generally outside of our market area. The syndicate group for both types of loans usually consists of two to three other financial institutions. First Guaranty' s commitment typically ranges between $ 5. 0 million to $ 15. 0 million. At December 31, ~~2022~~ **2023** , we had $ ~~88~~ **76** . ~~3~~ **7** million in syndicated loans, or ~~3~~ **2** . ~~5~~ **8** % of our total loan portfolio. At December 31, ~~2022~~ **2023** , we had $ ~~61~~ **52** . ~~7~~ **8** million in syndicated loans that were not shared national credits. On December 21, 2017, the Federal Reserve, FDIC, and Office of Comptroller of the Currency issued a change to the definition of a Shared National Credit. Effective January 1, 2018, the aggregate loan commitment threshold for inclusion in the Shared National Credit (SNC) program increased from $ 20 million to $ 100 million. First Guaranty' s syndicated loans that meet the revised definition at December 31, ~~2022~~ **2023** were $ ~~26~~ **23** . ~~6~~ **9** million. Syndicated loans may have a higher risk of loss than other loans we originate because we rely on the lead lender to monitor the performance of the loan. Moreover, our decision regarding the classification of a syndicated loan and loan loss provisions associated with a syndicated loan are made in part based upon information provided by the lead lender. A lead lender also may not monitor a syndicated loan in the same manner as we would for other loans that we originate. If our underwriting of these syndicated loans is not sufficient, our non- performing loans may increase and our earnings may decrease. If our nonperforming assets increase, our earnings will be adversely affected. At December 31, ~~2022~~ **2023** , our non- performing assets, which consist of non- performing loans and other real estate owned, were $ ~~14~~ **41** . ~~8~~ **7** million, or ~~0~~ **1** . ~~47~~ **17** % of total assets. Our non- performing assets adversely affect our net income in various ways: • we record interest income only on the cash basis or cost- recovery method for nonaccrual loans and we do not record interest income for other real estate owned; • we must provide for probable loan losses through a current period charge to the provision for loan losses; • noninterest expense increases when we write down the value of properties in our other real estate owned portfolio to reflect changing market values; • there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees; and • the resolution of non- performing assets requires the active involvement of management, which can distract them from more profitable activity. If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our non- performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.- 23- If the allowance for credit losses is not sufficient to cover actual loan losses, earnings could decrease. Loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. We may experience significant credit losses, which could have a material adverse effect on our operating results. Various assumptions and judgments about the collectability of the loan portfolio are made, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of many loans. In determining the amount of the allowance for loan and lease losses, management reviews the loans and the loss and delinquency experience and evaluates economic conditions. At December 31, ~~2022~~ **2023** , our allowance for credit losses as a percentage of total loans, net of unearned income, was ~~0~~ **1** . ~~93~~ **13** % and as a percentage of total non- performing loans was ~~159~~ **76** . ~~90~~ **41** %. The determination of the appropriate level of allowance is subject to judgment and requires us to make significant estimates of current credit risks and future trends, all of which are subject to material changes. If assumptions prove to be incorrect, the allowance for loan and lease losses may not cover inherent losses in the loan portfolio at the date of the financial statements. Significant additions to the allowance would materially decrease net income. Non- performing loans may increase and non- performing or delinquent loans may adversely affect future performance. Any future credit deterioration ~~, including as a result of COVID- 19~~ , could require us to increase our allowance for credit losses in the future. In addition, federal and state regulators periodically review the allowance for loan and lease losses and may require an increase in the allowance for loan and lease losses or recognize further loan charge- offs. Any significant increase in our allowance for credit losses or loan charge- offs as required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition. Emphasis on the origination of short- term loans could expose us to increased lending risks. At December 31, ~~2022~~ **2023** , $ 1. ~~6~~ **5** billion, or ~~64~~ **54** . ~~0~~ **5** % of our total loans consisted of short- term loans, defined as loans whose payments are typically based on ten to 20- year amortization schedules but have maturities typically ranging from one to five years. This results in our borrowers having significantly higher final payments due at maturity, known as a" balloon payment." In the event our borrowers are unable to make their balloon payments when they are due, we may incur significant losses in our loan portfolio. Moreover, while the shorter maturities of our loan portfolio help us to manage our interest rate risk, they also increase the reinvestment risk associated with new loan originations. During an economic slow- down, we might incur significant losses as our loan portfolio matures. The level of our commercial real estate loan portfolio subjects us to additional regulatory scrutiny. The FDIC and the other federal bank regulatory agencies have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors, (i) total reported loans for construction, land acquisition and development, and other land represent 100 % or more of total capital, or (ii) total reported loans secured by multifamily and non- owner occupied, non- farm, non- residential properties, loans for construction, land acquisition and development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300 % or more of total capital. Based on these factors, we have a concentration in loans of the type described in (ii), above, or ~~399~~ **369** % of our total capital at December 31, ~~2022~~ **2023** . The purpose of the guidance is to assist banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. Our bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us or that may result in a curtailment of our commercial real estate and multifamily lending and / or the requirement that we maintain higher levels of regulatory capital, either of which would adversely affect our loan originations and profitability. We are subject to regulatory enforcement risk, reputation risk and litigation risk regarding our participation in the PPP and Main Street Lending Program and we are subject to the risk that the SBA may not fund some or all PPP loan guarantees. The CARES Act included the PPP as a loan program administered through the SBA and the Main Street Lending Program (" MSLP") administered through the U. S. Treasury Department. Under the PPP, small businesses and other entities and individuals applied for loans from existing SBA lenders and other approved regulated lenders that enrolled in the program, subject to detailed qualifications and eligibility criteria. Because of the short timeframe between the passing of the CARES Act and implementation of the PPP, some of the rules and guidance relating to PPP were issued after lenders began processing PPP applications. Also, there was and continues to be uncertainty in the laws, rules and guidance relating to the PPP. Since the opening of the PPP, several banks have been subject to litigation regarding the procedures used in processing PPP applications, and several banks have been subject to litigation regarding the payment of fees to agents that assisted borrowers in obtaining PPP loans. In addition, some banks and borrowers have received negative media attention associated with PPP loans. Although we believe that we have administered the PPP in accordance with all applicable laws, regulations and guidance, we may be exposed to litigation risk and negative media attention related to our participation in the PPP. If any such litigation is not resolved in in our favor, it may result in significant financial liability to us or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP- related litigation or media attention could have a material adverse impact on our business, financial condition, and results of operations.- 24- The PPP has also attracted interest from federal and state enforcement authorities, oversight agencies, regulators, and U. S. Congressional committees. State Attorneys General and other federal and state agencies may assert that they are not subject to the provisions of the CARES Act and the PPP regulations entitling us to rely on borrower certifications, and take more aggressive action against us for alleged violations of the provisions governing the PPP. Federal and state regulators can impose or request that we consent to substantial sanctions, restrictions and requirements if they determine there are violations of laws, rules or regulations or weaknesses or failures with respect to general standards of safety and soundness, which could adversely affect our business, reputation, results of operation and financial condition, and thereby adversely affect your investment. We also have credit risk on PPP loans if the SBA determines that there is a deficiency in the manner in which we originated, funded or serviced loans, including any issue with the eligibility of a borrower to receive a PPP loan. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which we originated, funded or serviced a PPP loan, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty or, if the SBA has already paid under the guaranty, seek recovery of any loss related to the deficiency from us. We were also a participating lender in the Federal Reserve' s MSLP. The Federal Reserve established the MSLP to support lending to small and midsized for- profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID- 19 pandemic. The program was terminated on January 8, 2021. We were able to transfer / sell 95 % of the originated principal loan balances to a special purpose vehicle created by the Federal Reserve; however, we retained 5 % of the originated principal balance, including the associated credit risk on such amounts. In addition, we are subject to potential litigation risk with respect to the entire loans, including the transferred / sold portions of the loan balances. The foreclosure process may adversely impact our recoveries on non- performing loans. The judicial foreclosure process is protracted, which delays our ability to resolve non- performing loans through the sale of the underlying collateral. The longer timelines were the result of the economic crisis, additional consumer protection initiatives related to the foreclosure process, increased documentary requirements and judicial scrutiny, and, both voluntary and mandatory programs under which lenders may consider loan modifications or other alternatives to foreclosure. These reasons, historical issues at the largest mortgage loan servicers, and the legal and regulatory responses have impacted the foreclosure process and completion time of foreclosures for residential mortgage lenders. This may result in a material adverse effect on collateral values and our ability to minimize our losses. We are subject to environmental liability risk associated with lending activities. A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations. Risks Related to Interest Rates Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations. The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and other interest- earning assets, and the interest we pay on interest- bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. The Federal Reserve increased interest rates significantly during 2022 **and continued to increase interest rates in 2023** . Both the pace of these increases and the resulting interest rate levels are unprecedented in recent times. This new interest rate environment could have a number of effects on our business, which may include reduced loan demand, increased delinquencies and increased loan paydowns and payoffs. Conversely, a decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest- earning assets, loan origination volume, loan portfolio and our overall results. Although our asset- liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. When interest- bearing liabilities mature or reprice more quickly, or to a greater degree than interest- earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest- earning assets mature or reprice more quickly, or to a greater degree than interest- bearing liabilities, falling interest rates could reduce net interest income. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest- earning assets, loan origination volume and our overall results. Although our asset- liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.- 25- Risks Related to Liquidity A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition and results of 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. An inability to raise funds through deposits, borrowings, the sale of our investment securities, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk / return tradeoff. Recent increases in interest rates have resulted in increased competition for deposits. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low- cost source of funds, increasing our funding costs and reducing our net interest income and net income. As stated above, public funds are a sizeable portion of our deposits. Loss of a large public funds depositor at the end of a contract would negatively impact liquidity. Other primary sources of funds consist of cash flows from operations and maturities and sales of investment securities. Additional liquidity is provided by the ability to borrow from the FHLB or the Federal Reserve. We also may borrow funds from third- party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in our target markets or by one or more adverse regulatory actions against us. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations. Public funds deposits are an important source of funds for us and a reduced level of those deposits may hurt our profits. Public funds deposits are a significant source of funds for our lending and investment activities. At December 31, ~~2022~~ **2023** , $ 1. ~~1~~ **2** billion, or ~~40~~ **39** . ~~9~~ **7** % of our total deposits, consisted of public funds deposits from local government entities such as school districts, hospital districts, sheriff departments and other municipalities, which are collateralized by letters of credit from the Federal Home Loan Bank (" FHLB"), investment securities, and reciprocal deposit insurance programs. Given our dependence on high- average balance public funds deposits as a source of funds, our inability to retain such funds could significantly and adversely affect our liquidity. Further, our public funds deposits are primarily demand deposit accounts or short- term time deposits and are therefore more sensitive to interest rate risks. If we are forced to pay higher rates on our public funds accounts to retain those funds, or if we are unable to retain such funds and we are forced to resort to other sources of funds for our lending and investment activities, such as borrowings from the FHLB, the interest expense associated with these other funding sources may be higher than the rates we are currently paying on our public funds deposits, which would adversely affect our net income. Risks Related to Business Strategy Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects. ~~On January 6, 2023, we entered into a definitive agreement with Lone Star Bank, a Texas state- chartered bank with its main office in Houston, Texas, pursuant to which we intend to acquire all of the issued and outstanding shares of Lone Star Bank common stock in exchange solely for shares of First Guaranty common stock through the merger of Lone Star Bank with and into First Guaranty Bank, with First Guaranty Bank surviving the merger. First Guaranty will incur significant, non- recurring merger- related transaction and integration costs in connection with the merger. In addition to the transaction and integration costs, the merger with Lone Star Bank will require our management to devote a significant amount of time and resources that could otherwise be directed to the business and operations of First Guaranty and First Guaranty Bank, which could adversely affect our business, financial condition and results of operations. Consummation of the merger is expected to result in dilution of our current shareholders' investments. The issuance of First Guaranty common stock in connection with the merger will dilute the ownership interests of current First Guaranty shareholders and will dilute the per share book value of First Guaranty common stock. Further, the success of the merger will depend on, among other things, our ability to successfully combine the businesses of First Guaranty Bank and Lone Star Bank. If we are unable to successfully integrate Lone Star Bank into First Guaranty Bank' s existing operations, the anticipated benefits of the merger may not be realized fully, or at all, or may take longer to realize than anticipated. The merger may not be consummated unless certain conditions are met; satisfaction of many of these conditions is beyond First Guaranty' s and Lone Star Bank' s control. If these conditions are not satisfied or waived, the merger will not be completed or may be delayed and each of First Guaranty and Lone Star Bank may lose some or all of the intended benefits of the merger. In addition, either First Guaranty or Lone Star Bank may terminate the merger agreement under certain circumstances. - 26-~~ We intend to continue pursuing a strategy that includes acquisitions. An acquisition strategy involves significant risks, including the following: • finding suitable candidates for acquisition; • attracting funding to support additional growth within acceptable risk tolerances; • maintaining asset quality; • retaining customers and key personnel; • obtaining necessary regulatory approvals; • conducting adequate due diligence and managing known and unknown risks and uncertainties; • integrating acquired businesses; and • maintaining adequate regulatory capital. **- 26-** The market for acquisition targets is highly competitive, which may adversely affect our ability to find acquisition candidates that fit our strategy and standards. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized. Acquisitions will be subject to regulatory approvals, and we may be unable to obtain such approvals. Acquisitions of financial institutions also involve operational risks and uncertainties, and acquired companies may have unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers and other issues that could negatively affect our business. We may not be able to complete future acquisitions or, if completed, we may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities that we acquire and to realize our attempts to eliminate redundancies. The integration process may also require significant time and attention from our management that they would otherwise be able to direct toward servicing existing business and developing new business. Acquisitions typically involve the payment of a premium over book and market trading values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisition of a financial institution or service company, and the carrying amount of any goodwill that we acquire may be subject to impairment in future periods. Failure to successfully integrate the entities we acquire into our existing operations may increase our operating costs significantly and adversely affect our business, financial condition and results of operations. We may not be able to successfully maintain and manage our growth. Continued growth depends, in part, upon the ability to expand market presence, to successfully attract core deposits, and to identify attractive commercial lending opportunities. Management may not be able to successfully manage increased levels of assets and liabilities. We may be required to make additional investments in equipment and personnel to manage higher asset levels and loan balances, which may adversely impact our efficiency, earnings and shareholder returns. In addition, franchise growth may increase through acquisitions and de novo branching. The ability to successfully integrate such acquisitions into our consolidated operations will have a direct impact on our financial condition and results of operations. Risks Related to Earnings We depend primarily on net interest income for our earnings rather than noninterest income. Net interest income is the most significant component of our operating income. For the year ended December 31, ~~2022~~ **2023** , our net interest income totaled $ ~~100~~ **84** . ~~0~~ **7** million in comparison to our total noninterest income of $ ~~11~~ **10** . ~~0~~ **6** million earned during the same year. We do not rely on nontraditional sources of fee income utilized by some community banks, such as fees from sales of insurance, securities or investment advisory products or services. The amount of our net interest income is influenced by the overall interest rate environment, competition, and the amount of interest- earning assets relative to the amount of interest- bearing liabilities. In the event that one or more of these factors were to result in a decrease in our net interest income, we have limited sources of noninterest income to offset any decrease in our net interest income. We obtain a significant portion of our noninterest revenue through service charges on core deposit accounts, and regulations impacting service charges could reduce our fee income. A significant portion of our noninterest revenue is derived from service charge income. During the year ended December 31, ~~2022~~ **2023** , service charges, commissions and fees represented $ 3. **4 million, or 32.** 2 ~~million, or 28. 7~~ % of our total noninterest income excluding losses on securities. During the year ended December 31, ~~2021~~ **2022** , service charges, commissions and fees represented $ **3.** 2 **million, or 28** . 7 ~~million, or 26. 9~~ % of our total noninterest income excluding gains on securities. The largest component of this service charge income is overdraft- related fees. Management believes that changes in banking regulations pertaining to rules on certain overdraft payments on consumer accounts have and will continue to have an adverse impact on our service charge income. Additionally, changes in customer behavior, as well as increased competition from other financial institutions, may result in declines in deposit accounts or in overdraft frequency resulting in a decline in service charge income. A reduction in deposit account fee income could have a material adverse effect on our earnings. ~~- 27-~~ Risks Related to Competition We may be unable to successfully compete with others for business. The area in which we operate is considered attractive from an economic and demographic viewpoint, and is a highly competitive banking market. We compete for loans and deposits with numerous regional and national banks and other community banking institutions, as well as other kinds of financial institutions and enterprises, such as securities firms, insurance companies, savings associations, credit unions, mortgage brokers and private lenders. Many competitors have substantially greater resources than we do. The differences in resources may make it harder for us to compete profitably, reduce the rates that we can earn on loans and investments, increase the rates we must offer on deposits and other funds, and adversely affect our overall financial condition and earnings. **- 27-** Risks Related to Operations We face risks related to our operational, technological and organizational infrastructure. Our ability to grow and compete is dependent on our ability to build or acquire the necessary operational and technological infrastructure and to manage the cost of that infrastructure as we expand. Similar to other large corporations, operational risk can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or outside persons and exposure to external events. As discussed below, we are dependent on our operational infrastructure to help manage these risks. In addition, we are heavily dependent on the strength and capability of our technology systems which we use both to interface with our customers and to manage our internal financial and other systems. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones depends on the functionality of our technology systems. Additionally, our ability to run our business in compliance with applicable laws and regulations is dependent on these infrastructures. We continuously monitor our operational and technological capabilities and make modifications and improvements when we believe it will be cost effective to do so. In some instances, we may build and maintain these capabilities ourselves. We also outsource some of these functions to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. We also face risk from the integration of new infrastructure platforms and / or new third party providers of such platforms into its existing businesses. A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the unauthorized disclosure of confidential information, damage our reputation and cause financial losses. Our businesses are dependent on their ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets. These transactions, as well as the information technology services we provide to clients, often must adhere to client- specific guidelines, as well as legal and regulatory standards. Due to the breadth of our client base and following the Premier and Union mergers, our geographical reach, developing and maintaining our operational systems and infrastructure is challenging, particularly as a result of rapidly evolving legal and regulatory requirements and technological shifts. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, cyber- attack or other unforeseen catastrophic events, which may adversely affect our ability to process these transactions or provide services. In addition, our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take protective measures to maintain the confidentiality, integrity and availability of information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks may be vulnerable to unauthorized access such as a business email compromise, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber- attacks and other events that could have an adverse security impact. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third parties such as foreign governments, organized crime and other hackers, and outsourced or infrastructure- support providers and application developers, or may originate internally from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified. Such incidents may result in required notifications to customers and or regulators resulting in reduced reputation and liability to legal proceedings.- 28- Risks Related to Accounting Changes in accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations. Accounting policies are essential to understanding our financial condition and results of operations. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain, and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses. From time to time, the Financial Accounting Standards Board (" FASB") and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially affect how we report our financial condition and results of operations. We could also be required to apply a new or revised standard retroactively, which may result in our restating our prior period financial statements. In June 2016, the FASB issued a standard, Financial Instruments – Credit Losses, that will significantly change how banks measure and recognize credit impairment for many financial assets from an incurred loss methodology to a current expected loss model. The current expected credit loss model will require banks to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. First Guaranty adopted this standard effective January 1, 2023. We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease. We are required to test goodwill and core deposit intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including macroeconomic conditions, industry and market considerations, cost factors, and financial performance. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment which would adversely affect our financial performance. Failure to maintain effective internal controls over financial reporting in the future could impair our ability to accurately and timely report our financial results or prevent fraud. Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. As a bank holding company, we are subject to regulation that focuses on effective internal controls and procedures. Such controls and procedures are modified, supplemented, and changed from time- to- time as necessary in relation to our growth and in reaction to external events and developments. Any failure to maintain, in the future, an effective internal control environment could impact our ability to report our financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and adversely impact our business. We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate. While we attempt to invest a significant percentage of our assets in loans (our loan to deposit ratio was **91** ~~92. 5 % at December 31, 2022), we invest a portion of our total assets (14~~ . 3 % at December 31, ~~2022~~ **2023), we invest a portion of our total assets (11. 4 % at December 31, 2023**) in investment securities with the primary objectives of providing a source of liquidity, generating an appropriate return on funds invested, managing interest rate risk, meeting pledging requirements of our public funds deposits and meeting regulatory capital requirements. At December 31, ~~2022~~ **2023** , the carrying value of our securities portfolio was $ ~~451~~ **404** . ~~5~~ **1** million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed- rate securities are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause **a credit related** ~~an other- than- temporary~~ impairment in future periods and result in realized losses. The process for determining whether impairment is **credit related** ~~other- than- temporary~~ usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. At December 31, ~~2022~~ **2023** , First Guaranty had no ~~corporate debt~~ **allowance for credit losses on available for sale** securities ~~with other- than- temporary impairment~~ . Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and / or unrealized losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.- 29- Other General Business Risks Hurricanes or other adverse weather conditions can have an adverse impact on our market areas. Our market area in Southeast Louisiana is close to New Orleans and the Gulf of Mexico, areas which are susceptible to hurricanes, tropical storms, flooding and other natural disasters and adverse weather conditions which could result in a disruption of our operations and increases in loan losses. In August 2021, Hurricane Ida affected several of our markets in Southeast Louisiana. Similar future events could potentially cause widespread property damage, require the relocation of an unprecedented number of residents and business operations, and severely disrupt normal economic activity in our market areas, which may have an adverse effect on our operations, loan originations and deposit base. Our Texas market was impacted by an ice storm in February 2021. Moreover, our ability to compete effectively with financial institutions whose operations are not concentrated in areas affected by hurricanes or other adverse weather conditions or whose resources are greater than ours will depend primarily on our ability to continue normal business operations following such event. The severity and duration of the effects of hurricanes or other adverse weather conditions will depend on a variety of factors that are beyond our control, including the amount and timing of government, private and philanthropic investments including deposits in the region, the pace of rebuilding and economic recovery in the region and the extent to which a hurricane' s property damage is covered by insurance. The occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations. We rely on our management team and our board of directors for the successful implementation of our business strategy. Our success depends significantly on the continued service and skills of our senior management team and our board of directors, particularly Marshall T. Reynolds, our Chairman, Alton B. Lewis Jr., our President and Chief Executive Officer and Eric J. Dosch, our Chief Financial Officer. The implementation of our business and growth strategies also depends significantly on our ability to attract, motivate and retain highly qualified executives and directors. The loss of services of one or more of these individuals could have a negative impact on our business because of their skills, years of industry experience and difficulty of promptly finding qualified replacement personnel. Risks Related to Laws, Regulations and Industry We operate in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations. We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on us and our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our results of operations and financial condition. Like other bank holding companies and financial institutions, we must comply with significant anti- money laundering and anti- terrorism laws. Under these laws, we are required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws or make required reports. Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings. The Federal Reserve Board, the FDIC and the OFI, periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin" unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. If we become subject to any regulatory actions, it could have a material adverse effect on our business, results of operations, financial condition and growth prospects. We may be required to raise additional capital in the future, but that capital may not be available when it is needed, or it may only be available on unacceptable terms, which could adversely affect our financial condition and results of operations. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We may at some point, however, need to raise additional capital to support continued growth or be required by our regulators to increase our capital resources. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations and pursue our growth strategy could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action.- 30- We are subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the United States Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution' s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion activity. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation ~~. We may be adversely affected by the transition from LIBOR (London Interbank Offer Rate) We hold assets, liabilities, and derivatives that are indexed to the various tenors of LIBOR including but not limited to the one- month LIBOR, three- month LIBOR, one- year LIBOR, and the ten- year constant maturing swap rate. The LIBOR yield curve is also utilized in the fair value calculation of many of these instruments. The reform of major interest benchmarks led to the announcement of the United Kingdom' s Financial Conduct Authority, the regulator of the LIBOR index, that LIBOR would not be supported in its current form after the end of 2021. In December 2020, the administrator of LIBOR announced its intention to (i) cease the publication of the one- week and two- month U. S. dollar LIBOR after December 31, 2021, and (ii) cease the publication of all other tenors of U. S. dollar LIBOR (one, three, six and 12 month LIBOR) after June 30, 2023. While in the U. S., the Alternative Rates Committee of the FRB and Federal Reserve Bank of New York have identified the SOFR as an alternative U. S. dollar reference interest rate, it is too early to predict the financial impact this rate index replacement may have, if at all. First Guaranty had approximately $ 47. 7 million in loans indexed to LIBOR at December 31, 2022~~ . Difficult market conditions have adversely affected the industry in which we operate. If capital and credit markets experience volatility and disruption as they did during the past financial crisis and during the COVID- 19 pandemic, we may face the following risks: • increased regulation of our industry; • compliance with such regulation may increase our costs and limit our ability to pursue business opportunities; • market developments and the resulting economic pressure on consumers may affect consumer confidence levels and may cause increases in delinquencies and default rates, which, among other effects, could affect our charge- offs and provision for loan losses. Competition in the industry could intensify as a result of the increasing consolidation of financial institutions in connection with the current market conditions; • market disruptions make valuation even more difficult and subjective, and our ability to measure the fair value of our assets could be adversely affected. If we determine that a significant portion of our assets have values significantly below their recorded carrying value, we could recognize a material charge to earnings in the quarter in which such determination was made, our capital ratios would be adversely affected and a rating agency might downgrade our credit rating or put us on credit watch; • depositor confidence may be shaken, which could lead to deposit outflows that could cause liquidity concerns; and • the downgrade of the United States government' s sovereign credit rating, any related rating agency action in the future, and the downgrade of the sovereign credit ratings for several European nations could negatively impact our business, financial condition and results of operations. The rapid rise in interest rates during 2022, the resulting industry- wide reduction in the fair value of securities portfolios, and the related bank runs that led to the failures of Silicon Valley Bank and Signature Bank (New York) in March 2023, among other events, have resulted a current state of volatility and uncertainty with respect to the health of the U. S. banking system, particularly around liquidity, uninsured deposits and customer concentrations. While we are unable to predict the full impact of this turmoil, it is likely to result in among other things, increased regulatory pressures, which could have material adverse effects on our business, results of operations, financial condition and growth prospects. Our FDIC deposit insurance premiums and assessments may increase, which would reduce our profitability. The deposits of the Bank are insured by the FDIC up to legal limits and, accordingly, subject to the payment of FDIC deposit insurance assessments. The Bank' s regular assessments are determined by its risk classification, which is based on a number of factors, including regulatory capital levels, asset growth and asset quality. **During** ~~On March 12,~~ 2023, the ~~Department of the Treasury, the Federal Reserve and the~~ FDIC ~~issued~~ **imposed** a ~~joint statement~~ **special assessment to recover losses** ~~relating~~ - **resulting** ~~to~~ **from** the resolution of Silicon Valley Bank, Santa Clara, California, and Signature Bank, New York, New York **; similar** ~~which stated that losses to support uninsured deposits of those banks would be recovered via a~~ special ~~assessment~~ **assessments or permanent** ~~on banks. Although the exact terms of that special assessment have not been announced, it is likely to increase~~ **increases** ~~the~~ **may result in increased** FDIC deposit insurance assessments incurred by the Bank. In addition, other changes to the assessment regime, including as a result of additional bank failures and any potential increase in the statutory deposit insurance limits or rates are likely to result in increased deposit insurance costs to the Bank. **Any** ~~The announced special assessment, as well as any~~ future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations. ~~- 31 -~~ Changes in the policies of monetary authorities and other government action could adversely affect our profitability. Our results of operations are affected by credit policies of monetary authorities, particularly the policies of the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U. S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist attacks, the current military operations in the Middle East, COVID- 19, changes in rates of inflation, and uncertainty with the recent conflict in Eastern Europe, we cannot predict possible future changes in interest rates, deposit levels, loan demand or our business and earnings. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks, the military operations in the Middle East, or uncertainty in Eastern Europe, may result in currency fluctuations, exchange controls, market disruption and other adverse effects. **- 31-** Curtailment of government guaranteed loan programs could affect a segment of our business, and government agencies may not honor their guarantees if we do not originate loans in compliance with their guidelines. As of December 31, ~~2022~~ **2023** , $ ~~38~~ **55** . **4 million, or** 2 ~~million, or 1~~ . ~~5~~ **0** % of our total loan portfolio, was comprised of loans where all or some portion of the loans were guaranteed through the SBA, USDA or FSA lending programs, and we intend to grow this segment of our portfolio in the future ~~. The majority of this portfolio, $ 5. 9 million, was comprised of loans originated under the SBA PPP program at December 31, 2022~~ . From time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee loans. In addition, these agencies may change their rules for loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. Therefore, if these changes occur, the volume of loans to small business, industrial and agricultural borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of these loans could decline. In addition, while we follow the SBA' s, USDA' s and FSA' s underwriting guidelines, our ability to do so depends on the knowledge and diligence of our employees and the effectiveness of controls we have established. If our employees do not follow the SBA, USDA or FSA guidelines in originating loans and if our loan review and audit programs fail to identify and rectify such failures, the government agencies that guarantee these loans may refuse to honor their guarantee obligations and we may incur losses as a result. ~~- 32 -~~ Risk Associated with an Investment in our Securities An active, liquid market for our securities may not be sustained. Our shares of common stock began trading on the Nasdaq Global Market in November 2015. An active trading market for shares of our common stock may not be sustained on Nasdaq due to our existing float and trading volume. An inactive market may also impair our ability to raise capital by selling our common stock and may impair our ability to expand our business by using our common stock as consideration in an acquisition. Although the depositary shares underlying our 6. 75 % Series A Fixed- Rate Non- Cumulative perpetual preferred stock (the “ Series A Preferred Stock ”) are currently traded on the ~~[~~ Nasdaq Global Market ~~]~~ , there is currently very low liquidity, and we do not expect an active trading market for our depositary shares to develop or be sustained. Because of this, it may be more difficult for holders of our depositary shares to sell their depositary shares. We have several large shareholders, and such shareholders may independently vote their shares in a manner that you may not consider to be consistent with your best interest or the best interest of our shareholders as a whole. Our principal shareholders (Marshall T. Reynolds, William K. Hood and Edgar R. Smith III) beneficially own, approximately ~~40~~ **44** % of our outstanding common stock as of December 31, ~~2022~~ **2023** . Each of these shareholders will continue to have the ability to independently vote a meaningful percentage of our outstanding common stock on all matters put to a vote of our shareholders, including the election of our board of directors and certain other significant corporate transactions, such as a merger or acquisition transaction. On any such matter, the interests of these shareholders may not coincide with the interests of the other holders of our common stock and any such difference in interests may result in that shareholder voting its shares in a manner inconsistent with the interests of other shareholders. Our ability to declare and pay dividends is limited. We have no obligation to continue paying dividends, and we may change our dividend policy at any time without prior notice to our common shareholders. In addition, our ability to pay dividends will continue to be subject, among other things, to certain regulatory guidance and / or restrictions. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors, including our and First Guaranty Bank’ s capital levels. Subject to certain exceptions, the terms of our senior debt and subordinated debt prohibit us from paying dividends on shares of our capital stock at times when we are deferring the payment of interest on such subordinated debt. Moreover, our ability to pay dividends on our common stock is limited by the terms of our Series A Preferred Stock which provides that if we have not paid dividends on the Series A Preferred Stock for the most recently completed dividend period, then no dividend or distribution shall be declared, paid, or set aside for payment on shares of our common stock. Our principal source of funds used to pay cash dividends on our common stock will be cash we may hold from time to time as well as dividends that we receive from First Guaranty Bank. Although First Guaranty Bank’ s asset quality, earnings performance, liquidity and capital requirements will be taken into account before we declare or pay any future dividends on our capital stock, our board of directors will also consider our liquidity and capital requirements and our board of directors could determine to declare and pay dividends without relying on dividend payments from First Guaranty Bank. Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay and that First Guaranty Bank may declare and pay to us. For example, Federal Reserve regulations implementing the capital rules required under Basel III do not permit dividends unless capital levels exceed certain higher levels applying capital conservation buffers. In addition, the Federal Reserve has issued supervisory guidance advising bank holding companies to eliminate, defer or reduce dividends paid on common stock and other forms of capital, like the Series A Preferred Stock, where the company' s net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, the company' s prospective rate of earnings retention is not consistent with the company' s capital needs and overall current and prospective financial condition or the company will not meet, or is in danger of not meeting, minimum regulatory capital adequacy ratios. Recent supplements to this guidance reiterate the need for bank holding companies to inform their applicable reserve bank sufficiently in advance of the proposed payment of a dividend in certain circumstances. **- 32-** The Series A Preferred Stock constitutes an equity security and ranks junior to all of our indebtedness and will rank junior to our and First Guaranty Bank' s future indebtedness. Shares of the Series A Preferred Stock are equity interests in First Guaranty and do not constitute indebtedness. Accordingly, shares of the Series A Preferred Stock and the related depositary shares are and will be junior in right of payment to any existing and all future indebtedness and other non- equity claims of First Guaranty with respect to assets available to satisfy claims on us, including in a liquidation of First Guaranty. In the event of our bankruptcy, liquidation, dissolution or winding- up, our assets will be available to pay obligations on the Series A Preferred Stock and any parity stock only after all of our liabilities have been paid and any obligations we owe on any securities that rank senior to the Series A Preferred Stock then outstanding, if any, have been satisfied. In case of such bankruptcy, liquidation, dissolution or winding- up, the Series A Preferred Stock will rank equally with any parity stock in the distribution of our assets. Holders of the depositary shares may be fully subordinated to interests held by the U. S. government in the event of a receivership, insolvency, liquidation or similar proceeding. In addition, our existing indebtedness restricts payment of dividends on the Series A Preferred Stock, and any future indebtedness may further restrict payment of dividends on the Series A Preferred Stock. ~~- 33-~~ The Series A Preferred Stock and the depositary shares representing the Series A Preferred Stock effectively rank junior to any existing and all future liabilities of our subsidiary First Guaranty Bank. First Guaranty is a financial holding company and conducts substantially all of our operations through our subsidiary First Guaranty Bank. Our right to participate in any distribution of the assets of our subsidiaries upon any liquidation, reorganization, receivership or conservatorship of any subsidiary (and thus the ability of the holder of the Series A Preferred Stock and the holders of the depositary shares to benefit indirectly from such distribution) will rank junior to the prior claims of that subsidiary' s creditors. In the event of bankruptcy, liquidation or winding- up, there may not be sufficient assets remaining, after paying our and our subsidiaries' liabilities, to pay amounts due on any or all of the Series A Preferred Stock and the depositary shares representing the Series A Preferred Stock then outstanding. The Series A Preferred Stock and the depositary shares representing the Series A Preferred Stock places no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the limited voting rights of the shares of Series A Preferred Stock. Dividends on the Series A Preferred Stock are non- cumulative and discretionary. If our board of directors does not authorize and declare a dividend for any dividend period, the holder of the Series A Preferred Stock, and therefore the holders of the depositary shares, will not be entitled to receive a dividend for such period, and such undeclared dividend will not accrue and be payable. We will have no obligation to pay dividends for such dividend period, whether or not dividends are authorized and declared for any subsequent dividend period with respect to the Series A Preferred Stock. Our board of directors may determine that it would be in our best interests to pay less than the full amount of the stated dividends on the Series A Preferred Stock or no dividend for any dividend period even if funds are available. Factors that would be considered by our board of directors in making this determination include our financial condition, liquidity and capital needs, the impact of current and pending legislation and regulations, economic conditions, our ability to service any equity or debt obligations senior to the Series A Preferred Stock, any credit agreements to which we are a party, tax considerations and such other factors as our board of directors may deem relevant. Unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of preferred stock like the Series A Preferred Stock dividends are payable only when, as and if authorized and declared by our board of directors or a duly authorized committee of the board and, as a Louisiana corporation and financial holding company, we are subject to restrictions on payments of dividends out of lawfully available funds as described elsewhere in this Annual Report on Form 10- K. The holders of the Series A Preferred Stock, and therefore the holders of the depositary shares representing the Series A Preferred Stock, have limited voting rights. Until and unless we are in arrears on our dividend payments on the Series A Preferred Stock for six quarterly dividend periods, whether consecutive or not, the holders of the Series A Preferred Stock, and therefore the holders of the depositary shares, have no voting rights with respect to matters that generally require the approval of voting shareholders, except with respect to certain fundamental changes in the terms of the Series A Preferred Stock, and except as may be required by the rules of any securities exchange or quotation system on which the Series A Preferred Stock is listed, traded or quoted or by Louisiana law. If dividends on the Series A Preferred Stock are not paid in full for six dividend periods, whether consecutive or not, the holders of Series A Preferred Stock, voting together as a class with any other equally ranked series of preferred stock that have similar voting rights then outstanding, if any, will have the right, at the first annual meeting or special meeting held thereafter and at subsequent annual meetings, to elect two directors to our board. The terms of the additional directors so elected will end upon the payment or setting aside for payment by us of continuous noncumulative dividends for at least twelve consecutive months on the Series A Preferred Stock and any other equally ranked series of preferred stock then outstanding, if any. Holders of the depositary shares must act through the depositary to exercise any voting rights of the Series A Preferred Stock. Although each depositary share is entitled to 1 / 40th of a vote, the depositary can only vote whole shares of Series A Preferred Stock. While the depositary will vote the maximum number of whole shares of Series A Preferred Stock in accordance with the instructions it receives, any remaining fractional votes of holders of the depositary shares underlying such shares of Series A Preferred Stock will not be voted. **- 33-** First Guaranty and First Guaranty Bank have incurred indebtedness, and may in the future incur additional indebtedness, which have rights that are senior to those of First Guaranty' s shareholders. At December 31, ~~2022~~ **2023** , First Guaranty had an aggregate of $ ~~56~~ **54** . ~~9~~ **1** million of senior and subordinated indebtedness outstanding. The notes we have issued, as well as any note we may issue in the future, rank senior to shares of First Guaranty' s common and preferred stock. In addition, any indebtedness owed by First Guaranty Bank is and will be structurally senior to the rights of the holders of First Guaranty' s common and preferred stock. In the event of any bankruptcy, dissolution or liquidation of First Guaranty, these notes, along with First Guaranty' s other indebtedness, would have to be repaid before First Guaranty' s shareholders would be entitled to receive any of the assets of First Guaranty. First Guaranty or First Guaranty Bank may from time to time issue, or assume in connection with an acquisition, additional subordinated indebtedness that would have to be repaid before First Guaranty' s shareholders would be entitled to receive any of the assets of First Guaranty or First Guaranty Bank. An investment in our common stock or depositary shares is not an insured deposit and is not guaranteed by the FDIC. An investment in our common stock or depositary shares is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in our common stock or depositary shares is inherently risky for the reasons described herein and our shareholders will bear the risk of loss if the value or market price of our common stock or depositary shares is adversely affected. ~~- 34-~~