

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

FORM 10-Q

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

For the quarterly period ended June 30, 2024

☐ 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 0-07674

**First Financial Bankshares, Inc.**  
(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of  
incorporation or organization)

400 Pine Street, Abilene, Texas  
(Address of principal executive offices)

75-0944023  
(I.R.S. Employer  
Identification No.)

79601  
(Zip Code)

(325) 627-7155  
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	FFIN	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Act). Yes ☐ No ☒

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

Class	Outstanding at July 31, 2024
Common Stock, \$0.01 par value per share	142,850,708



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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. and Subsidiaries (the "Company" or "we") at June 30, 2024 and 2023 (unaudited), and December 31, 2023, and the consolidated statements of earnings, comprehensive earnings (loss) and shareholders' equity for the three and six-months ended June 30, 2024 and 2023 (unaudited), and the consolidated statements of cash flows for the six-months ended June 30, 2024 and 2023 (unaudited), and notes to consolidated financial statements (unaudited), follow on pages 4 through 42.

**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share amounts)

	2024	June 30, (Unaudited)	2023	December 31, 2023
<b><u>ASSETS</u></b>				
CASH AND DUE FROM BANKS	\$	263,262	\$	255,018
FEDERAL FUNDS SOLD		2,800		—
INTEREST-BEARING DEMAND DEPOSITS IN BANKS		103,315		23,839
Total cash and cash equivalents		369,377		278,857
SECURITIES AVAILABLE-FOR-SALE, at fair value (amortized cost of these securities was \$5,132,451, \$5,687,352, and \$5,243,681 as of June 30, 2024 and 2023, and December 31, 2023, respectively)		4,573,024		5,066,262
LOANS:				
Held-for-investment		7,519,733		6,777,570
Less—allowance for credit losses		(95,170)		(86,541)
Net loans held-for-investment		7,424,563		6,691,029
Held-for-sale (\$19,393, \$18,089, and \$11,077, at fair value at June 30, 2024 and 2023, and December 31, 2023, respectively)		19,668		19,220
BANK PREMISES AND EQUIPMENT, net		153,075		152,876
INTANGIBLE ASSETS, net		314,309		315,078
OTHER ASSETS		310,059		302,115
Total assets	\$	<u>13,164,075</u>	\$	<u>12,825,437</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>				
NONINTEREST-BEARING DEPOSITS	\$	3,289,032	\$	3,578,483
INTEREST-BEARING DEPOSITS		8,120,125		7,229,077
Total deposits		11,409,157		10,807,560
DIVIDENDS PAYABLE		25,708		25,714
REPURCHASE AGREEMENTS		138,950		559,479
BORROWINGS		23,703		28,177
OTHER LIABILITIES		47,531		37,274
Total liabilities		11,645,049		11,458,204
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY:				
COMMON STOCK — (\$0.01 par value, authorized 200,000,000 shares; 142,848,909, 142,741,196, and 142,716,939 shares issued at June 30, 2024 and 2023, and December 31, 2023, respectively)		1,428		1,427
CAPITAL SURPLUS		685,209		680,676
RETAINED EARNINGS		1,273,946		1,175,410
TREASURY STOCK (shares at cost: 934,135, 927,608 and 930,152 at June 30, 2024 and 2023, and December 31, 2023, respectively)		(12,378)		(11,466)
DEFERRED COMPENSATION		12,378		11,466
ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS), net		(441,557)		(490,280)
Total shareholders' equity		1,519,026		1,367,233
Total liabilities and shareholders' equity	\$	<u>13,164,075</u>	\$	<u>12,825,437</u>
			\$	<u>13,105,594</u>

See notes to consolidated financial statements.

**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS—(UNAUDITED)**  
(Dollars in thousands, except per share amounts)

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2024	2023	2024	2023
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$ 123,708	\$ 98,067	\$ 240,800	\$ 187,076
Interest on investment securities:				
Taxable	19,912	20,033	39,864	40,815
Exempt from federal income tax	7,687	9,321	15,424	19,388
Interest on federal funds sold and interest-bearing demand deposits in banks	2,366	1,584	7,079	3,234
Total interest income	153,673	129,005	303,167	250,513
<b>INTEREST EXPENSE:</b>				
Interest on deposits	48,415	27,629	93,666	49,441
Interest on repurchase agreements and borrowings	1,985	5,510	5,987	8,920
Total interest expense	50,400	33,139	99,653	58,361
Net interest income	103,273	95,866	203,514	192,152
<b>PROVISION FOR CREDIT LOSSES</b>				
Net interest income after provision for credit losses	97,385	90,293	196,819	183,798
<b>NONINTEREST INCOME:</b>				
Trust fees	11,714	9,883	23,093	19,728
Service charges on deposit accounts	6,009	6,310	12,255	12,346
Debit card fees	5,145	6,720	10,036	11,656
Credit card fees	672	711	1,303	1,320
Gain on sale and fees on mortgage loans	3,687	3,534	6,815	6,508
Net gain on sale of available-for-sale securities	—	46	—	58
Net gain (loss) on sale of foreclosed assets	(58)	(1)	(58)	33
Net gain on sale of other assets	2	—	2	930
Interest on loan recoveries	664	475	1,219	821
Other noninterest income	3,433	2,269	5,986	4,554
Total noninterest income	31,268	29,947	60,651	57,954
<b>NONINTEREST EXPENSE:</b>				
Salaries, commissions and employee benefits	37,472	31,766	74,155	63,227
Net occupancy expense	3,618	3,423	7,088	6,853
Equipment expense	2,233	2,198	4,470	4,325
FDIC insurance premiums	1,508	1,417	3,473	3,071
Debit card expense	3,242	3,221	6,300	6,420
Professional and service fees	2,828	2,397	5,224	4,762
Printing, stationery and supplies	425	740	872	1,450
Operational and other losses	769	856	1,923	1,787
Software amortization and expense	3,158	2,519	6,163	4,830
Amortization of intangible assets	157	228	314	456
Other noninterest expense	9,602	8,848	18,970	17,688
Total noninterest expense	65,012	57,613	128,952	114,869
<b>EARNINGS BEFORE INCOME TAXES</b>				
	63,641	62,627	128,518	126,883
<b>INCOME TAX EXPENSE</b>				
	11,156	11,754	22,636	23,442
<b>NET EARNINGS</b>				
	\$ 52,485	\$ 50,873	\$ 105,882	\$ 103,441
<b>NET EARNINGS PER SHARE, BASIC</b>				
	\$ 0.37	\$ 0.36	\$ 0.74	\$ 0.72
<b>NET EARNINGS PER SHARE, DILUTED</b>				
	\$ 0.37	\$ 0.36	\$ 0.74	\$ 0.72
<b>DIVIDENDS PER SHARE</b>				
	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.35

See notes to consolidated financial statements.

**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS) —(UNAUDITED)**  
(Dollars in thousands)

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2024	2023	2024	2023
<b>NET EARNINGS</b>	\$ 52,485	\$ 50,873	\$ 105,882	\$ 103,441
<b>OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):</b>				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(418)	(40,500)	(48,429)	56,954
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings, before income taxes	—	(46)	—	(58)
Total other items of comprehensive earnings (loss)	(418)	(40,546)	(48,429)	56,896
<b>Income tax benefit (expense) related to:</b>				
Change in unrealized gain (loss) on investment securities available-for-sale	88	8,506	10,170	(11,960)
Reclassification adjustment for realized gains (losses) on investment securities included in net earnings	—	9	—	12
Total income tax benefit (expense)	88	8,515	10,170	(11,948)
<b>COMPREHENSIVE EARNINGS (LOSS)</b>	<u>\$ 52,155</u>	<u>\$ 18,842</u>	<u>\$ 67,623</u>	<u>\$ 148,389</u>

See notes to consolidated financial statements.

**6FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Dollars in thousands, except per share amounts)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated	Total
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	Other Comprehensive Earnings (Loss)	Shareholders' Equity
<b>Balances at March 31, 2023 (unaudited)</b>	142,703,531	\$ 1,427	\$ 679,429	\$ 1,150,246	(927,789 )	\$ (11,271 )	\$ 11,271	\$ (458,249 )	\$ 1,372,853
Net earnings (unaudited)	—	—	—	50,873	—	—	—	—	50,873
Stock option exercises/ stock unit conversions/ restricted stock activity (unaudited)	37,665	—	215	—	—	—	—	—	215
Cash dividends declared, \$0.18 per share (unaudited)	—	—	—	(25,709 )	—	—	—	—	(25,709 )
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(32,031 )	(32,031 )
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	181	(195 )	195	—	—
Stock-based compensation expense (unaudited)	—	—	1,032	—	—	—	—	—	1,032
<b>Balances at June 30, 2023 (unaudited)</b>	<u>142,741,196</u>	<u>\$ 1,427</u>	<u>\$ 680,676</u>	<u>\$ 1,175,410</u>	<u>(927,608 )</u>	<u>\$ (11,466 )</u>	<u>\$ 11,466</u>	<u>\$ (490,280 )</u>	<u>\$ 1,367,233</u>
<b>Balances at March 31, 2024 (unaudited)</b>	142,817,159	\$ 1,428	\$ 683,997	\$ 1,247,169	(931,427 )	\$ (12,120 )	\$ 12,120	\$ (441,227 )	\$ 1,491,367
Net earnings (unaudited)	—	—	—	52,485	—	—	—	—	52,485
Stock option exercises/ stock unit conversions/ restricted stock activity (unaudited)	31,750	—	162	—	—	—	—	—	162
Cash dividends declared, \$0.18 per share (unaudited)	—	—	—	(25,708 )	—	—	—	—	(25,708 )
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(330 )	(330 )
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(2,708 )	(258 )	258	—	—
Stock-based compensation expense (unaudited)	—	—	1,050	—	—	—	—	—	1,050
<b>Balances at June 30, 2024 (unaudited)</b>	<u>142,848,909</u>	<u>\$ 1,428</u>	<u>\$ 685,209</u>	<u>\$ 1,273,946</u>	<u>(934,135 )</u>	<u>\$ (12,378 )</u>	<u>\$ 12,378</u>	<u>\$ (441,557 )</u>	<u>\$ 1,519,026</u>

See notes to consolidated financial statements.



**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Dollars in thousands, except per share amounts)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated	Total
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	Other Comprehensive Earnings (Loss)	Shareholders' Equity
<b>Balances at December 31, 2022</b>	142,657,871	\$ 1,427	\$ 677,593	\$ 1,121,945	(929,210)	\$ (11,035)	\$ 11,035	\$ (535,228)	\$ 1,265,737
Net earnings (unaudited)	—	—	—	103,441	—	—	—	—	103,441
Stock option exercises/ stock unit conversions/ restricted stock activity (unaudited)	83,325	—	1,098	—	—	—	—	—	1,098
Cash dividends declared, \$0.35 per share (unaudited)	—	—	—	(49,976)	—	—	—	—	(49,976)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	44,948	44,948
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	1,602	(431)	431	—	—
Stock-based compensation expense (unaudited)	—	—	1,985	—	—	—	—	—	1,985
<b>Balances at June 30, 2023 (unaudited)</b>	<u>142,741,196</u>	<u>\$ 1,427</u>	<u>\$ 680,676</u>	<u>\$ 1,175,410</u>	<u>(927,608)</u>	<u>\$ (11,466)</u>	<u>\$ 11,466</u>	<u>\$ (490,280)</u>	<u>\$ 1,367,233</u>
<b>Balances at December 31, 2023</b>	142,716,939	\$ 1,427	\$ 681,246	\$ 1,219,525	(930,152)	\$ (11,855)	\$ 11,855	\$ (403,298)	\$ 1,498,900
Net earnings (unaudited)	—	—	—	105,882	—	—	—	—	105,882
Stock option exercises/ stock unit conversions/ restricted stock activity (unaudited)	131,970	1	1,784	—	—	—	—	—	1,785
Cash dividends declared, \$0.36 per share (unaudited)	—	—	—	(51,461)	—	—	—	—	(51,461)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(38,259)	(38,259)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(3,983)	(523)	523	—	—
Stock-based compensation expense (unaudited)	—	—	2,179	—	—	—	—	—	2,179
<b>Balances at June 30, 2024 (unaudited)</b>	<u>142,848,909</u>	<u>\$ 1,428</u>	<u>\$ 685,209</u>	<u>\$ 1,273,946</u>	<u>(934,135)</u>	<u>\$ (12,378)</u>	<u>\$ 12,378</u>	<u>\$ (441,557)</u>	<u>\$ 1,519,026</u>

See notes to consolidated financial statements.

**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS—(UNAUDITED)**  
(Dollars in thousands)

	Six-Months Ended June 30,	
	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 105,882	\$ 103,441
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,452	6,268
Provision for credit losses	6,695	8,354
Securities premium amortization, net	22,653	27,151
Gain (loss) on sale of securities and other assets, net	56	(1,021)
Deferred federal income tax benefit	476	1,555
Stock-based compensation	2,179	1,985
Net tax benefit from stock-based compensation	128	187
Change in loans held-for-sale	(5,270)	(7,167)
Change in other assets	(4,066)	8,331
Change in other liabilities	9,269	3,925
Total adjustments	38,572	49,568
Net cash provided by operating activities	144,454	153,009
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Activity in available-for-sale securities:		
Sales	—	207,287
Maturities	4,330,401	233,935
Purchases	(4,241,825)	(3,322)
Net increase in loans held-for-investment	(371,161)	(336,122)
Purchases of bank premises, equipment and software	(8,892)	(8,966)
Proceeds from sale of bank premises and equipment and other assets	56	2,598
Net cash provided by (used in) investing activities	(291,421)	95,410
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in noninterest-bearing deposits	(146,554)	(483,305)
Net increase in interest-bearing deposits	417,411	285,358
Net increase (decrease) in repurchase agreements and borrowings	(241,428)	(54,851)
Common stock transactions:		
Proceeds from stock option exercises/stock unit conversions/restricted stock activity	1,785	1,098
Dividends paid	(51,461)	(48,540)
Net cash provided by (used in) financing activities	(20,247)	(300,240)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(167,214)</b>	<b>(51,821)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>536,591</b>	<b>330,678</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 369,377</b>	<b>\$ 278,857</b>
<b>SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:</b>		
Interest paid	\$ 99,776	\$ 51,327
Federal income taxes paid	19,546	25,032
Transfer of loans to other real estate	656	190

See notes to consolidated financial statements.

**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1 – Summary of Significant Accounting Policies**

Nature of Operations

First Financial Bankshares, Inc., a Texas corporation ("Bankshares," "Company," "we" or "us"), is a financial holding company which owns all of the capital stock of First Financial Bank which had 79 locations located in Texas as of June 30, 2024. The Company's primary source of revenue is providing loans and banking services to consumers and commercial customers in the market area in which First Financial Bank is located. In addition, the Company also owns First Financial Trust & Asset Management Company, First Financial Insurance Agency, Inc. (inactive), First Technology Services, Inc., FFB Investment Paris Fund, LLC, and FFB Portfolio Management, Inc.

Basis of Presentation

A summary of significant accounting policies of the Company and its subsidiaries applied in the preparation of the accompanying consolidated financial statements follows. The accounting principles followed by the Company and the methods of applying them are in conformity with both United States generally accepted accounting principles ("GAAP") and prevailing practices of the banking industry.

The Company evaluated subsequent events for potential recognition through the date the consolidated financial statements were issued.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include its allowance for credit losses and its valuation of financial instruments.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Stock Repurchase

On July 23, 2024, the Company's Board of Directors extended the authorization to repurchase up to 5,000,000 common shares through July 31, 2025. The prior authorization had been in place since July 27, 2021. The stock repurchase plan authorizes management to repurchase and retire the stock at such time as repurchases and retirements are considered beneficial to the Company and stockholders. Any repurchase of stock will be made through the open market, block trades, or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Under the previous authorization effective through July 31, 2024, the Company repurchased and retired 101,337 shares (all during September 2023) at an average price of \$26.99 per share.

Other Recently Issued and Effective Authoritative Accounting Guidance

*ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* ASU 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance, and based upon the amendments provided in ASU 2022-06 discussed below, can generally be applied through December 31, 2024. The adoption of ASU 2020-04 did not have a significant impact on our financial statements.

*ASU 2021-01, "Reference Rate Reform (Topic 848): Scope."* ASU 2021-01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance, and based upon the amendments provided in ASU 2022-06 discussed below, can generally be applied through December 31, 2024. The adoption of ASU 2021-01 did not have a significant impact on our financial statements.

ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. ASU 2022-02 will also require that an entity disclose current-period gross charge-offs by year of origination for financial receivables and net investment leases within the scope of ASC Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost. ASU 2022-02 became effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, though early adoption is permitted. The adoption of ASU 2022-02 did not have a significant impact on our financial statements.

ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance provided by ASU 2020-04 and ASU 2021-01, which are discussed above. ASU 2022-06, which was effective upon issuance, defers the sunset date of this prior guidance from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief guidance in Topic 848. The adoption of ASU 2022-06 did not have a significant impact on our financial statements.

ASU 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." ASU 2023-02 is intended to improve the accounting and disclosures for investments in tax credit structures. ASU 2023-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. Previously, this method was only available for qualifying tax equity investments in low-income housing tax credit structures. ASU 2023-02 has been early adopted by the Company as it relates to the qualifying investments that are generating New Market Tax Credits. The adoption of ASU 2023-02 did not have a significant impact on our financial statements.

ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." ASU 2023-09 requires entities to disclose more detailed information in their reconciliation of their statutory tax rate to their effective tax rate. Public business entities (PBEs) are required to provide this incremental detail in a numerical, tabular format. The ASU also requires entities to disclose more detailed information about income taxes paid, including by jurisdiction; pretax income (or loss) from continuing operations; and income tax expense (or benefit). PBEs will be required to adopt the new requirements in annual reporting periods beginning after December 15, 2024, and interim periods beginning after December 15, 2025. The adoption of ASU 2023-09 is not expected to have a significant impact on our financial statements.

#### Investment Securities

Management classifies debt securities as held-to-maturity, available-for-sale, or trading based on its intent. Securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with unrealized holding gains and losses (those for which no allowance for credit losses are recorded) reported as a component of other comprehensive income, net of tax. Management determines the appropriate classification of securities at the time of purchase.

Interest income includes amortization of purchase premiums and discounts over the period to maturity using a level-yield method, except for premiums on callable securities, which are amortized to their earliest call date. Realized gains and losses are recorded on the sale of securities in noninterest income.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of securities and report accrued interest separately in other assets on the consolidated balance sheets. A security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to securities reversed against interest income for the three and six-months ended June 30, 2024 or 2023, respectively.

The Company records its available-for-sale securities portfolio at fair value. Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings, and yield curves. Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the marketplace as a result of the illiquid market, specific to the type of security.

The Company's investment portfolio currently consists of obligations of state and political subdivisions, mortgage pass-through securities, corporate bonds and general obligation or revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third-party pricing services to value its investment securities, which the Company reviews as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with pricing matrices. The Company validates prices supplied by the independent pricing services by comparison to prices obtained from other third-party sources on a quarterly basis.

#### Allowance for Credit Losses – Available-for-Sale Securities

For available-for-sale securities in an unrealized loss position, we first assess whether we intend to sell, or if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, any previously recognized allowances are charged-off and the security's amortized cost basis is written down to fair value through income as a provision for credit losses. For available-for-sale securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment

indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Management has made the accounting policy election to exclude accrued interest receivable on available-for-sale securities from the estimate of credit losses. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses. Available-for-sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

At June 30, 2024 and 2023, and December 31, 2023, no allowance for credit losses - available-for-sale securities was recorded.

#### Allowance for Credit Losses – Held-to-Maturity Securities

The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of held-to-maturity securities to present management's best estimate of the net amount expected to be collected. Held-to-maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on held-to-maturity securities from the estimate of credit losses.

At June 30, 2024 and 2023, and December 31, 2023, the Company held no securities that were classified as held-to-maturity.

#### 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, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, fair value hedge accounting adjustments, deferred loan fees and costs. The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and report accrued interest separately from the related loan balance in other assets on the condensed consolidated balance sheets.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company defers and amortizes net loan origination fees and costs as an adjustment to yield.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, we consider the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to our collateral position. Regulatory provisions would typically require the placement of a loan on nonaccrual status if principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income on nonaccrual loans is recognized only to the extent that cash payments are received in excess of principal due. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured.

Further information regarding our accounting policies related to past due loans, nonaccrual loans and loans to borrowers experiencing financial difficulty is presented in Note 3.

#### Acquired Loans

Loans acquired in connection with acquisitions are recorded at their acquisition-date fair value. The allowance for credit losses related to the acquired loan portfolio is not carried over. Acquired loans are classified into two categories based on the credit risk characteristics of the underlying borrowers as either purchased credit deteriorated ("PCD") loans, or loans with no evidence of credit deterioration ("non-PCD").

PCD loans are defined as a loan or pool of loans that have experienced more-than-insignificant credit deterioration since the origination date. The Company uses a combination of individual and pooled review approaches to determine if acquired loans are PCD. At acquisition, the Company considers a number of factors to determine if an acquired loan or pool of loans has experienced more-than-insignificant credit deterioration.

The initial allowance related to PCD loans that share similar risk characteristics is established using a pooled approach. The Company uses either a discounted cash flow or weighted average remaining life method to determine the required level of the allowance. PCD loans that were classified as nonaccrual as of the acquisition date and are collateral dependent are assessed for allowance on an individual basis. For PCD loans, an initial allowance is established on the acquisition date. Subsequent to the acquisition date, the initial allowance for credit losses on PCD loans will increase or decrease based on future evaluations, with changes recognized in the provision for credit losses.

Non-PCD loans are pooled into segments together with originated loans that share similar risk characteristics and have an allowance established on the acquisition date, which is recognized in the current period provision for credit losses as well as a fair value adjustment to the amortized cost of the loan and accreted into income over the life of the loan.

Determining the fair value of the acquired loans involves estimating the principal and interest payment cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considers a number of factors in evaluating the acquisition-date fair value including the remaining life, interest rate profile, market interest rate environment, payment schedules, risk ratings, probability of default and loss given default, and estimated prepayment rates. For PCD loans, the non-credit discount or premium is allocated to individual loans as determined by the difference between the loan's unpaid principal balance and amortized cost basis. For non-PCD loans, the fair value discount or premium is allocated to individual loans and recognized into interest income on a level yield basis over the remaining expected life of the loan.

#### Allowance for Credit Losses - Loans

The allowance for credit losses ("allowance" or "ACL") is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans. The ACL represents an amount which, in management's judgment, is adequate to absorb the lifetime expected credit losses that may be experienced on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions and prepayment experience. The allowance for credit losses is measured and recorded upon the initial recognition of a financial asset. Determination of the adequacy of the allowance is inherently complex and requires the use of significant and highly subjective estimates. Loans are charged-off against the allowance when deemed uncollectible by management. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

The Company's methodology for estimating the allowance includes: (1) a collective quantified reserve that reflects the Company's historical default and loss experience adjusted for expected economic conditions throughout a reasonable and supportable period and the Company's prepayment and curtailment rates; (2) collective qualitative factors based on the risk perceived in concentrations of the loan portfolio, changes in economic conditions, early delinquencies, and factors related to credit administrations, including, among others, underwriting standards, loan-to-value ratios, and borrowers' risk rating; and (3) individual allowances on loans where borrowers are experiencing financial difficulty or when the Company determines that the foreclosure is probable.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, geographical similarity and historical/expected credit loss patterns. In developing these loan pools for the purposes of modeling expected credit losses, we also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors. For modeling purposes, our loan portfolio segments include C&I, Municipal, Agricultural, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied CRE, Residential, Consumer Auto and Consumer Non-Auto. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary. Refer to Note 3 for more details on the Company's portfolio segments.

The Company applies two methodologies to estimate the allowance on its pooled portfolio segments; discounted cash flows method and weighted average remaining life method. Allowance estimates on the following portfolio segments are calculated using the discounted cash flows method: C&I, Municipal, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied CRE and Residential. Allowance estimates on the following portfolio segments are calculated using the remaining life method: Agriculture, Consumer Auto and Consumer Non-Auto. The models related to these methodologies utilize the Company's historical default and loss experience adjusted for future economic forecasts. The reasonable and supportable forecast period represents a one-year economic outlook for the applicable economic variables. Following the end of the reasonable and supportable forecast period, expected losses revert back to the historical mean over the next two years on a straight-line basis. Economic variables that have the most significant impact on the allowance include: Texas unemployment rate, Texas house price index and Texas retail sales index. Contractual loan level cash flows within the discounted cash flows methodology are adjusted for the Company's historical prepayment and curtailment rate experience.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk rating of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on an ongoing basis.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor ("Q-Factor") adjustments may increase management's estimate of expected credit losses based upon the estimated level of risk within the risk factor. The various risk factors that may be considered in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) actual and expected changes in national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools, (iii) changes in the nature, volume and size of a loan or the loan pools and in the terms

of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets, (vi) changes in the quality of our credit review function, (vii) changes in the value of the underlying collateral for loans that are non-collateral dependent, (viii) the existence, growth, and effect of any concentrations of credit, and (ix) other factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or health pandemics.

Management believes it uses relevant information available to make determinations about the allowance and that it has established the existing allowance in accordance with GAAP. However, the determination of the allowance requires significant judgment, and estimates of expected lifetime losses in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize expected losses, future additions to the allowance may be necessary based on changes in the loans comprising the portfolio, changes in the current and forecasted economic conditions, changes to the interest rate environment which may directly impact prepayment and curtailment rate assumptions, and changes in the financial condition of borrowers.

#### Allowance for Credit Losses - Off-Balance-Sheet/Reserve for Unfunded Commitments

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. These obligations include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The allowance is reported as a component of accrued interest payable and other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. At June 30, 2024 and 2023, and December 31, 2023, the Company's reserve for unfunded commitments totaled \$7,433,000, \$9,448,000 and \$7,903,000, respectively, which is included in other liabilities in the consolidated balance sheet.

#### Other Real Estate

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value, less estimated costs to sell, and is included in other assets in the consolidated balance sheet. At foreclosure, if the fair value of the real estate, less estimated costs to sell, is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the ACL. Any subsequent reduction in value is recognized by a charge to income. Operating and holding expenses of such properties, net of related income, and gains/losses on their disposition are included in net gain (loss) on sale of foreclosed assets as incurred.

#### Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed principally on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the life of the respective lease or the estimated useful lives of the improvements, whichever is shorter.

#### Business Combinations, Goodwill and Other Intangible Assets

The Company accounts for all business combinations under the purchase method of accounting. Tangible and intangible assets and liabilities of the acquired entity are recorded at fair value. Intangible assets with finite useful lives represent the future benefit associated with the acquisition of the core deposits and are amortized over seven years, utilizing a method that approximates the expected attrition of the deposits. Goodwill with an indefinite life is not amortized, but rather tested annually for impairment as of June 30 each year. There was no impairment recorded during the six-months ended June 30, 2024 or 2023, respectively.

#### Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of the cash received in connection with the transaction. The Company may be required to provide additional collateral based on the estimated fair value of the underlying securities.

#### Segment Reporting

The Company has determined that its banking regions meet the aggregation criteria of the current authoritative accounting guidance since each of its banking regions offer similar products and services, operate in a similar manner, have similar customers and report to the same regulatory authority, and therefore operate one line of business (community banking) located in a single geographic area (Texas).

#### Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks, including interest-bearing deposits in banks with original maturity of 90 days or less, and federal funds sold.

#### Accumulated Other Comprehensive Earnings (Loss)

Unrealized net losses on the Company's available-for-sale securities, net of applicable income taxes, totaled \$441,557,000, \$490,280,000 and \$403,298,000 at June 30, 2024, and 2023, and December 31, 2023, respectively, are included in accumulated other comprehensive earnings (loss) as a separate component of shareholders' equity.

#### Income Taxes

The Company's provision for income taxes is based on income before income taxes adjusted for permanent differences between financial reporting and taxable income. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. As of June 30, 2024, and 2023, and December 31, 2023, deferred tax assets totaled \$123,407,000, \$133,016,000 and \$110,800,000, respectively, and were included in other assets on the consolidated balance sheets.

#### Stock Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value using the Black-Scholes model of the shares at the grant date. The grant date fair value is amortized over the vesting period, which generally is three, five or six years. The Company also grants restricted stock and/or units for a fixed number of shares which generally vests over periods of one to three years, and performance stock units which vest over a three-year period based on Company performance metrics relative to a defined peer group. For stock option grants, the exercise price is established based on the closing trading price. No adjustments have been necessary to properly value the grant based on the terms or other conditions of the grants. Expense is recognized based on the fair value of the portion of stock-based payment awards that ultimately expected to vest, reduced for forfeitures based on grant-date fair value. See Note 8 for further information.

#### Advertising Costs

Advertising costs are expensed as incurred.



## Per Share Data

Net earnings per share ("EPS") are computed by dividing net earnings by the weighted average number of common shares outstanding during the period. The Company calculates dilutive EPS assuming all outstanding stock options to purchase common shares and unvested restricted stock shares and units have been exercised and/or vested at the beginning of the year (or the time of issuance, if later.) The dilutive effect of the outstanding options and restricted stock is determined by application of the treasury stock method, whereby the proceeds from the exercised options and unearned compensation for both restricted stock and stock options are assumed to be used to purchase common shares at the average market price during the respective period. There were 407,000 and 412,000 anti-dilutive shares for the three and six-months ended June 30, 2024 that were excluded from the computation of EPS. There were 778,000 and 485,000 anti-dilutive shares for the three and six-months ended June 30, 2023 that were excluded from the computation of EPS. The following table reconciles the computation of basic EPS to diluted EPS:

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the three-months ended June 30, 2024:			
Net earnings per share, basic	\$ 52,485	142,814,363	\$ 0.37
Effect of stock options and stock grants	—	274,567	—
Net earnings per share, diluted	<u>\$ 52,485</u>	<u>143,088,930</u>	<u>\$ 0.37</u>
For the three-months ended June 30, 2023:			
Net earnings per share, basic	\$ 50,873	142,700,905	\$ 0.36
Effect of stock options and stock grants	—	386,650	—
Net earnings per share, diluted	<u>\$ 50,873</u>	<u>143,087,555</u>	<u>\$ 0.36</u>
For the six-months ended June 30, 2024:			
Net earnings per share, basic	\$ 105,882	142,769,518	\$ 0.74
Effect of stock options and stock grants	—	297,675	—
Net earnings per share, diluted	<u>\$ 105,882</u>	<u>143,067,193</u>	<u>\$ 0.74</u>
For the six-months ended June 30, 2023:			
Net earnings per share, basic	\$ 103,441	142,683,322	\$ 0.72
Effect of stock options and stock grants	—	344,181	—
Net earnings per share, diluted	<u>\$ 103,441</u>	<u>143,027,503</u>	<u>\$ 0.72</u>

## Note 2 - Securities

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost, related gross unrealized gains and losses, allowance for credit losses and the fair value of available-for-sale securities are as follows (dollars in thousands):

	June 30, 2024			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ 352,682	\$ —	\$ (10,706)	\$ 341,976
Obligations of states and political subdivisions	1,584,389	420	(139,436)	1,445,373
Residential mortgage-backed securities	2,705,508	71	(389,494)	2,316,085
Commercial mortgage-backed securities	362,004	—	(11,982)	350,022
Corporate bonds and other	127,868	—	(8,300)	119,568
Total securities available-for-sale	<u>\$ 5,132,451</u>	<u>\$ 491</u>	<u>\$ (559,918)</u>	<u>\$ 4,573,024</u>

	June 30, 2023			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ 508,124	\$ —	\$ (24,348)	\$ 483,776
Obligations of states and political subdivisions	1,859,193	405	(166,634)	1,692,964
Residential mortgage-backed securities	2,875,699	2	(402,760)	2,472,941
Commercial mortgage-backed securities	331,829	—	(17,442)	314,387
Corporate bonds and other	112,507	—	(10,313)	102,194
Total securities available-for-sale	<u>\$ 5,687,352</u>	<u>\$ 407</u>	<u>\$ (621,497)</u>	<u>\$ 5,066,262</u>

	December 31, 2023			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ 496,975	\$ 4	\$ (14,745)	\$ 482,234
Obligations of states and political subdivisions	1,621,405	934	(125,182)	1,497,157
Residential mortgage-backed securities	2,716,968	7	(352,883)	2,364,092
Commercial mortgage-backed securities	295,663	—	(11,339)	284,324
Corporate bonds and other	112,670	—	(7,715)	104,955
Total securities available-for-sale	<u>\$ 5,243,681</u>	<u>\$ 945</u>	<u>\$ (511,864)</u>	<u>\$ 4,732,762</u>

The Company did not hold any securities classified as held-to-maturity at June 30, 2024, June 30, 2023, or December 31, 2023.

The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at June 30, 2024 and 2023, and December 31, 2023, were computed by using scheduled amortization of balances and historical prepayment rates.

The amortized cost and estimated fair value of available-for-sale securities at June 30, 2024, by contractual and expected maturity, are shown below (dollars in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	\$ 304,065	\$ 299,230
Due after one year through five years	1,709,307	1,576,132
Due after five years through ten years	2,143,482	1,856,004
Due after ten years	975,597	841,658
Total	<u>\$ 5,132,451</u>	<u>\$ 4,573,024</u>

The following tables disclose as of June 30, 2024 and 2023, and December 31, 2023, the Company's investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 or more months (dollars in thousands):

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>June 30, 2024</b>						
U.S. Treasury securities	\$ 1,448	\$ 12	\$ 340,528	\$ 10,694	\$ 341,976	\$ 10,706
Obligations of states and political subdivisions	32,423	320	1,391,496	139,117	\$ 1,423,919	139,437
Residential mortgage-backed securities	80,096	462	2,183,346	389,031	\$ 2,263,442	389,493
Commercial mortgage-backed securities	92,487	928	257,535	11,054	\$ 350,022	11,982
Corporate bonds and other	—	—	104,031	8,300	\$ 104,031	8,300
Total	<u>\$ 206,454</u>	<u>\$ 1,722</u>	<u>\$ 4,276,936</u>	<u>\$ 558,196</u>	<u>\$ 4,483,390</u>	<u>\$ 559,918</u>

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>June 30, 2023</b>						
U.S. Treasury securities	\$ 47,498	\$ 1,614	\$ 436,278	\$ 22,734	\$ 483,776	\$ 24,348
Obligations of states and political subdivisions	137,728	1,838	1,457,431	164,796	1,595,159	166,634
Residential mortgage-backed securities	68,439	3,609	2,403,837	399,151	2,472,276	402,760
Commercial mortgage-backed securities	99,347	4,771	215,040	12,671	314,387	17,442
Corporate bonds and other	38,042	1,282	64,152	9,031	102,194	10,313
Total	<u>\$ 391,054</u>	<u>\$ 13,114</u>	<u>\$ 4,576,738</u>	<u>\$ 608,383</u>	<u>\$ 4,967,792</u>	<u>\$ 621,497</u>

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>December 31, 2023</b>						
U.S. Treasury securities	\$ 3,477	\$ 7	\$ 477,306	\$ 14,738	\$ 480,783	\$ 14,745
Obligations of states and political subdivisions	11,855	34	1,427,975	125,148	1,439,830	125,182
Residential mortgage-backed securities	1,631	1	2,361,089	352,882	2,362,720	352,883
Commercial mortgage-backed securities	—	—	284,324	11,339	284,324	11,339
Corporate bonds and other	—	—	104,955	7,715	104,955	7,715
Total	<u>\$ 16,963</u>	<u>\$ 42</u>	<u>\$ 4,655,649</u>	<u>\$ 511,822</u>	<u>\$ 4,672,612</u>	<u>\$ 511,864</u>

The number of investments in an unrealized loss position totaled 828 at June 30, 2024. We believe any unrealized losses in the U.S. treasury securities, obligations of state and political subdivisions, residential and commercial mortgage-backed and asset-backed investment securities, and corporate bonds and other at June 30, 2024 and 2023, and December 31, 2023, are due to changes in interest rates and not credit-related events. As such, no allowance for credit losses is required on these securities at June 30, 2024 and 2023, and December 31, 2023. Unrealized losses on investment securities are expected to recover over time as these securities approach maturity. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies. At June 30, 2024, 66.94% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 56.54% are guaranteed by the Texas Permanent School Fund.

Securities, carried at approximately \$2,479,260,000 on June 30, 2024, were pledged as collateral for public or trust fund deposits, repurchase agreements, borrowings and for other purposes required or permitted by law.

During the three-months ended June 30, 2024, there were no sales of investment securities that were classified as available-for-sale. During the three-months ended June 30, 2023, sales of investment securities that were classified as available-for-sale were \$61,339,000. There were no gross realized security gains or losses from sales and calls during the second quarter of 2024. Gross realized security gains from sales and calls during the second quarter of 2023 totaled \$596,000. Gross realized security losses from sales or calls during the second quarter of 2023 totaled \$550,000.

During the six-months ended June 30, 2024, there were no sales of investment securities that were classified as available-for-sale. During the six-months ended June 30, 2023, sales of investment securities that were classified as available-for-sale were \$207,287,000. There were no gross realized security gains or losses from sales and calls during the six-months ended June 30, 2024. Gross realized security gains from sales and calls during the six-months ended June 30, 2023 totaled \$1,648,000. Gross realized security losses from sales or calls during the six-months ended June 30, 2023 totaled \$1,590,000.

The specific identification method was used to determine cost in order to compute the realized gains and losses.

**Note 3 – Loans Held-for-Investment and Allowance for Credit Losses**

For the periods ended June 30, 2024 and 2023, and December 31, 2023, the following tables outline the Company's loan portfolio by the ten portfolio segments where applicable.

Loans held-for-investment by portfolio segment are as follows (dollars in thousands):

	June 30, 2024	2023	December 31, 2023
<b>Commercial:</b>			
C&I	\$ 1,141,990	\$ 1,021,863	\$ 1,164,811
Municipal	359,124	215,977	214,850
Total Commercial	1,501,114	1,237,840	1,379,661
Agricultural	86,186	82,032	84,890
<b>Real Estate:</b>			
Construction & Development	986,394	915,221	963,158
Farm	318,597	335,644	344,954
Non-Owner Occupied CRE	815,713	811,347	827,969
Owner Occupied CRE	1,049,715	1,011,511	1,037,281
Residential	1,990,604	1,698,679	1,834,593
Total Real Estate	5,161,023	4,772,402	5,007,955
<b>Consumer:</b>			
Auto	615,192	534,603	521,859
Non-Auto	156,218	150,693	154,426
Total Consumer	771,410	685,296	676,285
Total Loans	7,519,733	6,777,570	7,148,791
Less: Allowance for credit losses	(95,170)	(86,541)	(88,734)
Loans, net	<u>\$ 7,424,563</u>	<u>\$ 6,691,029</u>	<u>\$ 7,060,057</u>

Outstanding loan balances at June 30, 2024 and 2023, and December 31, 2023, are net of unearned income, including net deferred loan fees.

At June 30, 2024, \$5,136,239,000 in loans held by our bank subsidiary were subject to blanket liens as security for a line of credit with the Federal Home Loan Bank of Dallas ("FHLB"). At June 30, 2024, this available line of credit was \$2,026,305,000. At June 30, 2024, there was \$786,500,000 used on the line advance for undisbursed commitments (letters of credit) used to secure public funds.

The Company's nonaccrual loans and loans still accruing and past due 90 days or more are as follows (dollars in thousands):

	June 30, 2024	2023	December 31, 2023
Nonaccrual loans	\$ 60,311	\$ 28,672	\$ 33,609
Loans still accruing and past due 90 days or more	231	552	1,004
Total nonperforming loans	<u>\$ 60,542</u>	<u>\$ 29,224</u>	<u>\$ 34,613</u>

The Company had \$61,189,000, \$29,249,000 and \$35,096,000 in nonaccrual, past due 90 days or more and still accruing, and foreclosed assets at June 30, 2024 and 2023, and December 31, 2023, respectively. Nonaccrual loans at June 30, 2024 and 2023, and December 31, 2023, consisted of the following (dollars in thousands):

	June 30, 2024	June 30, 2023	December 31, 2023
<b>Commercial:</b>			
C&I	\$ 4,080	\$ 4,818	\$ 4,132
Municipal	—	—	—
Total Commercial	4,080	4,818	4,132
Agricultural	2,028	133	155
<b>Real Estate:</b>			
Construction & Development	1,679	2,835	1,444
Farm	4,299	701	4,804
Non-Owner Occupied CRE	9,615	5,329	8,022
Owner Occupied CRE	31,606	7,308	6,822
Residential	5,984	6,769	7,649
Total Real Estate	53,183	22,942	28,741
<b>Consumer:</b>			
Auto	710	649	464
Non-Auto	310	130	117
Total Consumer	1,020	779	581
Total	<u>\$ 60,311</u>	<u>\$ 28,672</u>	<u>\$ 33,609</u>

No significant additional funds are committed to be advanced in connection with nonaccrual loans as of June 30, 2024.

Summary information on the allowance for credit losses for the three and six-months ended June 30, 2024 and 2023, are outlined by portfolio segment in the following tables (dollars in thousands):

	C&I	Municipal	Agricultural	Construction & Development	Farm
<b>Three-Months Ended June 30, 2024</b>					
Beginning balance	\$ 16,106	\$ 195	\$ 3,243	\$ 24,811	\$ 2,517
Provision for loan losses	(790)	44	(1,359)	(1,300)	385
Recoveries	177	—	46	—	—
Charge-offs	(242)	—	1	—	—
Ending balance	<u>\$ 15,251</u>	<u>\$ 239</u>	<u>\$ 1,931</u>	<u>\$ 23,511</u>	<u>\$ 2,902</u>

	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
<b>Three-Months Ended June 30, 2024 (continued)</b>						
Beginning balance	\$ 14,968	\$ 12,756	\$ 13,565	\$ 907	\$ 494	\$ 89,562
Provision for loan losses	(1,951)	8,260	2,112	406	103	5,910
Recoveries	24	38	2	89	24	400
Charge-offs	(13)	—	(11)	(329)	(108)	(702)
Ending balance	<u>\$ 13,028</u>	<u>\$ 21,054</u>	<u>\$ 15,668</u>	<u>\$ 1,073</u>	<u>\$ 513</u>	<u>\$ 95,170</u>

	C&I	Municipal	Agricultural	Construction & Development	Farm
<b>Three-Months Ended June 30, 2023</b>					
Beginning balance	\$ 16,083	\$ 1,067	\$ 1,214	\$ 28,627	\$ 1,937
Provision for loan losses	988	(880)	(153)	339	867
Recoveries	113	—	21	—	—
Charge-offs	(654)	—	—	—	—
Ending balance	<u>\$ 16,530</u>	<u>\$ 187</u>	<u>\$ 1,082</u>	<u>\$ 28,966</u>	<u>\$ 2,804</u>

	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
<b>Three-Months Ended June 30, 2023 (continued)</b>						
Beginning balance	\$ 9,051	\$ 11,948	\$ 9,702	\$ 857	\$ 332	\$ 80,818
Provision for loan losses	4,398	610	167	99	87	6,522
Recoveries	22	14	12	101	36	319
Charge-offs	—	—	(114)	(228)	(122)	(1,118)
Ending balance	<u>\$ 13,471</u>	<u>\$ 12,572</u>	<u>\$ 9,767</u>	<u>\$ 829</u>	<u>\$ 333</u>	<u>\$ 86,541</u>

		C&I	Municipal	Agricultural	Construction & Development	Farm
<u>Six-Months Ended June 30, 2024</u>						
Beginning balance	\$	15,698	\$ 195	\$ 1,281	\$ 28,553	\$ 2,914
Provision for loan losses		(289)	44	658	(5,009)	(12)
Recoveries		288	—	51	—	—
Charge-offs		(446)	—	(59)	(33)	—
Ending balance	\$	15,251	\$ 239	\$ 1,931	\$ 23,511	\$ 2,902

		Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non- Auto	Total
<u>Six-Months Ended June 30, 2024 (continued)</u>							
Beginning balance	\$	13,425	\$ 13,813	\$ 11,654	\$ 810	\$ 391	\$ 88,734
Provision for loan losses		(415)	7,161	3,925	790	313	7,166
Recoveries		31	80	100	201	71	822
Charge-offs		(13)	—	(11)	(728)	(262)	(1,552)
Ending balance	\$	13,028	\$ 21,054	\$ 15,668	\$ 1,073	\$ 513	\$ 95,170

		C&I	Municipal	Agricultural	Construction & Development	Farm
<u>Six-Months Ended June 30, 2023</u>						
Beginning balance	\$	16,129	\$ 1,026	\$ 1,041	\$ 26,443	\$ 1,957
Provision for loan losses		924	(839)	(181)	2,423	847
Recoveries		165	—	222	100	—
Charge-offs		(688)	—	—	—	—
Ending balance	\$	16,530	\$ 187	\$ 1,082	\$ 28,966	\$ 2,804

		Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non- Auto	Total
<u>Six-Months Ended June 30, 2023 (continued)</u>							
Beginning balance	\$	9,075	\$ 9,928	\$ 9,075	\$ 845	\$ 315	\$ 75,834
Provision for loan losses		4,349	2,623	791	169	123	11,229
Recoveries		47	21	15	233	81	884
Charge-offs		—	—	(114)	(418)	(186)	(1,406)
Ending balance	\$	13,471	\$ 12,572	\$ 9,767	\$ 829	\$ 333	\$ 86,541

Additionally, the Company records a reserve for unfunded commitments in other liabilities, which totaled \$7,433,000, \$9,448,000 and \$7,903,000 at June 30, 2024 and 2023, and December 31, 2023, respectively. The provision for loan losses of \$5,910,000 for the three-months ended June 30, 2024 is combined with the reversal of the provision for unfunded commitments of \$22,000 and reported in the net aggregate of \$5,888,000 under the provision for credit losses in the consolidated statement of earnings for the three-months ended June 30, 2024. The provision for loan losses of \$7,166,000 for the six-months ended June 30, 2024 is combined with the reversal of the provision for unfunded commitments of \$471,000 and reported in the net aggregate of \$6,695,000 under the provision for credit losses in the consolidated statement of earnings for the six-months ended June 30, 2024.

The \$6,522,000 provision for loan losses for the three-months ended June 30, 2023 above is combined with the reversal of provision for unfunded commitments of \$949,000 and reported in the aggregate of \$5,573,000 under the provision for credit losses for the three-months ended June 30, 2023. The \$11,229,000 provision for loan losses for the six-months ended June 30, 2023 above is combined with the reversal of provision for unfunded commitments of \$2,875,000 and reported in the aggregate of \$8,354,000 under the provision for credit losses for the six-months ended June 30, 2023.

The Company's loans that are individually evaluated for credit losses (both collateral and non-collateral dependent) and their related allowances as of June 30, 2024 and 2023, and December 31, 2023, are summarized in the following tables by loan segment (dollars in thousands):

	Collateral Dependent Loans Individually Evaluated for Credit Losses Without an Allowance	Collateral Dependent Loans Individually Evaluated for Credit Losses With an Allowance	Non-Collateral Dependent Loans Individually Evaluated for Credit Losses	Total Loans Individually Evaluated for Credit Losses	Related Allowance on Collateral Dependent Loans	Related Allowance on Non-Collateral Dependent Loans	Total Allowance for Credit Losses on Loans Individually Evaluated for Credit Losses
<b>June 30, 2024</b>							
<b>Commercial:</b>							
C&I	\$ 1,070	\$ 3,010	\$ 38,462	\$ 42,542	\$ 1,166	\$ 3,664	\$ 4,830
Municipal	—	—	559	559	—	—	—
Total Commercial	1,070	3,010	39,021	43,101	1,166	3,664	4,830
Agricultural	714	1,314	968	2,996	1,025	380	1,405
<b>Real Estate:</b>							
Construction & Development	1,104	575	25,002	26,681	57	1,751	1,808
Farm	—	4,299	5,496	9,795	429	454	883
Non-Owner Occupied CRE	2,327	7,288	20,881	30,496	1,150	1,777	2,927
Owner Occupied CRE	2,316	29,290	35,847	67,453	5,566	3,018	8,584
Residential	2,820	3,164	28,659	34,643	245	1,503	1,748
Total Real Estate	8,567	44,616	115,885	169,068	7,447	8,503	15,950
<b>Consumer:</b>							
Auto	—	710	2,373	3,083	1	5	6
Non-Auto	—	310	705	1,015	65	54	119
Total Consumer	—	1,020	3,078	4,098	66	59	125
Total	\$ 10,351	\$ 49,960	\$ 158,952	\$ 219,263	\$ 9,704	\$ 12,606	\$ 22,310
<b>June 30, 2023</b>							
<b>Commercial:</b>							
C&I	\$ 610	\$ 4,208	\$ 23,282	\$ 28,100	\$ 2,780	\$ 5,671	\$ 8,451
Municipal	—	—	1,507	1,507	—	—	—
Total Commercial	610	4,208	24,789	29,607	2,780	5,671	8,451
Agricultural	—	133	1,855	1,988	37	517	554
<b>Real Estate:</b>							
Construction & Development	2,672	163	21,787	24,622	15	2,194	2,209
Farm	578	123	7,038	7,739	18	1,117	1,135
Non-Owner Occupied CRE	2,062	3,267	27,112	32,441	421	2,502	2,923
Owner Occupied CRE	5,643	1,665	31,870	39,178	299	1,769	2,068
Residential	4,283	2,486	29,923	36,692	261	1,611	1,872
Total Real Estate	15,238	7,704	117,730	140,672	1,014	9,193	10,207
<b>Consumer:</b>							
Auto	29	620	1,571	2,220	1	2	3
Non-Auto	—	130	522	652	—	1	1
Total Consumer	29	750	2,093	2,872	1	3	4
Total	\$ 15,877	\$ 12,795	\$ 146,467	\$ 175,139	\$ 3,832	\$ 15,384	\$ 19,216

	Collateral Dependent Loans Individually Evaluated for Credit Losses Without an Allowance	Collateral Dependent Loans Individually Evaluated for Credit Losses With an Allowance	Non-Collateral Dependent Loans Individually Evaluated for Credit Losses	Total Loans Individually Evaluated for Credit Losses	Related Allowance on Collateral Dependent Loans	Related Allowance on Non-Collateral Dependent Loans	Total Allowance for Credit Losses on Loans Individually Evaluated for Credit Losses
<u>December 31, 2023</u>							
Commercial:							
C&I	\$ 1,322	\$ 2,810	\$ 18,633	\$ 22,765	\$ 1,363	\$ 4,495	\$ 5,858
Municipal	—	—	733	733	—	—	—
Total Commercial	1,322	2,810	19,366	23,498	1,363	4,495	5,858
Agricultural	57	98	1,304	1,459	50	700	750
Real Estate:							
Construction & Development	758	686	22,545	23,989	148	2,253	2,401
Farm	—	4,804	1,362	6,166	937	57	994
Non-Owner Occupied CRE	1,919	6,103	29,117	37,139	700	2,984	3,684
Owner Occupied CRE	4,661	2,161	35,746	42,568	232	1,431	1,663
Residential	3,909	3,740	30,257	37,906	360	1,799	2,159
Total Real Estate	11,247	17,494	119,027	147,768	2,377	8,524	10,901
Consumer:							
Auto	—	464	2,125	2,589	1	3	4
Non-Auto	—	117	782	899	—	60	60
Total Consumer	—	581	2,907	3,488	1	63	64
Total	<u>\$ 12,626</u>	<u>\$ 20,983</u>	<u>\$ 142,604</u>	<u>\$ 176,213</u>	<u>\$ 3,791</u>	<u>\$ 13,782</u>	<u>\$ 17,573</u>

The Company's allowance for loans that are individually evaluated for credit losses and collectively evaluated for credit losses as of June 30, 2024 and 2023, and December 31, 2023, are summarized in the following table by loan segment (dollars in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	C&I	Municipal	Agricultural	Construction & Development	Farm
<u>June 30, 2024</u>					
Loans individually evaluated for credit losses	\$ 4,830	\$ —	\$ 1,405	\$ 1,808	\$ 883
Loans collectively evaluated for credit losses	10,421	239	526	21,703	2,019
Total	<u>\$ 15,251</u>	<u>\$ 239</u>	<u>\$ 1,931</u>	<u>\$ 23,511</u>	<u>\$ 2,902</u>

	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
<u>June 30, 2024 (continued)</u>						
Loans individually evaluated for credit losses	\$ 2,927	\$ 8,584	\$ 1,748	\$ 6	\$ 119	\$ 22,310
Loans collectively evaluated for credit losses	10,101	12,470	13,920	1,067	394	72,860
Total	<u>\$ 13,028</u>	<u>\$ 21,054</u>	<u>\$ 15,668</u>	<u>\$ 1,073</u>	<u>\$ 513</u>	<u>\$ 95,170</u>

	C&I	Municipal	Agricultural	Construction & Development	Farm
<u>June 30, 2023</u>					
Loans individually evaluated for credit losses	\$ 8,451	\$ —	\$ 554	\$ 2,209	\$ 1,135
Loans collectively evaluated for credit losses	8,079	187	528	26,757	1,669
Total	<u>\$ 16,530</u>	<u>\$ 187</u>	<u>\$ 1,082</u>	<u>\$ 28,966</u>	<u>\$ 2,804</u>

	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
<u>June 30, 2023 (continued)</u>						
Loans individually evaluated for credit losses	\$ 2,923	\$ 2,068	\$ 1,872	\$ 3	\$ 1	\$ 19,216
Loans collectively evaluated for credit losses	10,548	10,504	7,895	826	332	67,325
Total	<u>\$ 13,471</u>	<u>\$ 12,572</u>	<u>\$ 9,767</u>	<u>\$ 829</u>	<u>\$ 333</u>	<u>\$ 86,541</u>



December 31, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	\$ 5,858	\$ —	\$ 750	\$ 2,401	\$ 994
Loans collectively evaluated for credit losses	9,840	195	531	26,152	1,920
Total	<u>\$ 15,698</u>	<u>\$ 195</u>	<u>\$ 1,281</u>	<u>\$ 28,553</u>	<u>\$ 2,914</u>

December 31, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	\$ 3,684	\$ 1,663	\$ 2,159	\$ 4	\$ 60	\$ 17,573
Loans collectively evaluated for credit losses	9,741	12,150	9,495	806	331	71,161
Total	<u>\$ 13,425</u>	<u>\$ 13,813</u>	<u>\$ 11,654</u>	<u>\$ 810</u>	<u>\$ 391</u>	<u>\$ 88,734</u>

The Company's recorded investment in loans as of June 30, 2024 and 2023, and December 31, 2023, related to the balance in the allowance for credit losses follows below (dollars in thousands):

June 30, 2024	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	\$ 42,542	\$ 559	\$ 2,996	\$ 26,681	\$ 9,795
Loans collectively evaluated for credit losses	1,099,448	358,565	83,190	959,713	308,802
Total	<u>\$ 1,141,990</u>	<u>\$ 359,124</u>	<u>\$ 86,186</u>	<u>\$ 986,394</u>	<u>\$ 318,597</u>

June 30, 2024 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	\$ 30,496	\$ 67,453	\$ 34,643	\$ 3,083	\$ 1,015	\$ 219,263
Loans collectively evaluated for credit losses	785,217	982,262	1,955,961	612,109	155,203	7,300,470
Total	<u>\$ 815,713</u>	<u>\$ 1,049,715</u>	<u>\$ 1,990,604</u>	<u>\$ 615,192</u>	<u>\$ 156,218</u>	<u>\$ 7,519,733</u>

June 30, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	\$ 28,100	\$ 1,507	\$ 1,988	\$ 24,622	\$ 7,739
Loans collectively evaluated for credit losses	993,763	214,470	80,044	890,599	327,905
Total	<u>\$ 1,021,863</u>	<u>\$ 215,977</u>	<u>\$ 82,032</u>	<u>\$ 915,221</u>	<u>\$ 335,644</u>

June 30, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	\$ 32,441	\$ 39,178	\$ 36,692	\$ 2,220	\$ 652	\$ 175,139
Loans collectively evaluated for credit losses	778,906	972,333	1,661,987	532,383	150,041	6,602,431
Total	<u>\$ 811,347</u>	<u>\$ 1,011,511</u>	<u>\$ 1,698,679</u>	<u>\$ 534,603</u>	<u>\$ 150,693</u>	<u>\$ 6,777,570</u>

December 31, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	\$ 22,765	\$ 733	\$ 1,459	\$ 23,989	\$ 6,166
Loans collectively evaluated for credit losses	1,142,046	214,117	83,431	939,169	338,788
Total	<u>\$ 1,164,811</u>	<u>\$ 214,850</u>	<u>\$ 84,890</u>	<u>\$ 963,158</u>	<u>\$ 344,954</u>

December 31, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	\$ 37,139	\$ 42,568	\$ 37,906	\$ 2,589	\$ 899	\$ 176,213
Loans collectively evaluated for credit losses	790,830	994,713	1,796,687	519,270	153,527	6,972,578
Total	<u>\$ 827,969</u>	<u>\$ 1,037,281</u>	<u>\$ 1,834,593</u>	<u>\$ 521,859</u>	<u>\$ 154,426</u>	<u>\$ 7,148,791</u>

From a credit risk standpoint, the Company rates its loans in one of five categories: (i) pass, (ii) special mention, (iii) substandard, (iv) doubtful or (v) loss (which are charged-off).

The ratings of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on our credits as part of our ongoing monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are felt to be inherent in each credit as of each reporting period. Our methodology is structured so that specific 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).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

The following summarizes the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at June 30, 2024 (dollars in millions):

June 30,	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>C&amp;I</b>								
Risk rating:								
Pass	\$ 340	\$ 431	\$ 201	\$ 65	\$ 29	\$ 33		\$ 1,099
Special mention	22							22
Substandard	11	3	2	2	1	2		21
Doubtful								—
Total	\$ 373	\$ 434	\$ 203	\$ 67	\$ 30	\$ 35	\$ —	\$ 1,142
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1

June 30,	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Municipal</b>								
Risk rating:								
Pass	\$ 148	\$ 31	\$ 80	\$ 14	\$ 9	\$ 76		\$ 358
Special mention								—
Substandard				1				1
Doubtful								—
Total	\$ 148	\$ 31	\$ 80	\$ 15	\$ 9	\$ 76	\$ —	\$ 359
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

June 30,	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Agricultural</b>								
Risk rating:								
Pass	\$ 38	\$ 36	\$ 5	\$ 3	\$ 1			\$ 83
Special mention								—
Substandard	3	—						3
Doubtful								—
Total	\$ 41	\$ 36	\$ 5	\$ 3	\$ 1	\$ —	\$ —	\$ 86
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Construction &amp; Development</b>								
Risk rating:								
Pass	\$ 304	\$ 350	\$ 215	\$ 60	\$ 17	\$ 13	\$ —	\$ 959
Special mention	6	2	2					10
Substandard	7	3	1	6				17
Doubtful								—
Total	<u>\$ 317</u>	<u>\$ 355</u>	<u>\$ 218</u>	<u>\$ 66</u>	<u>\$ 17</u>	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 986</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Farm</b>								
Risk rating:								
Pass	\$ 63	\$ 51	\$ 78	\$ 68	\$ 22	\$ 27		\$ 309
Special mention								—
Substandard		1	4		5			10
Doubtful								—
Total	<u>\$ 63</u>	<u>\$ 52</u>	<u>\$ 82</u>	<u>\$ 68</u>	<u>\$ 27</u>	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 319</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Non-Owner Occupied CRE</b>								
Risk rating:								
Pass	\$ 118	\$ 88	\$ 241	\$ 165	\$ 72	\$ 102		\$ 786
Special mention				1		3		4
Substandard	1	1	1	3	5	15		26
Doubtful								—
Total	<u>\$ 119</u>	<u>\$ 89</u>	<u>\$ 242</u>	<u>\$ 169</u>	<u>\$ 77</u>	<u>\$ 120</u>	<u>\$ —</u>	<u>\$ 816</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Owner Occupied CRE</b>								
Risk rating:								
Pass	\$ 62	\$ 148	\$ 293	\$ 200	\$ 105	\$ 175		\$ 983
Special mention	2	1		8		2		13
Substandard	1	2	32	4	2	13		54
Doubtful								—
Total	<u>\$ 65</u>	<u>\$ 151</u>	<u>\$ 325</u>	<u>\$ 212</u>	<u>\$ 107</u>	<u>\$ 190</u>	<u>\$ —</u>	<u>\$ 1,050</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Residential</b>								
Risk rating:								
Pass	\$ 286	\$ 409	\$ 407	\$ 292	\$ 143	\$ 264	\$ 155	\$ 1,956
Special mention		1	2	2	1	2	1	9
Substandard	1	4	4	2	3	9	3	26
Doubtful								—
Total	<u>\$ 287</u>	<u>\$ 414</u>	<u>\$ 413</u>	<u>\$ 296</u>	<u>\$ 147</u>	<u>\$ 275</u>	<u>\$ 159</u>	<u>\$ 1,991</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Auto</b>								
Risk rating:								
Pass	\$ 215	\$ 155	\$ 166	\$ 53	\$ 17	\$ 6		\$ 612
Special mention								—
Substandard			1	2				3
Doubtful								—
Total	<u>\$ 215</u>	<u>\$ 155</u>	<u>\$ 167</u>	<u>\$ 55</u>	<u>\$ 17</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 615</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Non-Auto</b>								
Risk rating:								
Pass	\$ 41	\$ 50	\$ 35	\$ 17	\$ 3	\$ 1	\$ 8	\$ 155
Special mention								—
Substandard		1						1
Doubtful								—
Total	<u>\$ 41</u>	<u>\$ 51</u>	<u>\$ 35</u>	<u>\$ 17</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 156</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Total Loans</b>								
Risk rating:								
Pass	\$ 1,615	\$ 1,749	\$ 1,721	\$ 937	\$ 418	\$ 697	\$ 163	\$ 7,300
Special mention	30	4	4	11	1	7	1	58
Substandard	24	15	45	20	16	39	3	162
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 1,669</u>	<u>\$ 1,768</u>	<u>\$ 1,770</u>	<u>\$ 968</u>	<u>\$ 435</u>	<u>\$ 743</u>	<u>\$ 167</u>	<u>\$ 7,520</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>

The following summarizes the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at June 30, 2023 (dollars in millions):

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>C&amp;I</b>								
Risk rating:								
Pass	\$ 333	\$ 468	\$ 105	\$ 44	\$ 18	\$ 26	\$ —	\$ 994
Special mention	8	1	—	—	1	—	—	10
Substandard	3	7	4	2	—	2	—	18
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 344</u>	<u>\$ 476</u>	<u>\$ 109</u>	<u>\$ 46</u>	<u>\$ 19</u>	<u>\$ 28</u>	<u>\$ —</u>	<u>\$ 1,022</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Municipal</b>								
Risk rating:								
Pass	\$ 11	\$ 84	\$ 17	\$ 14	\$ 1	87	\$ —	\$ 214
Special mention	—	—	—	—	1	—	—	1
Substandard	—	—	1	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 11</u>	<u>\$ 84</u>	<u>\$ 18</u>	<u>\$ 14</u>	<u>\$ 2</u>	<u>\$ 87</u>	<u>\$ —</u>	<u>\$ 216</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Agricultural</b>								
Risk rating:								
Pass	\$ 30	\$ 42	\$ 5	\$ 2	\$ 1	—	\$ —	\$ 80
Special mention	—	1	—	—	—	—	—	1
Substandard	—	1	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 30</u>	<u>\$ 44</u>	<u>\$ 5</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 82</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Construction &amp; Development</b>								
Risk rating:								
Pass	\$ 242	\$ 498	\$ 103	\$ 24	\$ 11	\$ 12	\$ —	\$ 890
Special mention	8	4	—	—	—	—	—	12
Substandard	4	8	1	—	—	—	—	13
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 254</u>	<u>\$ 510</u>	<u>\$ 104</u>	<u>\$ 24</u>	<u>\$ 11</u>	<u>\$ 12</u>	<u>\$ —</u>	<u>\$ 915</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Farm</b>								
Risk rating:								
Pass	\$ 63	\$ 126	\$ 78	\$ 26	\$ 9	\$ 26	\$ —	\$ 328
Special mention	—	—	—	5	—	—	—	5
Substandard	—	1	1	—	—	1	—	3
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 63	\$ 127	\$ 79	\$ 31	\$ 9	\$ 27	\$ —	\$ 336
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Non-Owner Occupied CRE</b>								
Risk rating:								
Pass	\$ 101	\$ 234	\$ 185	\$ 125	\$ 46	\$ 88	\$ —	\$ 779
Special mention	—	5	1	—	11	2	—	19
Substandard	—	1	4	1	2	5	—	13
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 101	\$ 240	\$ 190	\$ 126	\$ 59	\$ 95	\$ —	\$ 811
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Owner Occupied CRE</b>								
Risk rating:								
Pass	\$ 67	\$ 321	\$ 240	\$ 121	\$ 68	\$ 156	\$ —	\$ 973
Special mention	—	—	—	—	6	1	—	7
Substandard	2	5	1	1	6	17	—	32
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 69	\$ 326	\$ 241	\$ 122	\$ 80	\$ 174	\$ —	\$ 1,012
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Residential</b>								
Risk rating:								
Pass	\$ 228	\$ 461	\$ 335	\$ 172	\$ 73	\$ 255	\$ 138	\$ 1,662
Special mention	—	2	3	2	—	3	1	11
Substandard	1	6	4	3	2	8	2	26
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 229	\$ 469	\$ 342	\$ 177	\$ 75	\$ 266	\$ 141	\$ 1,699
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

<u>June 30,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Auto</b>								
Risk rating:								
Pass	\$ 110	\$ 265	\$ 99	\$ 39	\$ 16	\$ 4	\$ —	\$ 533
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	1	—	—	—	—	2
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 110</u>	<u>\$ 266</u>	<u>\$ 100</u>	<u>\$ 39</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 535</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Non-Auto</b>								
Risk rating:								
Pass	\$ 41	\$ 63	\$ 29	\$ 6	\$ 2	\$ 1	\$ 8	\$ 150
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 41</u>	<u>\$ 63</u>	<u>\$ 29</u>	<u>\$ 6</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 150</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>June 30,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Total Loans</b>								
Risk rating:								
Pass	\$ 1,226	\$ 2,562	\$ 1,196	\$ 573	\$ 245	\$ 655	\$ 146	\$ 6,603
Special mention	16	13	4	7	19	6	1	66
Substandard	10	30	17	7	10	33	2	109
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 1,252</u>	<u>\$ 2,605</u>	<u>\$ 1,217</u>	<u>\$ 587</u>	<u>\$ 274</u>	<u>\$ 694</u>	<u>\$ 149</u>	<u>\$ 6,778</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

The following summarizes the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at December 31, 2023 (dollars in millions):

<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>C&amp;I</b>								
Risk rating:								
Pass	\$ 720	\$ 276	\$ 73	\$ 36	\$ 14	\$ 23	\$ —	\$ 1,142
Special mention	1	1	—	—	1	—	—	3
Substandard	12	2	2	1	1	2	—	20
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 733</u>	<u>\$ 279</u>	<u>\$ 75</u>	<u>\$ 37</u>	<u>\$ 16</u>	<u>\$ 25</u>	<u>\$ —</u>	<u>\$ 1,165</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Municipal</b>								
Risk rating:								
Pass	\$ 25	\$ 83	\$ 15	\$ 10	\$ 1	\$ 80	\$ —	\$ 214
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	1	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 25	\$ 83	\$ 16	\$ 10	\$ 1	\$ 80	\$ —	\$ 215
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Agricultural</b>								
Risk rating:								
Pass	\$ 63	\$ 15	\$ 4	\$ 1	\$ 1	\$ —	\$ —	\$ 84
Special mention	—	—	—	—	—	—	—	—
Substandard	1	—	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 64	\$ 15	\$ 4	\$ 1	\$ 1	\$ —	\$ —	\$ 85
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Construction &amp; Development</b>								
Risk rating:								
Pass	\$ 515	\$ 311	\$ 78	\$ 20	\$ 9	\$ 6	\$ —	\$ 939
Special mention	8	2	—	—	—	—	—	10
Substandard	9	4	1	—	—	—	—	14
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 532	\$ 317	\$ 79	\$ 20	\$ 9	\$ 6	\$ —	\$ 963
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Farm</b>								
Risk rating:								
Pass	\$ 101	\$ 111	\$ 73	\$ 24	\$ 8	\$ 22	\$ —	\$ 339
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	5	—	1	—	6
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 101	\$ 111	\$ 73	\$ 29	\$ 8	\$ 23	\$ —	\$ 345
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —



<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Non-Owner Occupied CRE</b>								
Risk rating:								
Pass	\$ 167	\$ 232	\$ 172	\$ 106	\$ 41	\$ 73	\$ —	\$ 791
Special mention	—	5	1	—	—	2	—	8
Substandard	2	1	2	7	13	4	—	29
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 169	\$ 238	\$ 175	\$ 113	\$ 54	\$ 79	\$ —	\$ 828
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Owner Occupied CRE</b>								
Risk rating:								
Pass	\$ 154	\$ 305	\$ 217	\$ 114	\$ 62	\$ 142	\$ —	\$ 994
Special mention	1	1	4	—	1	1	—	8
Substandard	3	6	4	—	7	15	—	35
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 158	\$ 312	\$ 225	\$ 114	\$ 70	\$ 158	\$ —	\$ 1,037
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Residential</b>								
Risk rating:								
Pass	\$ 477	\$ 415	\$ 313	\$ 158	\$ 67	\$ 229	\$ 138	\$ 1,797
Special mention	1	2	2	2	—	3	1	11
Substandard	4	4	3	3	3	7	3	27
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 482	\$ 421	\$ 318	\$ 163	\$ 70	\$ 239	\$ 142	\$ 1,835
Year-to-Date Gross Charge-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Auto</b>								
Risk rating:								
Pass	\$ 195	\$ 212	\$ 74	\$ 26	\$ 10	\$ 2	\$ —	\$ 519
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	1	1	—	—	—	3
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 195	\$ 213	\$ 75	\$ 27	\$ 10	\$ 2	\$ —	\$ 522
Year-to-Date Gross Charge-Offs	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1

<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Non-Auto</b>								
Risk rating:								
Pass	\$ 71	\$ 47	\$ 22	\$ 4	\$ 1	\$ 1	\$ 7	\$ 153
Special mention	—	—	—	—	—	—	—	—
Substandard	1	—	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 72</u>	<u>\$ 47</u>	<u>\$ 22</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 154</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>December 31,</u>	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
<b>Total Loans</b>								
Risk rating:								
Pass	\$ 2,488	\$ 2,007	\$ 1,041	\$ 499	\$ 214	\$ 578	\$ 145	\$ 6,972
Special mention	11	11	7	2	2	6	1	40
Substandard	32	18	14	17	24	29	3	137
Doubtful	—	—	—	—	—	—	—	—
Total	<u>\$ 2,531</u>	<u>\$ 2,036</u>	<u>\$ 1,062</u>	<u>\$ 518</u>	<u>\$ 240</u>	<u>\$ 613</u>	<u>\$ 149</u>	<u>\$ 7,149</u>
Year-to-Date Gross Charge-Offs	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>

At June 30, 2024 and 2023, and December 31, 2023, the Company's past due loans are as follows (dollars in thousands):

	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
<u>June 30, 2024</u>							
Commercial:							
C&I	\$ 4,953	\$ 593	\$ 1,060	\$ 6,606	\$ 1,135,384	\$ 1,141,990	\$ —
Municipal	82	—	—	82	359,042	359,124	—
Total Commercial	5,035	593	1,060	6,688	1,494,426	1,501,114	—
Agricultural	1,158	997	119	2,274	83,912	86,186	—
Real Estate:							
Construction & Development	11,086	1,144	545	12,775	973,619	986,394	—
Farm	2,055	—	95	2,150	316,447	318,597	95
Non-Owner Occupied CRE	2,208	—	—	2,208	813,505	815,713	—
Owner Occupied CRE	3,478	27	1,335	4,840	1,044,875	1,049,715	—
Residential	14,705	1,416	1,369	17,490	1,973,114	1,990,604	—
Total Real Estate	33,532	2,587	3,344	39,463	5,121,560	5,161,023	95
Consumer:							
Auto	1,063	361	13	1,437	613,755	615,192	1
Non-Auto	354	135	149	638	155,580	156,218	135
Total Consumer	1,417	496	162	2,075	769,335	771,410	136
Total	<u>\$ 41,142</u>	<u>\$ 4,673</u>	<u>\$ 4,685</u>	<u>\$ 50,500</u>	<u>\$ 7,469,233</u>	<u>\$ 7,519,733</u>	<u>\$ 231</u>

June 30, 2023	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
<b>Commercial:</b>							
C&I	\$ 3,734	\$ 722	\$ 1,651	\$ 6,107	\$ 1,015,756	\$ 1,021,863	\$ 3
Municipal	215	—	—	215	215,762	215,977	—
Total Commercial	3,949	722	1,651	6,322	1,231,518	1,237,840	3
Agricultural	580	1,024	15	1,619	80,413	82,032	—
<b>Real Estate:</b>							
Construction & Development	14,390	2,062	—	16,452	898,769	915,221	—
Farm	776	205	372	1,353	334,291	335,644	—
Non-Owner Occupied CRE	1,395	—	2,988	4,383	806,964	811,347	—
Owner Occupied CRE	3,356	3,818	—	7,174	1,004,337	1,011,511	—
Residential	7,265	2,210	1,301	10,776	1,687,903	1,698,679	520
Total Real Estate	27,182	8,295	4,661	40,138	4,732,264	4,772,402	520
<b>Consumer:</b>							
Auto	574	118	14	706	533,897	534,603	—
Non-Auto	135	18	65	218	150,475	150,693	29
Total Consumer	709	136	79	924	684,372	685,296	29
Total	\$ 32,420	\$ 10,177	\$ 6,406	\$ 49,003	\$ 6,728,567	\$ 6,777,570	\$ 552

December 31, 2023	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
<b>Commercial:</b>							
C&I	\$ 8,789	\$ 1,624	\$ 1,700	\$ 12,113	\$ 1,152,698	\$ 1,164,811	\$ 141
Municipal	102	—	—	102	214,748	214,850	—
Total Commercial	8,891	1,624	1,700	12,215	1,367,446	1,379,661	141
Agricultural	850	246	4	1,100	83,790	84,890	—
<b>Real Estate:</b>							
Construction & Development	8,887	2,115	1,856	12,858	950,300	963,158	863
Farm	1,024	195	—	1,219	343,735	344,954	—
Non-Owner Occupied CRE	3,565	—	—	3,565	824,404	827,969	—
Owner Occupied CRE	2,818	240	1,823	4,881	1,032,400	1,037,281	—
Residential	12,293	828	2,816	15,937	1,818,656	1,834,593	—
Total Real Estate	28,587	3,378	6,495	38,460	4,969,495	5,007,955	863
<b>Consumer:</b>							
Auto	1,482	251	24	1,757	520,102	521,859	—
Non-Auto	341	51	—	392	154,034	154,426	—
Total Consumer	1,823	302	24	2,149	674,136	676,285	—
Total	\$ 40,151	\$ 5,550	\$ 8,223	\$ 53,924	\$ 7,094,867	\$ 7,148,791	\$ 1,004

\* The Company monitors commercial, agricultural and real estate loans after such loans are 15 days past due. Consumer loans are monitored after such loans are 30 days past due.

#### Modifications of receivables to debtors experiencing financial difficulty

On January 1, 2023, the Company adopted the accounting guidance in ASU 2022-02, which eliminates the recognition and measurement of a troubled debt restructuring ("TDR). Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, term extensions, interest rate reduction, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows.

An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses due to the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. During the six-months ended June 30, 2024 and 2023, respectively, loan modifications made to borrowers experiencing financial difficulty was insignificant.

#### Note 4 - Loans Held-for-Sale

Loans held-for-sale totaled \$19,668,000, \$19,220,000 and \$14,253,000 at June 30, 2024 and 2023, and December 31, 2023, respectively. At June 30, 2024 and 2023, and December 31, 2023, \$275,000, \$1,131,000 and \$3,176,000, respectively, are valued at the lower of cost or fair value, and the remaining amounts are valued under the fair value option.

These loans, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of the securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures (see Note 9). Interest income on mortgage loans held-for-sale is recognized based on the contractual rates and reflected in interest income on loans in the consolidated statements of earnings. The Company has no continuing ownership in any residential mortgage loans sold.

The Company originates certain mortgage loans for sale in the secondary market. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of these indemnities have been insignificant.

#### Note 5 - Derivative Financial Instruments

The Company enters into interest rate lock commitments ("IRLCs") with customers to originate residential mortgage loans at a specific interest rate that are ultimately sold in the secondary market. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.

The Company purchases forward mortgage-backed securities contracts to manage the changes in fair value associated with changes in interest rates related to a portion of the IRLCs. These instruments are typically entered into at the time the IRLC is made in the aggregate.

The fair values of IRLCs are based on current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (pull-through rate) net of estimated costs to originate the loan. The fair value of IRLCs is subject to change primarily due to changes in interest rates and the estimated pull-through rate. These commitments are classified as Level 3 in the fair value disclosures (see Note 9).

Forward mortgage-backed securities contracts are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilizes the exchange price or dealer market price for the particular derivative contract and these instruments are therefore classified as Level 2 in the fair value disclosures (see Note 9). The estimated fair values are subject to change primarily due to changes in interest rates. The impact of these forward contracts is included in gain on sale and fees on mortgage loans in the statement of earnings.

These financial instruments are not designated as hedging instruments for accounting purposes. All derivatives are carried at fair value in either other assets or other liabilities and are reflected in the gain on sale and fees on mortgage loans in the consolidated statement of earnings.

The following tables provide the outstanding notional balances and fair values of outstanding derivative positions (dollars in thousands):

	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
<b>June 30, 2024:</b>			
IRLCs	\$ 49,877	\$ 518	\$ —
Forward mortgage-backed securities trades	67,000	—	4
<b>June 30, 2023:</b>			
IRLCs	\$ 47,824	\$ 455	\$ —
Forward mortgage-backed securities trades	66,000	160	—
<b>December 31, 2023:</b>			
IRLCs	\$ 28,956	\$ 427	\$ —
Forward mortgage-backed securities trades	35,000	—	288

**Note 6 – Borrowings**

Borrowings consisted of the following (dollars in thousands):

	June 30,		December 31,
	2024	2023	2023
Securities sold under agreements with customers to repurchase	\$ 138,950	\$ 559,478	\$ 381,928
Federal funds purchased	2,650	7,125	1,100
Other borrowings	21,053	21,053	21,053
Total	<u>\$ 162,653</u>	<u>\$ 587,656</u>	<u>\$ 404,081</u>

Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which the Company pledges certain securities that have a fair value equal to at least the amount of the borrowings. The agreements mature daily and therefore the risk arising from a decline in the fair value of the collateral pledged is minimal. The securities pledged are mortgage-backed securities. These agreements do not include "right of set-off" provisions and therefore the Company does not offset such agreements for financial reporting purposes.

The Company renewed its loan agreement, effective June 30, 2023, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to \$25,000,000 on a revolving line of credit. There was no outstanding balance under the line of credit as of June 30, 2024.

During 2021, the Company began investing in qualifying Community Development Entities ("CDE") under the federal New Market Tax Credits ("NMTC") program. See Note 7 for further discussion of our activity and related balances on the consolidated balance sheets, including the \$21,053,000 in other borrowings shown above.

**Note 7 - Income Taxes**

Income tax expense was \$11,156,000 for the second quarter of 2024 as compared to \$11,754,000 for the same period in 2023. The Company's effective tax rates on pretax income were 17.53% and 18.77% for the second quarters of 2024 and 2023, respectively. Income tax expense was \$22,636,000 for the first six months of 2024 as compared to \$23,442,000 for the same period in 2023. The Company's effective tax rates on pretax income were 17.61% and 18.48% for the first six months of 2024 and 2023, respectively. The effective tax rates differ from the statutory federal tax rate of 21% primarily due to tax exempt interest income earned on certain investment securities and loans, the deductibility of dividends paid to our employee stock ownership plan, excess tax benefits for distributions under our deferred compensation plan and vesting of equity awards, and NMTC benefits.

*Low Income Housing Tax Credit Investments* - During 2021, the Company began investing in an affordable housing fund that will invest in real estate projects that qualify for the federal low-income housing tax credit ("LIHTC") program designed to promote private development of low income housing. The investments made by the fund will generate a return to the Company primarily through the realization of LIHTCs, and also through federal tax deductions generated from the ongoing operating losses from the investees of the fund. The Company's investment in the fund will be amortized through income tax expense using the proportional amortization method as related tax credits are utilized by the Company. The initial capital contribution commitment to the fund was for up to \$5,500,000. Contributions were \$1,289,000 at June 30, 2024, and \$218,000 at June 30, 2023, and \$615,000 at December 31, 2023, respectively, which is included in other assets on the consolidated balance sheet.

*New Market Tax Credit Investments* - During 2021, the Company began investing in qualifying CDEs under the federal NMTC program. NMTC investments are made through the third-party CDEs which are qualified through the U.S. Department of Treasury and receive periodic allocation of amounts under the NMTC program. NMTCs are generated from qualified investments by the CDEs utilizing equity investments made by a taxpayer, like the Company. Through these equity investments, the Company will receive the tax benefits from the NMTCs equal to 39% of the qualified investment from the CDE to qualifying eligible projects over a seven year period. The Company's equity investments in the CDEs is amortized using the proportional amortization method and related tax credits are allocated to the Company. At June 30, 2024, June 30, 2023, and December 31, 2023, the consolidated balance sheet of the Company included a \$18,000,000 loan to the investee in loans and the \$21,053,000 leveraged loan from the investee in other borrowings (see Note 6). At June 30, 2024 and 2023, and December 31, 2023, the consolidated balance sheet of the Company included CDE investments in other assets of \$25,085,000, \$26,281,000, and \$25,738,000, respectively.

## Note 8 - Stock Based Compensation

On April 27, 2021, the Company's shareholders approved the 2021 Omnibus Stock and Incentive Plan ("2021 Plan") and reserved 2,500,000 shares of the Company's common stock for issuance under this plan. At June 30, 2024, the Company had 1,614,517 shares of stock remaining for issuance under the plan. The 2021 Plan supersedes all prior stock option and restricted stock plans with shares previously reserved for issuance under such plans cancelled.

### Restricted Stock Units

Under the 2021 Plan, the Company grants restricted stock units under compensation arrangements for the benefit of employees, senior and executive officers and directors. Restricted stock unit grants are subject to time-based vesting. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the service conditions set forth in the grant agreements. The following table summarizes information about the changes in restricted stock units for the six-months ended June 30, 2024 and 2023.

	For the Six-Months Ended June 30,		2023	
	2024	Weighted Average Grant Date Fair Value	2023	Weighted Average Grant Date Fair Value
	Restricted Stock Units Outstanding		Restricted Stock Units Outstanding	
Balance at beginning of period	53,817	\$ 37.04	39,657	\$ 47.83
Grants	—	—	—	—
Vesting	—	—	—	—
Forfeited/expired	(2,389)	34.80	(2,888)	47.87
Balance at end of period	<u>51,428</u>	<u>\$ 37.14</u>	<u>36,769</u>	<u>\$ 47.83</u>

### Performance Stock Units

Also under the 2021 Plan, the Company awards performance-based restricted stock units ("PSUs") to employees, senior and executive officers, and directors. Under the terms of the award, the number of units that will vest and convert to shares of common stock will be based on the extent to which the Company achieves specific performance criteria during the fixed three-year performance period. The number of shares issued upon vesting will range from 0% to 200% of the PSUs granted. The PSUs vest at the end of a three-year period based 50% each on average adjusted earnings per share growth and return on average assets as reported, adjusted for unusual gains/losses, merger expenses, and other items as approved by the compensation committee of the Company's board of directors. Performance for each period is measured relative to other U.S. publicly traded banks with \$10 billion to \$50 billion in assets. Compensation expense for the PSUs will be estimated each period based on the fair value of the stock at the grant date and the most probable outcome of the performance condition, adjusted for the passage of time within the vesting period of the awards.

The following table summarizes information about the changes in PSUs as of and for the six-months ended June 30, 2024 and 2023.

	For the Six-Months Ended June 30,		2023	
	2024	Weighted Average Grant Date Fair Value	2023	Weighted Average Grant Date Fair Value
	Performance- Based Restricted Stock Units Outstanding		Performance- Based Restricted Stock Units Outstanding	
Balance at beginning of period	75,227	\$ 40.24	47,082	\$ 48.00
Grants	—	—	—	—
Vesting	(20,532)	48.91	—	—
Forfeited/expired	(2,493)	35.21	(3,456)	48.04
Balance at end of period	<u>52,202</u>	<u>\$ 37.07</u>	<u>43,626</u>	<u>\$ 48.00</u>

### Restricted Stock Awards

Under the 2021 Plan, the Company grants restricted stock awards under compensation arrangements for the benefit of employees, senior and executive officers and directors. Restricted stock awards are subject to time-based vesting. The total number of restricted stock awards granted represents the maximum number of shares of restricted stock eligible to vest based upon the service conditions set forth in the grant agreements.

The following table summarizes information about vested and unvested restricted stock.

	For the Six-Months Ended June 30,			
	2024		2023	
	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	25,190	\$ 27.79	24,813	\$ 36.21
Grants	22,950	30.51	25,190	27.79
Vesting	(25,190)	27.79	(17,682)	38.54
Forfeited/expired	—	—	(1,105)	29.70
Balance at end of period	<u>22,950</u>	<u>\$ 30.51</u>	<u>31,216</u>	<u>\$ 28.25</u>

The total fair value of restricted stock vested for the six-months ended June 30, 2024 and 2023, was \$1,418,000 and \$510,000, respectively.

The Company recorded restricted stock unit, performance-based restricted stock unit and restricted stock award expense for employees of \$391,000 and \$420,000 for the three-months ended June 30, 2024 and 2023, respectively. The Company recorded restricted stock unit, performance-based restricted stock unit and restricted stock award expense for employees of \$860,000 and \$779,000 for the six-months ended June 30, 2024 and 2023, respectively. The Company recorded director expense related to these restricted stock grants of \$175,000 and \$167,000, for the three-months ended June 30, 2024 and 2023, respectively. The Company recorded director expense related to these restricted stock grants of \$350,000 and \$317,000, for the six-months ended June 30, 2024 and 2023, respectively.

As of June 30, 2024 and 2023, there were \$2,478,000 and \$2,689,000, respectively, of total unrecognized compensation cost related to unvested restricted stock, restricted stock units and performance-based restricted stock units which is expected to be recognized over a weighted-average period of 1.06 years and 1.08 years, respectively. At June 30, 2024 and 2023, and December 31, 2023, there was \$122,000, \$92,000 and \$124,000, respectively, accrued in other liabilities related to dividends declared to be paid upon vesting.

### Stock Option Plans

Prior to the approval of the 2021 Plan, the 2012 Incentive Stock Option Plan (the "2012 Plan") provided for the granting of options to employees of the Company at prices not less than market value at the date of the grant. The 2012 Plan provided that options granted vest and are exercisable after two years from the date of grant and vest at a rate of 20% each year thereafter and have a 10-year term. The most recent grants from the 2021 Plan provided that 20% of the options granted vest and are exercisable after one year from the date of grant and the remaining options vest and are exercisable at a rate of 20% each year thereafter, or 33.3% of the options granted are vested and exercised after one year from the date of the grant and the remaining options are vested and exercised at a rate of 33.3% each year thereafter, and have a 10-year term. Shares are issued under the 2012 Plan and the 2021 Plan from available authorized shares. An analysis of stock option activity for the six-months ended June 30, 2024 is presented in the table and narrative below:

	Shares	Weighted-Average Ex. Price
Outstanding, December 31, 2023	1,552,249	\$ 30.45
Granted	—	—
Exercised	(91,414)	20.54
Cancelled	(54,795)	33.42
Outstanding, June 30, 2024	<u>1,406,040</u>	<u>30.97</u>
Exercisable, June 30, 2024	<u>850,354</u>	<u>\$ 26.23</u>

The options outstanding at June 30, 2024 had exercise prices ranging between \$16.95 and \$48.91. Stock options have been adjusted retroactively for the effects of stock dividends and splits.

The Company grants incentive stock options for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant to employees.

The Company recorded stock option expense totaling \$485,000 and \$445,000 for the three-months ended June 30, 2024 and 2023, respectively. The Company recorded stock option expense totaling \$969,000 and \$889,000 for the six-months ended June 30, 2024 and 2023, respectively.

As of June 30, 2024, there was \$4,232,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.33 years. The total fair value of shares vested during the six-months ended June 30, 2024 and 2023 was \$521,000 and \$1,048,000, respectively.

#### Note 9 - Fair Value Disclosures

The authoritative accounting guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The authoritative accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities classified as available-for-sale and trading are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, dealer quotes, market consensus prepayment speeds, credit information and the security's terms and conditions, among other items.

See Notes 4 and 5 related to the determination of fair value for loans held-for-sale, IRLCs and forward mortgage-backed securities trades.

There were no transfers between Level 2 and Level 3 during the three and six-months ended June 30, 2024 and 2023, and the year ended December 31, 2023.



The following table summarizes the Company's available-for-sale securities, loans held-for-sale, and derivatives which are measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

<b>June 30, 2024</b>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Available-for-sale investment securities:</b>				
U.S. Treasury securities	\$ 341,976	\$ —	\$ —	\$ 341,976
Obligations of state and political subdivisions	—	1,445,373	—	1,445,373
Corporate bonds	—	99,627	—	99,627
Residential mortgage-backed securities	—	2,316,085	—	2,316,085
Commercial mortgage-backed securities	—	350,022	—	350,022
Other securities	19,941	—	—	19,941
Total	\$ 361,917	\$ 4,211,107	\$ —	\$ 4,573,024
Loans held-for-sale	\$ —	\$ 19,393	\$ —	\$ 19,393
IRLCs	\$ —	\$ —	\$ 518	\$ 518
Forward mortgage-backed securities trades	\$ —	\$ (4)	\$ —	\$ (4)

<b>June 30, 2023</b>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Available-for-sale investment securities:</b>				
U.S. Treasury securities	\$ 483,776	\$ —	\$ —	\$ 483,776
Obligations of states and political subdivisions	—	1,692,964	—	1,692,964
Corporate bonds	—	98,280	—	98,280
Residential mortgage-backed securities	—	2,472,941	—	2,472,941
Commercial mortgage-backed securities	—	314,387	—	314,387
Other securities	3,914	—	—	3,914
Total	\$ 487,690	\$ 4,578,572	\$ —	\$ 5,066,262
Loans held-for-sale	\$ —	\$ 18,089	\$ —	\$ 18,089
IRLCs	\$ —	\$ —	\$ 455	\$ 455
Forward mortgage-backed securities trades	\$ —	\$ 160	\$ —	\$ 160

<b>December 31, 2023</b>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Available-for-sale investment securities:</b>				
U.S. Treasury securities	\$ 482,234	\$ —	\$ —	\$ 482,234
Obligations of state and political subdivisions	—	1,497,157	—	1,497,157
Corporate bonds	—	100,471	—	100,471
Residential mortgage-backed securities	—	2,364,092	—	2,364,092
Commercial mortgage-backed securities	—	284,324	—	284,324
Other securities	4,484	—	—	4,484
Total	\$ 486,718	\$ 4,246,044	\$ —	\$ 4,732,762
Loans held-for-sale	\$ —	\$ 11,077	\$ —	\$ 11,077
IRLCs	\$ —	\$ —	\$ 427	\$ 427
Forward mortgage-backed securities trades	\$ —	\$ (288)	\$ —	\$ (288)

The following table summarizes the Company's loans held-for-sale at fair value and the net unrealized gains as of the balance sheet dates shown below (dollars in thousands):

	June 30, 2024	June 30, 2023	December 31, 2023
Unpaid principal balance on loans held-for-sale	\$ 18,929	\$ 17,730	\$ 10,757
Net unrealized gains on loans held-for-sale	464	359	320
Loans held-for-sale at fair value	\$ 19,393	\$ 18,089	\$ 11,077

The following table summarizes the Company's gains on sale and fees of mortgage loans for the three and six-months ended June 30, 2024 and 2023 (dollars in thousand):

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2024	2023	2024	2023
Realized gain on sale and fees on mortgage loans*	\$ 3,779	\$ 3,429	\$ 6,359	\$ 6,288
Change in fair value on loans held-for-sale and IRLCs	(179)	(389)	172	145
Change in forward mortgage-backed securities trades	87	494	284	75
Total gain on sale of mortgage loans	<u>\$ 3,687</u>	<u>\$ 3,534</u>	<u>\$ 6,815</u>	<u>\$ 6,508</u>

\* This includes gains on loans held-for-sale carried under the fair value method and lower of cost or market.

No residential mortgage loans held-for-sale were 90 days or more past due or considered nonaccrual as of June 30, 2024, June 30, 2023, or December 31, 2023. No significant credit losses were recognized on mortgage loans held-for-sale for the three and six-months ended June 30, 2024 and 2023.

Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include other real estate owned, goodwill and other intangible assets, and other non-financial long-lived assets. Non-financial assets measured at fair value on a non-recurring basis during the six-months ended June 30, 2024 include other real estate owned which, subsequent to their initial transfer to other real estate owned from loans, were re-measured at fair value through a write-down included in gain (loss) on sale of foreclosed assets. During the reported periods, all fair value measurements for foreclosed assets utilized Level 2 inputs based on observable market data, generally third-party appraisals, or Level 3 inputs based on customized discounting criteria. These appraisals are evaluated individually and discounted as necessary due to the age of the appraisal, lack of comparable sales, expected holding periods of property or special use type of the property. Such discounts vary by appraisal based on the above factors but generally range from 5% to 25% of the appraised value. Re-evaluation of other real estate owned is performed at least annually as required by regulatory guidelines or more often if particular circumstances arise. There were no other real estate owned properties that were re-measured subsequent to their initial transfer to other real estate owned during the three and six-months ended June 30, 2024 and 2023.

At June 30, 2024 and 2023, and December 31, 2023, other real estate owned totaled \$629,000, \$15,000, and \$483,000, respectively.

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Cash and due from banks, federal funds sold, interest-bearing deposits in banks and accrued interest receivable and payable are liquid in nature and considered Levels 1 or 2 of the fair value hierarchy.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities and are considered Levels 2 and 3 of the fair value hierarchy. Financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value and are considered Level 1 of the fair value hierarchy.

The carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance were as follows (dollars in thousands).

	June 30, 2024		June 30, 2023		December 31, 2023		Fair Value Hierarchy
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	
Cash and due from banks	\$ 263,262	\$ 263,262	\$ 255,018	\$ 255,018	\$ 281,354	\$ 281,354	Level 1
Federal funds sold	2,800	2,800	—	—	—	—	Level 1
Interest-bearing demand deposits in banks	103,315	103,315	23,839	23,839	255,237	255,237	Level 1
Available-for-sale securities	4,573,024	4,573,024	5,066,262	5,066,262	4,732,762	4,732,762	Levels 1 and 2
Loans held-for-investment, net of allowance for credit losses	7,424,563	7,438,802	6,691,029	6,672,348	7,060,057	7,036,722	Level 3
Loans held-for-sale	19,668	19,686	19,220	19,264	14,253	14,378	Level 2
Accrued interest receivable	61,847	61,847	56,236	56,236	58,544	58,544	Level 2
Deposits with stated maturities	969,802	969,750	893,429	891,181	938,980	938,534	Level 2
Deposits with no stated maturities	10,439,355	10,439,355	9,914,131	9,914,131	10,199,320	10,199,320	Level 1
Repurchase Agreements	138,950	138,950	559,479	559,479	381,928	381,928	Level 2
Borrowings	23,703	23,703	28,177	28,177	22,153	22,153	Level 2
Accrued interest payable	10,092	10,092	8,155	8,155	10,215	10,215	Level 2
IRLCs	518	518	455	455	427	427	Level 3
Forward mortgage-backed securities trades asset (liability)	(4)	(4)	160	160	(288)	(288)	Level 2

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

### Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project," "could," "may," or "would" and similar expressions, as they relate to us or our management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited, to those discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023, under the heading "Risk Factors," and the following:

- general economic conditions, including our local, state and national real estate markets and employment trends;
- the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board");
- effect of severe weather conditions, including hurricanes, tornadoes, flooding and droughts;
- volatility and disruption in national and international financial and commodity markets;
- government intervention in the U.S. financial system including the effects of recent legislative, tax, accounting and regulatory actions and reforms, including the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau ("CFPB"), the Inflation Reduction Act of 2022, the capital ratios of Basel III as adopted by the federal banking authorities and the Tax Cuts and Jobs Act;
- political or social unrest and economic instability;
- the ability of the federal government to address the national economy;
- changes in our competitive environment from other financial institutions and financial service providers;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board ("PCAOB"), the Financial Accounting Standards Board ("FASB") and other accounting standard setters;
- effect of a pandemic, epidemic, or highly contagious disease, including the coronavirus ("COVID"), on our Company, the communities where we have our branches, the state of Texas and the United States, related to the economy and overall financial stability, including disruptions to supply channels and labor availability;
- government and regulatory responses to a pandemic, epidemic, or highly contagious disease, including COVID;
- the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply;
- the costs, effects and results of regulatory examinations, investigations or reviews and the ability to obtain required regulatory approvals;
- changes in the demand for loans, including loans originated for sale in the secondary market;
- fluctuations in the value of collateral securing our loan portfolio and in the level of the allowance for credit losses;
- the accuracy of our estimates of future credit losses;
- the accuracy of our estimates and assumptions regarding the performance of our securities portfolio, including securities with a current unrealized loss;
- inflation, interest rate, market and monetary fluctuations;
- soundness of other financial institutions with which we have transactions;
- changes in consumer spending, borrowing and savings habits;
- changes in commodity prices (e.g., oil and gas, cattle, and wind energy);
- our ability to attract deposits, maintain and/or increase market share;
- changes in our liquidity position, including a result of a reduction in the amount of sources of liquidity we currently have;
- fluctuations in the market value and liquidity of the investment securities we have classified as held-for-sale ("HFS"), including the effects of changes in market interest rates;
- changes in the reliability of our vendors, internal control system or information systems;
- cyber-attacks on our technology information systems, including fraud from our customers and external third-party vendors;
- our ability to attract and retain qualified employees;

- acquisitions and integration of acquired businesses;
- the possible impairment of goodwill and other intangibles associated with our acquisitions;
- consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors;
- expansion of operations, including branch openings, new product offerings and expansion into new markets;
- changes in our compensation and benefit plans;
- acts of God or of war or terrorism;
- the impact of changes to the global climate and its effect on our operations and customers;
- potential risk of environmental liability associated with lending activities;
- the rise of Artificial Intelligence as a commonly used resource; and
- our success at managing the risk involved in the foregoing items.

In addition, financial markets and global supply chains may continue to be adversely affected by the current or anticipated impact of military conflict, including the current Russian invasion of Ukraine, the Israel-Palestine conflict and other world events, terrorism or other geopolitical events.

Such forward-looking statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by law).

## **Introduction**

As a financial holding company, we generate most of our revenue from interest on loans and investments, trust fees, gain on sale of mortgage loans and service charges and fees on deposit accounts. Our primary source of funding for our loans and investments are deposits held by our bank subsidiary, First Financial Bank. Our largest expenses are interest on deposits and salaries and related employee benefits. We measure our performance by calculating our return on average assets, return on average equity, regulatory capital ratios, net interest margin and efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income.

The following discussion and analysis of operations and financial condition should be read in conjunction with the financial statements and accompanying footnotes included in Item 1 of this Form 10-Q as well as those included in the Company's 2023 Annual Report on Form 10-K.

## **Critical Accounting Policies**

We prepare consolidated financial statements based on generally accepted accounting principles ("GAAP") and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (i) the accounting estimate requires us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (ii) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

We deem our most critical accounting policies to be (i) our allowance for credit losses and our provision for credit losses and (ii) our valuation of financial instruments. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period. A discussion of (i) our allowance for credit losses and our provision for credit losses and (ii) our valuation of financial instruments is included in Note 1 to our Consolidated Financial Statements beginning on page 10.

## **Stock Repurchase**

On July 23, 2024, the Company's Board of Directors re-authorized the repurchase of up to 5 million common shares through July 31, 2025. The prior authorization had been in place since July 27, 2021. The stock repurchase plan authorizes management to repurchase and retire the stock at such time as repurchases and retirements are considered beneficial to the Company and stockholders. Any repurchase of stock will be made through the open market, block trades, or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Under the authorization effective through July 31, 2024, the Company repurchased and retired 101,337 shares (all during September 2023) at an average price of \$26.99 per share.

## Recent Developments

Effective April 22, 2024, First Financial Bank and First Financial Trust and Asset Management Company converted their charters to a Texas state banking association and a Texas chartered trust company, respectively. The Bank is now a Texas banking association chartered and regulated by the Texas Department of Banking and Trust Company is now a Texas trust company chartered and regulated by the Texas Department of Banking. The Bank will continue to be a member bank of the Federal Reserve system and maintain FDIC deposit insurance.

## Results of Operations

*Performance Summary.* Net earnings for the second quarter of 2024 were \$52.49 million compared to earnings of \$50.87 million for the second quarter of 2023. Diluted earnings per share was \$0.37 for the second quarter of 2024 and \$0.36 for the second quarter of 2023.

The return on average assets was 1.61% for the second quarter of 2024, as compared to 1.58% for the second quarter of 2023. The return on average equity was 14.43% for the second quarter of 2024 as compared to 14.89% for the second quarter of 2023.

Net earnings for the six-months ended June 30, 2024 were \$105.88 million compared to earnings of \$103.44 million for the six-months ended June 30, 2023. Diluted earnings per share was \$0.74 for the first six months of 2024 and \$0.72 for the first six months of 2023.

The return on average assets was 1.62% for the first six months of 2024, as compared to 1.62% for the first six months of 2023. The return on average equity was 14.43% for the first six-months of 2024, as compared to 15.58% for the same period in 2023.

*Net Interest Income.* Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits.

Tax-equivalent net interest income was \$105.85 million for the second quarter of 2024, as compared to \$98.82 million for the same period last year. The increase in 2024 tax equivalent net interest income compared to 2023 was largely attributable to the change in the mix of interest earning assets primarily derived from an increase in average loans offset by a decrease in taxable and tax-exempt investment securities. Additionally, the rates received on loans continued to increase along with the rates paid on deposits. Average earning assets were \$12.23 billion for the second quarter of 2024, as compared to \$12.05 billion during the second quarter of 2023. The increase of \$178.07 million in average earning assets for the second quarter of 2024 when compared to the same period in 2023 was primarily a result of (i) an increase in loans of \$722.02 million, offset by (ii) a decrease in tax-exempt securities of \$248.71 million, and (iii) a decrease in taxable investment securities of \$338.70 million. Average interest-bearing liabilities were \$8.26 billion for the second quarter of 2024, as compared to \$7.75 billion in the same period in 2023. The yield on earning assets increased 75 basis points while the rate paid on interest-bearing liabilities increased 75 basis points for the second quarter of 2024 compared to the second quarter of 2023.

Tax-equivalent net interest income was \$208.66 million for the six-months ended June 30, 2024 as compared to \$198.23 million for the same period in 2023. The increase in 2024 tax equivalent net interest income compared to 2023 was largely attributable to the change in the mix of interest earning assets primarily derived from an increase in average loans offset by a decrease in taxable and tax-exempt investment securities. Additionally, the rates received on loans continued to increase along with the rates paid on deposits. Average earning assets were \$12.30 billion for the six-months ended June 30, 2024, as compared to \$12.06 billion during the same period last year. The increase of \$237.08 million in average earning assets for the six-months ended June 30, 2024 when compared to the same period in 2023 was primarily a result of (i) an increase in loans of \$713.05 million, offset by (ii) a decrease in tax-exempt securities of \$282.10 million, and (iii) a decrease in taxable investment securities of \$317.09 million. Average interest-bearing liabilities were \$8.29 billion for the six-months ended June 30, 2024, as compared to \$7.73 billion in the same period in 2023. The yield on earning assets increased 75 basis points while the rate paid on interest-bearing liabilities increased 90 basis points for the six-months ended June 30, 2024 as compared to the six-months ended June 30, 2023.

Table 1 allocates the change in tax-equivalent net interest income between the amount of change attributable to volume and to rate.

**Table 1 - Changes in Interest Income and Interest Expense (dollars in thousands):**

	Three-Months Ended June 30, 2024 Compared to Three-Months Ended June 30, 2023			Six-Months Ended June 30, 2024 Compared to Six-Months Ended June 30, 2023		
	Change Attributable to Volume	Rate	Total Change	Change Attributable to Volume	Rate	Total Change
Short-term investments	\$ 568	\$ 215	\$ 783	\$ 2,982	\$ 863	\$ 3,845
Taxable investment securities	(1,890)	1,770	(120)	(3,565)	2,614	(951)
Tax-exempt investment securities (1)	(1,775)	(294)	(2,069)	(4,068)	(950)	(5,018)
Loans (1) (2)	10,646	15,050	25,696	20,335	33,509	53,844
Interest income	7,549	16,741	24,290	15,684	36,036	51,720
Interest-bearing deposits	3,857	16,928	20,785	6,235	37,990	44,225
Repurchase agreements	(2,476)	422	(2,054)	(3,763)	1,226	(2,537)
Borrowings	(1,314)	(156)	(1,470)	(373)	(23)	(396)
Interest expense	67	17,194	17,261	2,099	39,193	41,292
Net interest income	<u>\$ 7,482</u>	<u>\$ (453)</u>	<u>\$ 7,029</u>	<u>\$ 13,585</u>	<u>\$ (3,157)</u>	<u>\$ 10,428</u>

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 21%.

(2) Nonaccrual loans are included in loans.

The net interest margin, on a tax equivalent basis, was 3.48% for the second quarter of 2024, an increase of 19 basis points from the same period in 2023. The net interest margin, on a tax equivalent basis, for the first six-months of 2024 was 3.41%, an increase of 9 basis points from the same period in 2023. The net interest margin has expanded during the past year primarily due to (i) a shift in asset mix from investment securities to higher yielding loans, (ii) increased loan yields due to renewing loans and variable rate loans repricing higher. The Federal Reserve began aggressively increasing interest rates in March 2022 and continuing into 2023 with increases of 25 basis points in February, March, May, and July 2023, respectively, resulting in a target rate range of 5.25% to 5.50% at June 30, 2024. Loan rates on variable loans have increased as the majority of such loans are indexed to the applicable prime rate (currently 8.50% at June 30, 2024).

There are \$951.90 million of municipal and related deposits which are indexed to short-term treasury rates which have continued to increase with the changes in the applicable rate index. Average municipal and related deposits totaled \$1.51 billion and \$1.48 billion for the six-months ended June 30, 2024 and 2023, respectively, with an average rate paid of 3.98% and 2.62%, for the respective six-months then ended.

The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in Table 2.

**Table 2 - Average Balances and Average Yields and Rates (dollars in thousands, except percentages):**

	Three-Months Ended June 30,					
	Average Balance	2024 Income/ Expense	Yield/ Rate	Average Balance	2023 Income/ Expense	Yield/ Rate
<b>Assets</b>						
Short-term investments (1)	\$ 164,867	\$ 2,366	5.77 %	\$ 121,410	\$ 1,583	5.23 %
Taxable investment securities (2)	3,250,684	19,912	2.45	3,589,381	20,032	2.23
Tax-exempt investment securities (2)(3)	1,404,706	9,730	2.77	1,653,418	11,799	2.85
Loans (3)(4)	7,405,297	124,237	6.75	6,683,276	98,541	5.91
Total earning assets	12,225,554	\$ 156,245	5.14 %	12,047,485	\$ 131,955	4.39 %
Cash and due from banks	226,889			222,220		
Bank premises and equipment, net	152,414			152,712		
Other assets	251,818			232,881		
Goodwill and other intangible assets, net	314,394			315,192		
Allowance for credit losses	(89,796)			(80,721)		
Total assets	<u>\$ 13,081,273</u>			<u>\$ 12,889,769</u>		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing deposits	\$ 8,020,247	\$ 48,414	2.43 %	\$ 7,037,677	\$ 27,629	1.57 %
Repurchase agreements	212,590	1,895	3.59	570,071	3,949	2.78
Borrowings	22,932	91	1.60	145,000	1,561	4.32
Total interest-bearing liabilities	8,255,769	\$ 50,400	2.46 %	7,752,748	\$ 33,139	1.71 %
Noninterest-bearing deposits	3,289,906			3,704,143		
Other liabilities	72,464			62,227		
Total liabilities	11,618,139			11,519,118		
Shareholders' equity	1,463,134			1,370,651		
Total liabilities and shareholders' equity	<u>\$ 13,081,273</u>			<u>\$ 12,889,769</u>		
Net interest income (tax equivalent)		<u>\$ 105,845</u>			<u>\$ 98,816</u>	
<b>Rate Analysis:</b>						
Interest income/earning assets			5.14 %			4.39 %
Interest expense/earning assets			(1.66)			(1.10)
Net interest margin			<u>3.48 %</u>			<u>3.29 %</u>

(1) Short-term investments are comprised of federal funds sold, interest-bearing deposits in banks and interest-bearing time deposits in banks.

(2) Average balances include unrealized gains and losses on available-for-sale securities.

(3) Includes tax equivalent yield adjustment of approximately \$2.57 million and \$2.95 million in the second quarters of 2024 and 2023, respectively, using an effective tax rate of 21% for both periods.

(4) Includes nonaccrual loans.



	Six-Months Ended June 30,					
	Average Balance	2024 Income/ Expense	Yield/ Rate	Average Balance	2023 Income/ Expense	Yield/ Rate
<b>Assets</b>						
Short-term investments (1)	\$ 256,879	\$ 7,079	5.54 %	\$ 133,662	\$ 3,234	4.87 %
Taxable investment securities (2)	3,313,504	39,864	2.41	3,630,591	40,815	2.25
Tax-exempt investment securities (2)(3)	1,419,606	19,524	2.75	1,701,707	24,542	2.88
Loans (3)(4)	7,305,361	241,846	6.66	6,592,310	188,002	5.75
Total earning assets	12,295,350	\$ 308,313	5.04 %	12,058,270	\$ 256,593	4.29 %
Cash and due from banks	236,835			232,160		
Bank premises and equipment, net	151,865			153,017		
Other assets	246,397			230,712		
Goodwill and other intangible assets, net	314,471			315,300		
Allowance for credit losses	(89,266)			(78,436)		
Total assets	<u>\$ 13,155,652</u>			<u>\$ 12,911,023</u>		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing deposits	\$ 7,949,170	\$ 93,666	2.37 %	\$ 7,058,979	\$ 49,441	1.41 %
Repurchase agreements	265,014	4,457	3.38	573,672	6,994	2.46
Borrowings	77,947	1,530	3.95	96,680	1,926	4.02
Total interest-bearing liabilities	8,292,131	\$ 99,653	2.42 %	7,729,331	\$ 58,361	1.52 %
Noninterest-bearing deposits	3,318,332			3,781,876		
Other liabilities	69,300			61,134		
Total liabilities	11,679,763			11,572,341		
Shareholders' equity	1,475,889			1,338,682		
Total liabilities and shareholders' equity	<u>\$ 13,155,652</u>			<u>\$ 12,911,023</u>		
Net interest income (tax equivalent)		<u>\$ 208,660</u>			<u>\$ 198,232</u>	
<b>Rate Analysis:</b>						
Interest income/earning assets			5.04 %			4.29 %
Interest expense/earning assets			(1.63)			(0.97)
Net interest margin			<u>3.41 %</u>			<u>3.32 %</u>

(1) Short-term investments are comprised of federal funds sold, interest-bearing deposits in banks and interest-bearing time deposits in banks.

(2) Average balances include unrealized gains and losses on available-for-sale securities.

(3) Includes tax equivalent yield adjustment of approximately \$5.15 million and \$6.08 million in the first six months of 2024 and 2023, respectively, using an effective tax rate of 21% for both periods.

(4) Includes nonaccrual loans.

**Noninterest Income.** Noninterest income for the second quarter of 2024 was \$31.27 million compared to \$29.95 million in the same quarter of 2023. Trust fees increased to \$11.71 million for the second quarter of 2024 compared to \$9.88 million for the second quarter of 2023, driven by the increase in market value of trust assets managed to \$10.24 billion at June 30, 2024, compared to \$9.28 billion at June 30, 2023. Debit card fees decreased to \$5.15 million for the second quarter of 2024 compared with \$6.72 million for the second quarter of 2023, due to annual incentives of \$1.53 million that were recognized during the second quarter of 2023. Annual incentives are being recognized throughout the year in 2024. Mortgage related income increased to \$3.69 million for the second quarter of 2024 compared to \$3.53 million in the second quarter of 2023 due to a slight increase in mortgage loans originated.

Noninterest income for the first six months of 2024 was \$60.65 million compared to \$57.95 million in the same period of 2023. Trust fees increased to \$23.09 million for the first six months of 2024 compared to \$19.73 million for the first six months of 2023, driven by the increase in market value of trust assets managed to \$10.24 billion at June 30, 2024, compared to \$9.28 billion at June 30, 2023. Debit card fees decreased to \$10.04 million for the first six months of 2024 compared with \$11.66 million for the first six months of 2023, due to annual incentives of \$1.53 million that were recognized during the second quarter of 2023. Annual incentives are being recognized throughout the year in 2024. Mortgage related income increased to \$6.82 million for the first six months of 2024 compared to \$6.51 million in the same period in 2023 due to a slight increase in mortgage loans originated.

**Table 3 - Noninterest Income (dollars in thousands):**

	Three-Months Ended June 30,			Six-Months Ended June 30,		
	2024	Increase (Decrease)	2023	2024	Increase (Decrease)	2023
Trust fees	\$ 11,714	\$ 1,831	\$ 9,883	\$ 23,093	\$ 3,365	\$ 19,728
Service charges on deposit accounts	6,009	(301)	6,310	12,255	(91)	12,346
Debit card fees	5,145	(1,575)	6,720	10,036	(1,620)	11,656
Credit card fees	672	(39)	711	1,303	(17)	1,320
Gain on sale and fees on mortgage loans	3,687	153	3,534	6,815	307	6,508
Net gain on sale of available-for-sale securities	—	(46)	46	—	(58)	58
Net gain (loss) on sale of foreclosed assets	(58)	(57)	(1)	(58)	(91)	33
Net gain on sale of assets	2	2	—	2	(928)	930
Interest on loan recoveries	664	189	475	1,219	398	821
Other:						
Check printing fees	23	1	22	34	(8)	42
Safe deposit rental fees	176	(11)	187	439	(28)	467
Credit life fees	462	328	134	689	414	275
Brokerage commissions	446	70	376	838	104	734
Wire transfer fees	457	40	417	895	91	804
Miscellaneous income	1,869	736	1,133	3,091	859	2,232
Total other	3,433	1,164	2,269	5,986	1,432	4,554
Total Noninterest Income	<u>\$ 31,268</u>	<u>\$ 1,321</u>	<u>\$ 29,947</u>	<u>\$ 60,651</u>	<u>\$ 2,697</u>	<u>\$ 57,954</u>

**Noninterest Expense.** Total noninterest expense for the second quarter of 2024 was \$65.01 million, compared to \$57.61 million for the same period of 2023. An important measure in determining whether a financial institution effectively manages noninterest expense is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Lower ratios indicate better efficiency since more income is generated with a lower noninterest expense total. Our efficiency ratio was 47.41% for the second quarter of 2024 compared to 44.74% for the same quarter in 2023.

Salaries, commissions and employee benefits for the second quarter of 2024 totaled \$37.47 million, compared to \$31.77 million for the same period in 2023. The net increase was primarily a result of merit-based and market driven pay increases, performance-based incentive accruals, an increase of \$1.93 million in profit sharing expense and an increase of \$1.33 million in medical insurance expense.

All other categories of noninterest expense for the second quarter of 2024 totaled \$27.54 million, compared to \$25.85 million in the same quarter a year ago. Noninterest expense, excluding salary related costs, for the three-months ended June 30, 2024 increased largely due to increases in software amortization and expense, legal expenses and professional and service fees when compared to the same period in 2023.

Total noninterest expense for the first six months of 2024 was \$128.95 million, compared to \$114.87 million for the same period of 2023. Our efficiency ratio was 47.88% for the first six months of 2024 compared to 44.84% for the same period in 2023.

Salaries, commissions and employee benefits for the first six months of 2024 totaled \$74.16 million, compared to \$63.23 million for the same period in 2023. The net increase was primarily a result of merit-based and market driven pay increases, performance based incentive accruals, an increase of \$3.58 million in profit sharing expense and an increase of \$2.62 million in medical insurance expense.

All other categories of noninterest expense for the six-months ended June 30, 2024 totaled \$54.80 million, compared to \$51.64 million in the same period a year ago. Noninterest expense, excluding salary related costs, for the six-months ended June 30, 2024 increased largely due to increases in software amortization and expense, legal expenses, professional and service fees and FDIC insurance fees. An additional \$440 thousand was accrued in the first quarter of 2024 for the FDIC special assessment over the Company's regular accrual.

**Table 4 - Noninterest Expense (dollars in thousands):**

	Three-Months Ended June 30,			Six-Months Ended June 30,		
	2024	Increase (Decrease)	2023	2024	Increase (Decrease)	2023
Salaries, commissions and incentives (excluding mortgage)	\$ 26,276	\$ 2,246	\$ 24,030	\$ 51,533	\$ 4,173	\$ 47,360
Mortgage salaries and incentives	2,296	84	2,212	4,296	187	4,109
Medical	3,236	1,331	1,905	6,841	2,617	4,224
Profit sharing	1,903	1,933	(30)	3,583	3,583	—
401(k) match expense	987	23	964	1,975	42	1,933
Payroll taxes	1,898	78	1,820	4,098	164	3,934
Stock based compensation	876	11	865	1,829	162	1,667
Total salaries and employee benefits	37,472	5,706	31,766	74,155	10,928	63,227
Net occupancy expense	3,618	195	3,423	7,088	235	6,853
Equipment expense	2,233	35	2,198	4,470	145	4,325
FDIC insurance premiums	1,508	91	1,417	3,473	402	3,071
Debit card expense	3,242	21	3,221	6,300	(120)	6,420
Professional and service fees	2,828	431	2,397	5,224	462	4,762
Printing, stationery and supplies	425	(315)	740	872	(578)	1,450
Operational and other losses	769	(87)	856	1,923	136	1,787
Software amortization and expense	3,158	639	2,519	6,163	1,333	4,830
Amortization of intangible assets	157	(71)	228	314	(142)	456
Other:						
Data processing fees	595	104	491	1,213	227	986
Postage	365	20	345	750	32	718
Advertising	741	(148)	889	1,456	(26)	1,482
Correspondent bank service charges	233	12	221	473	37	436
Telephone	774	(20)	794	1,619	(5)	1,624
Public relations and business development	725	(175)	900	1,464	(318)	1,782
Directors' fees	706	80	626	1,405	113	1,292
Audit and accounting fees	529	(113)	642	938	(326)	1,264
Legal fees and other related costs	905	536	369	1,166	555	611
Regulatory exam fees	315	5	310	629	8	621
Travel	456	(16)	472	839	(78)	917
Courier expense	337	22	315	644	51	593
Other real estate owned	(19)	(30)	11	33	22	11
Other miscellaneous expense	2,940	477	2,463	6,341	990	5,351
Total other	9,602	754	8,848	18,970	1,282	17,688
Total Noninterest Expense	<u>\$ 65,012</u>	<u>\$ 7,399</u>	<u>\$ 57,613</u>	<u>\$ 128,952</u>	<u>\$ 14,083</u>	<u>\$ 114,869</u>

#### Balance Sheet Review

**Loans.** The portfolio is comprised of loans made to businesses, professionals, individuals, and farm and ranch operations located in the primary trade areas served by our subsidiary bank. As of June 30, 2024, total loans held-for-investment were \$7.52 billion, an increase of \$370.94 million, as compared to December 31, 2023.

As compared to year-end 2023 balances, total real estate loans increased \$153.07 million, total consumer loans increased \$95.13 million, total commercial loans increased \$121.45 million, and agricultural loans increased \$1.30 million. Loans averaged \$7.41 billion for the second quarter of 2024, an increase of \$722.02 million over the prior year second quarter average balances. Loans averaged \$7.31 billion for the first six months of 2024, an increase of \$713.05 million from the prior year six-month period average balances.

Loan portfolio segments include C&I, Municipal, Agricultural, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied CRE, Residential, Consumer Auto and Consumer Non-Auto. This segmentation allows for a more precise pooling of loans with similar credit risk characteristics and credit monitor procedures for the Company's calculation of its allowance for credit losses.

Table 5 outlines the composition of the Company's held-for-investment loans by portfolio segment.

**Table 5 - Composition of Loans Held-for-Investment (dollars in thousands):**

	2024	June 30, 2023	December 31, 2023
Commercial:			
C&I	\$ 1,141,990	\$ 1,021,863	\$ 1,164,811
Municipal	359,124	215,977	214,850
Total Commercial	1,501,114	1,237,840	1,379,661
Agricultural	86,186	82,032	84,890
Real Estate:			
Construction & Development	986,394	915,221	963,158
Farm	318,597	335,644	344,954
Non-Owner Occupied CRE	815,713	811,347	827,969
Owner Occupied CRE	1,049,715	1,011,511	1,037,281
Residential	1,990,604	1,698,679	1,834,593
Total Real Estate	5,161,023	4,772,402	5,007,955
Consumer:			
Auto	615,192	534,603	521,859
Non-Auto	156,218	150,693	154,426
Total Consumer	771,410	685,296	676,285
Total	<u>\$ 7,519,733</u>	<u>\$ 6,777,570</u>	<u>\$ 7,148,791</u>

Loans held-for-sale, consisting of secondary market mortgage loans, totaled \$19.67 million, \$19.22 million, and \$14.25 million at June 30, 2024 and 2023, and December 31, 2023, respectively. At June 30, 2024 and 2023, and December 31, 2023, \$275 thousand, \$1.13 million and \$3.18 million, respectively, are valued using the lower of cost or fair value, and the remaining amounts are valued under the fair value option.

Commercial real estate loans (owner and non-owner occupied CRE) represent 24.81% of the Company's total loan portfolio as of June 30, 2024. Non-owner occupied CRE represents \$815.71 million, or 10.85%, of the Company's total loan portfolio as of June 30, 2024. The properties securing this portfolio are diverse as to geographic location in Texas as well as industry type. Collateral for CRE loans is located throughout the Company's markets in central west Texas, the Dallas-Fort Worth metroplex and southeast Texas with less than 1% of properties located outside of the state. The largest concentrations in the CRE portfolio as to type are industrial/warehouse at approximately 15.25% and multifamily at approximately 8.74% as of June 30, 2024. All additional property type categories are 5% or less of the CRE portfolio. Credit underwriting standards are periodically reviewed and adjusted based upon observations from our ongoing monitoring of economic conditions in our lending areas. In response to the current interest rate environment and increases in benchmark rates, the Company has enhanced stress testing and loan review activities to mitigate interest rate reset risk with a specific emphasis on borrowers' abilities to absorb the impact of higher interest rates on loans.

The following tables summarize maturity information of our loan portfolio as of June 30, 2024. The tables also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index.

**Maturity Distribution and Interest Sensitivity of Loans at June 30, 2024 (dollars in thousands):**

	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
<b>Total Loans Held-for-Investment:</b>					
Commercial:					
C&I	\$ 449,804	\$ 553,489	\$ 113,991	\$ 24,706	\$ 1,141,990
Municipal	116,515	68,157	117,444	57,008	359,124
Total Commercial	566,319	621,646	231,435	81,714	1,501,114
Agricultural	67,646	16,589	1,951	—	86,186
Real Estate:					
Construction & Development	415,905	228,631	225,098	116,760	986,394
Farm	20,957	39,080	152,790	105,770	318,597
Non-Owner Occupied CRE	105,001	202,883	395,655	112,174	815,713
Owner Occupied CRE	52,775	296,483	499,324	201,133	1,049,715
Residential	157,345	116,972	790,780	925,507	1,990,604
Total Real Estate	751,983	884,049	2,063,647	1,461,344	5,161,023
Consumer:					
Auto	7,019	577,327	30,846	—	615,192
Non-Auto	37,378	88,519	24,334	5,987	156,218
Total Consumer	44,397	665,846	55,180	5,987	771,410
Total	\$ 1,430,345	\$ 2,188,130	\$ 2,352,213	\$ 1,549,045	\$ 7,519,733
% of Total Loans	19.02 %	29.10 %	31.28 %	20.60 %	100.00 %

	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
<b>Loans with fixed interest rates:</b>					
Commercial:					
C&I	\$ 75,592	\$ 314,747	\$ 12,416	\$ N/A	\$ 402,755
Municipal	3,180	67,490	87,380	10,744	168,794
Total Commercial	78,772	382,237	99,796	10,744	571,549
Agricultural	4,854	11,949	121	—	16,924
Real Estate:					
Construction & Development	167,998	140,566	39,398	4,675	352,637
Farm	6,006	31,036	86,163	6,762	129,967
Non-Owner Occupied CRE	37,405	143,754	72,469	7,349	260,977
Owner Occupied CRE	31,387	168,137	36,996	3,935	240,455
Residential	88,171	92,227	492,866	118,602	791,866
Total Real Estate	330,967	575,720	727,892	141,323	1,775,902
Consumer:					
Auto	7,019	577,327	30,846	—	615,192
Non-Auto	33,979	87,837	24,033	3,218	149,067
Total Consumer	40,998	665,164	54,879	3,218	764,259
Total	\$ 455,591	\$ 1,635,070	\$ 882,688	\$ 155,285	\$ 3,128,634
% of Total Loans	6.06 %	21.74 %	11.74 %	2.07 %	41.61 %

Loans with variable interest rates:	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
Commercial:					
C&I	\$ 374,212	\$ 238,742	\$ 101,575	\$ 24,706	\$ 739,235
Municipal	113,335	667	30,064	46,264	190,330
Total Commercial	487,547	239,409	131,639	70,970	929,565
Agricultural	62,792	4,640	1,830	—	69,262
Real Estate:					
Construction & Development	247,907	88,065	185,700	112,085	633,757
Farm	14,951	8,044	66,627	99,008	188,630
Non-Owner Occupied CRE	67,596	59,129	323,186	104,825	554,736
Owner Occupied CRE	21,388	128,346	462,328	197,198	809,260
Residential	69,174	24,745	297,914	806,905	1,198,738
Total Real Estate	421,016	308,329	1,335,755	1,320,021	3,385,121
Consumer:					
Auto	—	—	—	—	—
Non-Auto	3,399	682	301	2,769	7,151
Total Consumer	3,399	682	301	2,769	7,151
Total	\$ 974,754	\$ 553,060	\$ 1,469,525	\$ 1,393,760	\$ 4,391,099
% of Total Loans	12.96 %	7.36 %	19.54 %	18.53 %	58.39 %

Of the \$4.39 billion of variable interest rate loans shown above, loans totaling \$1.82 billion mature or reprice over the next twelve months. Of this amount, approximately \$1.49 billion will reprice immediately upon changes in the underlying index rate (primarily U.S. prime rate) with the remaining \$329.70 million being subject to floors above or ceilings below the current index.

*Asset Quality.* Our loan portfolio is subject to periodic reviews by our centralized independent loan review group as well as periodic examinations by bank regulatory agencies. Loans are placed on nonaccrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Nonaccrual, past due 90 days or more and still accruing, and foreclosed assets were \$61.19 million at June 30, 2024, as compared to \$29.25 million at June 30, 2023 and \$35.10 million at December 31, 2023. As a percent of loans held-for-investment and foreclosed assets, these assets were 0.81% at June 30, 2024, 0.43% at June 30, 2023, and 0.49% at December 31, 2023. As a percent of total assets, these assets were 0.46% at June 30, 2024, as compared to 0.23% at June 30, 2023 and 0.27% at December 31, 2023, respectively. We believe the level of these assets to be manageable and are not aware of any material classified credits not properly disclosed as nonperforming at June 30, 2024.

**Table 6 – Nonaccrual, Past Due 90 Days or More and Still Accruing, and Foreclosed Assets (dollars in thousands, except percentages):**

	June 30,		December 31,	
	2024	2023	2023	
Nonaccrual loans	\$ 60,311	\$ 28,672	\$ 33,609	
Loans still accruing and past due 90 days or more	231	552	1,004	
Total nonperforming loans	60,542	29,224	34,613	
Foreclosed assets	647	25	483	
Total nonperforming assets	\$ 61,189	\$ 29,249	\$ 35,096	
As a % of loans held-for-investment and foreclosed assets	0.81 %	0.43 %	0.49 %	
As a % of total assets	0.46	0.23	0.27	

We record interest payments received on nonaccrual loans as reductions of principal. Prior to the loans being placed on nonaccrual, we recognized interest income on these loans of approximately \$913 thousand for the year ended December 31, 2023. If interest on these loans had been recognized on a full accrual basis during the year ended December 31, 2023, such income would have been approximately \$3.22 million. Such amounts for the 2024 and 2023 interim periods were not significant.

*Allowance for Credit Losses.* The allowance for credit losses is the amount we determine as of a specific date to be appropriate to absorb current expected credit losses on existing loans. For a discussion of our methodology, see our accounting policies in Note 1 to the Consolidated Financial Statements (unaudited).

The provision for loan losses of \$5.91 million for the three-months ended June 30, 2024 is combined with the reversal of provision for unfunded commitments of \$22 thousand and reported in the net aggregate of \$5.89 million under the provision for credit losses in the consolidated statements of earnings for the three-months ended June 30, 2024. The provision for loan losses of \$7.17 million for the six-months ended June 30, 2024 is combined with the reversal of provision for unfunded commitments of \$470 thousand and reported in the net aggregate of \$6.70 million under the provision for credit losses on the consolidated statements of earnings for the six-months ended June 30, 2024.

The provision for loan losses of \$6.52 million for the three-months ended June 30, 2023 is combined with the reversal of provision for unfunded commitments of \$949 thousand and reported in the aggregate of \$5.57 million under the provision for credit losses in the consolidated statements of earnings for the three-months ended June 30, 2023. The provision for loan losses of \$11.23 million for the six-months ended June 30, 2023 is combined with the reversal of provision for unfunded commitments of \$2.88 million and reported in the net aggregate of \$8.35 million under the provision for credit losses in the consolidated statements of earnings for the six-months ended June 30, 2023.

As a percent of average loans, net loan charge-offs were 0.02% for the second quarter of 2024, as compared to net loan charge-offs of 0.05% for the second quarter of 2023. As a percent of average loans, net loan charge-offs were 0.02% for the first six months of 2024, as compared to net loan charge-offs of 0.02% for the first six months of 2023. The allowance for credit losses as a percent of loans held-for-investment was 1.27% as of June 30, 2024, as compared to 1.28% as of June 30, 2023 and 1.24% as of December 31, 2023, respectively.

**Table 7 - Loan Loss Experience and Allowance for Credit Losses (dollars in thousands, except percentages):**

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2024	2023	2024	2023
Allowance for credit losses at period-end	\$ 95,170	\$ 86,541	\$ 95,170	\$ 86,541
Loans held-for-investment at period-end	7,519,733	6,777,570	7,519,733	6,777,570
Average loans for period	7,405,297	6,683,276	7,305,361	6,592,310
Net charge-offs (recoveries)/average loans (annualized)	0.02 %	0.05 %	0.02 %	0.02 %
Allowance for loan losses/period-end loans held-for-investment	1.27 %	1.28 %	1.27 %	1.28 %
Allowance for loan losses/nonaccrual loans, past due 90 days still accruing and restructured loans	157.20 %	296.13 %	157.20 %	296.13 %

*Interest-Bearing Demand Deposits in Banks.* The Company had interest-bearing deposits in banks of \$103.32 million at June 30, 2024 compared to \$23.84 million at June 30, 2023 and \$255.24 million at December 31, 2023, respectively. At June 30, 2024, interest-bearing deposits in banks included \$87.79 million maintained at the Federal Reserve Bank of Dallas and \$15.52 million on deposit with the FHLB.

*Available-for-Sale Securities.* At June 30, 2024, securities with a fair value of \$4.57 billion were classified as securities available-for-sale. As compared to December 31, 2023, the available-for-sale portfolio at June 30, 2024 reflected (i) a decrease of \$140.26 million in U.S. Treasury securities, (ii) a decrease of \$51.78 million in obligations of states and political subdivisions, (iii) an increase of \$17.69 million in mortgage-backed securities, and (iv) an increase of \$14.61 million in corporate bonds and other securities. Fluctuations in the available-for-sale securities portfolio balances were primarily driven by calls and maturities, and changes in unrealized losses during the first six months of 2024. Our mortgage related securities are backed by GNMA, FNMA or FHLMC, or are collateralized by securities backed by these agencies.

See the below table and Note 2 to the Consolidated Financial Statements (unaudited) for additional disclosures relating to the maturities and fair values of the investment portfolio at June 30, 2024 and 2023, and December 31, 2023.

**Table 8 - Maturities and Yields of Available-for-Sale Securities Held at June 30, 2024 (dollars in thousands, except percentages):**

Available-for-Sale:	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury securities	\$ 191,965	2.04 %	\$ 150,011	1.68 %	\$ —	— %	\$ —	— %	\$ 341,976	1.88 %
Obligations of states and political subdivisions	6,871	4.38	392,277	2.93	634,675	2.34	411,550	2.74	1,445,373	2.62
Corporate bonds and other securities	19,940	2.60	77,064	2.75	22,564	1.76	—	—	119,568	2.54
Mortgage-backed securities	80,454	2.27	956,780	2.30	1,198,765	2.08	430,108	2.89	2,666,107	2.29
Total	<u>\$ 299,230</u>	<u>2.19 %</u>	<u>\$ 1,576,132</u>	<u>2.42 %</u>	<u>\$ 1,856,004</u>	<u>2.17 %</u>	<u>\$ 841,658</u>	<u>2.82 %</u>	<u>\$ 4,573,024</u>	<u>2.37 %</u>

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 21%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

As of June 30, 2024, the investment portfolio had an overall tax equivalent yield of 2.37%, a weighted average life of 7.22 and modified duration of 5.95 years.

*Deposits.* Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were \$11.41 billion as of June 30, 2024, as compared to \$10.81 billion as of June 30, 2023 and \$11.14 billion as of December 31, 2023.

Table 9 provides a breakdown of average deposits and rates paid over the three and six month periods ended June 30, 2024 and 2023, respectively.

**Table 9 - Composition of Average Deposits (dollars in thousands, except percentages):**

	2024		Three-Months Ended June 30, 2023	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 3,289,906	— %	\$ 3,704,143	— %
Interest-bearing deposits:				
Interest-bearing checking	3,998,548	2.27	3,277,300	1.16
Savings and money market accounts	3,078,836	2.24	2,955,374	1.63
Time deposits under \$250,000	594,278	3.60	293,988	4.94
Time deposits of \$250,000 or more	348,585	3.99	511,015	1.96
Total interest-bearing deposits	<u>8,020,247</u>	<u>2.43 %</u>	<u>7,037,677</u>	<u>1.57 %</u>
Total average deposits	<u>\$ 11,310,153</u>		<u>\$ 10,741,820</u>	
Total cost of deposits		<u>1.72 %</u>		<u>1.03 %</u>

  

	2024		For the Six-Months Ended June 30, 2023	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 3,318,332	— %	\$ 3,781,876	— %
Interest-bearing deposits:				
Interest-bearing checking	3,941,659	2.18	3,381,983	1.07
Savings and money market accounts	3,068,966	2.20	2,950,400	1.48
Time deposits under \$250,000	344,015	6.18	266,960	4.27
Time deposits of \$250,000 or more	594,530	2.28	459,636	1.84
Total interest-bearing deposits	<u>7,949,170</u>	<u>2.37 %</u>	<u>7,058,979</u>	<u>1.41 %</u>
Total average deposits	<u>\$ 11,267,502</u>		<u>\$ 10,840,855</u>	
Total cost of deposits		<u>1.67 %</u>		<u>0.92 %</u>

The estimated amount of uninsured and uncollateralized deposits including related accrued and unpaid interest is approximately \$5.26 billion as of June 30, 2024.



**Borrowings.** Included in borrowings were federal funds purchased, advances from the FHLB and other borrowings of \$23.70 million, \$28.18 million and \$22.15 million at June 30, 2024 and 2023, and December 31, 2023, respectively. The average balance of federal funds purchased, advances from the FHLB and other borrowings were \$22.93 million and \$145.00 million in the second quarters of 2024 and 2023, respectively. The weighted average interest rates paid on these borrowings were 1.60% and 4.32% for the second quarters of 2024 and 2023, respectively. The average balance of federal funds purchased, advances from the FHLB and other borrowings were \$77.95 million and \$96.68 million in the first six months of 2024 and 2023, respectively. The weighted average interest rates paid on these borrowings were 3.95% and 4.02% for the first six months of 2024 and 2023, respectively.

**Repurchase Agreements.** Securities sold under repurchase agreements of \$138.95 million, \$559.48 million and \$381.93 million at June 30, 2024 and 2023, and December 31, 2023, respectively. Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which we pledge certain securities that have a fair value equal to at least the amount of the short-term borrowings. The average balances of securities sold under repurchase agreements were \$212.59 million and \$570.07 million for the second quarters of 2024 and 2023, respectively. The average rates paid on securities sold under repurchase agreements were 3.59% and 2.78% for the second quarters of 2024 and 2023, respectively. The average balances of securities sold under repurchase agreements were \$265.01 million and \$573.67 million for the first six months of 2024 and 2023, respectively. The average rates paid on securities sold under repurchase agreements were 3.38% and 2.46% for the first six months of 2024 and 2023, respectively. The average balances of securities sold under repurchase agreements has decreased from the prior year as customers have moved funds to IntraFi deposit accounts.

## Interest Rate Risk

Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. Our exposure to interest rate risk is managed primarily through our strategy of selecting the types and terms of interest-earning assets and interest-bearing liabilities that generate favorable earnings while limiting the potential negative effects of changes in market interest rates. We use no off-balance-sheet financial instruments to manage interest rate risk.

Our subsidiary bank has an asset liability management committee that monitors interest rate risk and compliance with investment policies. The subsidiary bank utilizes an earnings simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model quantifies the effects of various interest rate scenarios on projected net interest income and net income over the next twelve months. The model measures the impact on net interest income relative to a base case scenario of hypothetical fluctuations in interest rates over the next twelve months. These simulations incorporate assumptions regarding balance sheet growth and mix, pricing and the re-pricing and maturity characteristics of the existing and projected balance sheet.

The following analysis depicts the estimated impact on net interest income of immediate changes in interest rates at the specified levels for the periods presented.

Change in interest rates: (in basis points)	Percentage change in net interest income:		
	June 30, 2024	2023	December 31, 2023
+400	9.75%	0.51%	7.17%
+300	7.28%	0.28%	5.36%
+200	5.08%	0.59%	3.87%
+100	2.66%	0.84%	2.11%
-100	(4.24)%	(1.84)%	(2.72)%
-200	(8.55)%	(3.88)%	(5.54)%
-300	(12.43)%	(4.27)%	(8.70)%
-400	(14.05)%	(4.00)%	(9.65)%

The results for the net interest income simulations as of June 30, 2024 and 2023, and December 31, 2023 resulted in an asset sensitive position. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve-month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics on specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities reprice in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.

Should we be unable to maintain a reasonable balance of maturities and repricing of our interest-earning assets and our interest-bearing liabilities, we could be required to dispose of our assets in an unfavorable manner or pay a higher than market rate to fund our activities. Our asset liability management committee oversees and monitors this risk.

The fair value of our investment securities classified as available-for-sale totaled \$4.57 billion at June 30, 2024. During the six months ended June 30, 2024, the corresponding unrealized loss before taxes on the portfolio of \$510.92 million at December 31, 2023, changed to an unrealized loss before taxes of \$559.43 million at June 30, 2024, which is recorded net of taxes in accumulated other comprehensive earnings (loss) in shareholders' equity. The unrealized gains or losses, net of taxes, on the portfolio are excluded from the calculation of all regulatory capital ratios. The changes in the fair

value were driven by changes in interest rates based on expected actions by the Federal Reserve Board and other market conditions. The overall valuation of the portfolio is most correlated to the 5-year U.S. Treasury rates based on the composition and duration of the portfolio. At June 30, 2024, the 5-year U.S. Treasury rate was 4.33% compared to 3.84% at December 31, 2023, representing a 49 basis point increase during the first six months of 2024. As of June 30, 2024, an increase of 100 basis points in the 5-year U.S. Treasury rate would result in an increase to unrealized losses by approximately \$228 million before taxes, while a 100 basis point decrease in the same rate would result in a decrease to unrealized losses by approximately \$189 million before taxes. We believe that we have the ability to hold these securities based on our overall liquidity and intent to hold the portfolio.

### Capital and Liquidity

*Capital.* We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate but not retaining a significant amount of our profits or when we experience significant asset quality deterioration.

Total shareholders' equity was \$1.52 billion, or 11.54% of total assets at June 30, 2024, as compared to \$1.37 billion, or 10.66% of total assets at June 30, 2023, and \$1.50 billion, or 11.44% of total assets at December 31, 2023. Included in shareholders' equity at June 30, 2024, and 2023, and December 31, 2023 were \$441.56 million, \$490.28 million and \$403.30 million, respectively, in unrealized losses on investment securities available-for-sale, net of related income taxes, although such amount is excluded from and does not impact regulatory capital. For the second quarter of 2024, total shareholders' equity averaged \$1.46 billion, or 11.18% of average assets, as compared to \$1.37 billion, or 10.63% of average assets, during the same period in 2023. For the first six months of 2024, total shareholders' equity averaged \$1.48 billion, or 11.22% of average assets, as compared to \$1.34 billion, or 10.37% of average assets, during the same period in 2023.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and the leverage ratio under the Basel III rules and prompt corrective action regulations. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets.

Beginning in January 2015, under the Basel III rules, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reached 2.50% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

As of June 30, 2024 and 2023, and December 31, 2023, we had a total risk-based capital ratio of 19.55%, 19.62% and 19.62%, a Tier 1 capital to risk-weighted assets ratio of 18.42%, 18.48% and 18.50%, a common equity Tier 1 to risk-weighted assets ratio of 18.42%, 18.48% and 18.50% and a Tier 1 leverage ratio of 12.40%, 11.81% and 12.06%, respectively. The regulatory capital ratios as of June 30, 2024 and 2023, and December 31, 2023 were calculated under Basel III rules.

The regulatory capital ratios of the Company and Bank under the Basel III regulatory capital framework are as follows:

<b>As of June 30, 2024:</b>	<b>Actual</b>		<b>Minimum Capital Required-Basel III</b>		<b>Required to be Considered Well- Capitalized</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<i>Total Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,762,906	19.55 %	\$ 946,614	10.50 %	\$ 901,537	10.00 %
First Financial Bank	\$ 1,603,635	17.84 %	\$ 943,812	10.50 %	\$ 898,869	10.00 %
<i>Tier 1 Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,660,303	18.42 %	\$ 766,306	8.50 %	\$ 540,922	6.00 %
First Financial Bank	\$ 1,501,032	16.70 %	\$ 764,038	8.50 %	\$ 719,095	8.00 %
<i>Common Equity Tier 1 Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,660,303	18.42 %	\$ 631,076	7.00 %	\$ —	N/A
First Financial Bank	\$ 1,501,032	16.70 %	\$ 629,208	7.00 %	\$ 584,265	6.50 %
<i>Leverage Ratio:</i>						
Consolidated	\$ 1,660,303	12.40 %	\$ 360,615	4.00 %	\$ —	N/A
First Financial Bank	\$ 1,501,032	11.27 %	\$ 359,547	4.00 %	\$ 449,434	5.00 %

	Actual		Minimum Capital Required-Basel III		Required to be Considered Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of June 30, 2023:</b>						
<i>Total Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,651,966	19.62 %	\$ 884,219	10.50 %	\$ 842,114	10.00 %
First Financial Bank	\$ 1,489,982	17.73 %	\$ 882,320	10.50 %	\$ 840,304	10.00 %
<i>Tier 1 Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,555,976	18.48 %	\$ 715,797	8.50 %	\$ 505,268	6.00 %
First Financial Bank	\$ 1,393,992	16.59 %	\$ 714,259	8.50 %	\$ 672,243	8.00 %
<i>Common Equity Tier 1 Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,555,976	18.48 %	\$ 589,480	7.00 %	\$ —	N/A
First Financial Bank	\$ 1,393,992	16.59 %	\$ 588,213	7.00 %	\$ 546,198	6.50 %
<i>Leverage Ratio:</i>						
Consolidated	\$ 1,555,976	11.81 %	\$ 336,845	4.00 %	\$ —	N/A
First Financial Bank	\$ 1,393,992	10.62 %	\$ 336,122	4.00 %	\$ 420,152	5.00 %

	Actual		Minimum Capital Required Basel III		Required to be Considered Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2023:</b>						
<i>Total Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,697,999	19.62 %	\$ 908,870	10.50 %	\$ 865,590	10.00 %
First Financial Bank	\$ 1,518,365	17.59 %	\$ 906,541	10.50 %	\$ 863,372	10.00 %
<i>Tier 1 Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,601,361	18.50 %	\$ 735,752	8.50 %	\$ 519,354	6.00 %
First Financial Bank	\$ 1,421,727	16.47 %	\$ 733,866	8.50 %	\$ 690,698	8.00 %
<i>Common Equity Tier 1 Capital to Risk-Weighted Assets:</i>						
Consolidated	\$ 1,601,361	18.50 %	\$ 605,913	7.00 %	\$ —	N/A
First Financial Bank	\$ 1,421,727	16.47 %	\$ 604,361	7.00 %	\$ 561,192	6.50 %
<i>Leverage Ratio:</i>						
Consolidated	\$ 1,601,361	12.06 %	\$ 346,236	4.00 %	\$ —	N/A
First Financial Bank	\$ 1,421,727	10.75 %	\$ 345,349	4.00 %	\$ 431,686	5.00 %

In connection with the adoption of the Basel III regulatory capital framework, our subsidiary bank made the election to continue to exclude accumulated other comprehensive income from available-for-sale securities ("AOCI") from capital in connection with its quarterly financial filing and, in effect, to retain the AOCI treatment under the prior capital rules.

**Liquidity.** Liquidity is our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position. The potential need for liquidity arising from these types of financial instruments is represented by the contractual notional amount of the instrument. Asset liquidity is provided by cash and assets which are readily marketable, or which will mature in the near future. Liquid assets include cash, federal funds sold, and short-term investments in time deposits in banks. Liquidity is also provided by access to funding sources, which include core depositors and correspondent banks that maintain accounts with and sell federal funds to our subsidiary bank. Other sources of funds include our ability to borrow from short-term sources, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and other borrowings (see below) and an unfunded \$25.00 million revolving line of credit established with Frost Bank, a nonaffiliated bank, which matures on June 30, 2025 (see next paragraph). Our subsidiary bank also has federal funds purchased lines of credit with two non-affiliated banks totaling \$130.00 million. At June 30, 2024, there were no amounts drawn on these lines of credit. Our subsidiary bank also has (i) an available line of credit with the FHLB totaling \$2.03 billion at June 30, 2024, secured by portions of our loan portfolio and certain investment securities, and (ii) access to the Federal Reserve Bank of Dallas lending program secured by portions of certain investment securities. At June 30, 2024, there was \$786.50 million used on the FHLB line advance for undisbursed commitments (letters of credit) used to secure public funds.

The Company renewed its loan agreement, effective June 30, 2023, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to \$25.00 million on a revolving line of credit. Prior to June 30, 2025, interest is paid quarterly at *The Wall Street Journal* Prime Rate and the line of credit matures June 30, 2025. If a balance exists at June 30, 2025, the principal balance converts to a term facility payable quarterly over five years and interest is paid quarterly at *The Wall Street Journal* Prime Rate. The line of credit is unsecured. Among other provisions in the credit agreement, we must satisfy certain financial covenants during the term of the loan agreement, including, without limitation, covenants that require us to maintain certain capital, loan loss reserve, non-performing asset and cash flow coverage ratios. In addition, the credit agreement contains certain operational covenants, which among others, restricts the payment of dividends above 55% of consolidated net income, limits the incurrence of debt (excluding any amounts acquired in an acquisition) and prohibits the disposal of assets except in the ordinary course of business. Since 1995, we have historically declared dividends as a percentage of our consolidated net income in a range of 36% (low) in 2021 and 2020 to 53% (high) in 2003 and 2006. The Company was in compliance with the financial and operational covenants at June 30, 2024. There was no outstanding balance under the line of credit as of June 30, 2024.

In addition, we anticipate that future acquisitions of financial institutions, expansion of branch locations or offerings of new products could also place a demand on our cash resources. Available cash and cash equivalents at our parent company which totaled \$119.16 million at June 30, 2024, investment securities which totaled \$2.14 million at June 30, 2024 and mature over 6 to 7 years, available dividends from our subsidiaries which totaled \$331.64 million at June 30, 2024, utilization of available lines of credit, and future debt or equity offerings are expected to be the source of funding for these potential acquisitions or expansions.

Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Liquidity risk management is an important element in our asset/liability management process. We regularly model liquidity stress scenarios to assess potential liquidity outflows or funding problems resulting from economic disruptions, volatility in the financial markets, unexpected credit events or other significant occurrences deemed potentially problematic by management. These scenarios are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs. As of June 30, 2024, management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations. We are monitoring closely the impact to the financial system due to the recent failures of several banks. Given the diversified core deposit base and relatively low loan to deposit ratios maintained at our subsidiary bank, we consider our current liquidity position to be adequate to meet our short-term and long-term liquidity needs. In addition, management is not aware of any regulatory recommendations regarding liquidity that would have a material adverse effect on us.

*Off-Balance Sheet ("OBS")/Reserve for Unfunded Commitments.* We are a party to financial instruments with OBS risk in the normal course of business to meet the financing needs of our customers. These financial instruments include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in our consolidated balance sheets. At June 30, 2024, the Company's reserve for unfunded commitments totaled \$7.43 million which is recorded in other liabilities.

Our exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. We generally use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

Unfunded lines of credit and commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require 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. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as we deem necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The average collateral value held on letters of credit usually exceeds the contract amount.

**Table 10 – Commitments as of June 30, 2024 (dollars in thousands):**

	<b>Total Notional Amounts Committed</b>
Unfunded lines of credit	\$ 1,259,793
Unfunded commitments to extend credit	892,130
Standby letters of credit	48,087
Total commercial commitments	<u>\$ 2,200,010</u>

We believe we have no other OBS arrangements or transactions with unconsolidated, special purpose entities that would expose us to liability that is not reflected on the face of the financial statements. The above table does not include balances related to the Company's IRLC and forward mortgage-backed security trades. Total commercial commitments were \$2.20 billion at June 30, 2024, compared to \$2.02 billion at June 30, 2023, and \$1.92 billion at December 31, 2023.

*Parent Company Funding.* Our ability to fund various operating expenses, dividends, and cash acquisitions is generally dependent on our own earnings (without giving effect to our subsidiaries), cash reserves and funds derived from our subsidiaries. These funds historically have been produced by intercompany dividends and management fees that are limited to reimbursement of actual expenses. We anticipate that our recurring cash sources will continue to include dividends and management fees from our subsidiaries. At June 30, 2024, \$331.64 million was available for the payment of intercompany dividends by our subsidiaries without the prior approval of regulatory agencies. Our subsidiaries paid aggregate dividends of \$25.50 million and \$64.00 million for the six-months ended June 30, 2024 and 2023, respectively.

*Dividends.* Our long-term dividend policy is to pay cash dividends to our shareholders of approximately 35% to 40% of annual net earnings while maintaining adequate capital to support growth. We are also restricted by a loan covenant within our line of credit agreement with Frost Bank to dividend no greater than 55% of net income, as defined in such loan agreement. The cash dividend payout ratios have amounted to 48.60% and 48.31% of net earnings for the first six months of 2024 and 2023, respectively. Given our current capital position, projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy.

Our bank subsidiary, which was a national banking association until April 22, 2024, and a member of the Federal Reserve System, was required by federal law to obtain the prior approval of the OCC to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (i) such bank's net profits (as defined and interpreted by regulation) for that year plus (ii) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus.

To pay dividends, we and our subsidiary bank must maintain adequate capital above regulatory guidelines and comply with the general requirements applicable to a Texas corporation. Generally, a Texas corporation may not pay a dividend to its shareholders if (i) after giving effect to the dividend, the corporation would be insolvent, or (ii) the amount of the dividend would exceed the surplus of the corporation. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve, the FDIC, Texas Department of Banking, and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve, Texas Department of Banking, the OCC and the FDIC expect that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Management considers interest rate risk to be a significant market risk for the Company. See "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Risk" for disclosure regarding this market risk.

**Item 4. Controls and Procedures.**

As of June 30, 2024, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934). Our management, which includes our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our principal executive officer and principal financial officer have concluded, based on our evaluation of our disclosure controls and procedures, that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2024.

Subsequent to our evaluation, there were no significant changes in internal controls over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we and our subsidiaries are parties to lawsuits arising in the ordinary course of our banking business. However, there are no material pending legal proceedings to which we, our subsidiaries, or any of their properties, are currently subject.

### **Item 1A. Risk Factors.**

There has been no material change in the risk factors previously disclosed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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

Not applicable

### **Item 3. Defaults Upon Senior Securities.**

Not Applicable

### **Item 4. Mine Safety Disclosures.**

Not Applicable

### **Item 5. Other Information.**

Not Applicable

**Item 6. Exhibits.**

3.1	—	<a href="#"><u>Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 of the Registrant's Form 10-Q filed July 30, 2019).</u></a>
3.2	—	<a href="#"><u>Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K filed April 3, 2020).</u></a>
3.3	—	<a href="#"><u>Amendment to the Amended and Restated Bylaws of the Registrant, dated July 27, 2021 (incorporated by reference from Exhibit 3.3 to the Registrant's Form 10-Q filed August 2, 2021).</u></a>
4.1	—	<a href="#"><u>Specimen certificate of First Financial Common Stock (incorporated by reference from Exhibit 3 of the Registrant's Amendment No. 1 to Form 8-A filed on Form 8-A/A No. 1 on January 7, 1994).</u></a>
4.2	—	<a href="#"><u>Description of Registrant's Securities (incorporated by reference from Exhibit 4.2 of the Registrant's Form 10-K filed February 23, 2024).</u></a>
10.1	—	<a href="#"><u>2012 Incentive Stock Option Plan (incorporated by reference from Appendix A of the Registrant's Definitive Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed March 1, 2012).++</u></a>
10.2	—	<a href="#"><u>2021 Omnibus Stock and Incentive Plan as Amended (incorporated by reference from Exhibit 10 of the Registrant's Form 8-K filed April 28, 2021).++</u></a>
10.3	—	<a href="#"><u>Promissory Note, dated June 30, 2023, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 7, 2023).</u></a>
10.4	—	<a href="#"><u>Amended and Restated Loan Agreement, dated June 30, 2023, by and between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.2 of the Registrant's Form 8-K filed July 7, 2023).</u></a>
10.5	—	<a href="#"><u>2015 Restricted Stock Plan as Amended and Restated April 28, 2020 (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed May 1, 2020).++</u></a>
10.6	—	<a href="#"><u>Form of Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed August 10, 2022).++</u></a>
10.7	—	<a href="#"><u>First Financial Bankshares, Inc. Supplemental Executive Retirement Plan, as amended and restated effective July 26, 2022 (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 29, 2022).++</u></a>
10.8	—	<a href="#"><u>Confidential Separation and Release Agreement, dated January 9, 2023, by and between the Company and James R. Gordon (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed January 11, 2023).++</u></a>
31.1	—	<a href="#"><u>Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Executive Officer of First Financial Bankshares, Inc.*</u></a>
31.2	—	<a href="#"><u>Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Financial Officer of First Financial Bankshares, Inc.*</u></a>
32.1	—	<a href="#"><u>Section 1350 Certification of Chief Executive Officer of First Financial Bankshares, Inc.+</u></a>
32.2	—	<a href="#"><u>Section 1350 Certification of Chief Financial Officer of First Financial Bankshares, Inc.+</u></a>
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 with Embedded Linkbase Documents.*
104	—	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed herewith

+ Furnished herewith. This Exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

++ Management contract or compensatory plan or arrangement.



## **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.

### **FIRST FINANCIAL BANKSHARES, INC.**

**Date: July 31, 2024**

**By: /s/ F. Scott Dueser**

**F. Scott Dueser**

**Chairman of the Board, President and Chief Executive Officer**

**Date: July 31, 2024**

**By: /s/ Michelle S. Hickox**

**Michelle S. Hickox**

**Executive Vice President and**

**Chief Financial Officer, Secretary and Treasurer**

**Certification of  
Chief Executive Officer  
of First Financial Bankshares, Inc.**

I, F. Scott Dueser, Chairman of the Board, President and Chief Executive Officer of First Financial Bankshares, Inc., certify that:

1. I have reviewed this Form 10-Q of First Financial Bankshares, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2024

By: /s/ F. Scott Dueser  
F. Scott Dueser  
Chairman of the Board, President and Chief Executive  
Officer

**Certification of  
Chief Financial Officer  
of First Financial Bankshares, Inc.**

I, Michelle S. Hickox, Executive Vice President and Chief Financial Officer, Secretary and Treasurer of First Financial Bankshares, Inc., certify that:

1. I have reviewed this Form 10-Q of First Financial Bankshares, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2024

By: /s/ Michelle S. Hickox  
Michelle S. Hickox  
Executive Vice President and Chief  
Financial Officer, Secretary and Treasurer

**Certification of  
Chief Executive Officer  
of First Financial Bankshares, Inc.**

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the quarterly report on Form 10-Q (the "Form 10-Q") for the quarter ended June 30, 2024 of First Financial Bankshares, Inc. (the "Company").

I, F. Scott Dueser, the Chairman of the Board, President and Chief Executive Officer of the Company, certify that:

1. the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 31, 2024

By:     /s/ F. Scott Dueser  
F. Scott Dueser  
Chairman of the Board, President and Chief Executive  
Officer

Subscribed and sworn to before me this 31st day of July, 2024.

/s/ Melissa Ann Fenton  
Melissa Ann Fenton  
Notary Public

My commission expires: October 11, 2024

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**Certification of  
Chief Financial Officer  
of First Financial Bankshares, Inc.**

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the quarterly report on Form 10-Q (the "Form 10-Q") for the quarter ended June 30, 2024 of First Financial Bankshares, Inc. (the "Company").

I, Michelle S. Hickox, the Executive Vice President and Chief Financial Officer, Secretary and Treasurer of the Company, certify that:

1. the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 31, 2024

By: /s/ Michelle S. Hickox  
Michelle S. Hickox  
Executive Vice President and Chief  
Financial Officer, Secretary and Treasurer

Subscribed and sworn to before me this 31st day of July, 2024.

/s/ Melissa Ann Fenton  
Melissa Ann Fenton  
Notary Public

My commission expires: October 11, 2024

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