

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2024
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 001-35388

PROSPERITY BANCSHARES, INC.®
(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction
of incorporation or organization)

74-2331986
(I.R.S. Employer
Identification No.)

Prosperity Bank Plaza
4295 San Felipe, Houston, Texas
(Address of principal executive offices)

77027
(Zip Code)

(281) 269-7199
(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, par value \$1.00 per share	PB	New York Stock Exchange, Inc.

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 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 Exchange Act). Yes ☐ No ☒

As of May 6, 2024, there were 95,937,934 outstanding shares of the registrant's Common Stock, par value \$1.00 per share.

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2024 (unaudited) (Dollars in thousands, except par value)	December 31, 2023
ASSETS		
Cash and due from banks	\$ 1,086,444	\$ 458,153
Federal funds sold	250	260
Total cash and cash equivalents	1,086,694	458,413
Available for sale securities, at fair value	315,300	438,588
Held to maturity securities, at cost (fair value of \$10,478,359 and \$10,984,598, respectively)	11,985,838	12,365,308
Total securities	12,301,138	12,803,896
Loans held for sale	6,380	5,734
Loans held for investment	20,393,943	20,352,559
Loans held for investment - Warehouse Purchase Program	864,924	822,245
Total loans	21,265,247	21,180,538
Less: allowance for credit losses on loans	(330,219)	(332,362)
Loans, net	20,935,028	20,848,176
Accrued interest receivable	97,671	96,327
Goodwill	3,396,402	3,396,086
Core deposit intangibles, net	60,757	63,994
Bank premises and equipment, net	372,333	369,992
Other real estate owned	2,204	1,708
Bank owned life insurance (BOLI)	380,615	379,447
Federal Home Loan Bank of Dallas stock	8,750	8,750
Other assets	114,928	121,088
TOTAL ASSETS	\$ 38,756,520	\$ 38,547,877
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 9,526,535	\$ 9,776,572
Interest-bearing	17,648,983	17,403,237
Total deposits	27,175,518	27,179,809
Other borrowings	3,900,000	3,725,000
Securities sold under repurchase agreements	261,671	309,277
Accrued interest payable	75,871	34,819
Allowance for credit losses on off-balance sheet credit exposures	36,503	36,503
Other liabilities	202,413	183,139
Total liabilities	31,651,976	31,468,547
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1 par value; 20,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$1 par value; 200,000,000 shares authorized; 93,525,291 issued and outstanding at March 31, 2024; 93,722,383 shares issued and outstanding at December 31, 2023	93,525	93,723
Capital surplus	3,672,090	3,703,795
Retained earnings	3,341,262	3,283,210
Accumulated other comprehensive loss —net unrealized loss on available for sale securities, net of tax benefit of \$(620) and \$(372), respectively	(2,333)	(1,398)
Total shareholders' equity	7,104,544	7,079,330
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 38,756,520	\$ 38,547,877

See notes to consolidated financial statements.

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands, except per share data)	
INTEREST INCOME:		
Loans, including fees	\$ 306,228	\$ 247,118
Securities	66,421	73,185
Federal funds sold and other earning assets	9,265	7,006
Total interest income	381,914	327,309
INTEREST EXPENSE:		
Deposits	92,692	47,343
Other borrowings	48,946	34,396
Securities sold under repurchase agreements	2,032	2,103
Total interest expense	143,670	83,842
NET INTEREST INCOME	238,244	243,467
PROVISION FOR CREDIT LOSSES	—	—
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	238,244	243,467
NONINTEREST INCOME:		
Nonsufficient funds (NSF) fees	8,288	8,095
Credit card, debit card and ATM card income	8,861	8,666
Service charges on deposit accounts	6,406	5,926
Trust income	4,156	3,225
Mortgage income	610	238
Brokerage income	1,235	1,149
Net (loss) gain on sale or write-down of assets	(35)	121
Net gain on sale of securities	298	—
Other	9,051	10,846
Total noninterest income	38,870	38,266
NONINTEREST EXPENSE:		
Salaries and employee benefits	85,771	77,798
Net occupancy and equipment	8,623	8,025
Credit and debit card, data processing and software amortization	10,975	9,566
Regulatory assessments and FDIC insurance	5,538	4,973
Core deposit intangibles amortization	3,237	2,374
Depreciation	4,686	4,433
Communications	3,402	3,462
Net other real estate income	49	45
Merger related expenses	—	860
Other	13,567	11,464
Total noninterest expense	135,848	123,000
INCOME BEFORE INCOME TAXES	141,266	158,733
PROVISION FOR INCOME TAXES	30,840	34,039
NET INCOME	\$ 110,426	\$ 124,694
EARNINGS PER SHARE:		
Basic	\$ 1.18	\$ 1.37
Diluted	\$ 1.18	\$ 1.37

See notes to consolidated financial statements.

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands)	
Net income	\$ 110,426	\$ 124,694
Other comprehensive income, before tax:		
Securities available for sale:		
Change in unrealized loss during the period	(1,184)	(4)
Total other comprehensive loss	(1,184)	(4)
Deferred tax benefit related to other comprehensive income	249	1
Other comprehensive loss, net of tax	(935)	(3)
Comprehensive income	<u>\$ 109,491</u>	<u>\$ 124,691</u>

See notes to consolidated financial statements.

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Capital	Retained	Accumulated Other Comprehensi ve Income (Loss)	Total Shareholders'
	Shares	Amount	Surplus	Earnings		Equity
(In thousands, except share and per share data)						
BALANCE AT DECEMBER 31, 2022	91,313,615	\$ 91,314	\$ 3,541,924	\$ 3,069,609	\$ (3,473)	\$ 6,699,374
Net income				124,694		124,694
Other comprehensive loss					(3)	(3)
Common stock issued in connection with the issuance of restricted stock awards, net	(9,250)	(9)	9			—
Common stock repurchase	(611,263)	(611)	(37,429)			(38,040)
Stock based compensation expense			3,166			3,166
Cash dividends declared, \$0.55 per share				(50,074)		(50,074)
BALANCE AT MARCH 31, 2023	<u>90,693,102</u>	<u>\$ 90,694</u>	<u>\$ 3,507,670</u>	<u>\$ 3,144,229</u>	<u>\$ (3,476)</u>	<u>\$ 6,739,117</u>
BALANCE AT DECEMBER 31, 2023	93,722,383	\$ 93,723	\$ 3,703,795	\$ 3,283,210	\$ (1,398)	\$ 7,079,330
Net income				110,426		110,426
Other comprehensive loss					(935)	(935)
Common stock issued in connection with the issuance of restricted stock awards, net	370,600	370	(370)			—
Common stock repurchase	(567,692)	(568)	(34,714)			(35,282)
Stock based compensation expense			3,379			3,379
Cash dividends declared, \$0.56 per share				(52,374)		(52,374)
BALANCE AT MARCH 31, 2024	<u>93,525,291</u>	<u>\$ 93,525</u>	<u>\$ 3,672,090</u>	<u>\$ 3,341,262</u>	<u>\$ (2,333)</u>	<u>\$ 7,104,544</u>

See notes to consolidated financial statements.

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 110,426	\$ 124,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and core deposit intangibles amortization	7,923	6,807
Provision for credit losses	—	—
Net amortization of premium on investments	5,822	7,384
Net gain on sale of investment securities	(298)	—
Net gain on sale of other real estate and repossessed assets	(137)	(13)
Net loss (gain) on sale or write down of premises and equipment	35	(121)
Net accretion of discount on loans	(1,860)	(872)
Net amortization of premium on deposits	(97)	(53)
Net gain on sale of loans	(612)	(239)
Proceeds from sale of loans held for sale	24,475	8,470
Originations of loans held for sale	(24,509)	(9,280)
Stock based compensation expense	3,379	3,166
Decrease (increase) in accrued interest receivable and other assets	2,811	(66,156)
Increase in accrued interest payable and other liabilities	60,042	105,986
Net cash provided by operating activities	187,400	179,773
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal paydowns of held to maturity securities	391,803	412,524
Purchase of held to maturity securities	(18,947)	(3,028)
Proceeds from maturities, sales and principal paydowns of available for sale securities	5,631,402	2,515,280
Purchase of available for sale securities	(5,508,208)	(2,527,704)
Originations of Warehouse Purchase Program loans	(3,021,378)	(2,468,101)
Proceeds from pay-offs of Warehouse Purchase Program loans	2,978,699	2,409,606
Net increase in loans held for investment	(42,737)	(434,029)
Purchase of bank premises and equipment	(7,184)	(10,224)
Proceeds from sale of bank premises, equipment and other real estate	838	741
Proceeds from insurance claims	1,049	2,811
Net cash provided by (used in) investing activities	405,337	(102,124)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in noninterest-bearing deposits	(250,037)	(807,100)
Net increase (decrease) in interest-bearing deposits	245,843	(722,142)
Net proceeds from other short-term borrowings	175,000	1,515,000
Net (decrease) increase in securities sold under repurchase agreements	(47,606)	6,127
Repurchase of common stock	(35,282)	(38,040)
Payments of cash dividends	(52,374)	(50,074)
Net cash provided by (used in) financing activities	35,544	(96,229)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	458,413	424,133
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,086,694	\$ 405,553
NONCASH ACTIVITIES:		
Acquisition of real estate through foreclosure of collateral	\$ 969	\$ 468
SUPPLEMENTAL INFORMATION:		
Income taxes paid	\$ 487	\$ 327
Interest paid	102,618	79,968

See notes to consolidated financial statements

PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Prosperity Bancshares, Inc.® (“Bancshares”) and its wholly-owned subsidiary, Prosperity Bank® (the “Bank,” and together with Bancshares, the “Company”). All intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for financial information and with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis; and all such adjustments are of a normal recurring nature. These financial statements and the notes thereto should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2023. Operating results for the three-month period ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or any other period.

2. INCOME PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings per share:

	Amount	Three Months Ended March 31,		Amount	Per Share Amount
		2024	2023		
		Per Share Amount		Per Share Amount	
		(Amounts in thousands, except per share data)			
Net income	\$ 110,426		\$ 124,694		
Basic:					
Weighted average shares outstanding	93,706	\$ 1.18	91,207	\$ 1.37	
Diluted:					
Weighted average shares outstanding	93,706	\$ 1.18	91,207	\$ 1.37	

There were no stock options outstanding at March 31, 2024 or exercisable during the three months ended March 31, 2024 or 2023 that would have had an anti-dilutive effect on the above computation.

3. NEW ACCOUNTING STANDARDS

Accounting Standards Updates (“ASU”)

ASU 2024-01, Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards. ASU 2024-01 clarifies the scope application of profits interest and similar awards by adding illustrative guidance to help entities determine whether profits interest and similar awards should be accounted for as share-based payment arrangements within the scope of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, “Compensation—Stock Compensation.” However, this amendment does not change the intent of that guidance, nor how it should be applied. The ASU’s amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those years. The Company does not expect ASU 2024-01 to have a significant impact on its financial statements.

ASU 2023-09, Income Taxes (Topic 740): Improvements to Income. ASU 2023-09 focuses on the rate reconciliation and income taxes paid and requires a public business entity to disclose, on an annual basis, a tabular rate reconciliation using both percentages and currency amounts, broken out into specified categories with certain reconciling items further broken out by nature and jurisdiction to the extent those items exceed a specified threshold. In addition, all entities are required to disclose income taxes paid, net of refunds received disaggregated by federal, state/local, and foreign and by jurisdiction if the amount is at least 5% of total income tax payments, net of refunds received. For public business entities the new standard is effective for annual periods beginning after December 15, 2024, with early adoption permitted. An entity may apply the amendments in this ASU prospectively by providing the revised disclosures for the period ending December 31, 2025 and continuing to provide the pre-ASU disclosures for the prior periods,

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or may apply the amendments retrospectively by providing the revised disclosures for all period presented. The Company does not expect ASU 2023-09 to have an impact on its financial statements.

ASU 2023-07, Segment Reporting (Topic 280)—Improvement to Reportable Segment Disclosures. ASU 2023-07 amends the disclosure requirements related to segment reporting primarily through enhanced disclosure about significant segment expenses and by requiring disclosure of segment information on an annual and interim basis. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company does not expect ASU 2023-07 to have a significant impact on its financial statements.

ASU 2023-06, Disclosure Improvements—Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. ASU 2023-06 amends the FASB Accounting Standards Codification to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The Company does not expect ASU 2023-06 to have a significant impact on its financial statements.

ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The amendments in ASU 2022-02 eliminated the accounting guidance for troubled debt restructurings and enhanced disclosures for certain loan refinancing and restructurings to borrowers experiencing financial difficulty. This guidance was applied on a prospective basis. Additionally, ASU 2022-02 requires entities to disclose current-period gross charge-offs by year of origination. ASU 2022-02 became effective for the Company on January 1, 2023 and did not have a significant impact on the Company's financial statements.

4. SECURITIES

The amortized cost and fair value of investment securities were as follows:

		March 31, 2024		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in thousands)		
Available for Sale				
Corporate debt securities	\$ 14,350	\$ 1,830	\$ (335)	\$ 15,845
Collateralized mortgage obligations	198,180	—	(3,374)	194,806
Mortgage-backed securities	105,723	58	(1,132)	104,649
Total	<u>\$ 318,253</u>	<u>\$ 1,888</u>	<u>\$ (4,841)</u>	<u>\$ 315,300</u>
Held to Maturity				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 7,691	\$ —	\$ (107)	\$ 7,584
States and political subdivisions	111,699	764	(2,581)	109,882
Corporate debt securities	12,000	—	(3,840)	8,160
Collateralized mortgage obligations	256,216	—	(25,076)	231,140
Mortgage-backed securities	11,598,232	388	(1,477,027)	10,121,593
Total	\$ 11,985,838	\$ 1,152	\$ (1,508,631)	\$ 10,478,359

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		December 31, 2023		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
Corporate debt securities	\$ 20,698	\$ 1,827	\$ (738)	\$ 21,787
Collateralized mortgage obligations	321,881	967	(2,804)	320,044
Mortgage-backed securities	97,779	96	(1,118)	96,757
Total	<u>\$ 440,358</u>	<u>\$ 2,890</u>	<u>\$ (4,660)</u>	<u>\$ 438,588</u>
Held to Maturity				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 7,631	\$ —	\$ (52)	\$ 7,579
States and political subdivisions	116,497	1,864	(2,306)	116,055
Corporate debt securities	12,000	—	(4,200)	7,800
Collateralized mortgage obligations	263,250	—	(20,864)	242,386
Mortgage-backed securities	11,965,930	2,131	(1,357,283)	10,610,778
Total	12,365,308		(1,384,705)	10,984,598
	\$	\$	\$	\$

The investment securities portfolio is measured for expected credit losses by segregating the portfolio into two general classifications and applying the appropriate expected credit losses methodology. Investment securities classified as available for sale or held to maturity are evaluated for expected credit losses under FASB ASC 326, "Financial Instruments – Credit Losses."

Available for sale securities. For available for sale securities in an unrealized loss position, the amount of the expected credit losses recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the expected credit losses will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the expected credit losses will be separated into the amount representing the credit-related portion of the impairment loss ("credit loss") and the noncredit portion of the impairment loss ("noncredit portion"). The amount of the total expected credit losses related to the credit loss is determined based on the difference between the present value of cash flows expected to be collected and the amortized cost basis and such difference is recognized in earnings. The amount of the total expected credit losses related to the noncredit portion is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the expected credit losses recognized in earnings will become the new amortized cost basis of the investment.

As of March 31, 2024, management does not have the intent to sell any of the securities classified as available for sale before a recovery of cost. In addition, management believes it is more likely than not that the Company will not be required to sell any of its investment securities before a recovery of cost. The unrealized losses are largely due to changes in market interest rates and spread relationships since the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date, or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2024, management believes that there is no potential for credit losses on available for sale securities.

Held to maturity securities. The Company's held to maturity investments include mortgage-related bonds issued by either the Government National Mortgage Corporation ("Ginnie Mae"), Federal National Mortgage Association ("Fannie Mae") or Federal Home Loan Mortgage Corporation ("Freddie Mac"). Ginnie Mae issued securities are explicitly guaranteed by the U.S. government, while Fannie Mae and Freddie Mac issued securities are fully guaranteed by those respective United States government-sponsored agencies and conditionally guaranteed by the full faith and credit of the United States. The Company's held to maturity securities also include taxable and tax-exempt municipal securities issued primarily by school districts, utility districts and municipalities located in Texas. The Company's investment in municipal securities is exposed to credit risk. The securities are highly rated by major rating agencies and regularly reviewed by management. A significant portion are guaranteed or insured by either the Texas Permanent School Fund, Assured Guaranty or Build America Mutual. As of March 31, 2024, the Company's municipal securities represent 0.9% of the securities portfolio. Management has the ability and intent to hold the securities classified as held to maturity until they mature,

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at which time the Company will receive full value for the securities. Accordingly, as of March 31, 2024, management believes that there is no potential for material credit losses on held to maturity securities.

Securities with unrealized losses, segregated by length of time, that have been in a continuous loss position were as follows:

	Less than 12 Months		March 31, 2024 12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
Corporate debt securities	\$ 5,265	\$ (335)	\$ —	\$ —	\$ 5,265	\$ (335)
Collateralized mortgage obligations	58,266	(874)	136,540	(2,500)	194,806	(3,374)
Mortgage-backed securities	10,043	(60)	91,458	(1,072)	101,501	(1,132)
Total	<u>\$ 73,574</u>	<u>\$ (1,269)</u>	<u>\$ 227,998</u>	<u>\$ (3,572)</u>	<u>\$ 301,572</u>	<u>\$ (4,841)</u>
Held to Maturity						
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 7,583	\$ (107)	\$ —	\$ —	\$ 7,583	\$ (107)
States and political subdivisions	14,877	(68)	54,906	(2,513)	69,783	(2,581)
Corporate debt securities	—	—	8,160	(3,840)	8,160	(3,840)
Collateralized mortgage obligations	47,876	(1,261)	183,228	(23,815)	231,104	(25,076)
Mortgage-backed securities	147,256	(1,836)	9,900,482	(1,475,191)	10,047,738	(1,477,027)
Total	<u>\$ 217,592</u>	<u>\$ (3,272)</u>	<u>\$ 10,146,776</u>	<u>\$ (1,505,359)</u>	<u>\$ 10,364,368</u>	<u>\$ (1,508,631)</u>

	Less than 12 Months		December 31, 2023 12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
Corporate debt securities	\$ 7,300	\$ (738)	\$ —	\$ —	\$ 7,300	\$ (738)
Collateralized mortgage obligations	54,611	(729)	114,758	(2,075)	169,369	(2,804)
Mortgage-backed securities	1,154	(13)	92,211	(1,105)	93,365	(1,118)
Total	<u>\$ 63,065</u>	<u>\$ (1,480)</u>	<u>\$ 206,969</u>	<u>\$ (3,180)</u>	<u>\$ 270,034</u>	<u>\$ (4,660)</u>
Held to Maturity						
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 7,580	\$ (52)	\$ —	\$ —	\$ 7,580	\$ (52)
States and political subdivisions	23,085	(79)	41,039	(2,227)	64,124	(2,306)
Corporate debt securities	—	—	7,800	(4,200)	7,800	(4,200)
Collateralized mortgage obligations	50,147	(470)	192,205	(20,394)	242,352	(20,864)
Mortgage-backed securities	52,853	(807)	10,354,514	(1,356,476)	10,407,367	(1,357,283)
Total	<u>\$ 133,665</u>	<u>\$ (1,408)</u>	<u>\$ 10,595,558</u>	<u>\$ (1,383,297)</u>	<u>\$ 10,729,223</u>	<u>\$ (1,384,705)</u>

At March 31, 2024 and December 31, 2023, there were 1,028 securities and 941 securities, respectively, in an unrealized loss position for 12 months or more.

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The table below summarizes the amortized cost and fair value of investment securities at March 31, 2024, by contractual maturity. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations at any time with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	\$ 27,214	\$ 27,560	\$ —	\$ —
Due after one year through five years	45,853	45,608	—	—
Due after five years through ten years	46,427	41,573	14,350	15,845
Due after ten years	11,896	10,885	—	—
Subtotal	131,390	125,626	14,350	15,845
Mortgage-backed securities and collateralized mortgage obligations	11,854,448	10,352,733	303,903	299,455
Total	<u>\$ 11,985,838</u>	<u>\$ 10,478,359</u>	<u>\$ 318,253</u>	<u>\$ 315,300</u>

The Company recorded a \$298 thousand net gain on the sale of securities for the three months ended March 31, 2024 and no gain or loss on the sale of securities for the three months ended March 31, 2023. As of March 31, 2024, the Company did not own any non-agency collateralized mortgage obligations.

At March 31, 2024 and December 31, 2023, the Company did not own securities of any one issuer (other than the U.S. government and its agencies) for which aggregate adjusted cost exceeded 10% of the consolidated shareholders' equity at such respective dates.

Securities with an amortized cost of \$10.99 billion and \$11.34 billion and a fair value of \$9.60 billion and \$10.09 billion at March 31, 2024 and December 31, 2023, respectively, were pledged to collateralize public deposits and for other purposes required or permitted by law.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The loan portfolio consists of various types of loans and is categorized by major type as follows:

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Residential mortgage loans held for sale	\$ 6,380	\$ 5,734
Commercial and industrial	2,470,848	2,305,040
Real estate:		
Construction, land development and other land loans	2,876,588	3,076,591
1-4 family residential (includes home equity)	8,275,040	8,162,344
Commercial real estate (includes multi-family residential)	5,631,460	5,662,948
Farmland	590,896	598,898
Agriculture	222,196	217,145
Consumer and other	326,915	329,593
Total loans held for investment, excluding Warehouse Purchase Program	20,393,943	20,352,559
Warehouse Purchase Program	864,924	822,245
Total loans, including Warehouse Purchase Program	<u>\$ 21,265,247</u>	<u>\$ 21,180,538</u>

Concentrations of Credit. Most of the Company's lending activity occurs within the states of Texas and Oklahoma. Commercial real estate loans, 1-4 family residential loans and construction, land development and other land loans made up 82.3% and 83.0% of the Company's total loan portfolio, excluding Warehouse Purchase Program loans, at March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024 and December 31, 2023, excluding Warehouse Purchase Program loans, there were no concentrations of loans related to any single industry in excess of 10% of total loans.

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Related Party Loans. As of March 31, 2024 and December 31, 2023, loans outstanding to directors, officers and their affiliates totaled \$290 thousand and \$292 thousand, respectively. All transactions between the Company and such related parties are conducted in the ordinary course of business and made on the same terms and conditions as similar transactions with unaffiliated persons.

An analysis of activity with respect to these related party loans is as follows:

	As of and for the three months ended March 31, 2024	As of and for the year ended December 31, 2023
	(Dollars in thousands)	
Beginning balance on January 1	\$ 292	\$ 547
New loans	1	64
Repayments	(3)	(319)
Ending balance	<u>\$ 290</u>	<u>\$ 292</u>

Nonperforming Assets and Nonaccrual and Past Due Loans. The Company has several procedures in place to assist it in maintaining the overall quality of its loan portfolio. The Company has established underwriting guidelines to be followed by its officers, including requiring appraisals on loans collateralized by real estate. The Company also monitors its delinquency levels for any negative or adverse trends. Nevertheless, the Company's loan portfolio could become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The Company generally places a loan on nonaccrual status and ceases accruing interest when the payment of principal or interest is delinquent for 90 days, or earlier in some cases; unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. 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, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

With respect to potential problem loans, an evaluation of the borrower's overall financial condition is made, together with an appraisal for loans collateralized by real estate, to determine the need, if any, for possible write-downs or appropriate additions to the allowance for credit losses.

An aging analysis of past due loans, segregated by category of loan, is presented below:

	March 31, 2024					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Construction, land development and other land loans	\$ 17,078	\$ —	\$ 17,078	\$ 14,749	\$ 2,844,761	\$ 2,876,588
Warehouse Purchase Program loans	—	—	—	—	864,924	864,924
Agriculture and agriculture real estate (includes farmland)	3,672	428	4,100	3,286	805,706	813,092
1-4 family (includes home equity) ⁽¹⁾	37,462	—	37,462	29,464	8,214,494	8,281,420
Commercial real estate (includes multi-family residential)	13,036	2,417	15,453	21,303	5,594,704	5,631,460
Commercial and industrial	20,715	190	20,905	9,542	2,440,401	2,470,848
Consumer and other	432	—	432	131	326,352	326,915
Total	\$ 92,395	\$ 3,035	\$ 95,430	\$ 78,475	\$ 21,091,342	\$ 21,265,247

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	December 31, 2023					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Construction, land development and other land loans	\$ 21,627	\$ 1,635	\$ 23,262	\$ 14,770	\$ 3,038,559	\$ 3,076,591
Warehouse Purchase Program loans	—	—	—	—	822,245	822,245
Agriculture and agriculture real estate (includes farmland)	8,572	—	8,572	1,460	806,011	816,043
1-4 family (includes home equity) ⁽¹⁾	38,350	130	38,480	25,694	8,103,904	8,168,078
Commercial real estate (includes multi-family residential)	23,511	—	23,511	18,662	5,620,775	5,662,948
Commercial and industrial	14,782	430	15,212	8,066	2,281,762	2,305,040
Consumer and other	503	—	503	36	329,054	329,593
Total	\$ 107,345	\$ 2,195	\$ 109,540	\$ 68,688	\$ 21,002,310	\$ 21,180,538

(1) Includes \$6.4 million and \$5.7 million of residential mortgage loans held for sale at March 31, 2024 and December 31, 2023, respectively.

The following table presents information regarding nonperforming assets as of the dates indicated:

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Nonaccrual loans ^{(1) (2)}	\$ 78,475	\$ 68,688
Accruing loans 90 or more days past due	3,035	2,195
Total nonperforming loans	81,510	70,883
Reposessed assets	97	76
Other real estate	2,204	1,708
Total nonperforming assets	<u>\$ 83,811</u>	<u>\$ 72,667</u>
Nonperforming assets to total loans and other real estate	0.39%	0.34%
Nonperforming assets to total loans, excluding Warehouse Purchase Program loans, and other real estate	0.41%	0.36%
Nonaccrual loans to total loans	0.37%	0.32%
Nonaccrual loans to total loans, excluding Warehouse Purchase Program loans	0.38%	0.34%

(1) ASU 2022-02 became effective for the Company on January 1, 2023.

(2) There were no nonperforming Warehouse Purchase Program loans or Warehouse Purchase Program lines of credit for the periods presented.

The Company had \$83.8 million in nonperforming assets at March 31, 2024 compared with \$72.7 million at December 31, 2023. Nonperforming assets were 0.39% of total loans and other real estate at March 31, 2024 and 0.34% of total loans and other real estate at December 31, 2023. The Company had \$78.5 million in nonaccrual loans at March 31, 2024 compared with \$68.7 million at December 31, 2023.

Acquired Loans. Acquired loans were preliminarily recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, interest rates, projected default rates, loss given default, and recovery rates. Projected default rates, loss given default, and recovery rates for purchased credit deteriorated ("PCD") loans primarily impact the related allowance, as opposed to the fair value mark. During the valuation process, the Company identified PCD and Non-PCD loans in the acquired loan portfolios. Loans acquired with evidence of credit quality deterioration since origination as of the acquisition date were accounted for as PCD. PCD loan identification considers the following factors: payment history and past due status, debt service coverage, loan grading, collateral values and other factors that may indicate deterioration of credit quality as of the acquisition date when compared to the origination date. Non-PCD loan identification considers the following factors: account types, remaining terms, annual interest rates or coupons, current market rates, interest types, past delinquencies, timing of principal and interest payments,

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loan to value ratios, loss exposures and remaining balances. Accretion of purchased discounts on PCD and Non-PCD loans will be recognized based on payment structure and the contractual maturity of individual loans.

PCD Loans. The recorded investment in PCD loans included in the consolidated balance sheet and the related outstanding balance as of the dates indicated are presented in the table below. The outstanding balance represents the total amount owed as of March 31, 2024 and December 31, 2023.

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
PCD loans:		
Outstanding balance	\$ 495,074	\$ 533,653
Discount	(7,361)	(7,914)
Recorded investment	<u>\$ 487,713</u>	<u>\$ 525,739</u>

Changes in the accretable yield for acquired PCD loans for the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31, 2024	2023
	(Dollars in thousands)	
Balance at beginning of period	\$ 7,914	\$ 3,361
Accretion charge-offs	(5)	—
Accretion	(548)	(339)
Balance at March 31,	<u>\$ 7,361</u>	<u>\$ 3,022</u>

Income recognition on PCD loans is subject to the timing and amount of future cash flows. PCD loans for which the Company is accruing interest income are not considered nonperforming or impaired. The PCD discount reflected above as of March 31, 2024, represents the amount of discount available to be recognized as income.

Non-PCD Loans. The recorded investment in Non-PCD loans included in the consolidated balance sheet and the related outstanding balance as of the dates indicated are presented in the table below. The outstanding balance represents the total amount owed as of March 31, 2024 and December 31, 2023.

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Non-PCD loans:		
Outstanding balance	\$ 1,676,563	\$ 1,823,809
Discount	(18,681)	(19,992)
Recorded investment	<u>\$ 1,657,882</u>	<u>\$ 1,803,817</u>

Changes in the discount accretion for Non-PCD loans for the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31, 2024	2023
	(Dollars in thousands)	
Balance at beginning of period	\$ 19,992	\$ 2,233
Accretion recoveries	1	—
Accretion	(1,312)	(532)
Balance at March 31,	<u>\$ 18,681</u>	<u>\$ 1,701</u>

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Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for credit losses, management assigns and tracks loan grades to be used as credit quality indicators. The following is a general description of the loan grades used:

Grade 1—Credits in this category have risk potential that is virtually nonexistent. These loans may be secured by insured certificates of deposit, insured savings accounts, U.S. Government securities and highly rated municipal bonds.

Grade 2—Credits in this category are of the highest quality. These borrowers represent top rated companies and individuals with unquestionable financial standing with excellent global cash flow coverage, net worth, liquidity and collateral coverage.

Grade 3—Credits in this category are not immune from risk but are well protected by the collateral and paying capacity of the borrower. These loans may exhibit a minor unfavorable credit factor, but the overall credit is sufficiently strong to minimize the possibility of loss.

Grade 4—Credits in this category are considered to be of acceptable credit quality with moderately greater risk than Grade 3 and receiving closer monitoring. Loans in this category have sources of repayment that remain sufficient to preclude a larger than normal probability of default and secondary sources are likewise currently of sufficient quantity, quality, and liquidity to protect the Company against loss of principal and interest. These borrowers have specific risk factors, but the overall strength of the credit is acceptable based on other mitigating credit and/or collateral factors and can repay the debt in the normal course of business.

Grade 5—Credits in this category constitute an undue and unwarranted credit risk; however, the factors do not rise to a level of substandard. These credits have potential weaknesses and/or declining trends that, if not corrected, could expose the Company to risk at a future date. These loans are monitored on the Company's internally-generated watch list and evaluated on a quarterly basis.

Grade 6—Credits in this category are considered "substandard" but "non-impaired" loans in accordance with regulatory guidelines. Loans in this category have well-defined weakness that, if not corrected, could make default of principal and interest possible. Loans in this category are still accruing interest and may be dependent upon secondary sources of repayment and/or collateral liquidation.

Grade 7—Credits in this category are deemed "substandard" and "impaired" pursuant to regulatory guidelines. As such, the Company has determined that it is probable that less than 100% of the contractual principal and interest will be collected. These loans are individually evaluated for a specific reserve and will typically have the accrual of interest stopped.

Grade 8—Credits in this category include "doubtful" loans in accordance with regulatory guidance. Such loans are no longer accruing interest and factors indicate a loss is imminent. These loans are also deemed "impaired." While a specific reserve may be in place while the loan and collateral are being evaluated, these loans are typically charged down to an amount the Company estimates is collectible.

Grade 9—Credits in this category are deemed a "loss" in accordance with regulatory guidelines and have been charged off or charged down. The Company may continue collection efforts and may have partial recovery in the future.

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The following tables present loans by risk grade, by category of loan and year of origination/renewal at March 31, 2024.

Term Loans
Amortized Cost Basis by Origination Year

	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total
	(Dollars in thousands)								
Construction, Land Development and Other Land Loans									
Grade 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Grade 2	—	1,106	166	—	—	14	—	—	1,286
Grade 3	103,359	745,828	696,969	364,477	215,354	57,308	119,072	—	2,302,367
Grade 4	3,478	83,562	146,216	42,544	5,572	26,944	30,782	—	339,098
Grade 5	—	—	1,357	—	23,373	15,796	769	—	41,295
Grade 6	—	570	—	7,698	184	561	—	—	9,013
Grade 7	—	183	2,647	343	—	242	248	—	3,663
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	1,218	29,616	98,450	15,171	7,649	7,371	20,391	—	179,866
Total	\$ 108,055	\$ 860,865	\$ 945,805	\$ 430,233	\$ 252,132	\$ 108,236	\$ 171,262	\$ —	\$ 2,876,588
Current-period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Agriculture and Agriculture Real Estate (includes Farmland)									
Grade 1	\$ 720	\$ 1,179	\$ 1,231	\$ 172	\$ 252	\$ 369	\$ 8,590	\$ —	\$ 12,513
Grade 2	—	13	60	101	—	722	46	—	942
Grade 3	20,051	126,212	168,180	76,630	47,924	118,858	102,641	94	660,590
Grade 4	3,436	21,435	19,644	25,993	4,122	9,589	21,807	—	106,026
Grade 5	725	57	799	885	—	1,143	—	—	3,609
Grade 6	—	—	—	78	—	1,195	—	—	1,273
Grade 7	—	—	1,469	558	339	29	—	—	2,395
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	—	1,986	2,532	1,345	14,558	2,630	2,693	—	25,744
Total	\$ 24,932	\$ 150,882	\$ 193,915	\$ 105,762	\$ 67,195	\$ 134,535	\$ 135,777	\$ 94	\$ 813,092
Current-period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 121	\$ —	\$ —	\$ 121
1-4 Family (includes Home Equity) ⁽¹⁾									
Grade 1	\$ —	\$ 74	\$ 153	\$ —	\$ 109	\$ —	\$ —	\$ —	\$ 336
Grade 2	—	526	1,243	153	236	2,602	—	—	4,760
Grade 3	109,256	1,172,870	2,253,123	2,140,728	1,021,887	1,310,779	91,597	2,757	8,102,997
Grade 4	1,178	15,265	15,813	25,722	5,681	64,138	2,871	204	130,872
Grade 5	—	—	1,206	—	119	2,517	—	—	3,842
Grade 6	—	—	357	41	19	1,840	—	—	2,257
Grade 7	—	1,744	7,554	5,304	4,433	9,293	95	—	28,423
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	—	625	4,243	475	469	2,121	—	—	7,933
Total	\$ 110,434	\$ 1,191,104	\$ 2,283,692	\$ 2,172,423	\$ 1,032,953	\$ 1,393,290	\$ 94,563	\$ 2,961	\$ 8,281,420
Current-period gross write-offs	\$ —	\$ —	\$ 389	\$ —	\$ 33	\$ 39	\$ —	\$ —	\$ 461

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Term Loans
Amortized Cost Basis by Origination Year

	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total
	(Dollars in thousands)								
Commercial Real Estate (includes Multi-Family Residential)									
Grade 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Grade 2	—	—	1,128	—	459	2,232	—	—	3,819
Grade 3	50,492	403,245	908,841	680,193	405,589	1,246,771	77,627	4,591	3,777,349
Grade 4	2,667	43,104	262,140	172,287	217,796	716,336	15,857	—	1,430,187
Grade 5	—	192	2,538	4,771	—	89,422	2,355	—	99,278
Grade 6	—	—	—	356	11,451	76,088	—	—	87,895
Grade 7	—	1,693	827	2,464	—	806	—	—	5,790
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	540	13,613	53,166	49,281	38,547	71,666	329	—	227,142
Total	\$ 53,699	\$ 461,847	\$ 1,228,640	\$ 909,352	\$ 673,842	\$ 2,203,321	\$ 96,168	\$ 4,591	\$ 5,631,460
Current-period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and Industrial									
Grade 1	\$ 6,392	\$ 15,267	\$ 9,372	\$ 6,418	\$ 2,811	\$ 6,188	\$ 41,360	\$ 176	\$ 87,984
Grade 2	—	695	7,799	219	195	3,651	2,295	—	14,854
Grade 3	211,874	206,299	222,945	147,665	49,661	187,230	910,134	30,276	1,966,084
Grade 4	20,633	44,614	30,936	14,641	11,286	110,319	65,063	2,222	299,714
Grade 5	—	17	21,827	6,057	1,666	788	8,200	100	38,655
Grade 6	413	311	3,898	615	354	962	2,390	—	8,943
Grade 7	—	3,900	420	195	1,268	1,416	457	—	7,656
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	—	3,689	14,070	3,637	661	2,439	22,462	—	46,958
Total	\$ 239,312	\$ 274,792	\$ 311,267	\$ 179,447	\$ 67,902	\$ 312,993	\$ 1,052,361	\$ 32,774	\$ 2,470,848
Current-period gross write-offs	\$ —	\$ 53	\$ 349	\$ 39	\$ —	\$ 24	\$ 895	\$ —	\$ 1,360
Consumer and Other									
Grade 1	\$ 4,614	\$ 12,520	\$ 5,465	\$ 2,813	\$ 1,681	\$ 5,914	\$ 2,588	\$ —	\$ 35,595
Grade 2	6,132	12,406	14,181	—	—	1,839	1,507	—	36,065
Grade 3	24,054	40,317	38,129	24,769	11,901	17,352	75,004	11	231,537
Grade 4	—	1,748	257	1,105	15,259	2,255	2,865	—	23,489
Grade 5	—	—	—	—	—	—	—	—	—
Grade 6	—	—	31	5	—	—	—	—	36
Grade 7	—	—	—	—	122	1	—	—	123
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	—	—	—	34	7	15	14	—	70
Total	\$ 34,800	\$ 66,991	\$ 58,063	\$ 28,726	\$ 28,970	\$ 27,376	\$ 81,978	\$ 11	\$ 326,915
Current-period gross write-offs	\$ 1,470	\$ 20	\$ 17	\$ 24	\$ —	\$ 70	\$ 58	\$ —	\$ 1,659

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Term Loans
Amortized Cost Basis by Origination Year

	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total
	(Dollars in thousands)								
Warehouse Purchase Program									
Grade 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Grade 2	—	—	—	—	—	—	—	—	—
Grade 3	864,924	—	—	—	—	—	—	—	864,924
Grade 4	—	—	—	—	—	—	—	—	—
Grade 5	—	—	—	—	—	—	—	—	—
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	—	—	—	—	—	—	—	—	—
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	—	—	—	—	—	—	—	—	—
Total	\$ 864,924	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 864,924
Current-period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total									
Grade 1	\$ 11,726	\$ 29,040	\$ 16,221	\$ 9,403	\$ 4,853	\$ 12,471	\$ 52,538	\$ 176	\$ 136,428
Grade 2	6,132	14,746	24,577	473	890	11,060	3,848	—	61,726
Grade 3	1,384,010	2,694,771	4,288,187	3,434,462	1,752,316	2,938,298	1,376,075	37,729	17,905,848
Grade 4	31,392	209,728	475,006	282,292	259,716	929,581	139,245	2,426	2,329,386
Grade 5	725	266	27,727	11,713	25,158	109,666	11,324	100	186,679
Grade 6	413	881	4,286	8,793	12,008	80,646	2,390	—	109,417
Grade 7	—	7,520	12,917	8,864	6,162	11,787	800	—	48,050
Grade 8	—	—	—	—	—	—	—	—	—
Grade 9	—	—	—	—	—	—	—	—	—
PCD Loans	1,758	49,529	172,461	69,943	61,891	86,242	45,889	—	487,713
Total	\$ 1,436,156	\$ 3,006,481	\$ 5,021,382	\$ 3,825,943	\$ 2,122,994	\$ 4,179,751	\$ 1,632,109	\$ 40,431	\$ 21,265,247
Current-period gross write-offs	\$ 1,470	\$ 73	\$ 755	\$ 63	\$ 33	\$ 254	\$ 953	\$ —	\$ 3,601

(1)Includes \$6.4 million of residential mortgage loans held for sale at March 31, 2024.

Allowance for Credit Losses on Loans. The allowance for credit losses is adjusted through charges to earnings in the form of a provision for credit losses. Management has established an allowance for credit losses which it believes is adequate as of March 31, 2024 for estimated losses in the Company's loan portfolio. The amount of the allowance for credit losses on loans is affected by the following: (1) charge-offs of loans that occur when loans are deemed uncollectible and decrease the allowance, (2) recoveries on loans previously charged off that increase the allowance, (3) provisions for credit losses charged to earnings that increase the allowance, and (4) provision releases returned to earnings that decrease the allowance. Based on an evaluation of the loan portfolio and consideration of the factors listed below, management presents a quarterly review of the allowance for credit losses to the Bank's Board of Directors, indicating any change in the allowance since the last review and any recommendations as to adjustments in the allowance. Although management believes it uses the best information available to make determinations with respect to the allowance for credit losses, future adjustments may be necessary if economic conditions or borrower performance differ from the assumptions used in making the initial determinations.

The Company's allowance for credit losses on loans consists of two components: (1) a specific valuation allowance based on expected losses on specifically identified loans and (2) a general valuation allowance based on historical lifetime loan loss experience, current economic conditions, reasonable and supportable forecasted economic conditions and other qualitative risk factors both internal and external to the Company.

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In setting the specific valuation allowance, the Company follows a loan review program to evaluate the credit risk in the total loan portfolio and assigns risk grades to each loan. Through this loan review process, the Company maintains an internal list of impaired loans, which along with the delinquency list of loans, helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for credit losses. All loans that have been identified as impaired are reviewed on a quarterly basis in order to determine whether a specific reserve is required. For certain impaired loans, the Company allocates a specific loan loss reserve primarily based on the value of the collateral securing the impaired loan in accordance with ASC Topic 326-20, "*Financial Instruments – Credit Losses*." The specific reserves are determined on an individual loan basis. Loans for which specific reserves are provided are excluded from the general valuation allowance described below.

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

- for 1-4 family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of collateral;
- for commercial real estate loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner-occupied properties, the loan to value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan to value ratio;
- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for the Warehouse Purchase Program, the capitalization and liquidity of the mortgage banking client, the operating experience, the client's satisfactory underwriting of purchased loans and the consistent timeliness by the client of loan resale to investors;
- for agriculture real estate loans, the experience and financial capability of the borrower, projected debt service coverage of the operations of the borrower and loan to value ratio; and
- for non-real estate agriculture loans, the operating results, experience and financial capability of the borrower, historical and expected market conditions and the value, nature and marketability of collateral.

In addition, for each category, the Company considers secondary sources of income and the financial strength and credit history of the borrower and any guarantors.

In determining the amount of the general valuation allowance, management considers factors such as historical lifetime loan loss experience, concentration risk of specific loan types, the volume, growth and composition of the Company's loan portfolio, current economic conditions and reasonable and supportable forecasted economic conditions that may affect borrower ability to pay and the value of collateral, the evaluation of the Company's loan portfolio through its internal loan review process, other qualitative risk factors both internal and external to the Company and other relevant factors in accordance with ASC Topic 326, "*Financial Instruments – Credit Losses*." Historical lifetime loan loss experience is determined by utilizing an open-pool ("cumulative loss rate") methodology. Adjustments to the historical lifetime loan loss experience are made for differences in current loan pool risk characteristics such as portfolio concentrations, delinquency, non-accrual, and watch list levels, as well as changes in current and forecasted economic conditions such as unemployment rates, property and collateral values, and other indices relating to economic activity. The utilization of reasonable and supportable forecasts includes an immediate reversion to lifetime historical loss rates. Based on a review of these factors for each loan type, the Company applies an estimated percentage to the outstanding balance of each loan type, excluding any loan that has a specific reserve. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

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The following table details activity in the allowance for credit losses on loans by category of loan for the three months ended March 31, 2024 and 2023.

	Construction, Land Development and Other Land Loans	Agriculture and Agriculture Real Estate (includes Farmland)	1-4 Family (includes Home Equity)	Commercial Real Estate (includes Multi-Family Residential)	Commercial and Industrial	Consumer and Other	Total
(Dollars in thousands)							
Allowance for credit losses on loans:							
Three Months Ended							
Balance December 31, 2023	\$ 87,775	\$ 11,380	\$ 77,652	\$ 88,664	\$ 59,832	\$ 7,059	\$ 332,362
Provision for credit losses on loans	(5,619)	1,270	2,469	(1,468)	2,067	1,281	—
Charge-offs	—	(121)	(461)	—	(1,360)	(1,659)	(3,601)
Recoveries	2	98	4	17	1,077	260	1,458
Net (charge-offs) recoveries	2	(23)	(457)	17	(283)	(1,399)	(2,143)
Balance March 31, 2024	<u>\$ 82,158</u>	<u>\$ 12,627</u>	<u>\$ 79,664</u>	<u>\$ 87,213</u>	<u>\$ 61,616</u>	<u>\$ 6,941</u>	<u>\$ 330,219</u>
Allowance for credit losses on loans:							
Three Months Ended							
Balance December 31, 2022	\$ 78,853	\$ 7,699	\$ 60,795	\$ 66,272	\$ 62,319	\$ 5,638	\$ 281,576
Provision for credit losses	1,695	356	1,603	1,699	(6,495)	1,142	—
Charge-offs	—	—	(65)	—	(901)	(1,225)	(2,191)
Recoveries	13	6	205	1	2,373	208	2,806
Net (charge-offs) recoveries	13	6	140	1	1,472	(1,017)	615
Balance March 31, 2023	<u>\$ 80,561</u>	<u>\$ 8,061</u>	<u>\$ 62,538</u>	<u>\$ 67,972</u>	<u>\$ 57,296</u>	<u>\$ 5,763</u>	<u>\$ 282,191</u>

The allowance for credit losses on loans as of March 31, 2024 totaled \$330.2 million or 1.55% of total loans, including acquired loans with discounts, a decrease of \$2.1 million or 0.6% compared to the allowance for credit losses on loans totaling \$332.4 million or 1.57% of total loans, including acquired loans with discounts, as of December 31, 2023. There was no provision for credit losses for the three months ended March 31, 2024 and 2023.

Net charge-offs were \$2.1 million for the three months ended March 31, 2024 compared to net recoveries of \$615 thousand for the three months ended March 31, 2023. Net charge-offs for the three months ended March 31, 2024 included \$991 thousand related to resolved PCD loans, which had specific reserves that were allocated to the charge-offs. Further, an additional \$4.1 million of specific reserves on resolved PCD loans without any related charge-offs was released to the general reserve.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures. The allowance for credit losses on off-balance sheet credit exposures estimates expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, except when an obligation is unconditionally cancellable by the Company. The allowance is adjusted by provisions for credit losses charged to earnings that increase the allowance, or by provision releases returned to earnings that decrease the allowance. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate of commitments expected to fund is affected by historical analysis of utilization rates. The expected credit loss rates applied to the commitments expected to fund are affected by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. As of March 31, 2024 and December 31, 2023, the Company had \$36.5 million in allowance for credit losses on off-balance sheet credit exposures. The allowance for credit losses on off-balance sheet credit exposures is a separate line item on the Company's consolidated balance sheet. As of March 31, 2024, the Company had \$2.26 billion in commitments expected to fund.

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Loan Modifications Made to Borrowers Experiencing Financial Difficulty. The Company evaluates all restructurings, including restructurings for borrowers experiencing financial difficulty, to determine whether they result in a new loan or a continuation of an existing loan. In accordance with ASC Topic 326, “*Financial Instruments—Credit Losses*”, the Company only establishes a specific reserve for modifications to borrowers experiencing financial difficulty when the loan is identified as impaired. The effect of most modifications of loans made to borrowers who are experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance. The Company adjusts the terms of loans for certain borrowers when it believes such changes will help its customers manage their loan obligations and increase the collectability of the loans.

Modifications to borrowers experiencing financial difficulty may include but are not limited to changes in committed loan amount, interest rate, amortization, note maturity, borrower, guarantor, collateral, forbearance, forgiveness of principal or interest, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The approval of modifications of loans for borrowers experiencing financial difficulty are handled on a case-by-case basis.

The following table displays the amortized cost of loans that were both experiencing financial difficulty and modified during the three months ended March 31, 2024 and 2023, presented by category of loan and type of modification.

	Term Extension (Dollars in thousands)	Percentage of Total Loans Held for Investment
Three Months Ended March 31, 2024		
Commercial and industrial	\$ 413	—
Agriculture	11,000	0.05 %
Total	<u>\$ 11,413</u>	<u>0.05 %</u>
Three Months Ended March 31, 2023		
Construction, land development and other land loans	\$ 4,233	0.02 %
Total	<u>\$ 4,233</u>	<u>0.02 %</u>

The following table describes the modifications made to the loans presented above to borrowers experiencing financial difficulty for the three months ended March 31, 2024 and 2023.

Loan Type	Term Extension
Commercial and industrial	Three Months Ended March 31, 2024 Modified to a 7 year term
Agriculture	Modified to a 2 year term
Construction, land development and other land loans	Three Months Ended March 31, 2023 Less than 12-month extension

The Company did not have any modified loans that defaulted during the three months ended March 31, 2024 that were modified during the prior trailing twelve months. Payment default is defined as movement to nonperforming status, foreclosure or charge-off, whichever occurs first.

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6. FAIR VALUE

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair values represent the estimated price that would be received from selling an asset or paid to transfer a liability, otherwise known as an "exit price." Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. ASC Topic 820, "*Fair Value Measurements and Disclosures*" 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:

Fair Value Hierarchy

The Company groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities) or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

The fair value disclosures below represent the Company's estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding current economic conditions, risk characteristics of the various instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.

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The following tables present fair values for assets and liabilities measured at fair value on a recurring basis:

	As of March 31, 2024				
	Level 1	Level 2	Level 3	Total	
	(Dollars in thousands)				
Assets:					
Available for sale securities:					
Corporate debt securities	\$ —	\$ 15,845	\$ —	\$ 15,845	
Collateralized mortgage obligations	—	194,806	—	194,806	
Mortgage-backed securities	—	104,649	—	104,649	
Total	<u>\$ —</u>	<u>\$ 315,300</u>	<u>\$ —</u>	<u>\$ 315,300</u>	
Derivative financial instruments:					
Interest rate lock commitments	\$ —	\$ 256	\$ —	\$ 256	
Forward mortgage-backed securities trades	—	8	—	8	
Loan customer counterparty	—	—	—	—	
Financial institution counterparty	—	4,309	—	4,309	
Liabilities:					
Derivative financial instruments:					
Interest rate lock commitments	\$ —	\$ —	\$ —	\$ —	
Forward mortgage-backed securities trades	—	74	—	74	
Loan customer counterparty	—	4,330	—	4,330	
Financial institution counterparty	—	—	—	—	
	As of December 31, 2023				
	Level 1	Level 2	Level 3	Total	
	(Dollars in thousands)				
Assets:					
Available for sale securities:					
Corporate debt securities	\$ —	\$ 21,787	\$ —	\$ 21,787	
Collateralized mortgage obligations	—	320,044	—	320,044	
Mortgage-backed securities	—	96,757	—	96,757	
Total available for sale securities	<u>\$ —</u>	<u>\$ 438,588</u>	<u>\$ —</u>	<u>\$ 438,588</u>	
Derivative financial instruments:					
Interest rate lock commitments	\$ —	\$ 218	\$ —	\$ 218	
Forward mortgage-backed securities trades	—	1	—	1	
Loan customer counterparty	—	—	—	—	
Financial institution counterparty	—	3,876	—	3,876	
Liabilities:					
Derivative financial instruments:					
Interest rate lock commitments	\$ —	\$ —	\$ —	\$ —	
Forward mortgage-backed securities trades	—	161	—	161	
Loan customer counterparty	—	3,899	—	3,899	
Financial institution counterparty	—	—	—	—	

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These instruments include other real estate owned, repossessed assets, held to maturity debt securities, loans held for sale and impaired loans, which are included as loans held for investment. For the three months ended March 31, 2024, the Company had additions to other real estate owned of \$969 thousand of which \$845 thousand was outstanding as of March 31, 2024. For the three months ended March 31, 2024, the Company had additions to impaired loans of \$13.4 million, of which \$13.4 million was outstanding as of March 31, 2024. The remaining financial assets and liabilities measured at fair value on a non-recurring basis that were recorded in 2024 and remained outstanding at March 31, 2024 were not significant.

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The following tables present carrying and fair value information of financial instruments as of the dates indicated:

			As of March 31, 2024			
	Carrying Amount		Estimated Fair Value			
		Level 1	Level 2	Level 3	Total	
			(Dollars in thousands)			
Assets						
Cash and due from banks	\$ 1,086,444	\$ 1,086,444	\$ —	\$ —	\$ 1,086,444	
Federal funds sold	250	250	—	—	250	
Held to maturity securities	11,985,838	—	10,478,359	—	10,478,359	
Loans held for sale	6,380	—	6,380	—	6,380	
Loans held for investment, net of allowance	20,063,724	—	—	18,465,513	18,465,513	
Loans held for investment - Warehouse Purchase Program	864,924	—	864,924	—	864,924	
Other real estate owned	2,204	—	2,204	—	2,204	
Liabilities						
Deposits:						
Noninterest-bearing	\$ 9,526,535	\$ —	\$ 9,526,535	\$ —	\$ 9,526,535	
Interest-bearing	17,648,983	—	17,611,669	—	17,611,669	
Other borrowings	3,900,000	—	3,876,545	—	3,876,545	
Securities sold under repurchase agreements	261,671	—	261,621	—	261,621	

			As of December 31, 2023			
	Carrying Amount		Estimated Fair Value			
		Level 1	Level 2	Level 3	Total	
			(Dollars in thousands)			
Assets						
Cash and due from banks	\$ 458,153	\$ 458,153	\$ —	\$ —	\$ 458,153	
Federal funds sold	260	260	—	—	260	
Held to maturity securities	12,365,308	—	10,984,598	—	10,984,598	
Loans held for sale	5,734	—	5,734	—	5,734	
Loans held for investment, net of allowance	20,020,197	—	—	18,321,054	18,321,054	
Loans held for investment - Warehouse Purchase Program	822,245	—	822,245	—	822,245	
Other real estate owned	1,708	—	1,708	—	1,708	
Liabilities						
Deposits:						
Noninterest-bearing	\$ 9,776,572	\$ —	\$ 9,776,572	\$ —	\$ 9,776,572	
Interest-bearing	17,403,237	—	17,371,523	—	17,371,523	
Other borrowings	3,725,000	—	3,725,000	—	3,725,000	
Securities sold under repurchase agreements	309,277	—	309,245	—	309,245	

The following is a description of the fair value estimates, methods and assumptions that are used by the Company in estimating the fair values of financial instruments.

Loans held for sale— Loans held for sale are carried at the lower of cost or estimated fair value. Fair value for consumer mortgages held for sale is based on commitments on hand from investors or prevailing market prices. As such, the Company classifies loans held for sale subjected to nonrecurring fair value adjustments as Level 2.

Loans held for investment— The Company does not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value disclosures. The Company's discounted cash flow calculation to determine fair value considers internal and market-based information such as prepayment risk, cost of funds and

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liquidity. From time to time, the Company records nonrecurring fair value adjustments to impaired loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. Where appraisals are not available, estimated cash flows are discounted using a rate commensurate with the credit risk associated with those cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

The Company classifies the estimated fair value of loans held for investment as Level 3.

Other real estate owned— Other real estate owned is primarily foreclosed properties securing residential loans and commercial real estate loans. Foreclosed assets are adjusted to fair value less estimated costs to sell upon transfer of the loans to other real estate owned. Subsequently, these assets are carried at the lower of carrying value or fair value less estimated costs to sell. Other real estate carried at fair value based on an observable market price or a current appraised value is classified by the Company as Level 2. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Company classifies the other real estate as Level 3.

The fair value estimates presented herein are based on information available to management at March 31, 2024. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

7. GOODWILL AND CORE DEPOSIT INTANGIBLES

Changes in the carrying amount of the Company's goodwill and core deposit intangibles for the three months ended March 31, 2024 and the year ended December 31, 2023 were as follows:

	Goodwill	Core Deposit Intangibles
	(Dollars in thousands)	
Balance as of December 31, 2022	\$ 3,231,636	\$ 51,348
Less:		
Amortization	—	(12,676)
Add:		
First Bancshares Merger	164,450	25,322
Balance as of December 31, 2023	3,396,086	63,994
Less:		
Amortization	—	(3,237)
Add:		
First Bancshares Merger	316	—
Balance as of March 31, 2024	<u>\$ 3,396,402</u>	<u>\$ 60,757</u>

Goodwill is recorded as of the acquisition date of each entity. The Company may record subsequent adjustments to goodwill for amounts undeterminable at acquisition date, such as deferred taxes and real estate valuations, and therefore the goodwill amounts may change accordingly. The Company initially records the total premium paid on acquisitions as goodwill. After finalizing the valuation, core deposit intangibles are identified and reclassified from goodwill to core deposit intangibles on the balance sheet. This reclassification has no effect on total assets, liabilities, shareholders' equity, net income or cash flows. Management performs an evaluation annually, and more frequently if a triggering event occurs, of whether any impairment of the goodwill or core deposit intangibles has occurred. If any such impairment is determined, a write-down is recorded. As of March 31, 2024, there was no impairment recorded on goodwill and core deposit intangibles.

The measurement period for the Company to determine the fair value of acquired identifiable assets and assumed liabilities will be at the end of the earlier of (1) twelve months from the date of acquisition or (2) as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the date of acquisition.

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Core deposit intangibles are being amortized on a non-pro rata basis over their estimated lives, which the Company believes is between 10 and 15 years. Amortization expense related to intangible assets totaled \$3.2 million and \$2.4 million for the three months ended March 31, 2024 and 2023, respectively. The estimated aggregate future amortization expense for core deposit intangibles remaining as of March 31, 2024 is as follows (dollars in thousands):

Remaining 2024	\$	9,576
2025		11,409
2026		10,376
2027		9,288
2028		8,288
Thereafter		11,820
Total	\$	<u>60,757</u>

8. STOCK-BASED COMPENSATION

At March 31, 2024, Bancshares had one active stock-based incentive compensation plan with awards outstanding.

On March 3, 2020, Bancshares' Board of Directors established the Prosperity Bancshares, Inc. 2020 Stock Incentive Plan (the "2020 Plan"), which was approved by Bancshares' shareholders on April 21, 2020. The 2020 Plan authorizes the issuance of up to 2,500,000 shares of common stock upon the exercise of options or pursuant to the grant or exercise, as the case may be, of other awards granted under the 2020 Plan, including incentive stock options, nonqualified stock options, stock appreciation rights, shares of restricted stock and restricted stock units. As of March 31, 2024, 406,757 shares of restricted common stock have vested and 540,297 shares of unvested restricted stock have been issued under the 2020 Plan.

As of March 31, 2024, the Company had no stock options outstanding. Stock-based compensation expense related to restricted stock was \$3.4 million and \$3.2 million during the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, there was \$28.0 million of total unrecognized compensation expense related to stock-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 1.95 years.

9. CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ITEMS

Contractual Obligations

The Company's contractual obligations and other commitments to make future payments (other than deposit obligations and securities sold under repurchase agreements) as of March 31, 2024 are summarized below. The Company's future cash payments associated with its contractual obligations pursuant to the Federal Reserve's Bank Term Funding Program ("BTFP") as of March 31, 2024 are summarized below. The future interest payments were calculated using the current rate in effect at March 31, 2024. Payments under the BTFP include interest of \$186.1 million that will be due over the future periods. These payments do not include prepayment options that may be available to the Company.

	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Bank Term Funding Program	\$ 4,086,149	\$ —	\$ —	\$ —	\$ 4,086,149

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Leases

The Company's leases relate primarily to operating leases for office space and banking centers. The Company determines if an arrangement is a lease or contains a lease at inception. The Company's leases have remaining lease terms of 1 to 15 years, which may include the option to extend the lease when it is reasonably certain for the Company to exercise that option. Operating lease right-of-use ("ROU") assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental collateralized borrowing rate to determine the present value of lease payments. Short-term leases and leases with variable lease costs are immaterial and the Company has one sublease arrangement. Sublease income was \$869 thousand and \$806 thousand for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, operating lease ROU assets and lease liabilities were approximately \$36.8 million. ROU assets and lease liabilities were classified as other assets and other liabilities, respectively.

As of March 31, 2024, the weighted average of remaining lease terms of the Company's operating leases was 5.7 years. The weighted average discount rate used to determine the lease liabilities as of March 31, 2024 for the Company's operating leases was 2.9%. Cash paid for the Company's operating leases was \$2.9 million and \$2.8 million for the three months ended March 31, 2024 and 2023, respectively. During the three months ended March 31, 2024, the Company obtained \$2.1 million in ROU assets in exchange for lease liabilities for one operating lease.

The Company's future undiscounted cash payments associated with its operating leases as of March 31, 2024 are summarized below (dollars in thousands).

Remaining 2024	\$	7,877
2025		10,005
2026		8,865
2027		5,849
2028		2,873
2029		1,541
Thereafter		8,327
Total undiscounted lease payments	\$	<u>45,337</u>

Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions that, in accordance with GAAP, are not included in its consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's commitments associated with outstanding standby letters of credit, unused capacity on Warehouse Purchase Program loans and commitments to extend credit expiring by period as of March 31, 2024 are summarized below. Since commitments associated with letters of credit, unused capacity of Warehouse Purchase Program loans and commitments to extend credit may expire unused, the amounts shown may not necessarily reflect the actual future cash funding requirements.

	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years (Dollars in thousands)	5 years or more	Total
Standby letters of credit	\$ 62,745	\$ 18,559	\$ 2,445	\$ 26	\$ 83,775
Unused capacity on Warehouse Purchase Program loans	1,058,576	—	—	—	1,058,576
Commitments to extend credit	1,489,941	1,020,761	296,869	1,623,299	4,430,870
Total	<u>\$ 2,611,262</u>	<u>\$ 1,039,320</u>	<u>\$ 299,314</u>	<u>\$ 1,623,325</u>	<u>\$ 5,573,221</u>

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The Company records an allowance for credit losses on off-balance sheet credit exposure that is adjusted through a charge to provision for credit losses on the Company's consolidated statement of income. At March 31, 2024 and December 31, 2023, this allowance, reported as a separate line item on the Company's consolidated balance sheet, totaled \$36.5 million.

10. OTHER COMPREHENSIVE (LOSS) INCOME

The tax effects allocated to each component of other comprehensive (loss) income were as follows:

	2024		Three Months Ended March 31,		2023	
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
			(Dollars in thousands)			
Other comprehensive loss:						
Securities available for sale:						
Change in unrealized loss during period	\$ (1,184)	\$ 249	\$ (935)	\$ (4)	\$ 1	\$ (3)
Total securities available for sale	(1,184)	249	(935)	(4)	1	(3)
Total other comprehensive loss	<u>\$ (1,184)</u>	<u>\$ 249</u>	<u>\$ (935)</u>	<u>\$ (4)</u>	<u>\$ 1</u>	<u>\$ (3)</u>

Activity in accumulated other comprehensive loss associated with securities available for sale, net of tax, was as follows:

	Securities Available for Sale	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)	
Balance at December 31, 2023	\$ (1,398)	\$ (1,398)
Other comprehensive loss	(935)	(935)
Balance at March 31, 2024	<u>\$ (2,333)</u>	<u>\$ (2,333)</u>
Balance at December 31, 2022	\$ (3,473)	\$ (3,473)
Other comprehensive loss	(3)	(3)
Balance at March 31, 2023	<u>\$ (3,476)</u>	<u>\$ (3,476)</u>

11. DERIVATIVE FINANCIAL INSTRUMENTS

The following table provides the outstanding notional balances and fair values of outstanding derivative positions at March 31, 2024 and December 31, 2023.

	March 31, 2024			December 31, 2023		
	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
	(Dollars in thousands)					
Interest rate lock commitments	\$ 15,693	\$ 256	\$ —	\$ 7,113	\$ 218	\$ —
Forward mortgage-backed securities trades	20,500	8	74	14,250	1	161
Commercial loan interest rate swaps and caps:						
Loan customer counterparty	67,207	—	4,330	67,408	—	3,899
Financial institution counterparty	67,207	4,309	—	67,408	3,876	—

These financial instruments are not designated as hedging instruments and are used for asset and liability management and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities, and all related cash flows are reported in the operating section of the consolidated statements of cash flows.

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Interest rate lock commitments ("IRLCs") — In the normal course of business, the Company enters into interest rate lock commitments with consumers to originate mortgage loans at a specified interest rate. 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.

Forward mortgage-backed securities trades — The Company manages the changes in fair value associated with changes in interest rates related to IRLCs by using forward sold commitments known as forward mortgage-backed securities trades. These instruments are typically entered into at the time the interest rate lock commitment is made.

Interest rate swaps and caps — These derivative positions relate to transactions in which the Company enters into an interest rate swap or cap with a customer, while at the same time entering into an offsetting interest rate swap or cap with another financial institution. An interest rate swap transaction allows the Company's customer to effectively convert a variable rate loan to a fixed rate. In connection with each swap, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution a similar fixed interest rate on the same notional amount and receive substantially the same variable interest rate on the same notional amount. In connection with each interest rate cap, the Company sells a cap to the customer and agrees to pay interest if the underlying index exceeds the strike price defined in the cap agreement. Simultaneously the Company purchases a cap with matching terms from another financial institution that agrees to pay the Company if the underlying index exceeds the strike price.

The commercial loan customer counterparty weighted average received and paid interest rates for interest rate swaps outstanding at March 31, 2024 and December 31, 2023 are presented in the following table.

	Weighted-Average Interest Rate			
	March 31, 2024		December 31, 2023	
	Received	Paid	Received	Paid
Loan customer counterparty	3.07 %	6.78 %	3.07 %	6.81 %

The Company's credit exposure on interest rate swaps is limited to the net favorable value of all swaps by each counterparty, which was approximately \$4.3 million at March 31, 2024 and \$3.9 million at December 31, 2023. This credit exposure is partly mitigated as transactions with customers are secured by the collateral, if any, securing the underlying transaction being hedged. The Company's credit exposure, net of collateral pledged, relating to interest rate swaps with upstream financial institution counterparties was \$280 thousand at March 31, 2024. A credit support annex is in place and allows the Company to call collateral from upstream financial institution counterparties. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap values. The Company's cash collateral pledged for interest rate swaps was zero at March 31, 2024 and December 31, 2023.

The initial and subsequent changes in the fair value of IRLCs and the forward sales of mortgage-backed securities are recorded in net gain on sale of mortgage loans. These gains and losses were not attributable to instrument-specific credit risk. For interest rate swaps and caps, because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on its results of operations. Income (loss) for the three months ended March 31, 2024 and 2023 was as follows:

Derivatives not designated as hedging instruments	Three Months Ended March 31,			
	2024		2023	
	(Dollars in thousands)			
Interest rate lock commitments	\$	38	\$	30
Forward mortgage-backed securities trades		196		(50)

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12. ACQUISITIONS

Merger of First Bancshares of Texas, Inc. — Effective May 1, 2023, the Company completed the Merger of First Bancshares of Texas, Inc. ("First Bancshares") into Bancshares and the subsequent merger of its wholly owned subsidiary, FirstCapital Bank of Texas, N.A. ("FirstCapital Bank"), into the Bank. FirstCapital Bank operated 16 full-service banking offices in six different markets in West, North and Central Texas areas, including its main office in Midland, and banking offices in Midland, Lubbock, Amarillo, Wichita Falls, Burkburnett, Byers, Henrietta, Dallas, Horseshoe Bay, Marble Falls and Fredericksburg, Texas. As of March 31, 2023, First Bancshares, on a consolidated basis, reported total assets of \$2.14 billion, total loans of \$1.65 billion and total deposits of \$1.71 billion. The acquisition was not considered significant to the Company's financial statements and therefore pro forma financial data and related disclosures are not included.

Pursuant to the terms of the definitive agreement, Bancshares issued 3,583,370 shares of its common stock plus approximately \$91.5 million in cash for all outstanding shares of First Bancshares. As of March 31, 2024, the Company recognized goodwill of \$164.8 million, which does not include all the subsequent fair value adjustments that have not yet been finalized. Goodwill represents the excess of the total purchase price paid over the fair value of the assets acquired, net of the fair value of liabilities assumed. During the second quarter of 2023, the Company completed the operational conversion of FirstCapital Bank.

13. SUBSEQUENT EVENT

Merger of Lone Star State Bancshares, Inc. — Effective April 1, 2024, the Company completed the merger of Lone Star State Bancshares, Inc. ("Lone Star") into Bancshares and the subsequent merger of its wholly owned subsidiary Lone Star State Bank of West Texas ("Lone Star Bank"), into the Bank. Lone Star operated five banking centers in the West Texas area, including its main office in Lubbock, and one banking center in each of Brownfield, Midland, Odessa and Big Spring, Texas. As of March 31, 2024, Lone Star, on a consolidated basis, reported total assets of \$1.38 billion, total loans of \$1.08 billion and total deposits of \$1.24 billion.

Under the terms of the definitive agreement, Bancshares issued 2,376,182 shares of its common stock plus approximately \$64.1 million in cash for all outstanding shares of Lone Star in the second quarter of 2024.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Cautionary Notice Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this quarterly report on Form 10-Q that are not statements of historical fact constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions and involve a number of risks and uncertainties, many of which are beyond the Company's control. Forward-looking statements can be identified by words such as "believes," "intends," "expects," "plans," "will" and similar references to future periods. Many possible events or factors could affect the future financial results and performance of the Company and could cause such results or performance to differ materially from those expressed in the forward-looking statements. These possible events or factors include, but are not limited to:

- changes in the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations resulting in, among other things, a deterioration in credit quality or reduced demand for credit, including the result and effect on the Company's loan portfolio and allowance for credit losses;
- adverse developments in the banking industry highlighted by high-profile bank failures and the potential impact of such developments on customer confidence, the Company's stock price, liquidity and regulatory responses to these developments (including increases in the cost of the Company's deposit insurance assessments);
- the Company's ability to effectively manage its liquidity risk and the availability of capital and funding;
- volatility in interest rates and market prices, which could reduce the Company's net interest margins, asset valuations and expense expectations;
- prolonged periods of high inflation and their effects on the Company's business, profitability and stock price;
- changes in the levels of loan prepayments and the resulting effects on the value of the Company's loan portfolio;
- changes in local economic and business conditions, including fluctuations in the price of oil, natural gas and other commodities, which adversely affect the Company's customers and their ability to transact profitable business with the company, including the ability of the Company's borrowers to repay their loans according to their terms or a change in the value of the related collateral;
- the potential impacts of climate change;
- increased competition for deposits and loans adversely affecting balances, rates and terms;
- the timing, impact and other uncertainties of any future acquisitions and the Company's ability to identify suitable future acquisition candidates, the success or failure in the integration of their operations, and the ability to enter new markets successfully and capitalize on growth opportunities;
- the risk that the regulatory environment may not be conducive to or may prohibit the consummation of future mergers and/or business combinations, may increase the length of time and amount of resources required to consummate such transactions, and the potential to reduce anticipated benefits from such mergers or combinations;
- the possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on the results of operations;
- increased credit risk in the Company's assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of the total loan portfolio;
- the concentration of the Company's loan portfolio in loans collateralized by residential and commercial real estate;
- the failure of assumptions underlying the establishment of and provisions made to the allowance for credit losses, including such assumptions related to potential or recent acquisitions;
- changes in the availability of funds resulting in increased costs or reduced liquidity;
- a deterioration or downgrade in the credit quality and credit agency ratings of the securities in the Company's securities portfolio;
- increased asset levels and changes in the composition of assets and the resulting impact on the Company's capital levels and regulatory capital ratios;
- the Company's ability to acquire, operate and maintain cost effective and efficient systems without incurring unexpectedly difficult or expensive but necessary technological changes;

- the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels;
- government intervention in the U.S. financial system;
- changes in statutes and government regulations or their interpretations applicable to financial holding companies and the Company's present and future banking and other subsidiaries, including changes in tax requirements and tax rates;
- 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, the Financial Accounting Standards Board and other accounting standard setters;
- the Company's ability to identify and address cybersecurity risks such as data security breaches, malware, "denial of service" attacks, "hacking", and identity theft, a failure of which could disrupt business and result in significant losses or adverse effects to the Company's reputation;
- poor performance by, or breach of the operational or security systems of, third-party vendors and other service providers;
- exposure to potential losses in the event of fraud and/or theft, or in the event that a third-party vendor, obligor, or business partner fails to pay amounts due to the Company under that relationship or under any other arrangement;
- the failure of analytical and forecasting models and tools used by the Company to estimate expected credit losses and to measure the fair value of financial instruments;
- additional risks from new lines of businesses or new products and services;
- risks related to potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation, regulatory proceedings or enforcement actions, including those related to cybersecurity breaches, intellectual property or fiduciary responsibilities;
- the failure of the Company's enterprise risk management framework to identify or address risks adequately;
- potential risk of environmental liability associated with lending activities;
- acts of terrorism, an outbreak of hostilities, or other international or domestic calamities, civil unrest, insurrections, other political, economic or diplomatic developments, including those caused by public health issues, outbreaks of diseases and pandemics, weather or other acts of God and other matters beyond the Company's control; and
- other risks and uncertainties described in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, or in the Company's other reports and documents filed with the Securities and Exchange Commission.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Company believes it has chosen these assumptions or bases in good faith and that they are reasonable. However, the Company cautions that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. Therefore, the Company cautions against placing undue reliance on its forward-looking statements. The forward-looking statements speak only as of the date the statements are made. The Company undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of the Company's balance sheets and statements of income. This section should be read in conjunction with the Company's consolidated financial statements and accompanying notes included in Part I, Item 1 of this report and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

OVERVIEW

Prosperity Bancshares, Inc., a Texas corporation ("Bancshares"), is a registered financial holding company that derives substantially all of its revenues and income from the operation of its bank subsidiary, Prosperity Bank (the "Bank," and together with Bancshares, the "Company"). The Bank provides a wide array of financial products and services to businesses and consumers throughout Texas and Oklahoma. As of March 31, 2024, the Bank operated 283 full service banking locations: 65 in the Houston area, including The Woodlands; 30 in the South Texas area including Corpus Christi and Victoria; 62 in the Dallas/Fort Worth area; 22 in the East Texas area; 31 in the Central Texas area including Austin and San Antonio; 44 in the West Texas area including Lubbock, Midland-Odessa, Abilene, Amarillo and Wichita Falls; 15 in the Bryan/College Station area, 6 in the Central Oklahoma area; and 8 in the Tulsa, Oklahoma area. The Company's principal executive office is located at Prosperity Bank Plaza, 4295 San Felipe in Houston, Texas, and its telephone number is (281) 269-7199. The Company's website address is www.prosperitybankusa.com. Information

contained on the Company's website is not incorporated by reference into this quarterly report on Form 10-Q and is not part of this or any other report.

The Company generates the majority of its revenues from interest income on loans, service charges and fees on customer accounts and income from investment in securities. The revenues are partially offset by interest expense paid on deposits and other borrowings and noninterest expenses such as administrative and occupancy expenses. Net interest income is the difference between interest income on earning assets such as loans and securities and interest expense on liabilities such as deposits and borrowings which are used to fund those assets. Net interest income is the Company's largest source of revenue. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and margin.

Three principal components of the Company's growth strategy are internal growth, efficient operations and acquisitions, including strategic merger transactions. The Company focuses on continual internal growth. The Company maintains separate data with respect to each banking center's net interest income, efficiency ratio, deposit growth and loan growth for purposes of measuring its overall profitability. The Company also focuses on maintaining efficiency and stringent cost control practices and policies. The Company has centralized many of its critical operations, such as data processing and loan processing. Management believes that this centralized infrastructure can accommodate substantial additional growth and achieve necessary controls while enabling the Company to minimize operational costs through certain economies of scale. The Company also intends to continue to seek expansion opportunities.

Total assets were \$38.76 billion at March 31, 2024 compared with \$38.55 billion at December 31, 2023, an increase of \$208.6 million or 0.5%. Total loans were \$21.27 billion at March 31, 2024 compared with \$21.18 billion at December 31, 2023, an increase of \$84.7 million or 0.4%. Total deposits were \$27.18 billion at March 31, 2024 compared with \$27.18 billion at December 31, 2023 with a decrease of \$4.3 million. Total shareholders' equity was \$7.10 billion at March 31, 2024 compared with \$7.08 billion at December 31, 2023, an increase of \$25.2 million or 0.4%.

RECENT ACQUISITION

Merger of First Bancshares of Texas, Inc. — Effective May 1, 2023, the Company completed the merger of First Bancshares of Texas, Inc. ("First Bancshares") into the Bancshares and the subsequent merger of its wholly owned subsidiary, FirstCapital Bank of Texas, N.A. ("FirstCapital Bank"), into the Bank (collectively, the "FB Merger"). FirstCapital Bank operated 16 full-service banking offices in six different markets in West, North and Central Texas areas, including its main office in Midland, Texas, and banking offices in Midland, Lubbock, Amarillo, Wichita Falls, Burkburnett, Byers, Henrietta, Dallas, Horseshoe Bay, Marble Falls and Fredericksburg, Texas. As of March 31, 2023, First Bancshares, on a consolidated basis, reported total assets of \$2.14 billion, total loans of \$1.65 billion and total deposits of \$1.71 billion.

Pursuant to the terms of the definitive agreement, the Bancshares issued 3,583,370 shares of its common stock and approximately \$91.5 million in cash for all outstanding shares of First Bancshares capital stock. As of March 31, 2024, the Company recognized goodwill of \$164.8 million, which does not include all the subsequent fair value adjustments that have not yet been finalized. During the second quarter of 2023, the Company completed the operational conversion of FirstCapital Bank.

SUBSEQUENT EVENT

Merger of Lone Star State Bancshares, Inc. — Effective April 1, 2024, the Company completed the merger of Lone Star State Bancshares, Inc. ("Lone Star") into the Bancshares and the subsequent merger of its wholly owned subsidiary, Lone Star State Bank of West Texas ("Lone Star Bank"), into the Bank. Lone Star operated five banking centers in the West Texas area, including its main office in Lubbock, and one banking center in each of Brownfield, Midland, Odessa and Big Spring, Texas. As of March 31, 2024, Lone Star, on a consolidated basis, reported total assets of \$1.38 billion, total loans of \$1.08 billion and total deposits of \$1.24 billion.

Under the terms of the definitive agreement, Bancshares issued 2,376,182 shares of its common stock plus approximately \$64.1 million in cash for all outstanding shares of Lone Star in the second quarter of 2024.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires the Company to establish accounting policies and make estimates that affect amounts reported in the consolidated financial statements. An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on the consolidated financial statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. The Company's accounting policies are described in detail in Note 1 to the consolidated financial

statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment and complexity:

Business Combinations—Generally, acquisitions are accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, "*Business Combinations*." A business combination occurs when the Company acquires net assets that constitute a business and obtains control over that business. Business combinations are effected through the transfer of consideration consisting of cash and/or common stock and are accounted for using the acquisition method. Accordingly, the assets and liabilities of the acquired business are recorded at their respective fair values at the acquisition date. Determining the fair value of assets and liabilities, especially the loan portfolio, is a process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. The results of operations of an acquired entity are included in the Company's consolidated results from the acquisition date, and prior periods are not restated.

Allowance for Credit Losses— The allowance for credit losses is accounted for in accordance with FASB ASC 326, "*Measurement of Credit Losses on Financial Instruments*" which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is an allowance available for losses on loans and held-to-maturity securities. The allowance for credit losses is adjusted through charges to earnings in the form of a provision for credit losses. All losses are charged to the allowance when the loss actually occurs or when a determination is made that such a loss is likely and can be reasonably estimated. Recoveries are credited to the allowance at the time of recovery.

The Company's allowance for credit losses consists of two elements: (1) specific valuation allowances based on expected losses on impaired loans and certain purchased credit-deteriorated loans ("PCD") loans; and (2) a general valuation allowance based on historical lifetime loan loss experience, current economic conditions, reasonable and supportable forecasted economic conditions and other qualitative risk factors both internal and external to the Company. Management has established an allowance for credit losses which it believes is adequate for estimated losses in the Company's loan portfolio. Based on an evaluation of the portfolio, management presents a quarterly review of the allowance for credit losses to the Bank's Board of Directors, indicating any change in the allowance since the last review and any recommendations as to adjustments in the allowance. In making its evaluation, management considers factors such as historical lifetime loan loss experience, the amount of nonperforming assets and related collateral, the volume, growth and composition of the portfolio, current economic conditions and reasonable and supportable forecasted economic conditions that may affect borrower ability to pay and the value of collateral, the evaluation of the portfolio through its internal loan review process and other relevant factors. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. Charge-offs occur when loans are deemed to be uncollectible. Pursuant to the Company's adoption of ASU 2022-02 effective January 1, 2023, the Company prospectively discontinued troubled debt restructurings accounting and no longer measures the economic concession for loan modifications occurring on or after the adoption date. In addition, modifications to loans previously designated as troubled debt restructurings that occur on or after January 1, 2023, are accounted for under ASU 2022-02 and result in the elimination of any prior economic concession recorded in the allowance related to such loans. For further discussion of the methodology used in the determination of the allowance for credit losses on loans, see "Accounting for Acquired Loans and the Allowance for Acquired Credit Losses" below and "Financial Condition—Allowance for Credit Losses on Loans" below.

Accounting for Acquired Loans and the Allowance for Acquired Credit Losses — The Company accounts for its acquisitions using the acquisition method of accounting. Accordingly, the assets, including loans, and liabilities of the acquired entity are recorded at their fair values at the acquisition date. The fair value estimates associated with acquired loans, based on a discounted cash flow model, include estimates related to market interest rates and undiscounted projections of future cash flows that incorporate expectations of prepayments and the amount and timing of principal, interest and other cash flows, as well as any shortfalls thereof. For further discussion of the methodology used in the determination of the allowance for credit losses for acquired loans, see "Financial Condition—Allowance for Credit Losses on Loans" below. For further discussion of the Company's acquisition and loan accounting, see Note 5 to the consolidated financial statements.

RESULTS OF OPERATIONS

Net income available to common shareholders was \$110.4 million for the quarter ended March 31, 2024 compared with \$124.7 million for the same period in 2023. The change was primarily due to a decrease in net interest income and an increase in noninterest expense primarily due to an increase in salaries and benefits and expenses due to the FB Merger. Net income per diluted common share was \$1.18 for the quarter ended March 31, 2024 compared with \$1.37 for the same period in 2023. The Company posted annualized returns on average common equity of 6.20% and 7.38%, annualized returns on average assets of 1.13% and 1.31% and efficiency ratios of 49.07% and 43.68% for the quarters ended March 31, 2024 and 2023, respectively. The efficiency ratio is calculated by dividing total noninterest expense (excluding net gains and losses on the sale or write down of assets and securities) by the sum of net interest income and noninterest income. Because the ratio is a measure of revenues and expenses resulting from the Company's lending activities and fee-based banking services, net gains and losses on the sale or write-down of assets and securities are not included. Additionally, taxes are not part of this calculation.

Net Interest Income

The Company's net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a "volume change." It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a "rate change."

For the Three Months Ended March 31, 2024

Net interest income before the provision for credit losses was \$238.2 million for the quarter ended March 31, 2024, a decrease of \$5.2 million or 2.1%, compared with \$243.5 million for the same period in 2023. The change was primarily due to an increase in the average balances on other borrowings, an increase in the average rates on interest-bearing deposits and a decrease in the average balance on investment securities, partially offset by an increase in the average balances and average rates on loans.

Interest income on loans was \$306.2 million for the quarter ended March 31, 2024, an increase of \$59.1 million or 23.9%, compared with \$247.1 million for the same period in 2023. The increase was due to an increase in both the average balances and average rates on loans.

Interest income on securities was \$66.4 million for the quarter ended March 31, 2024, a decrease of \$6.8 million or 9.2%, compared with \$73.2 million for the same period in 2023, primarily due to a decrease in the average balances on investment securities.

Average interest-bearing liabilities were \$22.10 billion for the quarter ended March 31, 2024, an increase of \$1.28 billion or 6.1%, compared with \$20.82 billion for the same period in 2023, primarily due to an increase in other borrowings and an increase in average rates on interest-bearing deposits. The average rate on interest-bearing liabilities was 2.62% for the quarter ended March 31, 2024, an increase of 99 basis points, compared with 1.63% for the same period in 2023.

The net interest margin on a tax-equivalent basis was 2.79% for the quarter ended March 31, 2024, a decrease of 14 basis points compared with 2.93% for the same period in 2023. The change was primarily due to an increase in the average balances on other borrowings, an increase in the average rates on interest-bearing deposits and a decrease in the average balance on investment securities, partially offset by an increase in the average balances and average rates on loans.

The following tables present, for the periods indicated, the total dollar amount of average balances, interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities and the resultant rates. Except as indicated in the footnotes, no tax-equivalent adjustments were made and all average balances are daily average balances. Any nonaccruing loans have been included in the tables as loans carrying a zero yield.

	Three Months Ended March 31,					
	Average Outstanding Balance	2024 Interest Earned/Paid	Average Yield/Rate ⁽¹⁾ (Dollars in thousands)	Average Outstanding Balance	2023 Interest Earned/Paid	Average Yield/Rate ⁽¹⁾
Assets						
Interest-Earning Assets:						
Loans held for sale	\$ 5,467	\$ 92	6.77 %	\$ 2,343	\$ 38	6.58 %
Loans held for investment	20,415,316	292,673	5.77 %	18,317,712	236,606	5.24 %
Loans held for investment - Warehouse Purchase Program	720,650	13,463	7.51 %	617,822	10,474	6.88 %
Total loans	21,141,433	306,228	5.83 %	18,937,877	247,118	5.29 %
Investment securities	12,693,268	66,421	2.10 %	14,332,509	73,185	2.07 %
Federal funds sold and other earning assets	672,840	9,265	5.54 %	600,048	7,006	4.74 %
Total interest-earning assets	34,507,541	381,914	4.45 %	33,870,434	327,309	3.92 %
Allowance for credit losses on loans	(331,708)			(282,316)		
Noninterest-earning assets	4,759,697			4,589,735		
Total assets	<u>\$ 38,935,530</u>			<u>\$ 38,177,853</u>		
Liabilities and Shareholders' Equity						
Interest-Bearing Liabilities:						
Interest-bearing demand deposits	\$ 5,143,585	\$ 8,423	0.66 %	\$ 5,877,641	\$ 3,792	0.26 %
Savings and money market deposits	8,889,077	47,152	2.13 %	9,579,679	35,521	1.50 %
Certificates and other time deposits	3,683,815	37,117	4.05 %	2,045,580	8,030	1.59 %
Other borrowings	4,083,132	48,946	4.82 %	2,887,011	34,396	4.83 %
Securities sold under repurchase agreements	296,437	2,032	2.76 %	427,887	2,103	1.99 %
Total interest-bearing liabilities	22,096,046	143,670	2.62 %	20,817,798	83,842	1.63 %
Noninterest-Bearing Liabilities:						
Noninterest-bearing demand deposits	9,443,249			10,389,980		
Allowance for credit losses on off-balance sheet credit exposures	36,503			29,947		
Other liabilities	238,480			180,685		
Total liabilities	31,814,278			31,418,410		
Shareholders' equity	7,121,252			6,759,443		
Total liabilities and shareholders' equity	<u>\$ 38,935,530</u>			<u>\$ 38,177,853</u>		
Net interest rate spread			1.83 %			2.29 %
Net interest income and margin ^{(2) (3)}		<u>\$ 238,244</u>	2.78 %		<u>\$ 243,467</u>	2.92 %
Net interest income and margin (tax equivalent) ⁽⁴⁾		<u>\$ 239,052</u>	2.79 %		<u>\$ 244,300</u>	2.93 %

(1)Annualized and based on average balances on an actual 366-day or 365-day basis for the three months ended March 31, 2024 and 2023.

(2)Yield is based on amortized cost and does not include any component of unrealized gains or losses.

(3)The net interest margin is equal to net interest income divided by average interest-earning assets.

(4)In order to make pretax income and resultant yields on tax-exempt investments and loans comparable to those on taxable investments and loans, a tax-equivalent adjustment has been computed using a federal income tax rate of 21% and other applicable effective tax rates.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes in interest rates. For purposes of this table, changes in interest income and interest expense related to purchase accounting adjustments and changes attributable to both rate and volume which cannot be segregated have been allocated to rate.

Three Months Ended March 31, 2024 vs. 2023			
	Increase (Decrease) Due to Change in		Total
	Volume	Rate	
(Dollars in thousands)			
Interest-Earning Assets:			
Loans held for sale	\$ 51	\$ 3	\$ 54
Loans held for investment ⁽¹⁾	27,321	28,746	56,067
Loans held for investment - Warehouse Purchase Program	1,758	1,231	2,989
Investment securities ⁽¹⁾	(8,440)	1,676	(6,764)
Federal funds sold and other earning assets	857	1,402	2,259
Total increase in interest income	21,547	33,058	54,605
Interest-Bearing Liabilities:			
Interest-bearing demand deposits	(478)	5,109	4,631
Savings and money market deposits	(2,582)	14,213	11,631
Certificates and other time deposits ⁽¹⁾	6,485	22,602	29,087
Other borrowings	14,370	180	14,550
Securities sold under repurchase agreements	(651)	580	(71)
Total increase in interest expense	17,144	42,684	59,828
Increase (decrease) in net interest income	\$ 4,403	\$ (9,626)	\$ (5,223)

(1) Includes impact of purchase accounting adjustments.

Provision for Credit Losses

Management actively monitors the Company's asset quality and provides specific loss provisions when necessary. Provisions for credit losses are charged to income to bring the total allowance for credit losses on loans and off-balance sheet credit exposures to a level deemed appropriate by management of the Company based on such factors as historical lifetime credit loss experience, the amount of nonperforming loans and related collateral, the volume growth and composition of the loan portfolio, current economic conditions and reasonable and supportable forecasted economic conditions that may affect borrower ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review process and other relevant factors.

Loans are charged off against the allowance for credit losses when appropriate. Although management believes it uses the best information available to make determinations with respect to the provision for credit losses, future adjustments may be necessary if economic conditions differ from the assumptions used in making the initial determinations.

There was no provision for credit losses for the three months ended March 31, 2024 and 2023.

Net charge-offs were \$2.1 million for the quarter ended March 31, 2024 compared with net recoveries of \$615 thousand for the quarter ended March 31, 2023. Net charge-offs for the three months ended March 31, 2024 included \$991 thousand related to resolved PCD loans, which had specific reserves that were allocated to the charge-offs. Further, an additional \$4.1 million of specific reserves on resolved PCD loans without any related charge-offs was released to the general reserve.

Noninterest Income

The Company's primary sources of recurring noninterest income are credit, debit and ATM card income, nonsufficient funds fees and service charges on deposit accounts. Additionally, the Company generates recurring noninterest income from its various additional products and services, including trust services, mortgage lending, brokerage and independent sales organization sponsorship operations. Noninterest income does not include loan origination fees, which are recognized over the life of the related loan as an adjustment to yield using the interest method.

Noninterest income totaled \$38.9 million for the three months ended March 31, 2024 compared with \$38.3 million for the same period in 2023, an increase of \$604 thousand or 1.6%.

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

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands)	
Nonsufficient funds fees	\$ 8,288	\$ 8,095
Credit card, debit card and ATM card income	8,861	8,666
Service charges on deposit accounts	6,406	5,926
Trust income	4,156	3,225
Mortgage income	610	238
Brokerage income	1,235	1,149
Bank owned life insurance income	2,047	1,354
Net (loss) gain on sale or write-down of assets	(35)	121
Net gain on sale of securities	298	—
Other	7,004	9,492
Total noninterest income	<u>\$ 38,870</u>	<u>\$ 38,266</u>

Noninterest Expense

Noninterest expense totaled \$135.8 million for the quarter ended March 31, 2024 compared with \$123.0 million for the quarter ended March 31, 2023, an increase of \$12.8 million or 10.4%. The change was primarily due to increases in salaries and benefits, other noninterest expense and in credit and debit card, data processing and software amortization expense primarily due to three months of operations related to the FB Merger in the first quarter 2024 compared to none in the first quarter 2023.

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

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands)	
Salaries and employee benefits ⁽¹⁾	\$ 85,771	\$ 77,798
Non-staff expenses:		
Net occupancy and equipment	8,623	8,025
Credit and debit card, data processing and software amortization	10,975	9,566
Regulatory assessments and FDIC insurance	5,538	4,973
Core deposit intangibles amortization	3,237	2,374
Depreciation	4,686	4,433
Communications ⁽²⁾	3,402	3,462
Net other real estate income ⁽³⁾	49	45
Merger related expenses	—	860
Other	13,567	11,464
Total noninterest expense	<u>\$ 135,848</u>	<u>\$ 123,000</u>

(1)Includes stock-based compensation expense of \$3.4 million and \$3.2 million for the three months ended March 31, 2024 and 2023, respectively.

(2)Communications expense includes telephone, data circuits, postage and courier expenses.

(3)Net other real estate income is comprised of rental expense, rental income and gains and losses on sales of real estate.

Income Taxes

The amount of federal and state income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other nondeductible expenses. Income tax expense totaled \$30.8 million for the three months ended March 31, 2024 compared with \$34.0 million for the same period in 2023, a decrease of \$3.2 million or 9.4%. The Company's effective tax rate for the three months ended March 31, 2024 and 2023 was 21.8% and 21.4%, respectively.

FINANCIAL CONDITION

Loan Portfolio

The Company separates its loan portfolio into two general categories of loans: (1) "originated loans," which are loans originated by Prosperity Bank and made pursuant to the Company's loan policy and procedures in effect at the time the loan was made, and (2) "acquired loans," which are loans acquired in a business combination and recorded at fair value at acquisition date. Those acquired loans that are renewed or substantially modified after the date of the business combination are referred to as "re-underwritten acquired loans." If a renewal or substantial modification of an acquired loan is underwritten by the Company with a new credit analysis, the loan may no longer be categorized as an acquired loan. For example, acquired loans to one borrower may be combined into a new loan with a new loan number and categorized as an originated loan. Acquired loans with a fair value discount or premium at the date of the business combination that remained at the reporting date are referred to as "fair-valued acquired loans." All fair-valued acquired loans are further categorized into PCD loans and "Non-PCD loans." Acquired loans with evidence of credit quality deterioration as of the acquisition date when compared to the origination date are classified as PCD loans.

The following tables summarize the Company's originated and acquired loan portfolios broken out into originated loans, re-underwritten acquired loans, Non-PCD loans and PCD loans, as of the dates indicated.

	Originated Loans	Re-Underwritten Acquired Loans	March 31, 2024 Acquired Loans		Total Loans
			Non-PCD Loans (Dollars in thousands)	PCD Loans	
Residential mortgage loans held for sale	\$ 6,380	\$ —	\$ —	\$ —	\$ 6,380
Commercial and industrial	1,746,604	516,720	160,566	46,958	2,470,848
Warehouse purchase program	864,924	—	—	—	864,924
Real estate:					
Construction, land development and other land loans	2,568,008	123,678	5,036	179,866	2,876,588
1-4 family residential (includes home equity)	7,355,509	210,021	701,577	7,933	8,275,040
Commercial real estate (includes multi-family residential)	4,286,824	359,308	758,186	227,142	5,631,460
Farmland	544,039	9,440	16,841	20,576	590,896
Agriculture	162,249	50,743	4,036	5,168	222,196
Consumer and other	270,457	44,748	11,640	70	326,915
Total loans held for investment	17,798,614	1,314,658	1,657,882	487,713	21,258,867
Total	<u>\$ 17,804,994</u>	<u>\$ 1,314,658</u>	<u>\$ 1,657,882</u>	<u>\$ 487,713</u>	<u>\$ 21,265,247</u>

	Originated Loans	Re-Underwritten Acquired Loans	December 31, 2023 Acquired Loans		Total Loans
			Non-PCD Loans (Dollars in thousands)	PCD Loans	
Residential mortgage loans held for sale	\$ 5,734	\$ —	\$ —	\$ —	\$ 5,734
Commercial and industrial	1,499,739	540,360	195,509	69,432	2,305,040
Warehouse purchase program	822,245	—	—	—	822,245
Real estate:					
Construction, land development and other land loans	2,739,059	126,694	5,412	205,426	3,076,591
1-4 family residential (includes home equity)	7,211,453	214,809	730,189	5,893	8,162,344
Commercial real estate (includes multi-family residential)	4,262,288	338,200	834,922	227,538	5,662,948
Farmland	560,440	8,516	18,706	11,236	598,898
Agriculture	160,381	45,142	5,491	6,131	217,145
Consumer and other	271,000	44,922	13,588	83	329,593
Total loans held for investment	17,526,605	1,318,643	1,803,817	525,739	21,174,804
Total	<u>\$ 17,532,339</u>	<u>\$ 1,318,643</u>	<u>\$ 1,803,817</u>	<u>\$ 525,739</u>	<u>\$ 21,180,538</u>

At March 31, 2024, total loans were \$21.27 billion, an increase of \$84.7 million or 0.4%, compared with \$21.18 billion at December 31, 2023. Loans at March 31, 2024 included \$6.4 million of loans held for sale and \$864.9 million of Warehouse Purchase Program loans compared with \$5.7 million of loans held for sale and \$822.2 million of Warehouse Purchase Program loans at December 31, 2023. At March 31, 2024 and December 31, 2023, loans represented 54.9% of total assets.

The loan portfolio consists of various types of loans categorized by major type as follows:

(i) Commercial and Industrial Loans. In nearly all cases, the Company's commercial loans are made in the Company's market areas and are underwritten based on the borrower's ability to service the debt from income. Working capital loans are primarily collateralized by short-term assets whereas term loans are primarily collateralized by long-term assets. As a general practice, term loans are secured by any available real estate, equipment or other assets owned by the borrower. Both working capital and term loans are typically supported by a personal guaranty of a principal. In general, commercial loans involve more credit risk than residential mortgage loans and commercial mortgage loans and, therefore, usually yield a higher return. The increased risk in commercial loans is due to the type of collateral securing these loans as well as the expectation that commercial loans generally will be serviced principally from the operations of the business, and those operations may not be successful. Historical trends have shown these types of loans to have higher delinquencies than mortgage loans. As a result of these additional complexities, variables and risks, commercial loans require more thorough underwriting and servicing than other types of loans.

Included in commercial and industrial loans are (1) commitments to oil and gas producers largely secured by proven, developed and producing reserves and (2) commitments to service, equipment and midstream companies secured mainly by accounts receivable, inventory and equipment. Mineral reserve values supporting commitments to producers are normally re-determined semi-annually using reserve studies prepared by a third-party or the Company's oil and gas engineer. Accounts receivable and inventory borrowing bases for service companies are typically re-determined monthly. Funding requests by both producers and service companies are monitored relative to the most recently determined borrowing base.

(ii) Commercial Real Estate. The Company makes commercial real estate loans collateralized by owner-occupied and nonowner-occupied real estate to finance the purchase of real estate. The Company's commercial real estate loans are collateralized by first liens on real estate, typically have variable interest rates (or five year or less fixed rates) and amortize over a 15- to 25-year period. Payments on loans secured by nonowner-occupied properties are often dependent on the successful operation or management of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. The Company seeks to minimize these risks in a variety of ways, including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and physical condition, in connection with underwriting these loans. The underwriting analysis also includes credit verification, analysis of global cash flow, appraisals and a review of the financial condition of the borrower and guarantor. Loans to hotels and restaurants are included in commercial real estate loans.

(iii) 1-4 Family Residential Loans. The Company's lending activities also include the origination of 1-4 family residential mortgage loans (including home equity loans) collateralized by owner-occupied and nonowner-occupied residential properties located in the Company's market areas. The Company offers a variety of mortgage loan portfolio products which generally are amortized over five to 30 years. Loans collateralized by 1-4 family residential real estate generally have been originated in amounts of no more than 89% of appraised value. The Company requires mortgage title insurance, as well as hazard, wind and/or flood insurance as appropriate. The Company prefers to retain residential mortgage loans for its own account rather than selling them into the secondary market. By doing so, the Company incurs interest rate risk as well as the risks associated with non-payments on such loans. The Company's mortgage department also offers a variety of mortgage loan products which are generally amortized over 30 years, including FHA and VA loans, which are sold to secondary market investors.

(iv) Construction, Land Development and Other Land Loans. The Company makes loans to finance the construction of residential and nonresidential properties. Construction loans generally are collateralized by first liens on real estate and have variable interest rates. The Company conducts periodic inspections, either directly or through an agent, prior to approval of periodic draws on these loans. Underwriting guidelines similar to those described above are also used in the Company's construction lending activities, with heightened analysis of construction and/or development costs. Construction loans involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If the Company is forced to foreclose on a project prior to completion, the Company may not be able to recover all of the unpaid portion of the loan. In addition, the Company may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time. Although the Company has underwriting procedures

designed to identify what it believes to be acceptable levels of risks in construction lending, these procedures may not prevent losses from the risks described above.

(v) Warehouse Purchase Program. The Warehouse Purchase Program allows unaffiliated mortgage originators ("Clients") to close 1-4 family real estate loans in their own name and manage their cash flow needs until the loans are sold to investors. The Company's Clients are strategically targeted for their experienced management teams and analyzed for the expected profitability of each Client's business model over the long term. The Clients are located across the U.S. and originate mortgage loans primarily through traditional retail and/or wholesale business models using underwriting standards as required by United States government-sponsored enterprise agencies, "Agencies" such as the Federal National Mortgage Association ("Fannie Mae"), private investors to which the mortgage loans are ultimately sold and/or mortgage insurers.

Although not subject to any legally binding commitment, when the Company makes a purchase decision, it acquires a 100% participation interest in the mortgage loans originated by its Clients. Individual mortgage loans are warehoused in the Company's portfolio only for a short duration, averaging less than 30 days. When instructed by a Client that a warehoused loan has been sold to an investor, the Company delivers the note to the investor that pays the Company, which in turn remits the net sales proceeds to the Client.

(vi) Agriculture Loans. The Company provides agriculture loans for short-term livestock and crop production, including rice, cotton, milo and corn, farm equipment financing and agriculture real estate financing. The Company evaluates agriculture borrowers primarily based on their historical profitability, level of experience in their particular industry segment, overall financial capacity and the availability of secondary collateral to withstand economic and natural variations common to the industry. Because agriculture loans present a higher level of risk associated with events caused by nature, the Company routinely makes on-site visits and inspections in order to identify and monitor such risks.

(vii) Consumer Loans. Consumer loans made by the Company include direct "A"-credit automobile loans, recreational vehicle loans, boat loans, home improvement loans, personal loans (collateralized and uncollateralized) and deposit account collateralized loans. The terms of these loans typically range from 12 to 180 months and vary based upon the nature of collateral and size of loan. Generally, consumer loans entail greater risk than do real estate secured loans, particularly in the case of consumer loans that are unsecured or collateralized by rapidly depreciating assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, personal bankruptcy or death. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans.

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Nonperforming Assets

Nonperforming assets include loans on nonaccrual status, accruing loans 90 days or more past due, repossessed assets and real estate which has been acquired through foreclosure and is awaiting disposition. Nonperforming assets do not include PCD loans unless the loan has deteriorated since the acquisition date.

The Company generally places a loan on nonaccrual status and ceases accruing interest when the payment of principal or interest is delinquent for 90 days, or earlier in some cases, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. 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, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Nonperforming assets increased \$11.1 million to \$83.8 million at March 31, 2024 compared with \$72.7 million at December 31, 2023, with the majority of the balance for each period attributable to acquired loans.

The following tables present information regarding nonperforming assets differentiated among originated loans, re-underwritten acquired loans, Non-PCD loans and PCD loans, as of the dates indicated:

	March 31, 2024 Acquired Loans				
	Originated Loans	Re- Underwritten Acquired Loans	Non-PCD Loans	PCD Loans	Total
	(Dollars in thousands)				
Nonaccrual loans ⁽¹⁾⁽²⁾	\$ 36,147	\$ 3,674	\$ 8,229	\$ 30,425	\$ 78,475
Accruing loans 90 or more days past due	428	2,607	—	—	3,035
Total nonperforming loans	36,575	6,281	8,229	30,425	81,510
Reposessed assets	37	—	15	45	97
Other real estate	1,644	—	37	523	2,204
Total nonperforming assets	<u>\$ 38,256</u>	<u>\$ 6,281</u>	<u>\$ 8,281</u>	<u>\$ 30,993</u>	<u>\$ 83,811</u>
Nonperforming assets to total loans and other real estate	0.21 %	0.48 %	0.50 %	6.35 %	0.39 %
Nonperforming assets to total loans, excluding Warehouse Purchase Program loans, and other real estate	0.23 %	0.48 %	0.50 %	6.35 %	0.41 %
Nonaccrual loans to total loans	0.20 %	0.28 %	0.50 %	6.24 %	0.37 %
Nonaccrual loans to total loans, excluding Warehouse Purchase Program loans	0.21 %	0.28 %	0.50 %	6.24 %	0.38 %
	December 31, 2023 Acquired Loans				
	Originated Loans	Re-Underwritten Acquired Loans	Non-PCD Loans	PCD Loans	Total
	(Dollars in thousands)				
Nonaccrual loans ⁽¹⁾⁽²⁾	\$ 29,160	\$ 2,612	\$ 8,594	\$ 28,322	\$ 68,688
Accruing loans 90 or more days past due	—	552	8	1,635	2,195
Total nonperforming loans	29,160	3,164	8,602	29,957	70,883
Reposessed assets	76	—	—	—	76
Other real estate	1,323	—	—	385	1,708
Total nonperforming assets	<u>\$ 30,559</u>	<u>\$ 3,164</u>	<u>\$ 8,602</u>	<u>\$ 30,342</u>	<u>\$ 72,667</u>
Nonperforming assets to total loans and other real estate	0.17 %	0.24 %	0.48 %	5.77 %	0.34 %
Nonperforming assets to total loans, excluding Warehouse Purchase Program loans, and other real estate	0.18 %	0.24 %	0.48 %	5.77 %	0.36 %
Nonaccrual loans to total loans	0.17 %	0.20 %	0.48 %	5.39 %	0.32 %
Nonaccrual loans to total loans, excluding Warehouse Purchase Program loans	0.17 %	0.20 %	0.48 %	5.39 %	0.34 %

(1) ASU 2022-02 became effective for the Company on January 1, 2023.

(2) There were no nonperforming Warehouse Purchase Program loans or Warehouse Purchase Program lines of credit for the periods presented.

Nonperforming assets were 0.39% of total loans and other real estate at March 31, 2024 and 0.34% of total loans and other real estate at December 31, 2023. The allowance for credit losses on loans as a percentage of total nonperforming loans was 405.1% at March 31, 2024 and 468.89% at December 31, 2023.

Allowance for Credit Losses on Loans

The allowance for credit losses is adjusted through charges to earnings in the form of a provision for credit losses. Management has established an allowance for credit losses on loans which it believes is adequate as of March 31, 2024 for estimated losses in the Company's loan portfolio. The amount of the allowance for credit losses on loans is affected by the following: (1) charge-offs of loans that occur when loans are deemed uncollectible and decrease the allowance, (2) recoveries on loans previously charged off that increase the allowance, (3) provisions for credit losses charged to earnings that increase the allowance, and (4) provision releases returned to earnings that decrease the allowance. Based on an evaluation of the loan portfolio and consideration of the factors listed below, management presents a quarterly review of the allowance for credit losses to the Bank's Board of Directors, indicating any change in the allowance since the last review and any recommendations as to adjustments in the allowance. Although management believes it uses the best information available to make determinations with respect to the allowance for credit losses, future adjustments may be necessary if economic conditions or borrower performance differ from the assumptions used in making the initial determinations.

The Company's allowance for credit losses on loans consists of two components: (1) a specific valuation allowance based on expected lifetime losses on specifically identified loans and (2) a general valuation allowance based on historical lifetime loan loss experience, current economic conditions, reasonable and supportable forecasted economic conditions and other qualitative risk factors both internal and external to the Company.

In setting the specific valuation allowance, the Company follows a loan review program to evaluate the credit risk in the total loan portfolio and assigns risk grades to each loan. Through this loan review process, the Company maintains an internal list of impaired loans which, along with the delinquency list of loans, helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for credit losses. All loans that have been identified as impaired are reviewed on a quarterly basis in order to determine whether a specific reserve is required. For certain impaired loans, the Company allocates a specific loan loss reserve primarily based on the value of the collateral securing the impaired loan. The specific reserves are determined on an individual loan basis. Loans for which specific reserves are provided are excluded from the general valuation allowance described below.

In determining the amount of the general valuation allowance, management considers factors such as historical lifetime loan loss experience, concentration risk of specific loan types, the volume, growth and composition of the Company's loan portfolio, current economic conditions and reasonable and supportable forecasted economic conditions that may affect borrower ability to pay and the value of collateral, the evaluation of the Company's loan portfolio through its internal loan review process, other qualitative risk factors both internal and external to the Company and other relevant factors. Historical lifetime loan loss experience is determined by utilizing an open-pool ("cumulative loss rate") methodology. Adjustments to the historical lifetime loan loss experience are made for differences in current loan pool risk characteristics such as portfolio concentrations, delinquency, non-accrual, and watch list levels, as well as changes in current and forecasted economic conditions such as unemployment rates, property and collateral values, and other indices relating to economic activity. The utilization of reasonable and supportable forecasts includes an immediate reversion to lifetime historical loss rates. Based on a review of these factors for each loan type, the Company applies an estimated percentage to the outstanding balance of each loan type, excluding any loan that has a specific reserve. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

A change in the allowance for credit losses can be attributable to several factors, most notably (1) specific reserves identified for impaired loans, (2) historical lifetime credit loss information, (3) changes in current and forecasted environmental factors and (4) growth in the balance of loans.

Changes in the Company's asset quality are reflected in the allowance in several ways. Specific reserves that are calculated on a loan-by-loan basis and the qualitative assessment of all other loans reflect current changes in the credit quality of the loan portfolio. Historical lifetime credit losses, on the other hand, are based on an open-pool ("cumulative loss rate") methodology, which is then applied to estimate lifetime credit losses in the loan portfolio. A deterioration in the credit quality of the loan portfolio in the current period would increase the historical lifetime loss rate to be applied in future periods, just as an improvement in credit quality would decrease the historical lifetime loss rate.

The allowance for credit losses is further determined by the size of the loan portfolio subject to the allowance methodology and environmental factors that include Company-specific risk indicators and general economic conditions, both of which are constantly changing. The Company evaluates the economic and portfolio-specific factors on a quarterly basis to determine a qualitative component of the general valuation allowance. The factors include current economic metrics, reasonable and supportable forecasted economic metrics, business conditions, delinquency trends, credit concentrations, nature and volume of the portfolio and other adjustments for items not covered by specific reserves and historical lifetime loss experience. Management's assessment of qualitative factors is a statistically based approach to determine the loss rate adjustment associated with such factors. Based on the Company's actual historical lifetime loan loss experience relative to economic and loan portfolio-specific factors at the time the losses occurred, management is able to identify the expected level of lifetime losses as of the date of measurement. The correlation of historical loss experience with current and forecasted economic conditions provides an estimate of lifetime losses that has not been previously factored into the general valuation allowance by the determination of specific reserves and lifetime historical losses. Additionally, the Company considers qualitative factors not easily quantified and the possibility of model imprecision.

Utilizing the aggregation of specific reserves, historical loss experience and a qualitative component, management is able to determine the valuation allowance to reflect the full lifetime loss.

The Company accounts for its acquisitions using the acquisition method of accounting. Accordingly, the assets, including loans, and liabilities of the acquired entity are recorded at their fair values at the acquisition date. These fair value estimates associated with acquired loans, and based on a discounted cash flow model, include estimates related to market interest rates and undiscounted projections of future cash flows that incorporate expectations of prepayments and the amount and timing of principal, interest and other cash flows, as well as any shortfalls thereof.

Non-PCD loans that were not deemed impaired subsequent to the acquisition date are considered non-impaired and are evaluated as part of the general valuation allowance.

Non-PCD loans that have deteriorated to an impaired status subsequent to acquisition are evaluated for a specific reserve on a quarterly basis which, when identified, is added to the allowance for credit losses. The Company reviews impaired Non-PCD loans on a loan-by-loan basis and determines the specific reserve based on the difference between the recorded investment in the loan and one of three factors: expected future cash flows, observable market price or fair value of the collateral. Because essentially all of the Company's impaired Non-PCD loans have been collateral-dependent, the amount of the specific reserve historically has been determined by comparing the fair value of the collateral securing the Non-PCD loan with the recorded investment in such loan. In the future, the Company will continue to analyze impaired Non-PCD loans on a loan-by-loan basis and may use an alternative measurement method to determine the specific reserve, as appropriate and in accordance with applicable accounting standards.

PCD loans are monitored individually or on a pooled basis quarterly to assess for changes in expected cash flows subsequent to acquisition. If a deterioration in cash flows is identified, an increase to the PCD reserves for that individual loan or pool of loans is made. PCD loans were recorded at their acquisition date fair values, which were based on expected cash flows and considers estimates of expected future credit losses. The Company's estimates of loan fair values at the acquisition date may be adjusted for a period of up to one year as the Company continues to evaluate its estimate of expected future cash flows at the acquisition date. If the Company determines that losses arose after the acquisition date, the additional losses will be reflected as a provision for credit losses. See "Critical Accounting Estimates" above for more information.

As described in the section captioned "Critical Accounting Estimates" above, the Company's determination of the allowance for credit losses involves a high degree of judgment and complexity. The Company's analysis of qualitative, or environmental, factors on pools of loans with common risk characteristics, in combination with the quantitative historical lifetime loss information and specific reserves, provides the Company with an estimate of lifetime losses. The allowance must reflect changes in the balance of loans subject to the allowance methodology, as well as the estimated lifetime losses associated with those loans.

The following tables present, as of and for the periods indicated, information regarding the allowance for credit losses on loans differentiated between originated loans and acquired loans. Reported net charge-offs may include those from Non-PCD loans and PCD loans, but only if the total charge-off required is greater than the remaining discount.

	As of and for the Three Months Ended March 31, 2024		
	Originated Loans	Acquired Loans (Dollars in thousands)	Total
Average loans outstanding	\$ 17,587,207	\$ 3,554,226	\$ 21,141,433
Gross loans outstanding at end of period	\$ 17,804,994	\$ 3,460,253	\$ 21,265,247
Allowance for credit losses on loans at beginning of period	\$ 222,413	\$ 109,949	\$ 332,362
Provision for credit losses	5,484	(5,484)	—
Charge-offs:			
Commercial and industrial	(214)	(1,146)	(1,360)
Real estate and agriculture	(201)	(381)	(582)
Consumer and other	(1,528)	(131)	(1,659)
Recoveries:			
Commercial and industrial	164	913	1,077
Real estate and agriculture	2	119	121
Consumer and other	215	45	260
Net (charge-offs) recoveries ⁽¹⁾	(1,562)	(581)	(2,143)
Allowance for credit losses on loans at end of period	\$ 226,335	\$ 103,884	\$ 330,219
Ratio of allowance to end of period loans	1.27%	3.00%	1.55%
Ratio of allowance to end of period loans, excluding Warehouse Purchase Program	1.34%	3.00%	1.62%
Ratio of net charge-offs (recoveries) to average loans (annualized)	0.04%	0.07%	0.04%
Ratio of allowance to end of period nonperforming loans	618.8%	231.2%	405.1%
Ratio of allowance to end of period nonaccrual loans	626.2%	245.4%	420.8%

	As of and for the Three Months Ended March 31, 2023		
	Originated Loans	Acquired Loans (Dollars in thousands)	Total
Average loans outstanding	\$ 16,097,319	\$ 2,840,558	\$ 18,937,877
Gross loans outstanding at end of period	\$ 16,596,141	\$ 2,738,218	\$ 19,334,359
Allowance for credit losses on loans at beginning of period	\$ 209,467	\$ 72,109	\$ 281,576
Provision for credit losses	6,737	(6,737)	—
Charge-offs:			
Commercial and industrial	(394)	(507)	(901)
Real estate and agriculture	(65)	—	(65)
Consumer and other	(1,192)	(33)	(1,225)
Recoveries:			
Commercial and industrial	1,177	1,196	2,373
Real estate and agriculture	31	194	225
Consumer and other	204	4	208
Net (charge-offs) recoveries ⁽¹⁾	(239)	854	615
Allowance for credit losses on loans at end of period	\$ 215,965	\$ 66,226	\$ 282,191
Ratio of allowance to end of period loans	1.30%	2.42%	1.46%
Ratio of allowance to end of period loans, excluding Warehouse Purchase Program	1.37%	2.42%	1.52%
Ratio of net charge-offs (recoveries) to average loans (annualized)	0.01%	(0.12%)	(0.01%)
Ratio of allowance to end of period nonperforming loans	1,598.3%	737.2%	1,254.4%
Ratio of allowance to end of period nonaccrual loans	1,598.3%	737.2%	1,254.4%

(1) There was no net charge-off activity on Warehouse Purchase Program loans during the periods presented.

The Company had gross charge-offs on originated loans of \$1.9 million during the three months ended March 31, 2024. Partially offsetting these charge-offs were recoveries on originated loans of \$381 thousand. Gross charge-offs on acquired loans were \$1.7 million during the three months ended March 31, 2024. Offsetting these charge-offs were recoveries on acquired loans of \$1.1 million. Total charge-offs for the three months ended March 31, 2024 were \$3.6 million, partially offset by total recoveries of \$1.5 million.

The following table shows the allocation of the net charge-offs among various categories of loans as of the dates indicated.

	2024		Three Months Ended March 31, 2023	
	Amount	Ratio of Net Charge-offs (Recoveries) to Average Loans (Annualized) (Dollars in thousands)	Amount	Ratio of Net Charge-offs (Recoveries) to Average Loans (Annualized)
Balance of net (charge-offs) recoveries applicable to:				
Commercial and industrial	\$ (283)	0.01 %	\$ 1,472	(0.03 %)
Real estate:				
Construction, land development and other land loans	2	0.00 %	13	0.00 %
1-4 family residential (including home equity)	(457)	0.01 %	140	0.00 %
Commercial real estate (including multi-family residential)	17	0.00 %	1	0.00 %
Agriculture (includes farmland)	(23)	0.00 %	6	0.00 %
Consumer and other	(1,399)	0.03 %	(1,017)	0.02 %
Total net (charge-offs) recoveries	<u>\$ (2,143)</u>	<u>0.04 %</u>	<u>\$ 615</u>	<u>(0.01 %)</u>

The following tables show the allocation of the allowance for credit losses on loans among various categories of loans disaggregated between originated loans, re-underwritten acquired loans, Non-PCD loans and PCD loans at the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any loan category, regardless of whether allocated to an originated loan or an acquired loan.

	March 31, 2024					
	Acquired Loans					
	Originated Loans	Re-Underwritten Acquired Loans	Non-PCD Loans	PCD Loans	Total Allowance	Percent of Loans to Total Loans ⁽¹⁾
(Dollars in thousands)						
Balance of allowance for credit losses on loans applicable to:						
Commercial and industrial	\$ 33,693	\$ 17,626	\$ 4,612	\$ 5,685	\$ 61,616	12.1 %
Real estate	179,599	9,780	15,279	44,377	249,035	82.3 %
Agriculture and agriculture real estate	7,794	1,151	365	3,317	12,627	4.0 %
Consumer and other	5,249	1,484	189	19	6,941	1.6 %
Total allowance for credit losses on loans	<u>\$ 226,335</u>	<u>\$ 30,041</u>	<u>\$ 20,445</u>	<u>\$ 53,398</u>	<u>\$ 330,219</u>	<u>100.0 %</u>

	December 31, 2023					
	Acquired Loans					
	Originated Loans	Re-Underwritten Acquired Loans	Non-PCD Loans	PCD Loans	Total Allowance	Percent of Loans to Total Loans ⁽¹⁾
(Dollars in thousands)						
Balance of allowance for credit losses on loans applicable to:						
Commercial and industrial	\$ 27,948	\$ 18,211	\$ 5,340	\$ 8,333	\$ 59,832	11.3 %
Real estate	181,358	9,239	16,511	46,983	254,091	83.1 %
Agriculture and agriculture real estate	7,750	1,037	256	2,337	11,380	4.0 %
Consumer and other	5,357	1,465	217	20	7,059	1.6 %
Total allowance for credit losses on loans	<u>\$ 222,413</u>	<u>\$ 29,952</u>	<u>\$ 22,324</u>	<u>\$ 57,673</u>	<u>\$ 332,362</u>	<u>100.0 %</u>

(1) Loans outstanding as of a percentage of total loans, excluding Warehouse Purchase Program loans.

The allowance for credit losses on loans totaled \$330.2 million at March 31, 2024 compared to \$332.4 million at December 31, 2023, a decrease of \$2.1 million or 0.6%. The allowance for credit losses on loans totaled 1.55% of total loans at March 31, 2024 and 1.57% of total loans at December 31, 2023.

At March 31, 2024, \$226.3 million of the allowance for credit losses on loans was attributable to originated loans, an increase of \$3.9 million or 1.8% compared with \$222.4 million of the allowance at December 31, 2023. At March 31, 2024, \$30.0 million of the allowance for credit losses on loans was attributable to re-underwritten acquired loans compared with \$30.0 million of the allowance at December 31, 2023, an increase of \$89 thousand or 0.3%. At March 31, 2024, \$20.4 million of the allowance for credit losses on loans was attributable to Non-PCD loans compared with \$22.3 million of the allowance at December 31, 2023, a decrease of \$1.9 million or 8.4%. At March 31, 2024, \$53.4 million of the allowance for credit losses on loans was attributable to PCD loans compared with \$57.7 million of the allowance at December 31, 2023, a decrease of \$4.3 million or 7.4%.

At March 31, 2024, the Company had \$26.0 million of total outstanding accretable discounts on Non-PCD loans and PCD loans. The Company believes that the allowance for credit losses on loans at March 31, 2024 is adequate to absorb expected lifetime losses that may be realized from the loan portfolio as of such date. Nevertheless, the Company could sustain losses in future periods which could be substantial in relation to the size of the allowance at March 31, 2024.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The allowance for credit losses on off-balance sheet credit exposures estimates expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, except when an obligation is unconditionally cancelable by the Company. The allowance is adjusted by provisions for credit losses charged to earnings that increase the allowance, or by provision releases returned to earnings that decrease the allowance. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate of commitments expected to fund is affected by historical analysis of utilization rates. The expected credit loss rates applied to the commitments expected to fund are affected by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. As of March 31, 2024 and December 31, 2023, the Company had \$36.5 million in allowance for credit losses on off-balance sheet credit exposures. The allowance for credit losses on off-balance sheet credit exposures is a separate line item on the Company's consolidated balance sheet.

Securities

The carrying cost of securities totaled \$12.30 billion at March 31, 2024 compared with \$12.80 billion at December 31, 2023, a decrease of \$502.8 million or 3.9%. At March 31, 2024, securities represented 31.7% of total assets compared with 33.2% of total assets at December 31, 2023.

The amortized cost and fair value of investment securities were as follows:

		March 31, 2024		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
Corporate debt securities	\$ 14,350	\$ 1,830	\$ (335)	\$ 15,845
Collateralized mortgage obligations	198,180	—	(3,374)	194,806
Mortgage-backed securities	105,723	58	(1,132)	104,649
Total	<u>\$ 318,253</u>	<u>\$ 1,888</u>	<u>\$ (4,841)</u>	<u>\$ 315,300</u>
Held to Maturity				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 7,691	\$ —	\$ (107)	\$ 7,584
States and political subdivisions	111,699	764	(2,581)	109,882
Corporate debt securities	12,000	—	(3,840)	8,160
Collateralized mortgage obligations	256,216	—	(25,076)	231,140
Mortgage-backed securities	11,598,232	388	(1,477,027)	10,121,593
Total	\$ 11,985,838	\$ 1,152	\$ (1,508,631)	\$ 10,478,359

		December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
		(Dollars in thousands)			
Available for Sale					
Corporate debt securities	\$ 20,698	\$ 1,827	\$ (738)		\$ 21,787
Collateralized mortgage obligations	321,881	967	(2,804)		320,044
Mortgage-backed securities	97,779	96	(1,118)		96,757
Total	<u>\$ 440,358</u>	<u>\$ 2,890</u>	<u>\$ (4,660)</u>		<u>\$ 438,588</u>
Held to Maturity					
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 7,631	\$ —	\$ (52)		\$ 7,579
States and political subdivisions	116,497	1,864	(2,306)		116,055
Corporate debt securities	12,000	—	(4,200)		7,800
Collateralized mortgage obligations	263,250	—	(20,864)		242,386
Mortgage-backed securities	11,965,930	2,131	(1,357,283)		10,610,778
Total	\$ 12,365,308	\$ 3,995	\$ (1,384,705)		\$ 10,984,598

The investment securities portfolio is measured for expected credit losses by segregating the portfolio into two general classifications and applying the appropriate expected credit losses methodology. Investment securities classified as available for sale or held to maturity are evaluated for expected credit losses under FASB ASC 326, "Financial Instruments – Credit Losses."

Available for sale securities. For available for sale securities in an unrealized loss position, the amount of the expected credit losses recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the expected credit losses will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the expected credit losses will be separated into the amount representing the credit-related portion of the impairment loss ("credit loss") and the noncredit portion of the impairment loss ("noncredit portion"). The amount of the total expected credit losses related to the credit loss is determined based on the difference between the present value of cash flows expected to be collected and the amortized cost basis, and such difference is recognized in earnings. The amount of the total expected credit losses related to the noncredit portion is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the expected credit losses recognized in earnings will become the new amortized cost basis of the investment.

As of March 31, 2024, management does not have the intent to sell any of the securities classified as available for sale before a recovery of cost. In addition, management believes it is more likely than not that the Company will not be required to sell any of its investment securities before a recovery of cost. The unrealized losses are largely due to changes in market interest rates and spread relationships since the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2024, management believes that there is no potential for credit losses on available for sale securities.

Held to maturity securities. The Company's held to maturity investments include mortgage-related bonds issued by either the Government National Mortgage Corporation ("Ginnie Mae"), Fannie Mae or Federal Home Loan Mortgage Corporation ("Freddie Mac"). Ginnie Mae issued securities are explicitly guaranteed by the U.S. government, while Fannie Mae and Freddie Mac issued securities are fully guaranteed by those respective United States government-sponsored agencies, and conditionally guaranteed by the full faith and credit of the United States. The Company's held to maturity securities also include taxable and tax-exempt municipal securities issued primarily by school districts, utility districts and municipalities located in Texas. The Company's investment in municipal securities is exposed to credit risk. The securities are highly rated by major rating agencies and regularly reviewed by management. A significant portion are guaranteed or insured by either the Texas Permanent School Fund, Assured Guaranty or Build America Mutual. As of March 31, 2024 the Company's municipal securities represent 0.9% of the securities portfolio. Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Accordingly, as of March 31, 2024, management believes that there is no potential for material credit losses on held to maturity securities.

Deposits

Total deposits were \$27.18 billion at March 31, 2024 compared with \$27.18 billion at December 31, 2023 with a decrease of \$4.3 million. At March 31, 2024, noninterest-bearing deposits totaled \$9.53 billion, a decrease of \$250.0 million or 2.6% compared with \$9.78 billion at December 31, 2023. Interest-bearing deposits totaled \$17.65 billion at March 31, 2024 compared with \$17.40 billion at December 31, 2023, an increase of \$245.7 million or 1.4%.

Average deposits for the three months ended March 31, 2024 were \$27.16 billion, a decrease of \$733.2 million or 2.6%, compared with \$27.89 billion for the three months ended March 31, 2023. The ratio of average interest-bearing deposits to total average deposits was 65.2% and 62.8% during the first three months of 2024 and 2023, respectively.

The following table summarizes the daily average balances and weighted average rates paid on deposits for the periods indicated below:

	Three Months Ended March 31,			
	2024		2023	
	Average Balance	Average Rate ⁽¹⁾	Average Balance	Average Rate ⁽¹⁾
	(Dollars in thousands)			
Interest-bearing demand deposits	\$ 5,143,585	0.66 %	\$ 5,877,641	0.26 %
Regular savings	2,829,146	0.71 %	3,396,252	0.70 %
Money market savings	6,059,931	2.80 %	6,183,427	1.95 %
Certificates, IRAs and other time deposits	3,683,815	4.05 %	2,045,580	1.59 %
Total interest-bearing deposits	17,716,477	2.10 %	17,502,900	1.10 %
Noninterest-bearing demand deposits	9,443,249		10,389,980	
Total deposits	\$ 27,159,726	1.37 %	\$ 27,892,880	0.69 %

(1) Annualized and based on average balances on an actual 366-day and 365-day basis for the three months ended March 31, 2024 and 2023.

Other Borrowings

The following table presents the Company's borrowings as of the dates indicated:

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Bank Term Funding Program	\$ 3,900,000	\$ 3,725,000
Securities sold under repurchase agreements	261,671	309,277
Total	\$ 4,161,671	\$ 4,034,277

Bank Term Funding Program— During the second quarter of 2023, the Bank began participating in the Federal Reserve's Bank Term Funding Program ("BTFP"), which ceased extending new loans as of March 11, 2024. Under the BTFP program, eligible depository institutions could obtain loans of up to one year in length by pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets are valued at par. At March 31, 2024, the Bank had secured borrowing capacity of \$5.53 billion collateralized by the par value of pledged securities totaling \$5.53 billion. At March 31, 2024, the balance outstanding was \$3.90 billion consisting of a one-term advance maturing in January 2025 with an interest rate of 4.76%.

FHLB advances and long-term notes payable— The Company has an available line of credit with the Federal Home Loan Bank of Dallas ("FHLB"), which allows the Company to borrow on a collateralized basis. The Company's FHLB advances are typically considered short-term borrowings and are used to manage liquidity as needed. Maturing advances are replaced by drawing on available cash, making additional borrowings or through increased customer deposits. At March 31, 2024, the Company had total borrowing capacity of \$11.00 billion under this line. At March 31, 2024, the Company had no FHLB advances or long-term notes payable balance outstanding.

Securities sold under repurchase agreements— At March 31, 2024, the Company had \$261.7 million in securities sold under repurchase agreements with banking customers compared with \$309.3 million at December 31, 2023, a decrease of \$47.6 million or 15.4%. Repurchase agreements are generally settled on the following business day; however, approximately \$3.0 million of the repurchase agreements outstanding at March 31, 2024 have maturity dates ranging from 12 to 24 months. All securities sold under repurchase agreements are collateralized by certain pledged securities.

Liquidity

Liquidity involves the Company's ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate the Company on an ongoing basis and manage unexpected events. The Company's largest source of funds is deposits and its largest use of funds is loans. The Company does not expect a change in the source or use of its funds in the future. Although access to purchased funds from correspondent banks is available and has been utilized on occasion to take advantage of investment opportunities, the Company does not generally rely on this external funding source. The cash and federal funds sold position, supplemented by amortizing investment and loan portfolios, has generally created an adequate liquidity position.

As of March 31, 2024, the Company had outstanding \$4.43 billion in commitments to extend credit, \$83.8 million in commitments associated with outstanding standby letters of credit and \$1.06 billion in commitments associated with unused capacity on Warehouse Purchase Program loans. Since commitments associated with letters of credit, unused capacity on Warehouse Purchase Program loans and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

The Company has no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

Asset liquidity is provided by cash and assets which are readily marketable or which will mature in the near future. As of March 31, 2024, the Company had cash and cash equivalents of \$1.09 billion compared with \$458.4 million at December 31, 2023, an increase of \$628.3 million or 137.1%. The increase was primarily due to net proceeds from principal paydowns and sales of investment securities of \$496.1 million, net cash provided by operating activities of \$187.4 million and proceeds from short-term borrowings of \$175.0 million, partially offset by a net increase in loans of \$85.4 million, payment of cash dividends of \$52.4 million, repurchase of common stock of \$35.3 million and a decrease in securities sold under repurchase agreements of \$47.6 million.

Share Repurchases

On January 16, 2024, the Company announced a stock repurchase program under which the Company could repurchase up to 5%, or approximately 4.7 million shares, of its outstanding common stock over a one-year period expiring on January 16, 2025, at the discretion of management. Under the stock repurchase program, Bancshares may repurchase shares from time to time at prevailing market prices, through open-market purchases or privately negotiated transactions, depending upon market conditions. Repurchases under this program may also be made in transactions outside the safe harbor during a pending merger, acquisition or similar transaction. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. Shares of stock repurchased are held as authorized but unissued shares. Bancshares is not obligated to purchase any particular number of shares, and Bancshares may suspend, modify or terminate the program at any time and for any reason without prior notice. Under its 2024 stock repurchase program, Bancshares repurchased 567,692 shares of its common stock at an average weighted price of \$62.12 per share during the three months ended March 31, 2024.

Contractual Obligations

The Company's contractual obligations and other commitments to make future payments (other than deposit obligations and securities sold under repurchase agreements) as of March 31, 2024 are summarized below.

Borrowings

The Company's future cash payments associated with the Federal Reserve's BTFP as of March 31, 2024 are summarized below. The future interest payments were calculated using the current rate in effect at March 31, 2024. Payments under the BTFP include interest of \$186.1 million that will be due over the future periods. These payments do not include prepayment options that may be available to the Company.

	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
			(Dollars in thousands)		
Bank Term Funding Program	\$ 4,086,149	\$ —	\$ —	\$ —	\$ 4,086,149

Leases

The Company's leases relate primarily to operating leases for office space and banking centers. The Company determines if an arrangement is a lease or contains a lease at inception. The Company's leases have remaining lease terms of 1 to 15 years, which may include the option to extend the lease when it is reasonably certain for the Company to exercise that option. Operating lease right-of-use ("ROU") assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental collateralized borrowing rate to determine the present value of lease payments. Short-term leases and leases with variable lease costs are immaterial, and the Company has one sublease arrangement. Sublease income was \$869 thousand and \$806 thousand for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, operating lease ROU assets and lease liabilities were approximately \$36.8 million. ROU assets and lease liabilities were classified as other assets and other liabilities, respectively.

As of March 31, 2024, the weighted average of remaining lease terms of the Company's operating leases was 5.7 years. The weighted average discount rate used to determine the lease liabilities as of March 31, 2024 for the Company's operating leases was 2.9%. Cash paid for the Company's operating leases was \$2.9 million and \$2.8 million for the three months ended March 31, 2024 and 2023, respectively. During the three months ended March 31, 2024, the Company obtained \$2.1 million in ROU assets in exchange for lease liabilities for one operating lease.

The Company's future undiscounted cash payments associated with its operating leases as of March 31, 2024 are summarized below (dollars in thousands).

Remaining 2024	\$	7,877
2025		10,005
2026		8,865
2027		5,849
2028		2,873
2029		1,541
Thereafter		8,327
Total undiscounted lease payments	\$	<u>45,337</u>

Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions that, in accordance with GAAP, are not included in its consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's commitments associated with outstanding standby letters of credit, unused capacity of Warehouse Purchase Program loans and commitments to extend credit expiring by period as of March 31, 2024 are summarized below. Since commitments associated with letters of credit, unused capacity of Warehouse Purchase Program loans and commitments to extend credit may expire unused, the amounts shown may not necessarily reflect the actual future cash funding requirements.

	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years (Dollars in thousands)	5 years or more	Total
Standby letters of credit	\$ 62,745	\$ 18,559	\$ 2,445	\$ 26	\$ 83,775
Unused capacity on Warehouse Purchase Program loans	1,058,576	—	—	—	1,058,576
Commitments to extend credit	1,489,941	1,020,761	296,869	1,623,299	4,430,870
Total	<u>\$ 2,611,262</u>	<u>\$ 1,039,320</u>	<u>\$ 299,314</u>	<u>\$ 1,623,325</u>	<u>\$ 5,573,221</u>

Allowance for Credit Losses on Off-balance Sheet Credit Exposures. The Company records an allowance for credit losses on off-balance sheet credit exposure that is adjusted through a charge to provision for credit losses on the Company's consolidated statement of income. At March 31, 2024 and December 31, 2023, this allowance, reported as a separate line item on the Company's consolidated balance sheet, totaled \$36.5 million.

Capital Resources

Total shareholders' equity was \$7.10 billion at March 31, 2024 compared with \$7.08 billion at December 31, 2023, an increase of \$25.2 million or 0.4%. The increase was primarily due to net income of \$110.4 million, partially offset by dividend payments of \$52.4 million and common stock repurchases of \$35.3 million.

The Basel III Capital Rules adopted by the federal regulatory authorities in 2013 substantially revised the risk-based capital requirements applicable to the Company and the Bank. The Basel III Capital Rules became effective for the Company on January 1, 2015, subject to a phase-in period for certain provisions. The Basel III Capital Rules require a capital conservation buffer with respect to each of the Common Equity Tier 1, Tier 1 risk-based and total risk-based capital ratios, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer of 2.5% was fully phased-in on January 1, 2019. A financial institution with a conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

In response to the COVID-19 pandemic, in March 2020 the joint federal bank regulatory agencies issued an interim final rule that allowed banking organizations that implemented CECL in 2020 to mitigate the effects of the CECL accounting standard in their regulatory capital for two years. This two-year delay is in addition to the three-year transition period that the agencies had already made available. The Company adopted the option provided by the interim final rule, which delayed the effects of CECL on its regulatory capital through 2021, after which the effects will be phased in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period include both the initial impact of the Company's adoption of CECL on January 1, 2020 and 25% of subsequent changes in the Company's allowance for credit losses during each quarter of the two-year period ending December 31, 2021. The cumulative amount of the transition adjustments is being phased in over the three-year transition period that began on January 1, 2022, with 75% recognized in 2022, 50% recognized in 2023, and 25% recognized in 2024.

Financial institutions are categorized by the FDIC based on minimum Common Equity Tier 1, Tier 1 risk-based, total risk-based and Tier 1 leverage ratios. As of March 31, 2024, the Bank's capital ratios were above the levels required for the Bank to be designated as "well capitalized."

The following table provides a comparison of the Company's and the Bank's risk-weighted and leverage capital ratios to the minimum and well-capitalized regulatory standards as of March 31, 2024:

	Minimum Required For Capital Adequacy Purposes	Minimum Required Plus Capital Conservation Buffer	To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions	Actual Ratio as of March 31, 2024
The Company				
CET1 capital (to risk-weighted assets)	4.50%	7.00%	N/A	15.75%
Tier 1 capital (to risk-weighted assets)	6.00%	8.50%	N/A	15.75%
Total capital (to risk-weighted assets)	8.00%	10.50%	N/A	17.00%
Tier 1 capital (to average assets) (leverage)	4.00% ⁽¹⁾	4.00%	N/A	10.37%
The Bank				
CET1 capital (to risk-weighted assets)	4.50%	7.00%	6.50%	15.69%
Tier 1 capital (to risk-weighted assets)	6.00%	8.50%	8.00%	15.69%
Total capital (to risk-weighted assets)	8.00%	10.50%	10.00%	16.94%
Tier 1 capital (to average assets) (leverage)	4.00% ⁽²⁾	4.00%	5.00%	10.33%

(1)The Federal Reserve Board may require the Company to maintain a leverage ratio above the required minimum.

(2)The FDIC may require the Bank to maintain a leverage ratio above the required minimum.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages market risk, which for the Company is primarily interest rate risk, through its Asset Liability Committee consisting of senior officers of the Company, in accordance with policies approved by the Company's Board of Directors.

The Company uses simulation analysis to examine the potential effects of market changes on net interest income and market value. The Company considers macroeconomic variables, Company strategy, liquidity and other factors as it quantifies market risk. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity and Liquidity" in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed on February 28, 2024 (the "2023 Form 10-K"), for further discussion. There have been no material changes in the Company's market risk exposures that would affect the quantitative and qualitative disclosures from those disclosed in the 2023 Form 10-K and presented as of December 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Bancshares and the Bank are defendants, from time to time, in legal actions arising from transactions conducted in the ordinary course of business. After consultations with legal counsel, Bancshares and the Bank believe that the ultimate liability, if any, arising from such actions will not have a material adverse effect on their financial statements.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors from those disclosed in 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

a. None.

b. None.

c. The following table details the Company's repurchases of shares of its common stock during the three months ended March 31, 2024:

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period ⁽¹⁾
January 1 - January 31, 2024	—	\$ —	—	4,704,762
February 1 - February 29, 2024	567,692	62.12	567,692	4,137,070
March 1 - March 31, 2024	—	—	—	4,137,070
Total	<u>567,692</u>	<u>\$ 62.12</u>	<u>567,692</u>	

(1) On January 16, 2024, Bancshares announced a stock repurchase program under which up to 5%, or approximately 4.7 million shares, of its outstanding common stock may be acquired over a one-year period expiring on January 16, 2025, at the discretion of management. Under the stock repurchase program, Bancshares could repurchase shares from time to time at prevailing market prices, through open-market purchases or privately negotiated transactions, depending upon market conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Share Repurchases" for additional information.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

c. During the three months ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K, with respect to the Company's common stock.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1	<u>Amended and Restated Articles of Incorporation of Prosperity Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-63267) (the "Registration Statement")</u>
3.2	<u>Articles of Amendment to Amended and Restated Articles of Incorporation of Prosperity Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 001-35388))</u>
3.3	<u>Amended and Restated Bylaws of Prosperity Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 20, 2019 (File No. 001-35388))</u>
4.1	<u>Form of certificate representing shares of the Company's common stock (incorporated herein by reference to Exhibit 4 to the Registration Statement)</u>
31.1*	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</u>
31.2*	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</u>
32.1**	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2**	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS*	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 (formatted as Inline XBRL and contained in Exhibits 101)

* Filed with this Quarterly Report on Form 10-Q.

** Furnished with this Quarterly Report on Form 10-Q.

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.

PROSPERITY BANCSHARES, INC. ®
(Registrant)

Date: 05/8/2024

/s/ DAVID ZALMAN
David Zalman
Senior Chairman and Chief Executive Officer

Date: 05/8/2024

/s/ ASYLBEK OSMONOV
Asylbek Osmonov
Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, David Zalman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Prosperity Bancshares, Inc.;

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

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

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

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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: May 8, 2024

/s/ David Zalman
David Zalman
Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Asylbek Osmonov, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Prosperity Bancshares, Inc.;

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

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

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

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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: May 8, 2024

/s/ Asylbek Osmonov
Asylbek Osmonov
Chief Financial Officer

Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Prosperity Bancshares, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Zalman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ David Zalman
David Zalman
Chief Executive Officer
May 8, 2024

Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Prosperity Bancshares, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Asylbek Osmonov, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Asylbek Osmonov
Asylbek Osmonov
Chief Financial Officer
May 8, 2024
