REFINITIV

DELTA REPORT

10-Q

IBTX - INDEPENDENT BANK GROUP, I

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	872
CHANGES	463
DELETIONS	226
ADDITIONS	183

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

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the quarterly period ended June 30, 2024 September 30, 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 001-35854

Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

Texas	**13-4219346**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7777 Henneman Way	
McKinney,	
Texas	**75070-1711**
(Address of principal executive offices)	**(Zip Code)**

(972) 562-9004
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Trading Symbol(s)	Name of Exchange on Which Registered
Common Stock, par value $0.01 per share	IBTX	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter periods 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

Applicable Only to Corporate Issuers

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

Common Stock, Par Value $0.01 Per Share – 41,442,212 41,436,068 shares as of August 5, 2024 October 18, 2024.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
June September 30, 2024

***

PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
Independent Bank Group, Inc. and Subsidiaries
Consolidated Balance Sheets
June September 30, 2024 (unaudited) and December 31, 2023
(Dollars in thousands, except share information)

		June 30,		December 31,			
		September 30,		December 31,			
Assets	**Assets**	2024		2023	**Assets**	2024	2023
Cash and due from banks							
Interest-bearing deposits in other banks							
Cash and cash equivalents							
Cash and cash equivalents							

Cash and cash equivalents
Certificates of deposit held in other banks
Securities available for sale, at fair value
Securities held to maturity, net of allowance for credit losses of $0 and $0, respectively, fair value of $165,869 and $170,997, respectively
Loans held for sale (includes $8,268 and $12,016 carried at fair value, respectively)
Loans, net of allowance for credit losses of $145,323 and $151,861, respectively
Securities held to maturity, net of allowance for credit losses of $0 and $0, respectively, fair value of $172,306 and $170,997, respectively
Loans held for sale (includes $10,037 and $12,016 carried at fair value, respectively)
Loans, net of allowance for credit losses of $150,285 and $151,861, respectively
Premises and equipment, net
Other real estate owned
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock
Bank-owned life insurance (BOLI)
Deferred tax asset
Goodwill
Other intangible assets, net
Other assets
Total assets
Liabilities and Stockholders' Equity
Liabilities and Stockholders' Equity
Liabilities and Stockholders' Equity
Deposits:
Deposits:
Deposits:
Noninterest-bearing
Noninterest-bearing
Noninterest-bearing
Interest-bearing
Total deposits
FHLB advances
Other borrowings
Other borrowings
Other borrowings
Junior subordinated debentures
Junior subordinated debentures
Junior subordinated debentures
Other liabilities
Total liabilities
Commitments and contingencies
Stockholders' equity:
Preferred stock (0 and 0 shares outstanding, respectively)
Preferred stock (0 and 0 shares outstanding, respectively)
Preferred stock (0 and 0 shares outstanding, respectively)
Common stock (41,376,169 and 41,281,919 shares outstanding, respectively)
Common stock (41,439,096 and 41,281,919 shares outstanding, respectively)
Additional paid-in capital
Retained earnings
Accumulated other comprehensive loss
Accumulated other comprehensive loss
Accumulated other comprehensive loss
Total stockholders' equity

Total liabilities and stockholders' equity

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Income (Loss)
Three and Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023 (unaudited)
(Dollars in thousands, except per share information)

		Three Months Ended June 30,		Six Months Ended June 30,					
		Three Months Ended September 30,		Nine Months Ended September 30,					
	2024	2024	2023	2024	2023	2024	2023	2024	2023
Interest income:									
Interest and fees on loans									
Interest and fees on loans									
Interest and fees on loans									
Interest on taxable securities									
Interest on nontaxable securities									
Interest on interest-bearing deposits and other									
Total interest income									
Interest expense:									
Interest on deposits									
Interest on deposits									
Interest on deposits									
Interest on FHLB advances									
Interest on other borrowings									
Interest on junior subordinated debentures									
Total interest expense									
Net interest income									
Provision for credit losses									
Net interest income after provision for credit losses									
Noninterest income:									
Service charges on deposit accounts									
Service charges on deposit accounts									
Service charges on deposit accounts									
Investment management fees									
Mortgage banking revenue									
Mortgage warehouse purchase program fees									
(Loss) gain on sale of loans									
Gain on sale of other real estate									
Gain on sale of other real estate									
Gain on sale of other real estate									
(Loss) gain on sale and disposal of premises and equipment									
(Loss) gain on sale and disposal of premises and equipment									
(Loss) gain on sale and disposal of premises and equipment									
Increase in cash surrender value of BOLI									
Other									
Total noninterest income									
Noninterest expense:									
Salaries and employee benefits									
Salaries and employee benefits									
Salaries and employee benefits									
Occupancy									
Communications and technology									

FDIC assessment
Advertising and public relations
Other real estate owned (income) expenses, net
Other real estate owned expenses (income), net
Impairment of other real estate
Amortization of other intangible assets
Litigation settlement
Professional fees
Acquisition expense, including legal
Goodwill impairment
Other
Total noninterest expense
(Loss) income before taxes
Income tax expense (benefit)
Net (loss) income
Basic (loss) earnings per share
Diluted (loss) earnings per share
Income (loss) before taxes
Income tax expense
Net income (loss)
Basic earnings (loss) per share
Diluted earnings (loss) per share

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Three and Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023 (unaudited)
(Dollars in thousands)

	Three Months Ended June 30,									
	Three Months Ended June 30,									
	Three Months Ended June 30,	Six Months Ended June 30,								
	Three Months Ended September 30,									
	Three Months Ended September 30,									
	Three Months Ended September 30,	Nine Months Ended September 30,								
	2024	2024	2023	2024	2023	2024	2023	2024	2023	
Net (loss) income										
Net income (loss)										
Other comprehensive income (loss) before tax:										
Unrealized gains (losses) on securities:										
Unrealized gains (losses) on securities:										
Unrealized gains (losses) on securities:										
Unrealized gains (losses) arising during the period										
Unrealized gains (losses) arising during the period										
Unrealized gains (losses) arising during the period										
Tax effect										
Unrealized gains (losses) arising during the period, net of tax										

Change in net unamortized gains on available for sale securities reclassified into held to maturity securities

Tax effect

Change in net unamortized gains on available for sale securities reclassified into held to maturity securities, net of tax

Change in unrealized gains (losses) on securities, net of tax

Change in unrealized gains (losses) on securities, net of tax

Change in unrealized gains (losses) on securities, net of tax

Unrealized gains (losses) on derivative financial instruments:

Unrealized gains (losses) on derivative financial instruments:

Unrealized gains (losses) on derivative financial instruments:

Unrealized holding losses arising during the period

Unrealized holding losses arising during the period

Unrealized holding losses arising during the period

Unrealized holding gains (losses) arising during the period

Unrealized holding gains (losses) arising during the period

Unrealized holding gains (losses) arising during the period

Tax effect

Unrealized losses arising during the period, net of tax

Unrealized gains (losses) arising during the period, net of tax

Reclassification of amount of losses recognized into income

Tax effect

Reclassification of amount of losses recognized into income, net of tax

Change in unrealized gains (losses) on derivative financial instruments

Other comprehensive income (loss), net of tax

Comprehensive (loss) income

Comprehensive income (loss)

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended June 30, 2024 September 30, 2024 and 2023 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock $0.01 Par Preferred Stock $0.01 Par Preferred Stock $0.01 Par Value 10 million shares authorized	Shares Shares Shares	Common Stock $0.01 Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Common Stock $0.01 Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Three Months Ended												
Three Months Ended												
Three Months Ended												
Balance, March 31, 2024												
Balance, June 30, 2024												
Balance, March 31, 2024												

Balance, June 30, 2024

Balance, March 31, 2024

Net loss

Other comprehensive income, net of tax

Common stock repurchased

Restricted stock forfeited

Restricted stock granted

Stock based compensation expense

Cash dividends ($0.38 per share)

Balance, June 30, 2024

Balance, June 30, 2024

Net income

Other comprehensive income, net of tax

Common stock repurchased

Restricted stock forfeited

Restricted stock granted

Stock based compensation expense

Cash dividends ($0.38 per share)

Balance, September 30, 2024

Three Months Ended

Three Months Ended

Three Months Ended

Balance, March 31, 2023

Balance, June 30, 2023

Balance, March 31, 2023

Balance, June 30, 2023

Balance, March 31, 2023

Net income

Other comprehensive loss, net of tax

Common stock repurchased

Common stock repurchased

Common stock repurchased

Restricted stock forfeited

Stock based compensation expense

Stock based compensation expense

Stock based compensation expense

Cash dividends ($0.38 per share)

Cash dividends ($0.38 per share)

Cash dividends ($0.38 per share)
Balance, June 30, 2023
Balance, June 30, 2023
Net income
Net income
Net income
Other comprehensive loss, net of tax
Common stock repurchased
Restricted stock forfeited
Restricted stock granted
Stock based compensation expense
Cash dividends ($0.38 per share)
Cash dividends ($0.38 per share)
Cash dividends ($0.38 per share)
Balance, September 30, 2023

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (Continued)
Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock $0.01 Par Preferred Stock $0.01 Par Preferred Stock $0.01 Par Value 10 million shares authorized	Shares Shares Shares	Common Stock $0.01 Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Common Stock $0.01 Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Six Months Ended												
Six Months Ended												
Six Months Ended												
Nine Months Ended												
Nine Months Ended												
Nine Months Ended												
Balance, December 31, 2023												
Balance, December 31, 2023												
Balance, December 31, 2023												
Net loss												

Net loss
Net loss
Other comprehensive loss, net of tax
Common stock repurchased
Common stock repurchased
Common stock repurchased
Restricted stock forfeited
Restricted stock granted
Stock based compensation expense
Cash dividends ($0.76 per share)
Balance, June 30, 2024
Six Months Ended
Six Months Ended
Six Months Ended
Balance, December 31, 2022
Balance, December 31, 2022
Balance, December 31, 2022
Net loss
Net loss
Net loss
Other comprehensive income, net of tax
Common stock repurchased
Common stock repurchased
Common stock repurchased
Restricted stock forfeited
Restricted stock granted
Stock based compensation expense
Cash dividends ($1.14 per share)
Balance, September 30, 2024
Cash dividends ($0.76 per share)
Cash dividends ($0.76 per share)
Cash dividends ($0.76 per share)
Balance, June 30, 2023
Nine Months Ended
Nine Months Ended
Nine Months Ended
Balance, December 31, 2022
Balance, December 31, 2022
Balance, December 31, 2022
Net income

Net income
Net income
Other comprehensive loss, net of tax
Common stock repurchased
Common stock repurchased
Common stock repurchased
Restricted stock forfeited
Restricted stock granted
Stock based compensation expense
Cash dividends ($1.14 per share)
Cash dividends ($1.14 per share)
Cash dividends ($1.14 per share)
Balance, September 30, 2023

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30,			Nine Months Ended September 30,	
	2024	2024	2023	2024	2023
Cash flows from operating activities:					
Net loss					
Net loss					
Net loss					
Adjustments to reconcile net income to net cash provided by operating activities:					
Net (loss) income					
Net (loss) income					
Net (loss) income					
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation expense					
Depreciation expense					
Depreciation expense					
Accretion income recognized on loans					
Amortization of other intangibles assets					
Amortization of premium on securities, net					
Amortization of discount and origination costs on borrowings					
Stock based compensation expense					
Goodwill impairment					
Excess tax expense on restricted stock vested					
FHLB stock dividends					

Loss (gain) on sale and disposal of premises and equipment
Loss (gain) on sale and disposal of premises and equipment
Loss (gain) on sale and disposal of premises and equipment
(Gain) loss on sale of loans
Gain on sale of other real estate owned
Gain on sale of other real estate owned
Gain on sale of other real estate owned
Impairment of other real estate
Impairment of other real estate
Impairment of other real estate
Impairment of other assets
Deferred tax expense (benefit)
Provision for credit losses
Increase in cash surrender value of BOLI
Excess benefit claim on BOLI
Net gain on mortgage loans held for sale
Originations of loans held for sale
Proceeds from sale of loans held for sale
Net change in other assets
Net change in other liabilities
Net cash (used in) provided by operating activities
Net cash provided by operating activities
Cash flows from investing activities:
Investment securities available for sale:
Investment securities available for sale:
Investment securities available for sale:
Proceeds from maturities, calls and paydowns
Proceeds from maturities, calls and paydowns
Proceeds from maturities, calls and paydowns
Purchases
Purchases
Purchases
Proceeds from maturities of certificates of deposit held in other banks
Proceeds from maturities of certificates of deposit held in other banks
Proceeds from maturities of certificates of deposit held in other banks
Proceeds from benefit claim of BOLI
Purchases of FHLB stock and other restricted stock
Purchases of FHLB stock and other restricted stock
Purchases of FHLB stock and other restricted stock
Proceeds from redemptions of FHLB stock and other restricted stock
Proceeds from sale of loans
Net loans paid (originated) held for investment
Originations of mortgage warehouse purchase loans
Proceeds from pay-offs of mortgage warehouse purchase loans
Additions to premises and equipment
Proceeds from sale of premises and equipment
Proceeds from sale of other real estate owned
Net cash provided by (used in) investing activities
Net cash provided by (used in) investing activities
Net cash provided by (used in) investing activities

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023 (unaudited)
(Dollars in thousands)

		Six Months Ended June 30,		Nine Months Ended September 30,	
	2024	2024	2023	2024	2023
Cash flows from financing activities:					
Net increase (decrease) in demand deposits, money market and savings accounts					
Net increase (decrease) in demand deposits, money market and savings accounts					
Net increase (decrease) in demand deposits, money market and savings accounts					
Net increase in time deposits					
Net (decrease) increase in time deposits					
Proceeds from FHLB advances					
Repayments of FHLB advances					
Proceeds from other borrowings					
Proceeds from other borrowings					
Proceeds from other borrowings					
Repayments of other borrowings					
Repurchase of common stock					
Repurchase of common stock					
Repurchase of common stock					
Dividends paid					
Dividends paid					
Dividends paid					
Net cash (used in) provided by financing activities					
Net cash provided by financing activities					
Net change in cash and cash equivalents					
Cash and cash equivalents at beginning of period					
Cash and cash equivalents at end of period					

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
(Dollars in thousands, except for share and per share information)

Note 1. Summary of Significant Accounting Policies

Nature of operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation, doing business as Independent Financial, (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the North, Central, and Southeast Texas areas and along the Colorado Front Range, through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, and investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.

Proposed merger with SouthState Corporation: On May 20, 2024, The Company and SouthState Corporation (SSB) jointly announced the signing of a definitive merger agreement, dated May 17, 2024, to merge the two companies in an all-stock transaction pursuant to which the Company will merge with and into SSB, with SSB continuing as the surviving entity. SSB is headquartered in Winter Haven, Florida and has full-service locations in Florida, Alabama, Georgia, South Carolina, North Carolina and Virginia. Under the terms of the agreement, the Company will merge into SSB and Independent Bank will merge into SouthState Bank, National Association. See Note 12. Business Combination for more details of the proposed merger.

(Dollars in thousands, except for share and per share information)

Basis of presentation: The accompanying consolidated financial statements include the accounts of IBG and all other entities in which IBG has controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company IBG wholly-owns nine statutory business trusts that were formed for the purpose of issuing trust preferred securities and do not meet the criteria for consolidation.

The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. The consolidated balance sheet at December 31, 2023 has been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Accounting standards codification: The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative.

Segment reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.

Reclassifications: Certain prior period financial statement and disclosure amounts have been reclassified to conform to current period presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The material estimates included in the financial statements relate to the allowance for credit losses, the valuation of goodwill and valuation of assets and liabilities acquired in business combinations.

Goodwill impairment assessment: The Company's policy is to test goodwill for impairment annually on December 31 or on an interim basis if an event triggering impairment may have occurred. During the six months ended June 30, 2024, first half of 2024, continued market volatility in the banking sector resulted in declines in the Company's stock price and market capitalization. Management believed such decrease was a declines were triggering indicator indicators requiring an interim goodwill impairment quantitative analysis for first quarter 2024. Based on an analysis performed, the Company's estimated fair value to a market participant as of March 31, 2024, exceeded its carrying amount resulting in no impairment charge for the period.

Throughout the second quarter 2024, the Company's stock price continued to trade below book value. In May 2024, in connection with the announcement of the proposed merger with and into SSB as described above, the Company entered into a definitive agreement on May 17, 2024 whereby the implied consideration of the merger transaction was less than the Company's book value. The Company determined such events indicated that goodwill related to its single reporting unit may be impaired and resulted in the Company performing interim goodwill impairment assessments during the second quarter of 2024. The Company determined the estimated fair market value of the reporting unit was equal to the implied valuation of the merger transaction based upon the conversion ratio to SSB's stock price as of the measurement date, and as such, the Company recorded $518,000 in goodwill impairment charges during second quarter 2024 as the estimated fair value of equity was less than its book value. This was a non-cash charge to earnings and had no impact on the Company's regulatory capital ratios, cash flows, or liquidity position.

During the third quarter 2024, market conditions in the industry stabilized and stock values for both SSB and the Company increased resulting in the Company's implied value, as noted above, exceeding its book value as of September 30, 2024, and indicating no further decline in value that would trigger an interim assessment or additional impairment charge.

The following table presents the changes in the carrying amount of goodwill as of June 30, 2024 September 30, 2024:

Balance, December 31, 2023	$	994,021
Goodwill impairment charge		(518,000)
Balance, June 30, 2024 September 30, 2024	$	476,021

Management will continue to evaluate the Company's carrying value, as well as economic conditions at future reporting periods for further decline.

Earnings (loss) per share: Basic earnings (loss) per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings (loss) per common share includes the dilutive effect of additional potential common shares issuable under participating nonvested restricted stock awards as well as performance stock units (PSUs). The participating nonvested restricted stock awards were not included in dilutive shares as they were anti-dilutive for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023. Additionally, performance stock units were not included in dilutive shares for the three and six nine months ended June 30, 2024 and six months ended June 30, 2023 September 30, 2024 as they were anti-dilutive. Proceeds from the assumed exercise of dilutive participating nonvested restricted stock awards and PSUs are assumed to be used to repurchase common stock at the average market price.

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
(Dollars in thousands, except for share and per share information)

The following table presents a reconciliation of net income (loss) income available to common shareholders and the number of shares used in the calculation of basic and diluted earnings (loss) earnings per common share:

	Three Months Ended June 30,				
		Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2024	2023	2024	2023
	2024				
	2024				
Basic (loss) earnings per share:					
Basic (loss) earnings per share:					
Basic (loss) earnings per share:					
Net (loss) income					
Net (loss) income					
Net (loss) income					
Basic earnings (loss) per share:					
Net income (loss)					
Net income (loss)					
Net income (loss)					
Less:					
Less:					
Less:					
Undistributed (loss) earnings allocated to participating securities					
Undistributed (loss) earnings allocated to participating securities					
Undistributed (loss) earnings allocated to participating securities					
Undistributed earnings (loss) allocated to participating securities					
Undistributed earnings (loss) allocated to participating securities					
Undistributed earnings (loss) allocated to participating securities					
Dividends paid on participating securities					
Dividends paid on participating securities					
Dividends paid on participating securities					
Net (loss) income available to common shareholders					
Net (loss) income available to common shareholders					
Net (loss) income available to common shareholders					
Net income (loss) available to common shareholders					
Weighted average basic shares outstanding					
Weighted average basic shares outstanding					
Weighted average basic shares outstanding					
Basic (loss) earnings per share					
Basic (loss) earnings per share					
Basic (loss) earnings per share					
Diluted (loss) earnings per share:					
Diluted (loss) earnings per share:					
Diluted (loss) earnings per share:					

Net (loss) income available to common shareholders
Net (loss) income available to common shareholders
Net (loss) income available to common shareholders
Basic earnings (loss) per share
Diluted earnings (loss) per share:
Net income (loss) available to common shareholders
Net income (loss) available to common shareholders
Net income (loss) available to common shareholders
Total weighted average basic shares outstanding
Total weighted average basic shares outstanding
Total weighted average basic shares outstanding
Add dilutive performance stock units
Add dilutive performance stock units
Add dilutive performance stock units
Total weighted average diluted shares outstanding
Total weighted average diluted shares outstanding
Total weighted average diluted shares outstanding
Diluted (loss) earnings per share
Diluted (loss) earnings per share
Diluted (loss) earnings per share
Anti-dilutive participating securities
Anti-dilutive participating securities
Diluted earnings (loss) per share
Anti-dilutive participating securities
Anti-dilutive performance stock units
Anti-dilutive performance stock units
Anti-dilutive performance stock units

Note 2. Statement of Cash Flows

As allowed by the accounting standards, the Company has chosen to report, on a net basis, its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans. The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information is presented below:

	Six Months Ended June 30,
	Six Months Ended June 30,
	Six Months Ended June 30,
	Nine Months Ended September 30,
	Nine Months Ended September 30,
	Nine Months Ended September 30,
	2024
	2024
	2024
Cash transactions:	
Cash transactions:	
Cash transactions:	
Interest expense paid	
Interest expense paid	
Interest expense paid	
Income taxes paid	
Income taxes paid	
Income taxes paid	
Noncash transactions:	
Noncash transactions:	

Noncash transactions:	
Deferred dividend equivalents	
Deferred dividend equivalents	
Deferred dividend equivalents	
Transfer of loans to other real estate owned	
Transfer of loans to other real estate owned	
Transfer of loans to other real estate owned	
Right-of-use assets obtained in exchange for lease liabilities	
Right-of-use assets obtained in exchange for lease liabilities	
Right-of-use assets obtained in exchange for lease liabilities	
Loans purchased, not yet settled	
Loans purchased, not yet settled	
Loans purchased, not yet settled	
Transfer of bank premises to other real estate	
Transfer of bank premises to other real estate	
Transfer of bank premises to other real estate	

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Note 3. Securities

Securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at June 30, 2024 September 30, 2024 and December 31, 2023 are as follows:

	Amortized Cost (1)	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale									
June 30, 2024									
June 30, 2024									
June 30, 2024									
September 30, 2024									
September 30, 2024									
September 30, 2024									
U.S. treasuries									
U.S. treasuries									
U.S. treasuries									
Government agency securities									
Obligations of state and municipal subdivisions									
Corporate bonds									
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA									
Other securities									
	$								
December 31, 2023									
December 31, 2023									
December 31, 2023									
U.S. treasuries									
U.S. treasuries									
U.S. treasuries									

Government agency securities	
Obligations of state and municipal subdivisions	
Corporate bonds	
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
Other securities	
	$

Securities Held to Maturity

Securities Held to Maturity

Securities Held to Maturity

June 30, 2024

June 30, 2024

June 30, 2024

September 30, 2024

September 30, 2024

September 30, 2024

Obligations of state and municipal subdivisions

Obligations of state and municipal subdivisions

Obligations of state and municipal subdivisions

December 31, 2023

December 31, 2023

December 31, 2023

Obligations of state and municipal subdivisions

Obligations of state and municipal subdivisions

Obligations of state and municipal subdivisions

(1) Excludes accrued interest receivable of $6,870 $5,942 and $7,129 on available for sale and $2,365 $915 and $2,365 on held to maturity securities at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, that is recorded in other assets on the accompanying consolidated balance sheets.

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The amortized cost and estimated fair value of securities at June 30, 2024 September 30, 2024, by contractual maturity, are shown below. Maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		June 30, 2024				September 30, 2024			
	Available for Sale		Available for Sale		Held to Maturity	Available for Sale		Held to Maturity	
	Amortized Cost	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less									
Due from one year to five years									
Due from five to ten years									
Thereafter									
	926,795								
	907,257								
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA									
	$								

Securities with a fair value of approximately $1,054,601 $1,118,207 and $950,604 at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, were pledged primarily to secure deposits.

There were no sales of securities during the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.

The unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2024 September 30, 2024 and December 31, 2023, are summarized as follows for available for sale securities:

	Less Than 12 Months
	Less Than 12 Months
	Less Than 12 Months
Description of Securities	
Description of Securities	
Description of Securities	
Securities Available for Sale	
Securities Available for Sale	
Securities Available for Sale	
June 30, 2024	
June 30, 2024	
June 30, 2024	
September 30, 2024	
September 30, 2024	
September 30, 2024	
U.S. treasuries	
U.S. treasuries	
U.S. treasuries	
Government agency securities	
Government agency securities	
Government agency securities	
Obligations of state and municipal subdivisions	
Obligations of state and municipal subdivisions	
Obligations of state and municipal subdivisions	
Corporate bonds	
Corporate bonds	
Corporate bonds	
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
	$
	$
	$
December 31, 2023	
December 31, 2023	
December 31, 2023	
U.S. treasuries	
U.S. treasuries	
U.S. treasuries	
Government agency securities	
Government agency securities	
Government agency securities	
Obligations of state and municipal subdivisions	
Obligations of state and municipal subdivisions	
Obligations of state and municipal subdivisions	
Corporate bonds	
Corporate bonds	
Corporate bonds	

Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	
	$
	$
	$

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The Company's securities classified as available for sale and held to maturity are evaluated for expected credit losses by applying the appropriate expected credit losses methodology in accordance with ASC Topic 326, *Financial Instruments - Credit Losses.* At June 30, 2024September 30, 2024, management's review of all securities at an unrealized loss position determined that the losses resulted from factors not related to credit quality. This conclusion is based on management's analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors for each security type in our portfolio.

The unrealized losses on available for sale securities are generally due to increases in market interest rates.Furthermore, the Company has the intent to hold the available for sale securities until maturity or a forecasted recovery, and it is more likely than not that the Company will not have to sell the securities before the recovery of their cost basis. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. As such, there is no allowance for credit losses on available for sale securities recognized as of June 30, 2024September 30, 2024.

The Company's held to maturity securities include taxable and tax-exempt municipal securities issued primarily by school districts but also may include utility districts or other municipalities. With regard to securities issued by state and municipal subdivisions, management considers issuer bond ratings, historical loss rates for given bond ratings, whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, internal forecasts and whether or not such securities are guaranteed. Substantially all of the Company's held to maturity securities are guaranteed by the Texas Permanent School Fund (PSF), which is a sovereign wealth fund that serves to provide revenues for funding of public primary and secondary education in the State of Texas. At June 30, 2024September 30, 2024, all of the Company's held to maturity securities were rated AAA/Aaa by Moody's and/or Standard & Poor's bond rating services. Furthermore, as of June 30, 2024September 30, 2024, there were no past due principal or interest payments associated with these securities. As such, no allowance for credit losses has been recorded on held to maturity securities as of June 30, 2024September 30, 2024.

Note 4. Loans, Net and Allowance for Credit Losses on Loans

Loans, net, at June 30, 2024 September 30, 2024 and December 31, 2023, consisted of the following:

	June 30,	December 31,			
	September 30,	December 31,			
	2024	2024	2023	2024	2023
Commercial					
Mortgage warehouse purchase loans					
Real estate:					
Commercial					
Commercial					
Commercial					
Commercial construction, land and land development					
Residential					
Single-family interim construction					
Agricultural					
Consumer					
Total loans (1)					
Allowance for credit losses					
Total loans, net (1)					

(1) Excludes accrued interest receivable of $56,534 $53,186 and $54,563 at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, that is recorded in other assets on the accompanying consolidated balance sheets.

Loans with carrying amounts of $8,112,700 $7,701,144 and $8,109,607 at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity and Federal Reserve Bank discount window borrowing capacity.

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. The Company’s management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis.

The commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At June 30, 2024 September 30, 2024 and December 31, 2023, there were approximately $658,656 $660,931 and $621,883, of energy related loans outstanding, respectively.

The Company has a mortgage warehouse purchase program providing mortgage inventory financing for residential mortgage loans originated by mortgage banker clients across a broad geographic scale. Proceeds from the sale of mortgages is the primary source of repayment for warehouse inventory financing via approved investor takeout commitments. These loans typically have a very short duration ranging between a few days to 15 days. In some cases, loans to larger mortgage originators may be financed for up to 60 days. Warehouse purchase program loans are collectively evaluated for impairment and are purchased under several contractual requirements, providing safeguards to the Company. To date, the Company has not experienced a loss on these loans and no allowance for credit losses has been allocated to them.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location as well as granularity with moderate average loan sizes. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non-owner occupied property. At June 30, 2024 September 30, 2024, the portfolio consisted of approximately 21% of owner occupied property.

Land and commercial land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Generally, borrowers must have a proven track record of success. Commercial construction loans are generally based upon estimates of cost and value of the completed project. These estimates may not be accurate. Commercial construction loans often involve the disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are geographically diverse and due to the increased risk are monitored closely by management and the board of directors on a quarterly basis.

Residential real estate and single-family interim construction loans are underwritten primarily based on borrowers’ documented income and ability to repay the Bank and other creditors as well as minimum collateral values and credit scores. Relatively small loan amounts are spread across many individual borrowers, which minimizes risk in the residential portfolio. In addition, management evaluates trends in past dues and current economic factors on a regular basis.

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Agricultural loans are collateralized by real estate and/or agricultural-related assets. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 80% and have amortization periods limited to twenty years. Agricultural non-real estate loans are generally comprised of term loans to fund the purchase of equipment, livestock and seasonal operating lines to grain farmers to plant and harvest corn and soybeans. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary.

Agricultural loans carry credit risks as they involve larger balances concentrated with single borrowers or groups of related borrowers. In addition, repayment of such loans depends on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. Farming operations may be affected by adverse weather conditions such as drought, hail or floods that can severely limit crop yields.

Consumer loans represent less than 1% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company's lending activity occurs within the state of Texas, primarily in the north, central and southeast Texas regions and the state of Colorado, specifically along the Front Range area. As of June 30, 2024 September 30, 2024, loans in the North Texas region represented about 35% 34% of the total portfolio, followed by the Colorado Front Range region at about 27%, the Houston region at 25% 26% and the Central Texas region at 13%. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of June 30, 2024 September 30, 2024 and December 31, 2023, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

Under ASC 326, the allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged-off against the allowance when they are deemed uncollectible. Recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information relevant to assessing collectibility over the loans' contractual terms, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are included in the borrower contract and are not unconditionally cancellable by the Company.

The Company's allowance balance is estimated using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, credit quality, or term as well as for changes in environmental conditions, such as changes in unemployment rates, gross domestic product, property values, various price indices, and/or other relevant factors. The Company utilizes Moody's Analytics economic forecast scenarios and assigns probability weighting to those scenarios which best reflect management's views on the economic forecast.

The allowance for credit losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. For determining the appropriate allowance for credit losses on a collective basis, the loan portfolio is segmented into pools based upon similar risk characteristics and a lifetime loss-rate model is utilized. For modeling purposes, loan pools include: commercial and industrial, commercial real estate - construction/land development, commercial real estate - owner occupied, commercial real estate - non-owner occupied, agricultural, residential real estate, HELOCs, single-family interim construction, and consumer. Management periodically reassesses each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary. The measurement of expected credit losses is impacted by loan/borrower attributes and certain macroeconomic variables. Management has determined that they are reasonably able to forecast the macroeconomic variables used in the modeling processes with an acceptable degree of confidence for a total of two years then encompassing a reversion process whereby the forecasted macroeconomic variables are reverted to their historical mean utilizing a rational, systematic basis. Management qualitatively adjusts model results for risk factors that are not considered within the modeling processes but are nonetheless relevant in assessing the expected credit losses within the loan pools. These qualitative factor (Q-Factor) adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk.

Loans exhibiting unique risk characteristics and requiring an individual evaluation are measured based on 1) the present value of expected future cash flows discounted at the loan's effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral if the loan is collateral dependent. The majority of the Company's individually evaluated loans are measured at the fair value of the collateral.

Management continually evaluates the allowance for credit losses based upon the factors noted above. Should any of the factors considered by management change, the Company's estimate of credit losses could also change and would affect the level of future provision for credit losses. 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. While the calculation of the allowance for credit losses utilizes management's best judgment and all the information available, the adequacy of the allowance for credit losses is dependent on a variety of factors beyond the Company's control, including, among other things, the performance of the entire loan portfolio, the economy, changes in interest rates and the view of regulatory authorities towards loan classifications.

Loans requiring an individual evaluation are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer's communication with borrowers. In addition, the status of past due loans are routinely discussed within each lending region as well as credit committee meetings to determine if classification is warranted. The Company's internal loan review department has implemented an internal risk-based loan review process to identify potential internally classified loans that supplements the independent external loan review. Independent loan reviews cover a wide range of the loan portfolio, including large lending relationships, specifically targeted loan types, and if applicable recently acquired loan portfolios. These reviews include analysis of borrower's financial condition, payment histories, review of loan documentation and collateral values to determine if a loan should be internally classified. Generally, once classified, an analysis is completed by the credit department to determine the amount of allocated allowance for credit loss required. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The following is a summary of the activity in the allowance for credit losses on loans by class for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023:

	Commercial	Commercial	Commercial Real Estate	Commercial Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Total	Commercial	Commercial Real Estate	Commercial Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Total
Three months ended June 30, 2024																	
Three months ended September 30, 2024																	
Balance at beginning of period																	
Balance at beginning of period																	
Balance at beginning of period																	
Provision for credit losses																	
Charge-offs																	
Recoveries																	
Balance at end of period																	
Six months ended June 30, 2024																	
Six months ended June 30, 2024																	
Six months ended June 30, 2024																	
Nine months ended September 30, 2024																	
Nine months ended September 30, 2024																	
Nine months ended September 30, 2024																	
Balance at beginning of period																	
Balance at beginning of period																	
Balance at beginning of period																	
Provision for credit losses																	
Charge-offs																	
Recoveries																	
Balance at end of period																	
Three months ended June 30, 2023																	
Three months ended June 30, 2023																	
Three months ended June 30, 2023																	
Three months ended September 30, 2023																	
Three months ended September 30, 2023																	
Three months ended September 30, 2023																	
Balance at beginning of period																	
Balance at beginning of period																	
Balance at beginning of period																	
Provision for credit losses																	
Charge-offs																	

Recoveries

Balance at end of period

Six months ended June 30, 2023

Six months ended June 30, 2023

Six months ended June 30, 2023

Nine months ended September 30, 2023

Nine months ended September 30, 2023

Nine months ended September 30, 2023

Balance at beginning of period

Balance at beginning of period

Balance at beginning of period

Provision for credit losses

Charge-offs

Recoveries

Balance at end of period

The Company will charge-off that portion of any loan which management considers a loss. Commercial and real estate loans are generally considered for charge-off when exposure beyond collateral coverage is apparent and when no further collection of the loss portion is anticipated based on the borrower's financial condition.

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The following table presents loans that were evaluated for expected credit losses on an individual basis and the related specific credit loss allocations, by loan class as of June 30, 2024 September 30, 2024 and December 31, 2023:

		June 30, 2024		December 31, 2023					
		September 30, 2024		December 31, 2023					
	Loan Balance	Loan Balance	Specific Allocations	Loan Balance	Specific Allocations	Loan Balance	Specific Allocations	Loan Balance	Specific Allocations
Commercial									
Commercial real estate									
Commercial construction, land and land development									
Residential real estate									
Single-family interim construction									
Agricultural									
Consumer									
	$								

Nonperforming loans by loan class at June 30, 2024 September 30, 2024 and December 31, 2023 are summarized as follows:

Commercial	Commercial	Commercial Real Estate	Commercial Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Total	Commercial	Commercial Real Estate	Commercial Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Tota
June 30, 2024																

September 30, 2024

Nonaccrual loans (1)

Nonaccrual loans (1)

Nonaccrual loans (1)

Loans past due 90 days and still accruing

Total nonperforming loans

December 31, 2023

Nonaccrual loans (1)

Nonaccrual loans (1)

Nonaccrual loans (1)

Loans past due 90 days and still accruing

Total nonperforming loans

---

(1) There are $2,302 $2,574 and $14 in loans on nonaccrual without an allowance for credit loss as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively. Additionally, no interest income was recognized on nonaccrual loans. No significant amounts of accrued interest was reversed during the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.

The accrual of interest is discontinued on a loan when management believes that, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful, as well as when required by regulatory provisions. Regulatory provisions would typically require the placement of a loan on non-accrual status if 1) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or 2) full payment of principal and interest is not expected. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Occasionally, the Company modifies loans to borrowers in financial distress by providing certain concessions, such as principal forgiveness, term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of such concessions. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. During the three and six nine months ended June 30, 2024 September 30, 2024 and 2023, the Company did not provide any modifications under these circumstances to borrowers experiencing financial difficulty.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of June 30, 2024 September 30, 2024 and as of December 31, 2023:

	Loans 30-89 Days Past Due	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans
June 30, 2024											
September 30, 2024											
Commercial											
Commercial											
Commercial											
Mortgage warehouse purchase loans											
Commercial real estate											
Commercial construction, land and land development											
Residential real estate											
Single-family interim construction											
Agricultural											
Consumer											
	$										
December 31, 2023											
Commercial											
Commercial											
Commercial											
Mortgage warehouse purchase loans											
Commercial real estate											
Commercial construction, land and land development											
Residential real estate											
Single-family interim construction											
Agricultural											
Consumer											
	$										

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The Company's internal classified report is segregated into the following categories: 1) Pass/Watch, 2) Special Mention, 3) Substandard, 4) Doubtful and 5) Loss. The loans placed in the Pass/Watch category reflect the Company's opinion that the loans reflect potential weakness that requires monitoring on a more frequent basis. The loans in the Special Mention category reflect the Company's opinion that the credit contains weaknesses which represent a greater degree of risk and warrant extra attention. These loans are reviewed monthly by officers and senior management to determine if a change in category is warranted. The loans placed in the Substandard category are considered to be potentially inadequately protected by the current debt service capacity of the borrower and/or the pledged collateral. These credits, even if apparently protected by collateral value, have shown weakness related to adverse financial, managerial, economic, market or political conditions, which may jeopardize repayment of principal and interest and may be considered impaired. There is a possibility that some future loss could be sustained by the Company if such weakness is not corrected. The Doubtful category includes loans that are in default or principal exposure is probable and the possibility of loss is extremely high. The Loss category includes loans that are considered uncollectible, with little chance of turnaround.

Management considers the guidance in ASC 310-20 when determining whether a modification, extension or renewal of a loan constitutes a current period origination. Generally, current period renewals of credit are re-underwritten at the point of renewal and considered current period originations for purposes of the table below. The following summarizes the amortized cost basis of loans by year of origination/renewal and credit quality indicator by class of loan as of June 30, 2024 September 30, 2024 and December 31, 2023:

	Term Loans by Year of Origination or Renewal							
	Term Loans by Year of Origination or Renewal				Revolving Loans Converted to Term Loans			
	Term Loans by Year of Origination or Renewal							
June 30, 2024								
June 30, 2024								
June 30, 2024	2024	2023	2022	2021	2020		Prior	Total

September 30, 2024							
September 30, 2024							
September 30, 2024	2024	2023	2022	2021	2020	Prior	Total
Commercial							
Pass							
Pass							
Pass							
Pass/Watch							
Special Mention							
Substandard							
Doubtful							
Loss							
Total commercial							
Current period gross write-offs							
Mortgage warehouse purchase loans							
Mortgage warehouse purchase loans							
Mortgage warehouse purchase loans							
Pass							
Pass							
Pass							
Pass/Watch							
Special Mention							
Substandard							
Doubtful							
Loss							
Total mortgage warehouse purchase loans							
Current period gross write-offs							

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	Term Loans by Year of Origination or Renewal						
	Term Loans by Year of Origination or Renewal				Revolving Loans Converted to Term Loans		
	Term Loans by Year of Origination or Renewal						
June 30, 2024							
June 30, 2024							
June 30, 2024	2024	2023	2022	2021	2020	Prior	Total
September 30, 2024							
September 30, 2024							
September 30, 2024	2024	2023	2022	2021	2020	Prior	Total
Commercial real estate							
Pass							
Pass							
Pass							
Pass/Watch							
Special Mention							
Substandard							
Doubtful							

Loss
Total commercial real estate
Current period gross write-offs
Commercial construction, land and land development
Commercial construction, land and land development
Commercial construction, land and land development
Pass
Pass
Pass
Pass/Watch
Special Mention
Substandard
Doubtful
Loss
Total commercial construction, land and land development
Current period gross write-offs
Residential real estate
Residential real estate
Residential real estate
Pass
Pass
Pass
Pass/Watch
Special Mention
Substandard
Doubtful
Loss
Total residential real estate
Current period gross write-offs
Single-family interim construction
Single-family interim construction
Single-family interim construction
Pass
Pass
Pass
Pass/Watch
Special Mention
Substandard
Doubtful
Loss
Total single-family interim construction
Current period gross write-offs

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	Term Loans by Year of Origination or Renewal	
	Term Loans by Year of Origination or Renewal	Revolving Loans Converted to Term Loans
	Term Loans by Year of Origination or Renewal	

June 30, 2024							
June 30, 2024							
June 30, 2024	2024	2023	2022	2021	2020	Prior	Total
September 30, 2024							
September 30, 2024							
September 30, 2024	2024	2023	2022	2021	2020	Prior	Total
Agricultural							
Pass							
Pass							
Pass							
Pass/Watch							
Special Mention							
Substandard							
Doubtful							
Loss							
Total agricultural							
Current period gross write-offs							
Consumer							
Consumer							
Consumer							
Pass							
Pass							
Pass							
Pass/Watch							
Special Mention							
Substandard							
Doubtful							
Loss							
Total consumer							
Current period gross write-offs							
Total loans							
Total loans							
Total loans							
Pass							
Pass							
Pass							
Pass/Watch							
Special Mention							
Substandard							
Doubtful							
Loss							
Total loans							
Current period gross write-offs							

	Term Loans by Year of Origination or Renewal							Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans	Loans	Total
Commercial									
Pass	$ 223,287	$ 211,182	$ 281,878	$ 78,695	$ 99,516	$ 161,184	$ 1,099,241	$ 347	$ 2,155,330
Pass/Watch	168	9,672	8,976	121	2,064	9,396	5,655	—	36,052
Special Mention	185	—	13,517	85	—	820	9,052	1,214	24,873

Substandard	6,949	7,428	20,509	291	2,453	1,944	7,636	3,386	50,596
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial	$ 230,589	$ 228,282	$ 324,880	$ 79,192	$ 104,033	$ 173,344	$ 1,121,584	$ 4,947	$ 2,266,851
Current period gross write-offs	$ 285	$ —	$ 301	$ 5	$ 73	$ 254	$ —	$ —	$ 918

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	Term Loans by Year of Origination or Renewal							Revolving Loans Converted to Term Loans	
December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans		Total
Mortgage warehouse purchase loans									
Pass	$ 549,689	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 549,689
Pass/Watch	—	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total mortgage warehouse purchase loans	$ 549,689	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 549,689
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate									
Pass	$ 1,038,410	$ 2,570,061	$ 1,913,673	$ 900,786	$ 536,973	$ 805,784	$ 57,954	$ 5,827	$ 7,829,468
Pass/Watch	28,048	82,001	61,025	26,594	22,395	48,420	—	—	268,483
Special Mention	22,624	37,445	20,647	23,607	12,211	14,884	—	346	131,764
Substandard	5,502	16,666	27,653	4,371	3,026	2,191	—	—	59,409
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial real estate	$ 1,094,584	$ 2,706,173	$ 2,022,998	$ 955,358	$ 574,605	$ 871,279	$ 57,954	$ 6,173	$ 8,289,124
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial construction, land and land development									
Pass	$ 430,273	$ 430,458	$ 218,880	$ 51,127	$ 6,693	$ 13,633	$ 22,315	$ 74	$ 1,173,453
Pass/Watch	14,177	10,132	3,415	7,184	—	58	—	—	34,966
Special Mention	224	—	22,491	314	—	—	—	—	23,029
Substandard	—	26	—	—	—	10	—	—	36
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial construction, land and land development	$ 444,674	$ 440,616	$ 244,786	$ 58,625	$ 6,693	$ 13,701	$ 22,315	$ 74	$ 1,231,484
Current period gross write-offs	$ —	$ —	$ 1,196	$ —	$ —	$ —	$ —	$ —	$ 1,196
Residential real estate									
Pass	$ 197,436	$ 506,608	$ 356,360	$ 219,473	$ 136,968	$ 162,766	$ 71,494	$ 437	$ 1,651,542
Pass/Watch	—	360	2,415	2,895	1,239	1,902	85	—	8,896
Special Mention	—	—	—	47	1,492	1,607	—	262	3,408
Substandard	685	1,302	15	499	838	2,556	45	—	5,940
Doubtful	—	—	—	—	—	—	—	—	—

Loss	—	—	—	—	—	—	—	—	—
Total residential real estate	$ 198,121	$ 508,270	$ 358,790	$ 222,914	$ 140,537	$ 168,831	$ 71,624	$ 699	$ 1,669,786
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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	Term Loans by Year of Origination or Renewal							Revolving Loans Converted to Term Loans	
December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans		Total
Single-family interim construction									
Pass	$ 300,574	$ 133,211	$ 15,590	$ —	$ —	$ —	$ 65,385	$ —	$ 514,760
Pass/Watch	1,203	—	—	—	—	—	—	—	1,203
Special Mention	1,964	—	—	—	—	—	1	—	1,965
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total single-family interim construction	$ 303,741	$ 133,211	$ 15,590	$ —	$ —	$ —	$ 65,386	$ —	$ 517,928
Current period gross write-offs	$ —	$ —	$ 27	$ —	$ —	$ —	$ —	$ —	$ 27
Agricultural									
Pass	$ 16,543	$ 35,993	$ 22,472	$ 9,707	$ 3,470	$ 10,056	$ 9,435	$ —	$ 107,676
Pass/Watch	—	1,756	—	—	—	—	—	—	1,756
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	19	—	—	19
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total agricultural	$ 16,543	$ 37,749	$ 22,472	$ 9,707	$ 3,470	$ 10,075	$ 9,435	$ —	$ 109,451
Current period gross write-offs	$ —	$ 5	$ 1	$ —	$ —	$ —	$ —	$ —	$ 6
Consumer									
Pass	$ 6,348	$ 3,173	$ 900	$ 8,056	$ 1,267	$ 81	$ 54,392	$ 90	$ 74,307
Pass/Watch	—	—	1,917	—	—	—	—	—	1,917
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	1	—	—	4	—	—	5
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total consumer	$ 6,348	$ 3,173	$ 2,818	$ 8,056	$ 1,267	$ 85	$ 54,392	$ 90	$ 76,229
Current period gross write-offs	$ 8	$ 9	$ —	$ —	$ —	$ —	$ —	$ —	$ 17
Total loans									
Pass	$ 2,762,560	$ 3,890,686	$ 2,809,753	$ 1,267,844	$ 784,887	$ 1,153,504	$ 1,380,216	$ 6,775	$ 14,056,225
Pass/Watch	43,596	103,921	77,748	36,794	25,698	59,776	5,740	—	353,273
Special Mention	24,997	37,445	56,655	24,053	13,703	17,311	9,053	1,822	185,039
Substandard	13,136	25,422	48,178	5,161	6,317	6,724	7,681	3,386	116,005
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total loans	$ 2,844,289	$ 4,057,474	$ 2,992,334	$ 1,333,852	$ 830,605	$ 1,237,315	$ 1,402,690	$ 11,983	$ 14,710,542
Current period gross write-offs	$ 293	$ 14	$ 1,525	$ 5	$ 73	$ 254	$ —	$ —	$ 2,164

Note 5. Federal Home Loan Bank Advances and Other Borrowings

At June 30, 2024 September 30, 2024, the Company had no advances from the FHLB of Dallas under note payable arrangements. The balances outstanding on these advances were $350,000 at December 31, 2023.

Other borrowings totaled $427,129 $454,762 and $271,821 at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

During first quarter 2024, the Company repaid the outstanding FHLB advances and borrowed two short-term advances from the Federal Reserve's Bank Term Funding Program (BTFP). During the second quarter 2024, the Company paid off one BTFP advance totaling $70,000. The remaining advance has an interest rate of 4.88% at June 30, 2024 September 30, 2024 and matures in January 2025. The balance outstanding on this BTFP advance included in other borrowings was $155,000 at June 30, 2024 September 30, 2024. This BTFP advance was subsequently paid off as discussed in Note 13. Subsequent Events.

In third quarter 2024, the Company repaid $33,750 on the Company's unsecured line of credit and has no borrowings outstanding against this line as of September 30, 2024.

Also in third quarter 2024, the Company issued $175,000 of 8.375% fixed-to-floating rate subordinated debentures due August 15, 2034 and simultaneously redeemed $110,000 of its outstanding 5.875% fixed rate subordinated debentures due August 1, 2024. The new debentures were sold at par resulting in net proceeds of $171,211, net of origination costs of $3,789. Initial interest payments of 8.375% fixed rate will be payable semiannually in arrears through August 15, 2029. Thereafter, floating rate payments of 3 month Secured Overnight Financing Rate (SOFR) plus 4.605% will be payable quarterly in arrears. The maturity date is August 15, 2034 with an optional redemption at August 15, 2029. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes.

Note 6. Off-Balance Sheet Arrangements, Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At June 30, 2024 September 30, 2024 and December 31, 2023, the approximate amounts of these financial instruments were as follows:

	June 30,	December 31,			
	September 30,	December 31,			
	2024	2024	2023	2024	2023
Commitments to extend credit					
Standby letters of credit					
	$				

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, farm crops, property, plant and equipment and income-producing commercial properties.

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer.

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Allowance For Credit Losses on Off-Balance Sheet Credit Exposures

The allowance for credit losses on off-balance-sheet credit exposures is calculated under ASC 326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit detailed in the table above. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur based on historical utilization rates. The allowance is included in other liabilities on the Company's consolidated balance sheets.

The allowance for credit losses on off-balance sheet commitments was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,							
	Three Months Ended September 30,		Nine Months Ended September 30,							
	2024	2024	2023	2024	2023	2024	2023	2024	2023	
Balance at beginning of period										
Provision for off-balance sheet credit exposure										
Provision for off-balance sheet credit exposure										
Provision for off-balance sheet credit exposure										
Balance at end of period										

Litigation

The Bank is was a party to a legal proceeding inherited in connection with its acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston (BOH). On February 27, 2023, the Bank entered into a settlement in principle with the plaintiffs and executed a settlement agreement on March 7, 2023. The settlement and bar orders were approved by the Court on August 8, 2023. On June 24, 2024, the Bank made a one-time cash payment of $100,000 to the court appointed receiver in full settlement of the litigation. Such settlement was recognized in 2023 as litigation settlement expense included in noninterest expense on the accompanying income statement along with $2,500 in related legal and other fees. The Bank now considers this matter fully resolved.

In addition, the Company is involved in other legal actions arising from normal business activities, as well as lawsuits related to the pending merger with SSB. Management believes that the outcome of such proceedings will not materially affect the financial position, results of operations or cash flows of the Company.

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Note 7. Income Taxes

Income tax expense (benefit) for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,						
	Three Months Ended September 30,		Nine Months Ended September 30,						
2024	2024	2023	2024	2023	2024	2023	2024	2023	
Income tax expense (benefit) for the period									
Income tax expense for the period									
Income tax expense (benefit) for the period									
Income tax expense for the period									

Income tax expense (benefit) for the period

Income tax expense for the period

Effective tax rate	Effective tax rate	(1.0)%	20.8 %	(2.5) %	36.8 %	Effective tax rate	20.5 %	20.1 %	(3.9)%	16.7 %

The effective tax rates for 2024 and 2023 differ from the statutory federal tax rate of 21% largely due to tax exempt interest income earned on certain investment securities and loans, the nontaxable earnings on bank owned life insurance, nondeductible compensation, and state income tax. The effective rate for the three and six nine months ended June 30, 2024 September 30, 2024 also reflects nondeductible acquisition-related expenses as well as goodwill impairment charges resulting in the negative effective tax rates for the periods. period. The effective rate for the six nine months ended June 30, 2023 September 30, 2023 is higher lower due to the Company being litigation settlement that occurred in a net loss position related to the litigation settlement. first quarter 2023.

Note 8. Fair Value Measurements

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. 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:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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Assets and Liabilities Measured on a Recurring Basis

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of June 30, 2024 September 30, 2024 and December 31, 2023 by level within the ASC Topic 820 fair value measurement hierarchy:

			Fair Value Measurements at Reporting Date Using						
	Assets/ Liabilities Measured at Fair Value	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2024									
September 30, 2024									
Assets:									
Assets:									
Assets:									

Investment securities available for sale:
Investment securities available for sale:
Investment securities available for sale:
U.S. treasuries
U.S. treasuries
U.S. treasuries
Government agency securities
Obligations of state and municipal subdivisions
Corporate bonds
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA
Other securities
Loans held for sale, fair value option elected (1)
Derivative financial instruments:
Interest rate lock commitments
Interest rate lock commitments
Interest rate lock commitments
Forward mortgage-backed securities trades
Commercial loan interest rate swaps:
Loan customer counterparty
Loan customer counterparty
Loan customer counterparty
Financial institution counterparty
Liabilities:
Derivative financial instruments:
Derivative financial instruments:
Derivative financial instruments:
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Interest rate lock commitments
Forward mortgage-backed securities trades
Commercial loan interest rate swaps:
Loan customer counterparty
Loan customer counterparty
Loan customer counterparty
Financial institution counterparty
December 31, 2023
December 31, 2023
December 31, 2023
Assets:
Assets:
Assets:
Investment securities available for sale:
Investment securities available for sale:
Investment securities available for sale:
U.S. treasuries
U.S. treasuries
U.S. treasuries
Government agency securities
Obligations of state and municipal subdivisions
Corporate bonds

Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA
Other securities
Loans held for sale, fair value option elected (1)
Derivative financial instruments:
Interest rate lock commitments
Interest rate lock commitments
Interest rate lock commitments
Forward mortgage-backed securities trades
Commercial loan interest rate swaps:
Loan customer counterparty
Loan customer counterparty
Loan customer counterparty
Financial institution counterparty
Liabilities:
Derivative financial instruments:
Derivative financial instruments:
Derivative financial instruments:
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Forward mortgage-backed securities trades
Forward mortgage-backed securities trades
Forward mortgage-backed securities trades
Commercial loan interest rate swaps:
Loan customer counterparty
Loan customer counterparty
Loan customer counterparty
Financial institution counterparty

(1) At June 30, 2024 September 30, 2024 and December 31, 2023, loans held for sale for which the fair value option was elected had an aggregate outstanding principal balance of $8,118 $9,798 and $11,747, respectively. There were no mortgage loans held for sale under the fair value option that were 90 days or greater past due or on nonaccrual at June 30, 2024 September 30, 2024.

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

Investment securities available for sale

Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. Securities are classified within Level 1 when quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. For securities utilizing Level 2 inputs, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security’s terms and conditions, among other things.

Loans held for sale

Certain mortgage loans held for sale are measured at fair value on a recurring basis due to the Company's election to adopt fair value accounting treatment for those loans originated for which the Company has entered into certain derivative financial instruments as part of its mortgage banking and related risk management activities. These instruments include interest rate lock commitments and mandatory forward commitments to sell these loans to investors known as forward mortgage-backed securities trades. This election allows for a more effective offset of the changes in fair values of the assets and the mortgage related derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, *Derivatives and Hedging*. Mortgage loans held for sale, for which the fair value option was elected, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted to credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures. For mortgage loans held for sale for which the fair value option was elected, the earned current contractual interest payment is recognized in interest income, loan origination costs and fees on fair value option loans are recognized in earnings as incurred and not deferred. The Company has no continuing involvement in any residential mortgage loans sold.

Derivatives

The Company utilizes interest rate swaps to hedge exposure to interest rate risk and variability of cash flows associated to changes in the underlying interest rate of the hedged item. These hedging interest rate swaps are classified as a cash flow hedge. The Company utilizes a third-party vendor for derivative valuation purposes. These vendors determine the appropriate fair value based on a net present value calculation of the cash flows related to the interest rate swaps using primarily observable market inputs such as interest rate yield curves (Level 2 inputs).

The estimated fair values of interest rate lock commitments utilize current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (pull-through rate). The fair value of interest rate lock commitments is subject to change primarily due to changes in interest rates and the estimated pull-through rate. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on observable market inputs.

Forward mortgage-backed securities trades are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilized the exchange price or dealer market price for the particular derivative contract; therefore these contracts are classified as Level 2. The estimated fair values are subject to change primarily due to changes in interest rates.

The Company also enters into certain interest rate derivative positions. The estimated fair value of these commercial loan interest rate swaps are obtained from a pricing service that provides the swaps' unwind value (Level 2 inputs). See Note 9, Derivative Financial Instruments, for more information.

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Assets and Liabilities Measured on a Nonrecurring Basis

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities 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). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at June 30, 2024 September 30, 2024 and December 31, 2023, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using							
	Assets Measured at Fair Value								
	Assets Measured at Fair Value								
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total (Gains) Losses	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total (Gains) Losses
June 30, 2024									
September 30, 2024									
Assets:									
Assets:									
Assets:									

Individually evaluated loans
Individually evaluated loans
Individually evaluated loans
December 31, 2023
December 31, 2023
December 31, 2023
Assets:
Assets:
Assets:
Individually evaluated loans
Individually evaluated loans
Individually evaluated loans
Other real estate owned

Individually evaluated loans are measured at an observable market price (if available) or at the fair value of the loan's underlying collateral (if collateral dependent). Fair value of the loan's collateral is determined by appraisals or independent valuation, which is then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. In addition, management's discounting criteria may vary for loans secured by non-real estate collateral such as inventory, oil and gas reserves, accounts receivable, equipment or other business assets. Management reviews the appraisals or valuations for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value. Therefore, the Company has categorized its individually evaluated loans as Level 3.

Other real estate owned is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment). Other real estate owned is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate owned is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria. Management reviews the external appraisals for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value. Therefore, the Company has categorized its other real estate as Level 3. There was no other real estate owned remeasured during the six nine months ended June 30, 2024 September 30, 2024.

In addition, mortgage loans held for sale not recorded under the fair value option are required to be measured at the lower of cost or fair value. The fair value of these loans is based upon binding quotes or bids from third party investors. As of June 30, 2024 September 30, 2024 and December 31, 2023, all mortgage loans held for sale not recorded under the fair value option were recorded at cost.

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Fair Value of Financial Instruments not Recorded at Fair Value

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments that are reported at amortized cost on the Company's consolidated balance sheets were as follows at June 30, 2024 September 30, 2024 and December 31, 2023:

				Fair Value Measurements at Reporting Date Using							
	Carrying Amount	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2024											

September 30, 2024
Financial assets:
Financial assets:
Financial assets:
Cash and cash equivalents
Cash and cash equivalents
Cash and cash equivalents
Certificates of deposit held in other banks
Investment securities held to maturity
Investment securities held to maturity
Investment securities held to maturity
Loans held for sale, at cost
Loans, net
FHLB of Dallas stock and other restricted stock
Accrued interest receivable
Financial liabilities:
Deposits
Deposits
Deposits
Accrued interest payable
Other borrowings
Other borrowings
Other borrowings
Junior subordinated debentures
Off-balance sheet assets (liabilities):
Commitments to extend credit
Commitments to extend credit
Commitments to extend credit
Standby letters of credit
December 31, 2023
Financial assets:
Financial assets:
Financial assets:
Cash and cash equivalents
Cash and cash equivalents
Cash and cash equivalents
Certificates of deposit held in other banks
Investment securities held to maturity
Loans held for sale, at cost
Loans, net
FHLB of Dallas stock and other restricted stock
Accrued interest receivable
Financial liabilities:
Deposits
Deposits
Deposits
Accrued interest payable
FHLB advances

Other borrowings
Other borrowings
Other borrowings
Junior subordinated debentures
Off-balance sheet assets (liabilities):
Commitments to extend credit
Commitments to extend credit
Commitments to extend credit
Standby letters of credit

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, *Financial Instruments*, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:

Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.

Certificates of deposit held in other banks: The fair value of certificates of deposit held in other banks is based upon current market rates.

Investment securities held to maturity: For investment securities held to maturity, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Loans held for sale, at cost: The fair value of loans held for sale is determined based upon commitments on hand from investors.

Loans: A discounted cash flow model is used to estimate the fair value of the loans. The discounted cash flow approach models the credit losses directly in the projected cash flows, applying various assumptions regarding credit, interest and prepayment risks for the loans based on loan types, payment types and fixed or variable classifications.

Federal Home Loan Bank of Dallas and other restricted stock: The carrying value of restricted securities such as stock in the Federal Home Loan Bank of Dallas and Independent Bankers Financial Corporation approximates fair value.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances, line of credit and federal funds purchased: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company’s current borrowing rate for similar arrangements.

Other borrowings: The estimated fair value approximates carrying value for short-term borrowings. The fair value of private subordinated debentures are based upon prevailing rates on similar debt in the market place. The subordinated debentures that are publicly traded are valued based on indicative bid prices based upon market pricing observations in the current market.

Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the published Bloomberg US Financials BB rated corporate bond index yield.

Accrued interest: The carrying amounts of accrued interest approximate their fair values.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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Note 9. Derivative Financial Instruments

The Company accounts for its derivative financial instruments in accordance with ASC Topic 815 which requires all derivative instruments to be carried at fair value on the balance sheet. The Company has designated certain derivative instruments used to manage interest rate risk as hedge relationships with certain assets, liabilities or cash flows being hedged. Certain derivatives used for interest rate risk management are not designated in a hedge relationship and are used for asset and liability management related to the Company's mortgage banking activities and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedge relationship. This documentation includes linking the fair value for cash flow hedges to the specific assets and liabilities on the balance sheet or the specific firm commitments or forecasted transaction. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

The Company's objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company has two interest rate swap derivatives with an aggregated notional amount of $100,000 that were designated as cash flow hedges. The derivatives are intended to hedge the variable cash flows associated with certain existing variable-interest rate loans and were determined to be effective during the three and six nine months ended June 30, 2024 September 30, 2024.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income (loss) and subsequently reclassified into interest income in the same period that the hedged transaction affects earnings. Amounts of losses gains (losses) recognized in accumulated other comprehensive income related to derivatives was $498 $1,457 and $2,051, $(594), net of tax,and the amounts of losses that were reclassified to interest income as interest payments were made on the Company's variable-rate loans was $886 and $1,772, $2,658, net of tax, during and for the three and six nine months ended June 30, 2024 September 30, 2024. Amounts of losses recognized in accumulated other comprehensive income related to derivatives was $2,028 $1,359 and $1,285, $2,644, net of tax, and the amounts of losses that were reclassified to interest income as interest payments were received on the Company's variable-rate loans was $810 $879 and $1,516, $2,395, net of tax, during and for the three and six nine months ended June 30, 2023 September 30, 2023.During the next twelve months, the Company estimates that $3,915 $2,807 will be reclassified as a decrease to interest income.

Through its mortgage banking division, 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. The Company manages the changes in fair value associated with changes in interest rates related to interest rate lock commitments 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.

The Company offers certain derivatives products, primarily interest rate swaps, directly to qualified commercial banking customers to facilitate their risk management strategies. The interest rate swap derivative positions relate to transactions in which the Company enters into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. An interest rate swap transaction allows customers 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 the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount.

The following table provides the outstanding notional balances and fair values of outstanding derivative positions at June 30, 2024 September 30, 2024 and December 31, 2023:

			Asset Derivative Fair Value	Liability Derivative Fair Value
	Outstanding Notional Balance	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
	Outstanding Notional Balance			
	Outstanding Notional Balance			
June 30, 2024				
June 30, 2024				
June 30, 2024				
September 30, 2024				
Derivatives designated as hedging instruments:				

Derivatives designated as hedging instruments:
Derivatives designated as hedging instruments:
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Derivatives not designated as hedging instruments:
Derivatives not designated as hedging instruments:
Derivatives not designated as hedging instruments:
Interest rate lock commitments
Interest rate lock commitments
Interest rate lock commitments
Forward mortgage-backed securities trades
Forward mortgage-backed securities trades
Forward mortgage-backed securities trades
Commercial loan interest rate swaps:
Commercial loan interest rate swaps:
Commercial loan interest rate swaps:
Loan customer counterparty
Loan customer counterparty
Loan customer counterparty
Financial institution counterparty
Financial institution counterparty
Financial institution counterparty
December 31, 2023
December 31, 2023
December 31, 2023
Derivatives designated as hedging instruments:
Derivatives designated as hedging instruments:
Derivatives designated as hedging instruments:
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Interest rate swaps - cash flow hedge
Derivatives not designated as hedging instruments:
Derivatives not designated as hedging instruments:
Derivatives not designated as hedging instruments:
Interest rate lock commitments
Interest rate lock commitments
Interest rate lock commitments
Forward mortgage-backed securities trades
Forward mortgage-backed securities trades
Forward mortgage-backed securities trades
Commercial loan interest rate swaps:
Commercial loan interest rate swaps:
Commercial loan interest rate swaps:
Loan customer counterparty
Loan customer counterparty
Loan customer counterparty
Financial institution counterparty
Financial institution counterparty
Financial institution counterparty

(Dollars in thousands, except for share and per share information)

The credit exposure related to interest rate swaps is limited to the net favorable value of all swaps by each counterparty, which was approximately $9,857 $6,393 and $9,699 at June 30, 2024 September 30, 2024 and December 31, 2023, respectively. In some cases, collateral may be required from the counterparties involved if the net value of the derivative instruments exceeds a nominal amount. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap values.At June 30, 2024 September 30, 2024 and December 31, 2023, cash of $10,787 $11,063 and $10,242, respectively, and securities of $414 $418 and $444, respectively, were pledged as collateral for these derivatives, respectively, and counterparties had deposited $2,190 $840 of cash with the Company as of June 30, 2024 September 30, 2024.

The Company has entered into credit risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which the Company is either a participant or a lead bank. Risk participation agreements entered into as a participant bank provide credit protection to the financial institution counterparty should the borrower fail to perform on its interest rate derivative contract with that financial institution. The Company is party to one risk participation agreement as a participant bank having a notional amount of $1,481 at both June 30, 2024 September 30, 2024 and December 31, 2023. Risk participation agreements entered into as the lead bank provide credit protection to the Company should the borrower fail to perform on its interest rate derivative contract. The Company is party to zero and one risk participation agreement as the lead bank having a notional amount of $8,663 $0 and $8,805 at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

The changes in the fair value of interest rate lock commitments and the forward sales of mortgage-backed securities are recorded in mortgage banking revenue. These gains and losses were not attributable to instrument-specific credit risk. For commercial interest rate swaps, because the Company acts as an intermediary for our customer, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on the results of operations.

A summary of derivative activity and the related impact on the consolidated statements of income (loss) for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023 is as follows:

	Income Statement Location		Income Statement Location	Three Months Ended June 30,		Six Months Ended June 30,		Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2024		2024	2023	2024	2023		2024	2023	2024	2023
Derivatives designated as hedging instruments												
Interest rate swaps - cash flow hedges												
Interest rate swaps - cash flow hedges												
Interest rate swaps - cash flow hedges												
Derivatives not designated as hedging instruments												
Interest rate lock commitments												
Interest rate lock commitments												
Interest rate lock commitments												
Forward mortgage-backed securities trades												

Note 10. Stock Awards

The Company grants common stock awards to certain employees of the Company. In May 2022, the shareholders of the Company approved the 2022 Equity Incentive Plan (2022 Plan). Under this plan, the Compensation Committee may grant awards to certain employees and directors of the Company in the form of restricted stock, restricted stock units, stock appreciation rights, qualified and nonqualified stock options, performance share awards and other equity-based awards. Effective with the adoption of the 2022 Plan, no further awards will be granted under the prior 2013 Equity Incentive Plan (2013 Plan). Awards outstanding under the 2013 Plan will remain in effect under the prior plan according to their respective terms and any terminated 2013 Plan awards will be available for awards under the 2022 Plan in accordance with the 2022 Plan's provisions. The 2022 Plan has 1,500,000 reserved shares of common stock to be awarded by the Company's Compensation Committee. As of June 30, 2024 September 30, 2024, there were 1,273,586 1,210,659 shares remaining available for grant for future awards.

(Dollars in thousands, except for share and per share information)

Shares issued under these plans are restricted stock awards and performance stock. Restricted stock awarded generally vest evenly over the required employment period and range from one to four years. Performance stock units awarded have a three to four year cliff vesting period. Restricted stock awards granted are issued at the date of grant and receive dividends. Performance stock units are eligible to receive dividend equivalents as such dividends are declared on the Company's common stock during the performance period. Equivalent dividend payments are based upon the number of shares issued under each performance award and are deferred until such time that the units vest and the shares are issued.

Restricted Stock Awards

The following table summarizes the activity in nonvested restricted stock awards for the six nine months ended June 30, 2024 September 30, 2024 and 2023:

Restricted Stock Awards	Restricted Stock Awards	Number of Shares	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2023						
Granted during the period						
Granted during the period						
Granted during the period						
Vested during the period						
Forfeited during the period						
Nonvested shares, June 30, 2024						
Nonvested shares, September 30, 2024						
Nonvested shares, December 31, 2022						
Nonvested shares, December 31, 2022						
Nonvested shares, December 31, 2022						
Granted during the period						
Granted during the period						
Granted during the period						
Vested during the period						
Forfeited during the period						
Nonvested shares, June 30, 2023						
Nonvested shares, September 30, 2023						

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $2,162 $1,767 and $4,280 $6,047 for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, and $2,105 $2,112 and $4,064 $6,176 for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income (loss). At June 30, 2024 September 30, 2024, future compensation expense is estimated to be $11,882 $10,341 and will be recognized over a remaining weighted average period of 2.05 1.81 years.

The fair value of common stock awards that vested during the six nine months ended June 30, 2024 September 30, 2024 and 2023 was $3,858 $6,447 and $5,689, $7,497, respectively. The Company has recorded $10 $(64) and $323 $259 in excess tax (benefit) expense on vested restricted stock to income tax expense for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, and $11 $120 and $96 $216 in excess tax expense for the three and six nine months ended June 30, 2023 September 30, 2023, respectively.

There were no modifications of stock agreements during the six nine months ended June 30, 2024 September 30, 2024 and 2023 that resulted in significant additional incremental compensation costs.

At June 30, 2024 September 30, 2024, the future vesting schedule of the nonvested restricted stock awards is as follows:

	Number of Shares
First year	169,665 128,901
Second year	96,758 92,627
Third year	53,906 48,606
Fourth year	621 870
Total nonvested shares	320,950 271,004

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Performance-Based Restricted Stock Units

Performance-based restricted stock units (PSUs) represent shares potentially issuable in the future. For awards granted prior to 2024, the number of shares issued is based upon the measure of the Company's achievement of its relative adjusted return on average tangible common equity, as defined by the Company, over the award's performance period as compared to an identified peer group's achievement over the same performance period. For awards granted in 2024, the number of shares issued is based upon two equally weighted measures 1) the Company's cumulative adjusted diluted earnings per share over the performance period, as defined by the Company, and 2) its relative total shareholder return over the award's performance period as compared to an identified peer group. The number of shares issuable under each performance award is the product of the award target and the award payout percentage for the given level of achievement which ranges from 0% to 150% of the target.

The following table summarizes the activity in nonvested PSUs at target award level for the six nine months ended June 30, 2024 September 30, 2024 and 2023:

Performance-Based Restricted Stock Units	Performance-Based Restricted Stock Units	Number of Shares	Weighted Average Grant Date Fair Value	Performance-Based Restricted Stock Units	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2023						
Granted during the period						
Vested during the period						
Forfeited during the period						
Forfeited during the period						
Forfeited during the period						
Nonvested shares, June 30, 2024						
Nonvested shares, September 30, 2024						
Nonvested shares, December 31, 2022						
Nonvested shares, December 31, 2022						
Nonvested shares, December 31, 2022						
Granted during the period						
Nonvested shares, June 30, 2023						
Nonvested shares, September 30, 2023						
Nonvested shares, June 30, 2023						
Nonvested shares, September 30, 2023						
Nonvested shares, June 30, 2023						
Nonvested shares, September 30, 2023						

Compensation expense related to PSUs is estimated each period based on the fair value of the target stock unit at the grant date and the most probable level of achievement of the performance condition, adjusted for the passage of time within the vesting periods of the awards. Compensation expense related to these awards was $566 $358 and $1,054 $1,412 for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, and $599 $(1,689) and $1,085 $(604) for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. As of June 30, 2024 September 30, 2024, the unrecognized compensation expense is estimated to be $3,305. $1,344. The remaining performance period over which the expense will be recognized is 2.03 2.39 years.

The fair value of common stock awards that vested during the nine months ended September 30, 2024 was $4,854.

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Note 11. Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends the Bank can declare. Approval of the regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. For state banks, subject to regulatory capital requirements, payment of dividends is generally allowed to the extent of net profits.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Tier 2 capital for the Company includes permissible portions of the Company's subordinated notes. The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.

The Company is subject to the Basel III regulatory capital framework (the Basel III Capital Rules). The Basel III Capital Rules require that the Company maintain a 2.5% capital conservation buffer above the minimum risk-based capital adequacy requirements. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

In connection with the adoption of ASC 326, the Company elected to adopt the permissible three year transition option to phase in the day one effects to capital. The deferral has been applied to capital ratios presented below through December 31, 2023.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Common Equity Tier 1 (CET1) and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2024 September 30, 2024 and December 31, 2023, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of June 30, 2024 September 30, 2024 and December 31, 2023, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the Bank's category.

The following table presents actual and required capital ratios under Basel III Capital Rules for the Company and Bank as of June 30, 2024 September 30, 2024 and December 31, 2023. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended, to reflect the changes under the Basel III Capital Rules.

	Actual		Actual	Minimum Capital Required Plus Capital Conservation Buffer		Required To Be Considered Well Capitalized (1)		
	Amount	Amount	Ratio	Amount	Ratio	Amount	Ratio	
June 30, 2024								
September 30, 2024								
Total capital to risk weighted assets:								
Total capital to risk weighted assets:								
Total capital to risk weighted assets:								
Consolidated								
Consolidated								
Consolidated	$ 1,902,311	11.75	11.75 %	$ 1,699,619 10.50	10.50 %	$ 1,618,685 10.00	10.00 %	$ 2,093,068 1

Bank															
Tier 1 capital to risk weighted assets:															
Consolidated															
Consolidated															
Consolidated															
Bank															
Common equity tier 1 to risk weighted assets:															
Consolidated															
Consolidated															
Consolidated		1,568,424	9.69	9.69		1,133,080	1,133,080	7.00	7.00	N/A	N/A		1,579,286	10.0	
Bank															
Tier 1 capital to average assets:															
Consolidated															
Consolidated															
Consolidated		1,624,024	8.76	8.76		741,481	741,481	4.00	4.00	N/A	N/A		1,634,886	9.0	
Bank															
December 31, 2023															
December 31, 2023															
December 31, 2023															
Total capital to risk weighted assets:															
Total capital to risk weighted assets:															
Total capital to risk weighted assets:															
Consolidated															
Consolidated															
Consolidated	$	1,885,776	11.57	11.57 %	$	1,711,650	10.50	10.50 %	$	1,630,143	10.00	10.00 %	$	1,885,776	1
Bank															
Tier 1 capital to risk weighted assets:															
Consolidated															
Consolidated															
Consolidated															
Bank															
Common equity tier 1 to risk weighted assets:															
Consolidated															
Consolidated															
Consolidated		1,562,385	9.58	9.58		1,141,100	1,141,100	7.00	7.00	N/A	N/A		1,562,385	9.5	
Bank															
Tier 1 capital to average assets:															
Consolidated															
Consolidated															
Consolidated		1,617,985	8.94	8.94		723,633	723,633	4.00	4.00	N/A	N/A		1,617,985	8.9	
Bank															

(1) "Well-capitalized" Common Equity Tier 1 to Risk-Weighted Assets and Tier 1 to Average Assets are not formally defined under applicable banking regulations for bank holding companies. However, the Federal Reserve Board and the FDIC may require the Company to maintain a Tier 1 to Average Assets Ratio above the required minimum.

Stock repurchase program: From time to time, the Company's Board of Directors has authorized stock repurchase programs which allow the Company to purchase its common stock generally over a one-year period at various prices in the open market or in privately negotiated transactions. The Company is currently not under a stock repurchase program for 2024. There were no shares repurchased under the prior 2023 Plan during the six nine months ended June 30, 2023 September 30, 2023.

Company stock repurchased to settle employee tax withholding related to vesting of stock awards totaled 412 33,089 and 24,766 57,855 shares at a total cost of $18 $1,713 and $1,147 $2,860 for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, and 486 11,476 and 27,263 38,739 shares at a total cost of $22 $418 and $1,639 $2,057 for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, and were not included under the repurchase program.

Note 12. Business Combination

Proposed Merger with SouthState Corporation

On May 20, 2024, the Company and SSB jointly announced the signing of a definitive merger agreement, dated May 17, 2024, under which, SSB will acquire the Company in an all-stock transaction by means of merger, with SSB continuing as the surviving entity. SSB is headquartered in Winter Haven, Florida and has full-service locations in Florida, Alabama, Georgia, South Carolina, North Carolina and Virginia. Under the terms of the agreement, the Company will merge into SSB and the Bank will merge into SouthState Bank, National Association.

Under the terms of the merger agreement, the Company's shareholders will receive 0.60 shares of SSB's common stock for each share of Company common stock based on a fixed exchange ratio. Following the completion of the merger, it is estimated that former holders of the Company's common stock will own approximately 25% and holders of SSB common stock will own approximately 75% of the common stock of the surviving company.

The merger agreement was unanimously approved by the boards of directors and shareholders of both companies and is anticipated to close in first quarter of 2025, although delays may occur. The transaction is subject to receipt of regulatory approvals and satisfaction of other customary closing conditions, including approval of both the Company and SSB shareholders. Special shareholder meetings are scheduled to take place on August 14, 2024. conditions. The Company has incurred expenses related to the proposed merger of approximately $2,338 $460 and $2,798 for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, which is included in acquisition expense in the consolidated statements of income.

Note 13. Subsequent Events

BTFP Advance

On October 1, 2024, the Company repaid the remaining BTFP advance totaling $155,000 plus accrued and unpaid interest of $5,202.

Declaration of Dividends

On July 19, 2024 October 17, 2024, the Company declared a quarterly cash dividend in the amount of $0.38 per share of common stock to the stockholders of record on August 5, 2024 October 31, 2024. The dividend will be paid on August 19, 2024 November 14, 2024.

Line of Credit Agreement

On July 22, 2024, the Company amended its $100,000 unsecured revolving line of credit with a maturity date of February 15, 2025 to modify the minimum return on average assets financial covenant for the period commencing April 1, 2024 and continuing until March 31, 2025 to exclude the goodwill impairment recognized in second quarter 2024 and to revise certain definitions related to the SSB merger. On July 31, 2024, the Company repaid the balance owed and has no borrowings outstanding against this line as of August 5, 2024.

Subordinated Debentures

On July 31, 2024, the Company issued $175,000 of 8.375% fixed-to-floating rate subordinated debentures due August 15, 2034. The debentures were sold at a 1.5% discount of $2,625 in addition to origination costs totaling $1,164 resulting in net proceeds of $171,211. Initial interest payments of 8.375% fixed rate will be payable semiannually in arrears through August 15, 2029. Thereafter, floating rate payments of 3 month Secured Overnight Financing Rate (SOFR) plus 4.605% will be payable quarterly in arrears. The maturity date is August 15, 2034 with an optional redemption at August 15, 2029. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes.

Also on July 31, 2024, the Company redeemed $110,000 of its outstanding 5.875% fixed rate subordinated debentures due August 1, 2024, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest of $3,231.

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

Cautionary Note Regarding Forward Looking Statements

The Quarterly Report on Form 10-Q, our other filings with the SEC, and other press releases, documents, reports and announcements that we make, issue or publish may contain statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and other related federal security laws. These forward-looking statements include information about our possible or assumed future results of operations, including our future revenues, income, expenses, provision for taxes, effective tax rate, earnings (loss) per share and cash flows, our future capital expenditures and dividends, our future financial condition and changes therein, including changes in our loan portfolio and allowance for credit losses, our future capital structure or changes therein, the plan and objectives of management for future operations, our future or proposed acquisitions, the future or expected effect of acquisitions on our operations, results of operations and financial condition, our future economic performance and the statements of the assumptions underlying any such statement. Such statements are typically, but not exclusively, identified by the use in the statements of words or phrases such as "aim," "anticipate," "estimate," "expect," "goal," "guidance," "intend," "is anticipated," "is estimated," "is expected," "is intended," "objective," "plan," "projected," "projection," "will affect," "will be," "will continue," "will decrease," "will grow," "will impact," "will increase," "will incur," "will reduce," "will remain," "will result," "would be," variations of such words or phrases (including where the word "could," "may" or "would" is used rather than the word "will" in a phrase) and similar words and phrases indicating that the statement addresses some future result, occurrence, plan or objective. The forward-looking statements that we make are based on the Company's current expectations and assumptions regarding its business, the economy, and other future conditions. Because forward-looking statements relate to future results and occurrences, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Many possible events or factors could affect our future financial results and performance and could cause those 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:

- our ability to sustain our current internal growth rate and total growth rate;
- changes in geopolitical, business and economic events, occurrences and conditions, including changes in rates of inflation or deflation, nationally, regionally and in our target markets, particularly in Texas and Colorado;
- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and Colorado, and the geographic areas in those states in which we operate;
- our dependence on our management team and our ability to attract, motivate and retain qualified personnel;
- the concentration of our business within our geographic areas of operation in Texas and Colorado;
- changes in asset quality, including increases in default rates on loans and higher levels of nonperforming loans and loan charge-offs generally;
- concentration of the loan portfolio of the Bank, before and after the completion of acquisitions of financial institutions, in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- the ability of the Bank to make loans with acceptable net interest margins and levels of risk of repayment and to otherwise invest in assets at acceptable yields and that present acceptable investment risks;
- inaccuracy of the assumptions and estimates that the management of our Company and the financial institutions that we acquire make in establishing reserves for credit losses and other estimates generally;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;
- material increases or decreases in the amount of insured and/or uninsured deposits held by the Bank or other financial institutions that we acquire and the cost of those deposits;
- adverse developments in the banking industry related to soundness of other financial institutions, and the potential impact of such developments on customer confidence, liquidity, and regulatory responses, including regulatory oversight, examinations, and any potential related findings and actions;
- our access to the debt and equity markets and the overall cost of funding our operations;
- regulatory requirements to maintain minimum capital levels or maintenance of capital at levels sufficient to support our anticipated growth;
- changes in market interest rates that affect the pricing of the loans and deposits of each of the Bank and the financial institutions that we acquire and that affect the net interest income, other future cash flows, or the market value of the assets of each of the Bank and the financial institutions that we acquire, including investment securities;
- fluctuations in the market value and liquidity of the securities we hold for sale, including as a result of changes in market interest rates;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the effects of infectious disease outbreaks and the significant impact and associated efforts to limit such spread has had or may have on economic conditions and the Company's business, employees, customers, asset quality and financial performance;
- changes in economic and market conditions that affect the amount and value of the assets of the Bank and of financial institutions that we acquire;
- the institution and outcome of, and costs associated with, litigation and other legal proceedings against one or more of the Company, the Bank and financial institutions that we acquire or to which any of such entities is subject;
- the occurrence of market conditions adversely affecting the financial industry generally;
- the impact of recent and future legislative regulatory changes, including changes in banking, securities, and tax laws and regulations and their application by the Company's regulators, and changes in federal government policies, as well as regulatory requirements applicable to, and resulting from regulatory supervision of, the Company and the Bank as a financial institution with total assets greater than $10 billion;

- changes in accounting policies, practices, principles and guidelines, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and the Public Company Accounting Oversight Board, as the case may be;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC insurance and other coverage;
- the effects of war or other conflicts, including, but not limited to, the current conflicts between Russia and the Ukraine and Israel and Hamas, acts of terrorism (including cyber attacks) or other catastrophic events, including natural disasters such as storms, droughts, tornadoes, hurricanes and flooding, that may affect general economic conditions;
- our actual cost savings resulting from previous or future acquisitions are less than expected, we are unable to realize those cost savings as soon as expected, or we incur additional or unexpected costs;
- our revenues after previous or future acquisitions are less than expected;
- the liquidity of, and changes in the amounts and sources of liquidity available to us, including before and after the acquisition of any financial institutions that we acquire;
- deposit attrition, operating costs, customer loss and business disruption during the normal course of business, and before and after any completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;
- the effects of the combination of the operations of financial institutions that we have acquired in the recent past or may acquire in the future with our operations and the operations of the Bank, the effects of the integration of such operations being unsuccessful, and the effects of such integration being more difficult, time consuming, or costly than expected or not yielding the cost savings we expect;
- the impact of investments that the Company may have made or may make and the changes in the value of those investments;
- the quality of the assets of financial institutions and companies that we have acquired in the recent past or may acquire in the future being different than we determined or determine in our due diligence investigation in connection with the acquisition of such financial institutions and any inadequacy of credit loss reserves relating to, and exposure to unrecoverable losses on, loans acquired;
- our ability to continue to identify acquisition targets and successfully acquire desirable financial institutions to sustain our growth, to expand our presence in our markets and to enter new markets;
- changes in general business and economic conditions in the markets in which we currently operate and may operate in the future;
- changes occur in business conditions and inflation generally;
- an increase in the rate of personal or commercial customers' bankruptcies generally;
- technology-related changes are harder to make or are more expensive than expected;
- physical or cyber attacks on the security of, and breaches of, the Company's digital information systems, the costs we or the Bank incur to provide security against such attacks and any costs and liability the Company or the Bank incurs in connection with any breach of those systems;
- the potential impact of technology and "FinTech" entities on the banking industry generally;
- the potential impact of climate change and related government regulation on the Company and its customers;

- the possibility that the Company's pending merger with SSB does not close when expected or at all because required regulatory shareholder or other approvals and other or conditions to closing are not received or satisfied on a timely basis or at all (and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of such merger);
- the risk that the benefits from the merger with SSB may not be fully realized or may take longer to realize than expected;
- the risk of disruption to the Company's business as a result of the announcement and pendency of the merger with SSB;
- the possibility that the merger with SSB may be more expensive to complete than anticipated, including as a result of unexpected factors or events;
- other economic, competitive, governmental, regulatory, technological and geopolitical factors affecting the Company's operations, pricing and services; and
- the other factors that are described or referenced in Part I, Item 1A, of the Company's Annual Report on Form 10-K filed with the SEC on February 20, 2024, and Part I, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, in each case under the caption "Risk Factors."

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating all such forward-looking statements made by us. As a result of these and other matters, including changes in facts and assumptions not being realized or other factors, the actual results relating to the subject matter of any forward-looking statement may differ materially from the anticipated results expressed or implied in that forward-looking statement. Any forward-looking statement made in this filing or made by us in any report, prospectus, document or information incorporated by reference in this filing, speaks only as of the date on which it is made. The Company undertakes no obligation to update any such forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Company believes that these assumptions or bases have been chosen in good faith and that they are reasonable. However, the Company cautions you that assumptions as to future occurrences or results almost always vary from actual future occurrences or results, and the differences between assumptions and actual occurrences and results can be material. Therefore, the Company cautions you not to place undue reliance on the forward-looking statements contained in this filing or incorporated by reference herein.

Overview

This Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations analyzes the major elements of the Company's financial condition and results of operation as reflected in the interim consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q. This section should be read in conjunction with the Company's interim consolidated financial statements and accompanying notes included elsewhere in this report and with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2023.

The Company was organized as a bank holding company in 2002 and, since that time, has pursued a strategy to create long-term shareholder value through organic growth of our community banking franchise in our market areas and through selective acquisitions of complementary banking institutions with operations in the Company's market areas or in new market areas. On April 8, 2013, the Company consummated the initial public offering, or IPO, of its common stock which is traded on the Nasdaq Global Select Market.

As of June 30, 2024 September 30, 2024, the Company operated 92 full service banking locations in north, central and southeast Texas regions, and along the Colorado Front Range region, with 61 Texas locations and 31 Colorado locations.

The Company's headquarters are located at 7777 Henneman Way, McKinney, Texas 75070 and its telephone number is (972) 562-9004. The Company's website address is www.ifinancial.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's principal business is lending to and accepting deposits from businesses, professionals and individuals. The Company conducts all of the Company's banking operations through its principal bank subsidiary. The Company derives its income principally from interest earned on loans and, to a lesser extent, income from securities available for sale and securities held to maturity. The Company also derives income from noninterest sources, such as fees received in connection with various deposit services, mortgage banking operations and investment advisory services. From time to time, the Company also realizes gains or losses on the sale of assets. The Company's principal expenses include interest expense on interest-bearing customer deposits, advances from the Federal Home Loan Bank of Dallas (FHLB) and other borrowings, operating expenses such as salaries and employee benefits, occupancy costs, communication and technology costs, expenses associated with other real estate owned, other administrative expenses, amortization of intangibles, provisions for credit losses and the Company's assessment for FDIC deposit insurance.

Recent Developments

Pending Acquisition

As described in Note 1. Summary of Significant Accounting Policies and Note 12. Business Combination in the Company's consolidated financial statements included elsewhere in this report, the Company and SSB have entered into a definitive agreement, dated May 17, 2024, providing that, among other things and on the terms and subject to the conditions set forth therein, SSB will acquire the Company in an all-stock transaction by means of a merger of the Company with and into SSB with SSB surviving the merger. The Company's shareholders will receive 0.60 shares of SSB's common stock for each share of Company common stock based on a fixed exchange ratio. The merger has been approved by the Boards of Directors and shareholders of both companies and is expected to close during the first quarter of 2025, although delays may occur. The transaction is subject to certain conditions, including the approval by shareholders of the Company, SSB and customary regulatory approvals. Merger expenses of approximately $2.3 million $460 thousand and $2.8 million have been incurred for the three and six nine months ended June 30, 2024. September 30, 2024, respectively. Additional merger expenses are expected to be incurred for the remainder of 2024.

Goodwill Impairment Charge

As described in Note 1. Summary of Significant Accounting Policies, as a result of entering into a merger agreement with SSB and due to the Company's stock price trading below book value, through June 30, 2024, the Company recorded a $518.0 million goodwill impairment charge in second quarter 2024, which is included in noninterest expense in the consolidated financial statements. This impairment charge has negatively affected the Company's earnings for the six nine months ended June 30, 2024 September 30, 2024, reducing net income by $516.8 million (after tax) or $12.50 $12.49 per diluted share.

Discussion and Analysis of Results of Operations for the Three and Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023

The following discussion and analysis of the Company's results of operations compares the operations for the three and six nine months ended June 30, 2024 September 30, 2024 with the three and six nine months ended June 30, 2023 September 30, 2023. The results of operations for the three and six nine months ended June 30, 2024 September 30, 2024 are not necessarily indicative of the results of operations that may be expected for all of the year ending December 31, 2024.

Results of Operations

For the three months ended June 30, 2024 September 30, 2024, the Company had a net loss income of $493.5 million $20.4 million ($(11.93) 0.49 per common share on a diluted basis) compared with net income of $33.1 million $32.8 million ($0.80 0.79 per common share on a diluted basis) for the three months ended June 30, 2023 September 30, 2023. The Company posted annualized returns on average equity of (87.53)% 4.24% and 5.62% 5.51%, returns on average assets of (10.55)% 0.44% and 0.71% 0.70% and efficiency ratios of 509.32% 72.32% and 64.68% 63.75% for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which excludes the provision for credit losses and the amortization of other intangible assets) by net interest income plus noninterest income.

For the six nine months ended June 30, 2024 September 30, 2024, net loss was $469.3 million $448.9 million ($(11.35) (10.85) per common share on a diluted basis) compared with net loss income of $4.4 million $28.3 million ($(0.11) 0.69 per common share on a diluted basis) for the six nine months ended June 30, 2023 September 30, 2023. The Company posted annualized returns on average equity of (40.45) (27.34)% and (0.38)% 1.60%, returns on average assets of (5.00) (3.21)% and (0.05)% 0.21% and efficiency ratios of 293.99% 218.83% and 100.18% 88.75% for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

Net Interest Income

The Company's net interest income is its interest income, net of interest expenses. Changes in the balances of the Company's interest-earning assets and its interest-bearing liabilities, as well as changes in the market interest rates, affect the Company's net interest income. The difference between the Company's average yield on earning assets and its average rate paid for interest-bearing liabilities is its net interest spread. Noninterest-bearing sources of funds, such as demand deposits and stockholders' equity, also support the Company's earning assets. The impact of the noninterest-bearing sources of funds is reflected in the Company's net interest margin, which is calculated as annualized net interest income divided by average earning assets.

Net interest income was $105.1 million $106.8 million for the three months ended June 30, 2024 September 30, 2024, a decrease of $8.5 million $2.2 million, or 7.4% 2.0%, from $113.6 million $109.0 million for the three months ended June 30, 2023 September 30, 2023. The decrease in net interest income was primarily due to the increased funding costs on our deposit products including brokered deposits due to the rising interest rate environment during 2023 offset to a lesser extent by increased earnings on average loan balances. Average interest-earning assets increased $298.6 million $349.9 million or 1.8% 2.1%, to $17.1 billion $17.0 billion for the three months ended June 30, 2024 September 30, 2024 compared to $16.8 billion $16.7 billion for the three months ended June 30, 2023 September 30, 2023. The increase is primarily due to higher average loan balances, which increased approximately $608.0 million $369.4 million, due to organic growth primarily occurring during the second half of 2023 as well as an increase in interest-bearing cash balances of $88.3 million offset by decreases a decrease in average securities of $97.9 million and interest-bearing cash balances of $211.5 million $107.8 million. The yield on average interest-earning assets increased 48 34 basis points from 5.14% 5.31% for the three months ended June 30, 2023 September 30, 2023 to 5.62% 5.65% for the three months ended June 30, 2024 September 30, 2024. The increase in asset yield from the prior year is primarily a result of increases in the benchmark rates over the last year. The average cost of interest-bearing liabilities increased 79 44 basis points to 4.16% for the three months ended June 30, 2024 September 30, 2024 compared to 3.37% 3.72% for the three months ended June 30, 2023 September 30, 2023. The increase is reflective of higher funding costs, primarily on deposit products as a result of Fed Funds rate increases in 2023, offset by decreased costs on FHLB advances, primarily due to lower holdings based on liquidity needs resulting in a shift in funding sources for the year-over-year period. Also contributing was the shift from non-interest bearing deposits into interest-bearing products during the year over year period as well as an increase in higher cost brokered deposits. year-over-year period.The aforementioned changes resulted in an 24 a 10 basis point decrease in the net interest margin for the three months ended June 30, 2024 September 30, 2024 at 2.47% 2.50% compared to 2.71% 2.60% for the three months ended June 30, 2023 September 30, 2023.

Net interest income was $208.2 million $315.0 million for the six nine months ended June 30, 2024 September 30, 2024, a decrease of $33.4 million $35.6 million, or 13.8% 10.1%, from $241.5 million $350.6 million for the six nine months ended June 30, 2023 September 30, 2023. The decrease was primarily driven by the increased funding costs on our deposit products as a result of the multiple Fed rate increases in 2023 offset to a lesser extent by increased earnings on interest-earning assets, primarily average loans. Average interest-earning assets increased $515.2 million $455.8 million or 3.1% 2.7%, to $17.1 billion for the six nine months ended June 30, 2024 September 30, 2024 compared to $16.6 billion for the six nine months ended June 30, 2023 September 30, 2023. The increase was driven by increases in average loan balances of $644.7 million $552.1 million due to organic growth offset by decreased occurring in the second half of 2023 as well as an increase in average interest-bearing cash balances of $30.9 million and $5.3 million offset by a decrease in average securities balances of $98.6 million $101.6 million. The average yield on interest-earning assets increased 52 46 basis points from 5.06% 5.14% for the six nine months ended June 30, 2023 September 30, 2023 to 5.58% 5.60% for the six nine months ended June 30, 2024 September 30, 2024 while the average rate paid on interest-bearing liabilities increased 112 88 basis points from 3.02% 3.26% for the six nine months ended June 30, 2023 September 30, 2023 to 4.14% for the six nine months ended June 30, 2024 September 30, 2024. The net interest margin for the six nine months ended June 30, 2024 September 30, 2024 decreased 49 35 basis points to 2.45% 2.47% compared to 2.94% 2.82% for the six nine months ended June 30, 2023 September 30, 2023 due primarily to increased funding costs on deposits resulting from Fed rate increases during 2023 offset as well as shift from lower rate short-term borrowings to a lesser extent higher rate long-term borrowings, offset by higher earnings on loans due to organic growth occurring in the last half of 2023.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

		Three Months Ended June 30,							Three Months Ended September 30,		
		2024			2024			2023			2024
(dollars in thousands)	*(dollars in thousands)*	Average Outstanding Balance	Interest	Yield/ Rate (4)	Average Outstanding Balance	Interest	Yield/ Rate (4)	*(dollars in thousands)*	Average Outstanding Balance	Interest	Yield/ Rate (4)
Interest-earning assets:											
Loans (1)											
Loans (1)											
Loans (1)		$14,635,773	$ $219,291	6.03 6.03 %	$14,027,773	$ $193,612	5.54 5.54 %		$14,487,650	$ $221,169	6.07 6.07

Taxable securities																					
Nontaxable securities																					
Interest-bearing deposits and other																					
Total interest-earning assets																					
Noninterest-earning assets																					
Total assets																					
Total assets																					
Total assets																					
Interest-bearing liabilities:																					
Interest-bearing liabilities:																					
Interest-bearing liabilities:																					
Checking accounts																					
Checking accounts																					
Checking accounts	$	5,446,233	$	$	49,661	3.67	3.67	%	$	5,646,603	$	$	41,943	2.98	2.98	%	$	5,490,570	$	$	51,584	3.74	3.74
Savings accounts																					
Money market accounts																					
Certificates of deposit																					
Total deposits																					
FHLB advances																					
Other borrowings - short-term																					
Other borrowings - long-term																					
Junior subordinated debentures																					
Total interest-bearing liabilities																					
Noninterest-bearing demand accounts																					
Noninterest-bearing liabilities																					
Noninterest-bearing liabilities																					

Noninterest-bearing liabilities			
Stockholders’ equity			
Stockholders’ equity			
Stockholders’ equity			
Total liabilities and equity			
Total liabilities and equity			
Total liabilities and equity			
Net interest income			
Net interest income			
Net interest income			
Interest rate spread			
Interest rate spread			
Interest rate spread	1.46 %	1.77 %	
Net interest margin (2)			
Net interest income and margin (tax equivalent basis) (3)			
Average interest-earning assets to interest-bearing liabilities			

	Six Months Ended June 30,										
	Six Months Ended June 30,										
	Six Months Ended June 30,										
	Nine Months Ended September 30,										
	Nine Months Ended September 30,										
	Nine Months Ended September 30,										
		2024			2024			2023		2024	
(dollars in thousands)	*(dollars in thousands)*	Average Outstanding Balance	Interest	Yield/ Rate (4)	Average Outstanding Balance	Interest	Yield/ Rate (4)	*(dollars in thousands)*	Average Outstanding Balance	Interest	Yield/ Rate (4)
Interest-earning assets:											
Loans (1)											
Loans (1)											
Loans (1)		$14,624,693	$ $434,802	5.98 5.98 %	$13,980,015	$ $377,906	5.45 5.45 %		$14,578,678	$ $655,971	6.01 6.01
Taxable securities											
Nontaxable securities											

Interest-bearing deposits and other												
Total interest-earning assets												
Noninterest-earning assets												
Total assets												
Total assets												
Total assets												
Interest-bearing liabilities:												
Interest-bearing liabilities:												
Interest-bearing liabilities:												
Checking accounts												
Checking accounts												
Checking accounts	$ 5,497,080	$ $ 99,560	3.64	3.64 %	$ 5,958,145	$ $ 80,836	2.74	2.74 %	$ 5,494,894	$ $151,144	3.67	3.67
Savings accounts												
Money market accounts												
Certificates of deposit												
Total deposits												
FHLB advances												
Other borrowings - short-term												
Other borrowings - long-term												
Junior subordinated debentures												
Total interest-bearing liabilities												
Noninterest-bearing demand accounts												
Noninterest-bearing liabilities												
Noninterest-bearing liabilities												
Noninterest-bearing liabilities												
Stockholders' equity												
Stockholders' equity												

Stockholders’ equity				
Total liabilities and equity				
Total liabilities and equity				
Total liabilities and equity				
Net interest income				
Net interest income				
Net interest income				
Interest rate spread				
Interest rate spread				
Interest rate spread	1.44	%	2.04	%
Net interest margin (2)				
Net interest income and margin (tax equivalent basis) (3)				
Average interest-earning assets to interest-bearing liabilities				

(1) Average loan balances include nonaccrual loans.

(2) Net interest margins for the periods presented represent: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

(3) A tax-equivalent adjustment has been computed using a federal income tax rate of 21%.

(4) Yield and rates for the three and six nine month periods are annualized.

Provision for Credit Losses

The measurement of expected credit losses under the Current Expected Credit Losses (CECL) methodology is applicable to financial assets measured at amortized cost. Provision for credit losses is determined by management as the amount to be added (subtracted) to the allowance for credit loss accounts for various types of financial instruments including loans, held to maturity debt securities and off-balance sheet credit exposure, after net charge-offs have been deducted, to bring the allowance to a level deemed appropriate by management to absorb expected credit losses over the lives of the respective financial instruments. Management actively monitors the Company’s asset quality and provides appropriate provisions based on such factors as historical loss experience, current conditions and reasonable and supportable forecasts.

Financial instruments 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 determination.

The following table presents the components of provision for credit losses:

	Three Months Ended June 30,		Six Months Ended June 30,						
	Three Months Ended September 30,		Nine Months Ended September 30,						
	2024	2024	2023	2024	2023	2024	2023	2024	2023
Provision for credit losses related to:									
Loans									
Loans									
Loans									

Held to maturity securities	
Off-balance sheet credit exposures	
Total provision for credit losses	

Provision expense (reversal) for loans is generally reflective of organic loan growth or decline as well as charge-offs or specific reserves taken during the respective period. Provision expense (reversal) is also impacted by the economic outlook and changes in macroeconomic variables. The provision expense for the three and nine months ended June 30, 2024 September 30, 2024 was due to an increase in total credit allocations on evaluated loans during the quarter. The provision reversal recorded for the six months ended June 30, 2024 primarily reflects decreases in the loan portfolio and to a lessor extent, an improved economic forecast. The provision expense recorded for the three months ended June 30, 2023 primarily relates to loan growth, while the provision reversal recorded for the six months ended June 30, 2023 was primarily reflective of improvements in risk rated loans and the economic outlook over the period as well as changes within the loan pool mix.

As fully discussed in Note 3. Securities, the majority of securities in the held to maturity portfolio are guaranteed and highly rated by bond rating services. Therefore, there was no provision for credit losses on held to maturity securities recorded during the respective periods.

Changes in the allowance for unfunded commitments are generally driven by the remaining unfunded amount and the expected utilization rate of a given loan segment.

Noninterest Income

The following table sets forth the major components of noninterest income for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023 and the period-over-period variations in such categories of noninterest income:

	Three Months Ended June 30, Three Months Ended June 30, Three Months Ended June 30,		Variance	Six Months Ended June 30,		Variance			
	Three Months Ended September 30, Three Months Ended September 30, Three Months Ended September 30,		Variance	Nine Months Ended September 30,		Variance			
(dollars in thousands)	*(dollars in thousands)* 2024	2023	2024 v. 2023	2024	2023	2024 v. 2023	*(dollars in thousands)* 2024	2023	
Noninterest Income									
Service charges on deposit accounts									
Service charges on deposit accounts									

Service charges on deposit accounts		$ 3,586	$	$ 3,519	$	$ 67	1.9	1.9 %	$ 7,186	$	$ 6,868	$	$ 318	4.6	4.6 %		$ 3,617	$
Investment management fees																		
Mortgage banking revenue																		
Mortgage warehouse purchase program fees																		
(Loss) gain on sale of loans	(Loss) gain on sale of loans	—	(7)	(7)	7	7	N/M	N/M	74	(7)	(7)	81	81	N/M			N/M	
Gain on sale of other real estate																		
Gain on sale of other real estate																		
Gain on sale of other real estate		—	—	—	—	—	N/M	N/M	13	—	—	13	13	N/M			N/M	
(Loss) gain on sale and disposal of premises and equipment																		
(Loss) gain on sale and disposal of premises and equipment																		
(Loss) gain on sale and disposal of premises and equipment		(11)	354	354	(365)	(365)	N/M	N/M	(11)	401	401	(412)	(412)	N/M			N/M	
Increase in cash surrender value of BOLI																		
Other																		
Total noninterest income	Total noninterest income	$ 13,433	$	$ 14,095	$	$ (662)	(4.7)	(4.7)%	$ 26,303	$	$ 26,849	$	$ (546)	(2.0)	(2.0)%	Total noninterest income	$ 13,461	$

N/M - not meaningful

Total noninterest income decreased $662 $185 thousand, or 4.7% 1.4% and $546 $731 thousand, or 2.0% 1.8% for the three and six nine months ended June 30, 2024 September 30, 2024 over same periods in 2023, respectively. Significant changes in the components of noninterest income are discussed below.

Investment management fees. Investment management fees increased $369 $295 thousand, or 15.1% 11.9% and $712 thousand, $1.0 million, or 15.0% 14.0% for the three and six nine months ended June 30, 2024 September 30, 2024 as compared to the same periods in 2023, respectively. The increases were due to higher managed asset balances due to improvement in the market conditions over the year.

Mortgage banking revenue. Mortgage banking revenue decreased $708 $92 thousand, or 31.5% 5.2% and $697 $789 thousand, or 18.0% 14.0% for the three and six nine months ended June 30, 2024 September 30, 2024 as compared to the same periods in 2023, respectively. The decreases were primarily due to lower volumes and margins resulting from higher interest rates for the year over year year-over-year period.

Other noninterest income. Other noninterest income decreased $314 $740 thousand, or 8.7% 19.1% and $1.2 million $2.0 million, or 16.9% 17.7% for the three and six nine months ended June 30, 2024 September 30, 2024 as compared to the same periods in 2023, respectively. Other noninterest income was higher lower for the three and six nine months ended June 30, 2023 September 30, 2024 due to increases decreases in various types of miscellaneous income. In addition, the six nine month period ended June 30, 2023 September 30, 2023 also reflects a $318 thousand BOLI benefit claim that occurred in early 2023.

Noninterest Expense

The following table sets forth the major components of noninterest expense for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023 and the period-over-period variations in such categories of noninterest expense:

Three Months Ended June 30,													
Three Months Ended June 30,													
Three Months Ended June 30,				Variance		Six Months Ended June 30,			Variance				
Three Months Ended September 30,													
Three Months Ended September 30,													
Three Months Ended September 30,				Variance		Nine Months Ended September 30,			Variance				
(dollars in thousands)	*(dollars in thousands)*	2024	2023	2024 v. 2023		2024	2023		2024 v. 2023			*(dollars in thousands)*	2024
Noninterest Expense													
Salaries and employee benefits													
Salaries and employee benefits													
Salaries and employee benefits		$ 49,060	$ $ 46,940	$ $ 2,120	4.5	4.5 %	$ 96,393	$	$ 93,215	$	$	3,178	3.4
Occupancy													
Communications and technology													
FDIC assessment													
Advertising and public relations													
Other real estate owned (income) expenses, net		(37)	(185)	148		N/M	28		(229)			257	
Other real estate owned expenses (income), net		141	(253)	394		N/M	169		(482)			651	
Impairment of other real estate	Impairment of other real estate	—	1,000	1,000	(1,000)	(1,000)	N/M	N/M	345	2,200	2,200	(1,855)	(1
Amortization of other intangible assets													
Litigation settlement	Litigation settlement	—	—	—	—	—	N/M	N/M	—	102,500	102,500	(102,500)	(102

Professional fees														
Acquisition expense, including legal	Acquisition expense, including legal	2,338	—	—	2,338	2,338	N/M	N/M	2,338	—	—	2,338		2
Goodwill impairment	Goodwill impairment	518,000	—	—	518,000	518,000	N/M	N/M	518,000	—	—	518,000		518
Other														
Total noninterest expense	Total noninterest expense	$606,911	$	$85,705	$	$521,206	608.1	608.1 %	$695,384	$	$275,085	$	$ 420,299	152.8

N/M - not meaningful

Noninterest expense increased $521.2 million $8.6 million, or 608.1% 10.5% and increased $420.3 million $428.9 million, or 152.8% 120.3% for the three and six nine months ended June 30, 2024 September 30, 2024, as compared to the same periods in 2023, respectively. The significant change in the components of noninterest expense is discussed below.

Salaries and employee benefits. Salaries and employee benefits increased $2.1 million $6.4 million, or 4.5% 14.7% and $3.2 million $9.6 million, or 3.4% 7.0% for the three and six nine months ended June 30, 2024 September 30, 2024 compared to the same periods in 2023, respectively. The increase for the three and six nine month period was primarily due to $2.9 million $5.1 million and $3.6 million $7.7 million, respectively in higher combined incentive and equity award expense and decreases of $774 thousand and $1.3 million in deferred salaries and bonus expenses compared contra expense due to lower loan originations over the prior year periods, respectively, periods. The nine month period also reflected higher salaries expense of $1.1 million offset by $386 thousand and $946 $703 thousand in lower contract labor costs, respectively. The three month period in the current year also reflects $670 thousand lower employee insurance costs compared to the same period in the prior year.

FDIC assessment. Communications and technology. FDIC assessment decreased Communications and technology increased $1.0 million, or 26.0% 14.8% and increased $2.4 million $2.1 million, or 37.4% 9.9% for the three and six nine months ended June 30, 2024 September 30, 2024 compared to the same periods in 2023, respectively. The decrease increase was primarily due to software cost increases among various technology and information security vendors.

FDIC assessment. FDIC assessment increased $543 thousand, or 14.9% and increased $3.0 million, or 29.3% for the three month period was due primarily to a $645 thousand reduction and nine months ended September 30, 2024 compared to the same periods in 2023, respectively. The increase for the three and nine months reflects overall increases in the assessment rates, including the impact from the Company's current year loss position, while the year-over-year change was also impacted by a $1.2 million special assessment accrual in first quarter 2024 assessed to recover uninsured deposit losses related to 2023 bank failures. The increase for the six month period was due to the additional special assessment of $1.5 million, net of reduction mentioned above, as well as increases in the cumulative quarterly assessments' component rates related to liquidity for the year over year period.

Litigation settlement. Litigation settlement of $102.5 million was recognized in the first quarter 2023 due to the settlement of the ongoing litigation that was acquired by the Company in 2014. Refer to Note 6. Part II. Item 1. Legal Proceedings Off-Balance Sheet Arrangements, Commitments and Contingencies for more information.

Professional fees. Professional fees decreased $484 increased $34 thousand, or 27.1% 2.7% and decreased $1.7 million, or 35.9% 27.9% for the three and six nine months ended June 30, 2024 September 30, 2024 compared to the same periods in 2023, respectively. The decrease for the nine month period was due primarily to lower consulting fees of $230 thousand and $1.1 million, for the respective periods, $1.2 million due to less active projects. Additionally, lower audit and tax fees of $100 thousand and $267 thousand were recorded in the respective periods.

Acquisition expense, including legal. Acquisition expense, including legal was $2.3 million increased $460 thousand and $2.8 million for the three and six nine months ended June 30, 2024 September 30, 2024 compared to zero for the same periods in 2023. 2023, respectively. The increase is related to the pending merger with SSB that was announced in the second quarter 2024.

Goodwill impairment. Goodwill impairment of $518.0 million was recognized in the second quarter 2024 triggered by the Company entering into a merger agreement with SSB as well as the Company's stock price trading below book value, as discussed elsewhere in this report.

Income Tax Expense

Income tax expense was $5.1 million $5.3 million and $11.6 million $16.9 million for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, compared to income tax expense (benefit) of $8.7 million $8.2 million and $(2.6) million $5.7 million for the same periods in 2023, respectively. The effective tax rates were (1.0)% 20.5% and (2.5) (3.9)% for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, compared to 20.8% 20.1% and 36.8% 16.7% for the same periods in 2023, respectively. The effective rates rate for the three and six nine months ended June 30, 2024 are September 30, 2024 was negative primarily due to the goodwill impairment charge, of which $512.4 million is not deductible for tax purposes. The higher lower effective rate for six nine months ended March 31, 2023 September 30, 2023 is due to the Company being in a loss position as a result settlement of litigation expense the Company incurred Stanford litigation in first quarter 2023.

Discussion and Analysis of Financial Condition

The following discussion and analysis summarizes the financial condition of the Company as of June 30, 2024 September 30, 2024 and December 31, 2023 and details certain changes between those periods.

Assets

The Company’s total assets decreased by $675.9 million $452.0 million, or 3.6% 2.4%, to $18.4 billion $18.6 billion as of June 30, 2024 September 30, 2024 from $19.0 billion at December 31, 2023. The decrease is mainly due to a decrease in goodwill as a result of the impairment charge, as well as decreases in loans and available for sale securities and FHLB and other restricted stock during the period. period offset by increases in cash and cash equivalents.

Loan Portfolio

The Company’s loan portfolio is the largest category of the Company’s earning assets. The following table presents the balance and associated percentage of each major category in the Company's loan portfolio as of June 30, 2024 September 30, 2024 and December 31, 2023:

(dollars in thousands)	*(dollars in thousands)*	**June 30, 2024**			**December 31, 2023**			*(dollars in thousands)*	**September 30, 2024**			**December 31, 2023**		
		Amount	**Amount**	**% of Total**		**Amount**	**% of Total**			**Amount**	**% of Total**		**Amount**	**% of Total**
Commercial	Commercial	$ 2,152,792	14.7	14.7 %	$ 2,266,851	15.4	15.4 %	Commercial	$ 2,123,443	14.8	14.8 %	$ 2,266,851	15.4	15.4 %
Mortgage warehouse purchase loans														
Real estate:														
Commercial														
Commercial														
Commercial														
Commercial construction, land and land development														
Residential (1)														
Single-family interim construction														
Agricultural														
Consumer														
Total gross loans	**Total gross loans**	$ 14,633,835	100.0	100.0 %	$ 14,726,962	100.0	100.0 %	**Total gross loans**	$ 14,301,735	100.0	100.0 %	$ 14,726,962	100.0	100.0 %

(1) Includes loans held for sale of $12.0 million $12.8 million and $16.4 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

As of June 30, 2024 September 30, 2024 and December 31, 2023, the Company's loan portfolio, before the allowance for credit losses, totaled $14.6 billion $14.3 billion and $14.7 billion, respectively, which is a decrease of 0.6% 2.9% between the two periods. Loans held for investment, excluding mortgage warehouse purchase loans and loans held for sale, decreased $173.3 million $264.9 million, or 2.5% annualized for the six nine month period. See Note 4. Loans, Net and Allowance for Credit Losses on Loans for more details on the Company's loan portfolio.

Commercial real estate (CRE) loans Concentration. The commercial real estate loan portfolio has historically been the Company's largest category of loans, representing 57.5% 58.2% and 56.3% of the total loan portfolio as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively. Non-Owner Occupied CRE represents $6.6 billion $6.5 billion, or 78.7% of total CRE and 45.2% 45.7% of the total loan portfolio, and $6.5 billion, or 78.7% of total CRE and 44.3% of the total portfolio, as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively. The Company expects that commercial real estate loans will continue to be a significant portion of the Company's total loan portfolio.

Commercial real estate loans are subject to a varying degree of risk associated with changing general economic conditions. The Company employs heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support commercial real estate lending.

Despite the Company's concentration in CRE, the properties securing this portfolio are diversified in terms of type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. As a matter of policy, the CRE portfolio is subject to risk exposure limits by individual asset classes as well as geographic collateral locations outside of our market areas. We regularly identify and assess concentration levels through ongoing reporting to our Board of Directors as well as committees at both the Board and Management levels. Credit underwriting standards are periodically reviewed and adjusted based upon observations from our ongoing monitoring of economic conditions in major real estate markets in which we lend. In response to the current dynamic interest rate environment and 2023 increases in the benchmark rates that determine loan pricing, the Company has enhanced its stress testing and loan review activities to mitigate interest rate reset risk with a specific emphasis on borrowers' abilities to absorb the impact of higher interest loan rates.

The following table summarizes CRE concentration by property type and owner occupied and non-owner occupied as a percentage of total commercial real estate loans as of June 30, 2024 September 30, 2024 and December 31, 2023:

(dollars in thousands)	*(dollars in thousands)*	**CRE Concentration by Property Type**			**Percentage of Total CRE Concentration**		*(dollars in thousands)*	**CRE Concentration by Property Type**			**Percentage of Total CRE Concentration**	
June 30, 2024		**Amount**		**Percent of Total**	**Owner Occupied**	**Non-Owner Occupied**						
September 30, 2024		**Amount**		**Percent of Total**	**Owner Occupied**	**Non-Owner Occupied**						
Retail	Retail	$2,494,754	29.7	29.7 %	1.7 %	28.0 %	Retail	$2,464,789	29.7	29.7 %	1.7 %	
Office and Office Warehouse												
Multifamily												
Industrial												
Healthcare												
Hotel/Motel												
Convenience Store												
Daycare/School												
Restaurant												
RV & Mobile Home Parks												
Church												
Mini Storage												
Dealerships												
Mixed Use (Non-Retail)												
Miscellaneous												

Total commercial real estate loans	**Total commercial real estate loans**	$8,406,528	100.0	100.0 %	21.3 %	78.7 %	**Total commercial real estate loans**	$8,311,344	100.0	100.0 %	21.3 %		

December 31, 2023

December 31, 2023

December 31, 2023

Retail														
Retail														
Retail														
Retail														
Retail														
Retail														
Retail														
Retail														
Retail	$2,522,945	30.4	30.4 %	1.6 %	28.8 %	$ 2,522,945	30.4	30.4	%	1.6	%	28.8		
Office and Office Warehouse														
Multifamily														
Industrial														
Healthcare														
Hotel/Motel														
Convenience Store														
Daycare/School														
Restaurant														
RV & Mobile Home Parks														
Church														
Mini Storage														
Dealerships														
Mixed Use (Non-Retail)														
Miscellaneous														
Total commercial real estate loans	**Total commercial real estate loans**	$8,289,124	100.0	100.0 %	21.3 %	78.7 %	**Total commercial real estate loans**	$8,289,124	100.0	100.0 %	21.3 %			

The following table summarizes the CRE concentration by geographic region in which the loans were originated as a percentage of total commercial real estate loans as of June 30, 2024 September 30, 2024 and December 31, 2023:

(dollars in thousands)	*(dollars in thousands)* June 30, 2024				**December 31, 2023**				*(dollars in thousands)* **September 30, 2024**				**December 31, 2023**	
Geographic Region														
North Texas														
North Texas														
North Texas	$1,832,887	21.8	21.8 %	$1,841,683	22.2	22.2 %	$ 1,818,398	21.9	21.9	%	$1,841,683	22		
Central Texas														
Houston														

Colorado Front Range													
Total commercial real estate loans	**Total commercial real estate loans**	$8,406,528	100.0	100.0 %	$8,289,124	100.0	100.0 %	**Total commercial real estate loans**	$8,311,344	100.0	100.0 %	$8,289,124	

Additional information related to the granularity in the commercial real estate portfolio is presented in the table below as of June 30, 2024 September 30, 2024 and December 31, 2023:

		June 30, 2024		**December 31, 2023**		
		September 30, 2024		**December 31, 2023**		
Average loan amount						
Average loan amount						
Average loan amount		$2.0 million	$1.9 million		$2.0 million	$1.9 million
Number of loans > $5 million	Number of loans > $5 million	409	395	Number of loans > $5 million	403	395
Largest loan in the portfolio	Largest loan in the portfolio	$37.9 million	$33.1 million	Largest loan in the portfolio	$37.8 million	$33.1 million

Asset Quality

Nonperforming Assets. The Company has established procedures to assist the Company in maintaining the overall quality of the Company’s loan portfolio. In addition, the Company has adopted underwriting guidelines to be followed by the Company’s lending officers and require significant senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, the Company rigorously monitors the levels of such delinquencies for any negative or adverse trends. The Company’s loan review procedures include approval of lending policies and underwriting guidelines by the Company’s board of directors, ongoing risk-based independent internal and external loan reviews, approval of large credit relationships by the Bank’s Executive Loan Committee and loan quality documentation procedures. The Company, like other financial institutions, is subject to the risk that its loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The Company classifies nonperforming assets and nonperforming loans, including nonaccrual loans and loans past due 90 days or more and still accruing interest, as well as other real estate owned and other repossessed assets. Further information regarding the Company's accounting policies related to past due loans, nonaccrual loans, collateral dependent loans and loan modifications to borrowers experiencing financial difficulty is presented in Note 4. Loans, Net and Allowance for Credit Losses on Loans.

The following table sets forth the allocation of the Company’s nonperforming assets among the Company’s different asset categories and key credit-related metrics as of the dates indicated. The balances of nonperforming loans reflect the net investment in these assets.

(dollars in thousands)	***(dollars in thousands)***	**June 30, 2024**	**December 31, 2023**	***(dollars in thousands)***	**September 30, 2024**	**December 31, 2023**
Nonaccrual loans						
Commercial						
Commercial						
Commercial						
Commercial real estate						
Commercial construction, land and land development						
Residential real estate						
Single-family interim construction						
Agricultural						
Agricultural						
Agricultural						
Consumer						
Total nonaccrual loans						
Total loans delinquent 90 days or more and still accruing						
Total nonperforming loans						
Total other real estate owned and other repossessed assets						
Total nonperforming assets						
Total allowance for credit losses on loans						

Total allowance for credit losses on loans				
Total allowance for credit losses on loans				
Total loans held for investment (1)				
Total assets				
Credit Ratios				
Credit Ratios				
Credit Ratios				
Ratio of nonperforming loans to total loans held for investment				
Ratio of nonperforming loans to total loans held for investment				
Ratio of nonperforming loans to total loans held for investment	0.40 %	0.37 %	0.43 %	0.37 %
Ratio of nonperforming assets to total assets				
Ratio of nonaccrual loans to total loans held for investment				
Ratio of allowance for credit losses on loans to total loans held for investment				
Ratio of allowance for credit losses on loans to nonaccrual loans				
Ratio of allowance for credit losses on loans to total nonperforming loans				

(1) Excluding mortgage warehouse purchase loans of $633.7 million $392.7 million and $549.7 million and loans held for sale of $12.0 million $12.8 million and $16.4 million as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

Nonaccrual loans increased to $55.1 million $55.9 million as of June 30, 2024 September 30, 2024 from $50.3 million as of December 31, 2023. The increase in nonaccrual loans was primarily due to the addition of a commercial loan relationships relationship totaling $2.0 million, a and two commercial real estate loan loans totaling $1.5 million and a residential real estate loan of $844 thousand. $4.3 million offset by paydowns on various loans.

Other real estate owned and other repossessed assets decreased from $9.6 million as of December 31, 2023 to $8.8 million as of June 30, 2024 September 30, 2024 due to the sale of an $805 thousand other real estate property during the period.

Allowance for Credit Losses

The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, held to maturity debt securities and off-balance sheet credit exposures. The CECL model requires the measurement of all expected credit losses on applicable financial assets based on historical experience, current conditions, and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance accounts is dependent upon a variety of factors beyond the Company's control, including the performance of the portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. For additional information regarding our accounting policies related to credit losses, refer to Note 4. Loans, Net and Allowance for Credit Losses on Loans in the accompanying notes to consolidated financial statements included elsewhere in this report.

The economy and other risk factors are minimized by the Company's underwriting standards which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable.

Analysis of the Allowance for Credit Losses - Loans

The following table sets forth the allowance for credit losses by category of loans:

		June 30, 2024		**December 31, 2023**						
		September 30, 2024		**December 31, 2023**						
(dollars in thousands)	***(dollars in thousands)***	**Amount**	**% of Total Loans(1)**	**Amount**	**% of Total Loans(1)**	***(dollars in thousands)***	**Amount**	**% of Total Loans(1)**	**Amount**	**% of Total Lo**

Commercial loans	Commercial loans	$ 35,165	14.7	14.7 %	$ 34,793	15.4	15.4 %	Commercial loans	$ 34,778	14.8	14.8 %	$ 34,793	15.4
Mortgage warehouse purchase loans													
Real estate:													
Commercial real estate													
Commercial real estate													
Commercial real estate													
Construction, land and land development													
Residential real estate													
Single-family interim construction													
Agricultural													
Consumer													
Total allowance for credit losses	**Total allowance for credit losses**	$145,323	100.0	100.0 %	$151,861	100.0	100.0 %	**Total allowance for credit losses**	$150,285	100.0	100.0 %	$151,861	100.0

(1) Represents the percentage of the Company's total loans included in each loan category.

As of June 30, 2024 September 30, 2024, the allowance for credit losses on loans amounted to $145.3 million $150.3 million, or 1.04% 1.08%, of total loans held for investment, excluding mortgage warehouse purchase loans, compared with $151.9 million, or 1.07%, as of December 31, 2023.

As of June 30, 2024 September 30, 2024, the Company had specific credit loss allocations of $15.7 million $20.3 million on individually evaluated loans totaling $51.8 million $53.8 million, compared with specific credit loss allocations of $15.2 million on individually evaluated loans totaling $47.3 million as of December 31, 2023. The majority of the increase in individually evaluated loans and specific credit loss allocations was due to the addition additions of a commercial loan relationship totaling $2.0 million with a specific credit loss allocation of $559 thousand and two commercial real estate loans totaling $2.0 million and $4.3 million with specific credit allocations of $466 thousand. In addition, there was an increase of $4.3 million in specific credit losses on a residential real estate existing individually evaluated commercial loan totaling $844 thousand. relationship.

The factors driving significant changes in credit loss allocations by segment for the six nine months ended June 30, 2024 September 30, 2024 are discussed below.

The allowance allocated to commercial loans totaled $34.8 million, or 1.6% of total commercial loans as of September 30, 2024, compared to $34.8 million, or 1.5% of commercial loans as of December 31, 2023. Modeled expected credit losses decreased $4.8 million due to changes in the economic forecast, specifically the improvement to the national housing price index (HPI). Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis increased $4.8 million from $11.7 million at December 31, 2023 to $16.5 million at September 30, 2024 due primarily to the increase in specific allocations on the commercial relationship discussed above.

The allowance allocated to commercial real estate loans totaled $64.2 million $69.6 million, or 0.8% of total commercial real estate loans as of June 30, 2024 September 30, 2024, compared to $60.1 million, or 0.7% of commercial real estate loans as of December 31, 2023. The allowance for credit losses increased $4.1 million $9.5 million, or 6.9% 15.9% over the year. Modeled expected credit losses increased $2.6 million, $40 thousand, while qualitative factors and other qualitative adjustments increased $1.8 million $9.3 million. The increase in modeled losses was primarily driven by changes to the commercial real estate (CRE) Index and the increase in loans within this portfolio segment. The increase in qualitative factors was due to elevated risk-grade credits and past due trends. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis decreased $243 increased $224 thousand from $3.6 million at December 31, 2023 to $3.3 million $3.8 million at June 30, 2024 September 30, 2024.

The allowance allocated to construction, land and land development loans totaled $24.7 million $22.4 million, or 2.2% 2.0% of total construction, land and land development loans as of June 30, 2024 September 30, 2024, compared to $31.5 million, or 2.6% of construction, land and land development loans as of December 31, 2023. The allowance for credit losses decreased $6.8 million $9.1 million, or 21.5% 29.0% for the period. Modeled expected credit losses decreased $12.9 million $12.6 million, while qualitative adjustments increased $6.2 million $3.4 million. The decrease in modeled losses was a result of improvements in the national housing price index (HPI) used in along with an upward adjustment to the calculation income index and downward adjustment to the 3-Month T-Bill in addition to the decrease in loan balances in this portfolio segment. The increase in qualitative factors was primarily due to adding a qualitative factor, in second quarter, that utilizes a more severe HPI forecast to more accurately reflect the economic conditions that management is currently seeing in and forecasting for the Company's footprint, and to a lessor extent due to an increase in risk level and elevated past due loans in the segment.

There were no specific allocations for construction, land and land development loans that were evaluated for expected credit losses on a individual basis at December 31, 2023 or June 30, 2024 September 30, 2024.

The allowance allocated to residential real estate loans totaled $10.9 million, or 0.6% of total residential real estate loans as of September 30, 2024, compared to $6.9 million, or 0.4% of residential real estate loans as of December 31, 2023. The allowance for credit losses increased $4.0 million, or 57.9% for the period. Modeled expected credit losses increased $1.1 million while qualitative factors related to residential real estate loans increased $2.9 million. The increase in modeled losses was primarily related to changes in the economic forecast. The increase in qualitative factors was due primarily to an increase in risk level and elevated past due loans in the segment. There were no specific allocations for residential real estate loans that were evaluated for expected credit losses on a individual basis at December 31, 2023 or September 30, 2024.

The allowance allocated to single-family interim construction loans totaled $12.7 million $11.6 million, or 3.0% 2.7% of total single-family interim construction loans as of June 30, 2024 September 30, 2024, compared to $17.4 million, or 3.4% of single-family interim construction loans as of December 31, 2023. The allowance for credit losses decreased $4.7 million $5.8 million, or 27.1% 33.5% for the period due to decreased modeled expected credit losses of $6.5 million $7.1 million offset by a $1.8 million $1.3 million increase in qualitative factors. The decrease in modeled losses was primarily related to improvements in the housing price index used in the calculation in addition to the decrease in loan balances in this portfolio segment. The increase in qualitative factors was primarily due to management's assessment of housing prices in the Company's market area as described above but also due to an elevated level of past due loans in the segment. There were no specific allocations for single-family interim construction loans that were evaluated for expected credit losses on an individual basis at December 31, 2023 or June 30, 2024 September 30, 2024.

Refer to Note 4. Loans, Net and Allowance for Credit Losses on Loans, in the notes to the consolidated financial statements included elsewhere in this report for additional details of the allowance for credit losses on loans.

Additional information related to net charge-offs (recoveries) by loan type is presented in the table below for the six nine months ended June 30, 2024 September 30, 2024 and 2023:

(dollars in thousands)	*(dollars in thousands)*	**Net Charge-offs (Recoveries)**	**Average Loans**		**Ratio of Annualized Net Charge-offs (Recoveries) to Average Loans**	*(dollars in thousands)*	**Net Charge-offs (Recoveries)**	**Average Loans**		**Ratio of Annualized Net Charge-offs (Recoveries) to Average Loans**
June 30, 2024										
September 30, 2024										
Commercial										
Commercial										
Commercial		$ 1,114	$ $ 2,211,178	0.10	0.10	%	$ 1,073	$ $2,189,498	0.07	0.07 %
Mortgage warehouse purchase loans										
Real estate:										
Commercial										
Commercial										
Commercial										
Commercial construction, land and land development										
Residential										
Single-family interim construction										
Agricultural										
Consumer										
Total	**Total**	$ 3,698	$ $14,624,693	0.05	0.05	%	**Total** $3,589 $	$14,578,678	0.03	0.03 %
June 30, 2023										
June 30, 2023										
June 30, 2023										
September 30, 2023										

September 30, 2023											
September 30, 2023											
Commercial											
Commercial											
Commercial		$ (784)	$	$ 2,209,556	(0.07)	(0.07) %	$ (328)	$	$2,205,811	(0.02)	(0.02) %
Mortgage warehouse purchase loans											
Real estate:											
Commercial											
Commercial											
Commercial											
Commercial construction, land and land development											
Residential											
Single-family interim construction											
Agricultural											
Consumer											
Total	**Total**	$ 330	$	$13,980,015	—	— %	**Total** $ 767	$	$14,026,604	0.01	0.01 %

For the six nine months ended June 30, 2024 September 30, 2024, net charge-offs totaled $3.7 million $3.6 million, which is 0.05% 0.03% (annualized) of the Company's average loans outstanding during the period, compared to net charge-offs of $330 $767 thousand, or 0.00% 0.01% (annualized) of average loans for the six nine months ended June 30, 2023 September 30, 2023. The majority of the 2024 charge-offs were due to a single-family interim construction loan relationship that was partially charged down $2.6 million during foreclosure and subsequently sold during the second quarter. Additionally, one commercial loan relationship totaling $906 thousand was charged-off during the period.

Allowance for Credit Losses - Off-Balance Sheet Credit Exposures

The allowance for credit losses on off-balance sheet credit exposures is calculated under the CECL model, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit detailed in Note 6. Off-Balance Sheet Arrangements, Commitments and Contingencies. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur based on historical utilization rates. At June 30, 2024 September 30, 2024 and December 31, 2023, the allowance for credit losses on off-balance sheet credit exposures was $3.5 million $3.4 million and $3.9 million, respectively.

Cash and Cash Equivalents

Cash and cash equivalents increased by $626.1 million, or 86.7% to $1.3 billion at September 30, 2024 from $722.0 million at December 31, 2023. Cash and cash equivalent balances can vary due to cash needs and volatility of commercial accounts. In addition, the increase in balances as of September 30, 2024 is primarily due to an increased liquidity position due to lower loan demand during the period.

Securities

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit, interest rate and duration risk. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. Refer to Note 3. Securities for more details on the Company's security portfolio.

The fair value of the Company's available for sale securities decreased $99.3 million $83.2 million, or 6.2% 5.2%, to $1.5 billion at June 30, 2024 September 30, 2024 from $1.6 billion at December 31, 2023. The decrease was primarily due to net paydowns, maturities and calls during the year but also due offset by a decrease of $45.2 million in part to increased total unrealized losses during the six month period. due to improvement in market conditions. The amortized cost of held to maturity securities decreased $913 thousand, $1.4 million, or 0.4% 0.7%, to $204.3 million $203.9 million as of June 30, 2024 September 30, 2024 from $205.2 million as of December 31, 2023.

Total securities represented 9.3% 9.2% and 9.5% of the Company's total assets at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

There were no sales of securities during the three and six nine months ended June 30, 2024 September 30, 2024 and June 30, 2023 September 30, 2023.

Certain investment securities are valued at less than their amortized cost. At June 30, 2024 September 30, 2024, the Company's review of all securities at an unrealized loss position determined that the losses resulted from factors not related to credit quality. This conclusion is based on the Company's analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors for each security type in the portfolio. The unrealized losses are generally due to increases in market interest rates. Furthermore, the Company has the intent to hold these securities until maturity or a forecasted recovery, and it is more likely than not that the Company will not have to sell the securities before the recovery of their cost basis. The fair value is expected to recover as the securities approach their maturity date. As such, there is no allowance for credit losses on available for sale or held to maturity securities recognized as of June 30, 2024 September 30, 2024. Refer to Note 3. Securities for more information on the Company's analysis of credit losses on securities available for sale and held to maturity.

Federal Home Loan Bank (FHLB) of Dallas and Other Restricted Stock

FHLB and other restricted stock decreased $20.7 million, or 59.2%, to $14.3 million as of June 30, 2024 from $34.9 million as of December 31, 2023. The decrease was due to lower stock holdings resulting from the reduction in FHLB advances during the period.

Goodwill

Goodwill decreased $518.0 million, or 52.1%, to $476.0 million as of June 30, 2024 September 30, 2024 from $994.0 million as of December 31, 2023 due to an impairment charge taken during the second quarter, as discussed elsewhere in this report.

Liabilities

The Company's total liabilities decreased $170.4 million increased minimally by $1.7 million, or 1.0%, to $16.5 billion and totaled $16.6 billion at June 30, 2024 from $16.6 billion as of September 30, 2024 and December 31, 2023 with significant components discussed below.

Deposits

Total deposits increased $119.6 million $272.0 million, or 0.8% 1.7%, to $15.8 billion $16.0 billion as of June 30, 2024 September 30, 2024 to $15.7 billion as of December 31, 2023. A shift from non-interest bearing deposits to interest-bearing deposits continued during the six nine months ended June 30, 2024 September 30, 2024. Brokered deposits remained decreased to $2.2 billion at September 30, 2024 from $2.5 billion at both June 30, 2024 and December 31, 2023. Estimated uninsured deposits, excluding public funds deposits, totaled $4.6 billion $5.0 billion, or 29.0% 31.3% of total deposits as of June 30, 2024 September 30, 2024.

FHLB Advances

FHLB advances decreased $350.0 million, or 100.0%, to zero at June 30, 2024 September 30, 2024 from $350.0 million at December 31, 2023. The decrease was due to an improved liquidity position and replacing short-term FHLB advances with BTFP advances as a lower cost alternative.

Other Borrowings

Other borrowings increased $155.3 million $182.9 million, or 57.1% 67.3%, to $427.1 million $454.8 million at June 30, 2024 September 30, 2024 from $271.8 million at December 31, 2023. The increase is mainly due to the issuance of $175.0 million subordinated debentures (net of $3.8 origination costs) and an advance of $155.0 million in advances from the BTFP as a lower cost alternative to FHLB advances. offset by the redemption of $110.0 million subordinated debentures and repayment of $33.8 million on the Company's unsecured line of credit.

Other Liabilities

Other liabilities decreased $95.5 million $103.4 million, or 41.0% 44.4%, to $137.6 million $129.7 million at June 30, 2024 September 30, 2024 from $233.0 million at December 31, 2023. The decrease is primarily due to payment of the $100.0 million legal settlement during second quarter that was previously accrued at December 31, 2023.

Capital Resources and Liquidity Management

Capital Resources

The Company's stockholders' equity is influenced by the Company's earnings, common stock repurchased by the Company, common stock granted and forfeited, stock based compensation expense, the dividends the Company pays on its common stock, and any changes in other comprehensive income relating to available for sale securities and cash flow hedges.

Total stockholders' equity was $1.9 billion at June 30, 2024 September 30, 2024, a decrease of approximately $505.5 million $453.7 million from December 31, 2023. The net decrease was a result of a net loss of $469.3 million $448.9 million, an increase of $8.9 million in other comprehensive losses dividends paid of $31.5 million $47.3 million and common stock repurchased of $1.1 million $2.9 million offset by a decrease of $37.9 million in other comprehensive losses and stock based compensation of $5.3 million $7.5 million.

Regulatory Capital Requirements

The Company's capital management consists of providing equity to support the Company's current and future operations. The Company is subject to various regulatory capital requirements administered by state and federal banking agencies, including the TDB, Federal Reserve and the FDIC. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial condition and results of operations. Please refer to Note 11. Regulatory Matters, in the notes to the Company's audited consolidated financial statements included elsewhere in this report for additional details.

Liquidity Management

Liquidity refers to the measure of the Company's ability to meet current and future cash flow requirements as they become due, while at the same time meeting the Company's operating, capital and strategic cash flow needs, all at a reasonable cost. The Company's Asset Liability Committee (ALCO) is responsible for the oversight of liquidity. ALCO is a management subcommittee of the Board Risk Oversight Committee. The Company utilizes its Liquidity Risk Management Policy, Contingency Funding Plan (CFP), and Liquidity Risk Management Framework to monitor and manage liquidity risk. The Policy establishes liquidity monitoring ratios and their respective limits. The CFP identifies Key Risk Indicators and defines triggers to determine the level of risk on a sliding scale: Normal, Early Warning, Advanced Warning, and Crisis. The CFP further outlines appropriate action steps to be taken by management to remedy an increase in liquidity risk based on the level of risk determined in the framework. Additionally, the CFP outlines appropriate additional monitoring, reporting, and communication for each level of risk within the framework.

The Company's asset and liability management policy is intended to maintain adequate liquidity and, therefore, enhance the Company's ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements, and otherwise sustain operations. The Company accomplishes this through management of the maturities of its interest-earning assets and interest-bearing liabilities. The Company believes that its present position is adequate to meet the current and future liquidity needs.

The Company continuously monitors its liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of the Company's short-term and long-term cash requirements. The Company manages its liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of the Company's shareholders. The Company also monitors its liquidity requirements in light of interest rate trends, changes in the economy and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

Liquidity risk management is an important element in the Company's asset/liability management process. The Company's liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. The Company's short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of pre-paid and maturing balances in the Company's loan and investment portfolios, debt financing and increases in customer deposits. The Company's liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest-bearing deposits in banks, federal funds sold, securities available for sale and maturing or prepaying balances in the Company's investment and loan portfolios. Liquid liabilities include core deposits, brokered deposits, federal funds purchased and other borrowings. Other sources of liquidity include the sale of loans, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, borrowings through the Federal Reserve's discount window and the Bank Term Funding Program through the program's expiration date and the issuance of equity securities. In addition to the liquidity provided by the sources described above, the Company maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. The Company's $100.0 million line of credit also provides an additional source of liquidity. As of August 5, 2024 October 21, 2024, the Company had no outstanding borrowings against this line of credit. For additional information regarding the Company's operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in the Company's consolidated financial statements.

Deposits represent the Company's primary source of funds. The Company continues to focus on growing core deposits through the Company's relationship driven banking philosophy and community-focused marketing programs. As needed from time to time, the Company may engage in wholesale funding through brokered deposits to enhance its liquidity position. To avoid concentrations with any one broker, brokered deposits can be accessed from a variety of brokers acting as intermediaries, typically larger money-center financial institutions as well as broker networks including Certificate of Deposit Account Registry Service (CDARS), IntraFi Cash Service (ICS) & Total Bank Solutions (TBS) among other sources. During 2023, the Company increased the use of higher-cost brokered deposits to secure additional liquidity due to the competitive deposit environment resulting from the interest rate increases over the year. During the nine months ended September 30, 2024, wholesale brokered funding has decreased as core deposits have stabilized.

The following table summarizes the Company’s short-term borrowing capacities net of balances outstanding as of June 30, 2024 September 30, 2024 (in thousands):

Unsecured fed funds lines available from commercial banks	$	405,000
American Financial Exchange (overnight borrowings)	$	474,000 374,000
Unused borrowing capacity from FHLB	$	5,180,978 4,969,087
Unused borrowing capacity under Fed Discount window	$	1,134,868 1,002,486
Unused portion of line of credit	$	66,250 100,000

In the ordinary course of the Company’s operations, the Company has entered into certain contractual obligations and has made other commitments to make future payments. The Company believes that it will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. The Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs. These include payments related to (a) time deposits with stated maturity dates, (b) short and long term borrowings, (c) operating leases and (d) commitments to extend credit and standby letters of credit.

As discussed in the Company's Annual Report of Form 10-K, the Company had accrued $100.0 million in connection with the settlement of the Stanford lawsuit. The Company paid this obligation in the second quarter 2024. Refer to Part II. Item 1. Legal Proceedings for more information.

On July 31, 2024, In the third quarter 2024, the Company completed the issuance and sale of $175.0 million aggregate principal amount of its 8.375% fixed-to-floating rate subordinated debentures and simultaneously redeemed $110.0 million of its outstanding 5.875% fixed rate subordinated debentures due August 1, 2024. Refer to Note 13. 5. Subsequent Events Federal Home Loan Bank Advances and Other Borrowings for more details.

Other than discussed above and normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2023.

The Company is a corporation separate and apart from the Bank and, therefore, the Company must provide for the Company’s own liquidity. The Company’s main source of funding is dividends declared and paid to the Company by the Bank. Statutory and regulatory limitations exist that affect the ability of the Bank to pay dividends to the Company. Management believes that these limitations will not impact the Company’s ability to meet the Company’s ongoing short-term cash obligations.

Critical Accounting Policies and Estimates

The preparation of the Company’s consolidated financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires the Company to make estimates and judgments that affect the Company’s reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. The Company evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

As described in detail in the notes to the audited consolidated financial statements in the Company’s Annual Report on Form 10-K, accounting policies are an integral part of the Company’s financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company’s reported results of operations and the Company’s financial position. The Company has deemed the accounting policy and estimate discussed below as most critical and require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, which are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company’s financial position, results of operations or liquidity. The Company has other significant accounting policies and continues to evaluate the materiality of their impact on its consolidated financial statements, but management believes these other policies either do not generally require them to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on the Company's reported results for a given period.

Allowance For Credit Losses. Management considers policies related to the allowance for credit losses on financial instruments for loans and off-balance sheet credit exposures to be critical to the financial statements. The Company's policies for the allowance for credit losses are accounted for under ASC 326, *Financial Instruments - Credit Losses.* In accordance with ASC 326, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans are charged against the allowance for credit losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is increased (decreased) by provision expense (reversal) reported in the income statement as a component of provision for credit loss. Under the guidance, the allowance for credit losses on off-balance sheet credit exposures is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit.

The amount of each allowance account represents management's best estimate of current expected credit losses on such financial instruments using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, credit quality, or term as well as for changes in environmental conditions, such as changes in unemployment rates, gross domestic product, property values or other relevant factors. The Company utilizes Moody's Analytics economic forecast scenarios and assigns probability weighting to those scenarios which best reflect management's views on the economic forecast.

The allowance for credit losses for loans is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. For determining the appropriate allowance for credit losses on a collective basis, the loan portfolio is segmented into pools based upon similar risk characteristics and a lifetime loss-rate model is utilized. The measurement of expected credit losses is impacted by loan/borrower attributes and certain macroeconomic variables. Management has determined that they are reasonably able to forecast the macroeconomic variables used in the modeling processes with an acceptable degree of confidence for a total of two years then encompassing a reversion process whereby the forecasted macroeconomic variables are reverted to their historical mean utilizing a rational, systematic basis. Management qualitatively adjusts model results for risk factors that are not considered within the modeling processes but are nonetheless relevant in assessing the expected credit losses within the loan pools. These qualitative factor (Q-Factor) adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk.

Due to the subjective nature of these estimates in general and more so due to the multiple variables used in the calculation, the estimate for determining current expected credit losses is subject to uncertainty. The various components of the calculation require significant management judgement and certain assumptions are highly subjective. Volatility in certain credit metrics and variations between expected and actual outcomes are likely.

Further information regarding Company policies and methodology used to estimate the allowance for credit losses is presented in Note 4. Loans, Net and Allowance for Credit Losses on Loans and Note 6. Off-Balance Sheet Arrangements, Commitments and Contingencies.

Goodwill. The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. The Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing a quantitative impairment test is unnecessary. If the Company concludes otherwise, then it is required to perform an impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. The Company performs its impairment test annually as of December 31, or at an interim date, if a triggering event occurs.

During the six months ended June 30, 2024, first half of 2024, continued market volatility in the banking sector resulted in the Company's stock trading below book value. An assessment performed as of March 31, 2024 indicated the Company's estimated fair value to a market participant exceeded its carrying value resulting in no impairment charge. In second quarter, the stock continued to trade below book value. In addition, entering into a merger agreement with SSB in second quarter 2024 as described in Note 1. Summary of Significant Accounting Policies, further triggered an interim assessment as the terms of the merger indicated an implied consideration less than book value. The Company determined the estimated fair value of the Company was equal to the implied valuation of the transaction based on the conversion ratio to SSB's stock price. As such, an impairment charge of $518.0 million was recorded in second quarter to reduce the Company's carrying value to estimated fair value. The impairment was a non-cash charge to earnings and had no impact to regulatory capital ratios, cash flows, or liquidity position.

During the third quarter 2024, market conditions in the industry stabilized and stock values for both SSB and the Company increased resulting in the Company's implied value, as noted above, exceeding its book value as of September 30, 2024, and indicating no further decline in value that would trigger an interim assessment or additional impairment charge.

Refer to Note 1. Summary of Significant Accounting Policies, in the notes to the Company's consolidated financial statements included elsewhere in this report for additional information.

Determining the fair value of a reporting unit is considered a critical accounting estimate because it requires significant management judgment and the use of subjective measurements. Variability in the market and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on the Company's financial position, liquidity or results of operations.

Recently Issued Accounting Standards

The Company has evaluated new accounting standards that have recently been issued and have determined that there are no new accounting standards that should be described in this section that will materially impact the Company's operations, financial condition or liquidity in future periods.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, commodity prices, and other relevant market rates and prices, such as equity prices. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows, and future earnings. Due to the nature of our operations, we are primarily exposed to interest rate risk.

Asset/Liability Management and Interest Rate Risk

The principal objective of the Company's asset and liability management function is to measure, monitor, and control the interest rate risk within the balance sheet while maximizing net income and preserving adequate levels of liquidity and capital. The Board Risk Oversight Committee has oversight of the asset and liability management function, which is managed by ALCO under the direction of the Company's Treasurer. ALCO, which members include the Treasurer, Chief Financial Officer and other senior management, meets regularly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, as well as local and national market conditions. That management subcommittee also reviews the liquidity, deposit mix, loan mix and investment positions of the Company.

The Company's management and the Board of Directors are responsible for employing risk management policies that monitor and limit the Company's exposure to interest rate risk. Interest rate risk is measured using net interest income simulations, gap analyses and market value of equity analyses. These analyses use various assumptions, including the magnitude and timing of interest rate changes, yield curve shape, prepayments on loans and securities and deposits, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

Instantaneous parallel rate shift scenarios, known as rate shocks, are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin.

The Company also analyzes the economic value of equity as an additional measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to the Company's future earnings and is used in conjunction with the analyses on net interest income. The Company also runs customized scenarios to aid in decision making as well as stress test assumptions to confirm that the outputs are reasonable.

The Company conducts periodic analyses of its sensitivity to interest rate risk through the use of a third-party proprietary interest-rate sensitivity model that is run internally and has been customized to the Company's specifications. The analyses conducted by use of that model are based on current information regarding the Company's actual interest-earnings assets, interest-bearing liabilities, capital and other financial information that it supplies. The Company uses the information in the model to aid in its risk management framework surrounding the net interest margin.

The Company's asset liability management model indicated that it was in a liability sensitive position in terms of its income simulation as of June 30, 2024 September 30, 2024. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income over twelve months based on the interest rate risk model as of June 30, 2024 September 30, 2024:

Hypothetical Shift in Interest Rates (in bps)	Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income	Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	200	(10.49)%	200	(7.44)%
100	100	(4.46)	100	(3.25)
(100)	(100)	3.96	(100)	2.88

The Company's model indicates that its projected balance sheet as of June 30, 2024 September 30, 2024 remains in a liability sensitive position as compared to the December 31, 2023 balance sheet. Loan demand slowed during the period and was funded with growth in traditional core deposit products. Customers continue to seek to capture yields during a time of heightened interest rates which has affected non-maturity deposit product composition. Additionally, growth in time deposits, primarily in 6-to-13-month maturities, have continued to keep term funding levels relatively short. The Company has strategically positioned the duration of its liabilities to remain short in order to maximize its ability to grow net interest income during periods of flat or falling interest rates.

These are good faith estimates and assume that the composition of the Company's interest sensitive assets and liabilities existing at each year-end is held consistent. Additionally, the forecast takes into consideration the future maturities and contractual interest rate repricing over the relevant twelve-month measurement period. Lastly, the model assumes that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. This analysis does not contemplate any actions that the Company might undertake in response to changes in market interest rates. As a result, the Company believes these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, the Company anticipates that future results will likely be different from the foregoing estimates, and such differences could be material.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q was performed under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in internal control over financial reporting. There were no changes in the Company’s internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

In There have been no material developments with respect to the matters identified in Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024.

Otherwise, in the normal course of business, the Company and the Bank are named as defendants in various lawsuits. Management of the Company and the Bank, following consultation with legal counsel, do not expect the ultimate disposition of any, or a combination, of these matters to have a material adverse effect on the continued operations of the Company or the Bank.

The Bank was a party to a legal proceeding inherited in connection with the Company's acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston, or BOH, that was completed on April 15, 2014. Several entities related to R.A. Stanford, or the Stanford Entities, including Stanford International Bank, Ltd., or SIBL, had deposit accounts at BOH. Certain individuals who had purchased certificates of deposit from SIBL filed a class action lawsuit against several banks, including BOH, on August 23, 2009 in Texas state court, alleging, among other things, that the plaintiffs were victims of fraud by SIBL and other Stanford Entities and seeks to recover damages and alleged fraudulent transfers by the defendant banks.

The plaintiffs sought recovery from the Bank and other defendants for their losses. On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint presents previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. The case was then inactive due to a Court-ordered discovery stay issued March 2, 2015 pending the Court’s ruling on plaintiff’s motion for class certificate and designation of class representatives and counsel. On November 7, 2017, the Court issued an order denying the plaintiff’s motion. In addition, the Court lifted the previously ordered discovery stay. On January 11, 2018, the Court entered a scheduling order providing that the case be ready for trial on January 27, 2020. Due to agreed upon extensions of discovery on July 25, 2019, the Court amended the scheduling order to provide that the case be ready for trial on January 11, 2021. In light of additional agreed upon extensions of discovery deadlines, the Court entered a new scheduling order on March 9, 2020, which provided that the case be ready for trial March 15, 2021. In light of delays in discovery associated with the COVID-19 pandemic, the parties agreed to amend the scheduling order with new ready for trial date of May 6, 2021. The Defendants filed a motion to remand the case. The Bank also filed its motion for summary judgment on February 12, 2021. On the same day, the Bank also joined in on an omnibus motion for summary judgment based on procedural issues common to all Defendants. On March 19, 2021, the Plaintiffs filed a notice of abandonment of five of the seven causes of action against the Bank. On March 11, 2021, the Defendants filed a motion to amend the scheduling order, which was granted, effectively vacating the May 6, 2021 trial date. On January 20, 2022 the Court issued an opinion and order denying the motion for summary judgment by the Bank and the other defendants. On the same date, the Court issued a suggestion of remand of the case to the Southern District of Texas. As of March 11, 2022, the case was remanded to the Southern District of Texas. On January 2-3, 2023, the Bank attended court-ordered mediation which did not result in resolution. Trial was scheduled to begin on February 27, 2023.

As disclosed in the Company's Current Report on Form 8-K dated February 27, 2023, the Bank entered into a settlement in principle with the Plaintiffs. A settlement agreement was subsequently executed by the parties on March 7, 2023. Pursuant to the settlement, the parties agreed to settle and dismiss the Stanford litigation for a one-time cash payment of $100 million, and to seek the entry of bar orders from the U.S. District Court for the Northern District of Texas prohibiting any continued or future claims against the Bank and its related parties relating to Stanford, whether asserted to date or not. The settlement and the bar orders were approved by the Court on August 8, 2023. On June 24, 2024, the Bank made a one-time cash payment of $100 million to Ralph S. Janvey, in his capacity as the Court-appointed receiver for the Stanford litigation, and the Bank now considers this matter fully resolved.

The settlement does not include any admission of liability of wrongdoing by the Bank, and the Bank expressly denied any liability or wrongdoing with respect to any matter alleged in the Stanford litigation. The Bank agreed to the settlement to avoid the cost, risks, and distraction of continued litigation. The Company believes the settlement is in the best interests of the Company and its shareholders.

The Bank notified its insurance carriers of the claims made in the Second Amended Complaint. The insurance carriers have initially indicated that the claims are not covered by the policies or that a “loss” has not yet occurred. The Bank pursued insurance coverage as well as reimbursement of defense costs through the initiation of litigation and other means. On November 6, 2018, the Company settled claims under its Financial Institutions Select Policy pursuant to which the Company received payment of an amount which is not material to the operations of the Company. The Company did not settle any claims under its Financial Institution Bond Policy.

In connection with the Merger Agreement, two Complaints have been filed in the Supreme Court of the State of New York as individual actions by purported shareholders of IBG alleging that the Merger Proxy Statement omits or misrepresents certain purportedly material information and that the defendants thereby engaged in negligent misrepresentation and concealment and negligence in violation of New York State common law. The Complaints are captioned *Reinhardt* v. *Independent Bank Group, Inc., et al.*, Case No. 653860/2024 (N.Y. Sup. Ct. July 31, 2024) and *Parshall* v. *Independent Bank Group, Inc., et al.*, Case No. 653891/2024 (N.Y. Sup. Ct. August 1, 2024). The Complaints seek, among other things: to enjoin IBG from taking any steps to consummate the Merger until the purportedly omitted material information is disclosed to IBG shareholders in advance of the shareholder vote to approve the Merger; rescission or damages if the Merger is consummated; costs of the action, including plaintiff’s attorneys’ fees and experts’ fees; and other relief the court may deem just and proper.

IBG believes that the claims are without merit; however, we are unable to predict when the Complaints may be resolved and, given the uncertainty of litigation, the ultimate outcome of, or the range of potential costs or damages arising from, these Complaints. IBG may also be subject to additional filed actions or demands in connection with the Merger. Management of the Company and the Bank do not expect the ultimate disposition of any, or a combination, of the Complaints to be material to the continued operations of IBG or the Bank.

ITEM 1A. RISK FACTORS

In evaluating an investment in the Company's common stock, investors should consider carefully, among other things, the risk factors disclosed below and the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, each of which are incorporated herein by reference, and in the information contained in this Quarterly Report on Form 10-Q and our other reports and registration statements.

Risks Related to the Pending Merger with SSB

The Merger will not be completed unless important conditions are satisfied or waived, including approval by the IBG shareholders and SSB shareholders.

IBG is party to that certain Agreement and Plan of Merger, dated May 17, 2024 (the Merger Agreement), with SSB providing for the Merger of IBG with and into SSB (the Merger) and, following the completion of the Merger, the merger of the Bank with and into SouthState Bank, National Association (SouthState Bank and such merger, the Bank Merger), in each case, on the terms and subject to the conditions set forth therein. Specified conditions set forth in the Merger Agreement must be satisfied or waived to complete the Merger and the Bank Merger. If the conditions are not satisfied or, subject to applicable law, waived, the Merger and the Bank Merger will not occur or will be delayed and IBG may lose some or all of the intended benefits of the merger. The following conditions must be satisfied or waived, if permissible, before IBG and SSB are obligated to complete the Merger:

- approval of the Merger Agreement, including the issuance of shares of SSB common stock in the Merger, by the shareholders of SSB by the requisite SSB vote and approval of the Merger Agreement by the shareholders of IBG by the requisite IBG vote;
- the authorization for listing on the New York Stock Exchange, subject to official notice of issuance, of the shares of SSB common stock that will be issued pursuant to the Merger Agreement;
- the receipt of specified governmental consents and approvals, including from the Federal Reserve Board and the Office of the Comptroller of the Currency (OCC), and termination or expiration of all applicable waiting periods in respect thereof, in each case without the imposition of any materially burdensome regulatory condition;
- the effectiveness of the registration statement on Form S-4 relating to the shares of SSB common stock that will be issued pursuant to the Merger Agreement, and the absence of any stop order suspending the effectiveness of the registration statement or proceedings for such purpose initiated or threatened by the SEC and not withdrawn;
- no order, injunction or decree issued by any court or governmental entity of competent jurisdiction or other legal restraint or prohibition preventing the completion of the Merger or the Bank Merger being in effect, and no law, statute, rule, regulation, order, injunction or decree having been enacted, entered, promulgated or enforced by any governmental entity which prohibits or makes illegal the completion of the Merger or the Bank Merger;
- the accuracy of the representations and warranties of SSB and IBG contained in the Merger Agreement, generally as of the date on which the Merger Agreement was entered into and as of the closing date, subject to the materiality standards provided in the Merger Agreement (and the receipt by each party of a certificate dated as of the closing date and signed on behalf of the other party by the chief executive officer or the chief financial officer to such effect);

- the performance in all material respects by each of SSB and IBG of their respective obligations, covenants and agreements under the Merger Agreement (and the receipt by each party of a certificate dated as of the closing date and signed on behalf of the other party by its chief executive officer or chief financial officer to such effect); and
- receipt by each of SSB and IBG of an opinion of legal counsel to the effect that on the basis of facts, representations and assumptions set forth or referred to in such opinion, the Merger will qualify as a “reorganization” within the meaning of Section 368(a) of Internal Revenue Code of 1986, as amended.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the surviving corporation following the Merger.

Before the Merger and the Bank Merger may be completed, various approvals, consents and non-objections must be obtained from regulatory authorities in the United States. In determining whether to grant these approvals, the regulators consider a variety of factors, including the regulatory standing of each party. These approvals could be delayed or not obtained at all, including due to: an adverse development in either party’s regulatory standing, or any other factors considered by regulators in granting such approvals; governmental, political or community group inquiries, investigations or opposition; or changes in legislation or the political environment, including as a result of changes in regulatory agency leadership.

The approvals that are granted may impose terms and conditions, limitations, obligations or costs, or place restrictions on the conduct of the combined company’s business or require changes to the terms of the transactions contemplated by the Merger Agreement. There can be no assurance that regulators will not impose any such conditions, limitations, obligations or restrictions and that such conditions, limitations, obligations or restrictions will not have the effect of delaying the completion of any of the transactions contemplated by the Merger Agreement, imposing additional material costs on or materially limiting the revenues of the combined company following the Merger or otherwise reduce the anticipated benefits of the Merger if the Merger were consummated successfully within the expected time frame. In addition, there can be no assurance that any such conditions, limitations, obligations or restrictions will not result in the delay or abandonment of the Merger. Additionally, the completion of the Merger is conditioned on the absence of certain orders, injunctions or decrees by any court or governmental entity of competent jurisdiction that would prohibit or make illegal the completion of the Merger or Bank Merger.

Despite the parties’ commitments to use their reasonable best efforts to resolve any objection that may be asserted by any governmental entity with respect to the Merger Agreement, under the terms of the Merger Agreement, neither SSB nor IBG is required to take any action or agree to any condition or restriction in connection with obtaining these approvals that would reasonably be expected to have a material adverse effect on the surviving corporation and its subsidiaries, taken as a whole, after giving effect to the Merger (measured on a scale relative only to the size of IBG and its subsidiaries, taken as a whole, without SSB and its subsidiaries).

Termination of the Merger Agreement could negatively affect IBG.

If the Merger is not completed for any reason, including as a result of IBG or SSB shareholders failing to approve the transaction, there may be various adverse consequences and IBG may experience negative reactions from the financial markets and from its customers and employees. For example, IBG's businesses may have been affected adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the Merger. Additionally, if the Merger Agreement is terminated, the market price of IBG common stock could decline to the extent that the current market prices reflect a market assumption that the Merger will be completed. If the Merger Agreement is terminated under certain circumstances, IBG may be required to pay a termination fee of $60,915,000 to SSB.

Additionally, IBG has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement, as well as the costs and expenses of filing, printing and mailing a joint proxy statement/prospectus to IBG shareholders. If the Merger is not completed, IBG would have to pay these expenses without realizing the expected benefits of the Merger.

IBG will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on IBG. These uncertainties may impair IBG's ability to attract, retain and motivate key personnel until the Merger is completed, and could cause customers and others that deal with IBG to seek to change existing business relationships with IBG. In addition, subject to certain exceptions, IBG has agreed to operate its businesses in the ordinary course consistent with past practice in all material respects prior to closing, and has agreed not to take certain actions, which could cause it to be unable to pursue other beneficial opportunities that may arise prior to the completion of the Merger.

We are subject to shareholder litigation relating to the Merger and may be subject to additional shareholder litigation relating to the Merger. An unfavorable judgment or ruling in any such lawsuit could prevent or delay the consummation of the Merger and/or result in substantial costs.

In connection with the Merger Agreement, two complaints have been filed in the Supreme Court of the State of New York as individual actions by purported shareholders of IBG. The complaints are captioned *Reinhardt v. Independent Bank Group, Inc*., *et al.*, Case No. 653860/2024 (N.Y. Sup. Ct. July 31, 2024), and *Parshall v. Independent Bank Group, Inc., et al.,* Case No. 653891/2024 (N.Y. Sup. Ct. August 1, 2024) (which we refer to as the “Complaints”).

The Complaints allege that the definitive proxy statement filed by IBG with the U.S. Securities and Exchange Commission on July 16, 2024 (which we refer to as the “Merger Proxy Statement”) omits or misrepresents certain purportedly material information and that the defendants thereby engaged in negligent misrepresentation and concealment and negligence in violation of New York State common law. The Complaints seek, among other things: to enjoin IBG from taking any steps to consummate the Merger until the purportedly omitted material information is disclosed to IBG shareholders in advance of the shareholder vote to approve the Merger; rescission or damages if the Merger is consummated; costs of the action, including plaintiff’s attorneys’ fees and experts’ fees; and other relief the court may deem just and proper. In addition to the Complaints, IBG has received demand letters from purported shareholders alleging similar deficiencies regarding the disclosures made in the Merger Proxy Statement and, among other things, violations of the federal securities laws as a result thereof (we refer to such demands, together with the Complaints, as the “Matters”).

IBG believes that the Matters are without merit. However, IBG cannot provide assurance regarding the outcomes of the Matters and may be subject to additional demands or filed actions. If additional similar complaints or demands are filed or sent, absent new or significantly different allegations, IBG will not necessarily disclose such additional complaints or demands. IBG will incur costs in connection with the defense or settlement of any shareholder lawsuits filed in connection with the Merger. Such litigation could have an adverse effect on the financial condition and results of operations of the Company and could prevent or delay the completion of the Merger.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share Repurchase Program. From time to time, the Company's Board of Directors has authorized stock repurchase programs, which allow the Company to purchase its common stock in the open market or in privately negotiated transactions. In general, the share repurchase program allows the Company to proactively manage its capital position and return excess capital to shareholders. There is no share repurchase program active for 2024.

The following table summarizes the Company's repurchase activity during the three and six nine months ended June 30, 2024September 30, 2024:

	Total Number of Shares Purchased (1)	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan (thousands)	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan (thousands)
Total first quarter 2024									
Total first quarter 2024									
Total first quarter 2024									
April 2024									
May 2024									
June 2024									
Total second quarter 2024									
Total second quarter 2024									
Total second quarter 2024									
July 2024									
August 2024									
September 2024									
Total third quarter 2024									
Total 2024 year-to-date									
Total 2024 year-to-date									
Total 2024 year-to-date									
Total 2024 year-to-date									

(1) All 24,766 57,855 shares purchased to settle employee tax withholding related to vesting of restricted stock awards. These transactions are not considered part of the Company's repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None of the Company’s directors or officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company’s fiscal quarter ended June 30, 2024 September 30, 2024.

ITEM 6. EXHIBITS

The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

Exhibit 2.1 4.1	Agreement and Plan of Merger Subordinated Debt Indenture, dated as of May 17, 2024 June 25, 2014, by and between Independent Bank Group, Inc. and SouthState Corporation Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 2.1 4.6 to the Company's Amendment No. 1 to Registration Statement on Form S-3 (Registration No. 333-196627) as filed with the Commission on June 25, 2014)
Exhibit 4.2	Fourth Supplemental Indenture, dated as of July 31, 2024, between Independent Bank Group, Inc. and Computershare Trust Company, National Association, as successor in interest to Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 20, 2024 July 29, 2024)
Exhibit 4.3	. Form of 8.375% Fixed-to-Floating Rate Subordinated Notes due 2034 (included in Exhibit 4.2) (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K dated July 29, 2024)
Exhibit 10.1	SouthState Support Eighth Amendment to Credit Agreement dated as of May 17, 2024, by and between Independent Bank Group, Inc. and each director of SouthState Corporation US Bank National Association dated July 22, 2024, including the revised Credit Agreement as Exhibit A thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 20, 2024 July 19, 2024)
Exhibit 10.2	. Underwriting Agreement, dated as of July 29, 2024, by and among Independent Bank Group, Inc., Keefe, Bruyette & Woods, Inc. and U.S. Bancorp Investments, Inc. (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K dated July 29, 2024)
Exhibit 31.1*	Chief Executive Officer Section 302 Certification
Exhibit 31.2*	Chief Financial Officer Section 302 Certification
Exhibit 32.1**	Chief Executive Officer Section 906 Certification
Exhibit 32.2**	Chief Financial Officer Section 906 Certification
Exhibit 101.INS *	XBRL Instance Document-the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH *	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB *	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	Cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 September 30, 2024 is formatted as Inline XBRL and contained within Inline XBRL Instance Document in Exhibit 101.

* Filed herewith.

** Furnished herewith (such certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference)

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.

Independent Bank Group, Inc.

Date: August 6, October 22, 2024 **By: /s/ David R. Brooks**

David R. Brooks
Chairman and Chief Executive Officer

Date: August 6, October 22, 2024 **By: /s/ Paul B. Langdale**

Paul B. Langdale
Executive Vice President
Chief Financial Officer

Exhibit 31.1

I, David R. Brooks, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Independent Bank Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information related 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, October 22, 2024

/s/ David R. Brooks

David R. Brooks
Chairman and Chief Executive Officer

Exhibit 31.2

I, Paul B. Langdale, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Independent Bank Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information related 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

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

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

Date: August 6, October 22, 2024

/s/ Paul B. Langdale

Paul B. Langdale
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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 Independent Bank Group, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2024 September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Brooks, Chairman and Chief Executive Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of August 6, 2024 October 22, 2024.

/s/ David R. Brooks

David R. Brooks
Chairman and Chief Executive Officer

Exhibit 32.2

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 Independent Bank Group, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2024 September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul B. Langdale, Executive Vice President and Chief Financial Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of August 6, 2024 October 22, 2024.

/s/ Paul B. Langdale

Paul B. Langdale

Executive Vice President and Chief Financial Officer

DISCLAIMER

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