

## Risk Factors Comparison 2024-02-26 to 2023-02-23 Form: 10-K

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

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results and other forward- looking statements that we make from time to time in our news releases, annual reports and other written communications, as well as oral forward- looking statements, and other statements made from time to time by our representatives.

**Risks Related to Our Business Interest Rate Risk** We are subject to interest rate risk. Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income we earn as a result of interest paid to us on loans and investments and interest we pay to third- parties such as our depositors and those from which we borrow funds. Like most financial institutions, we are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, (iii) the average duration of our securities portfolio, and (iv) the slope of the overall yield curve and its impact on the value of the investment portfolio and reinvestment income. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and investments, our net interest income, and earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and investments fall more quickly than the interest rates paid on deposits and other borrowings. The Federal Reserve **Board** increased rates 200 basis points through mid- 2019 and as a response to the ongoing COVID pandemic decreased rates 75 basis points during the third and fourth quarters of 2019 and then an additional 150 basis points in the first quarter of 2020, resulting in a target rate range of zero to 25 basis points throughout the remainder of 2020 and 2021. The Federal Reserve Board began increasing interest rates by raising ~~rate rates~~ 25 basis points in March 2022, 50 basis points in May 2022, **and 75 basis points** in June, July, September and November 2022, respectively, **and 50 basis points** in December 2022, **and 25 basis points in February, March, May, and July 2023, respectively,** resulting in a target **rate** range of **4.5**. 25 % to **4.5**. 50 % at December 31, 2022. ~~Most recently, on February 1, 2023, the Federal Reserve Board increased rates another 25 basis points resulting in a current target rate of 4.50 % to 4.75 %.~~ Today, there continues to be uncertainty regarding future interest rates. Increases in interest rates can have negative impacts on our business, including reducing our customers' desire to borrow money from us or adversely affecting their ability to repay their outstanding loans by increasing their debt obligations through the periodic reset of adjustable interest rate loans. If our borrowers' ability to pay their loans is impaired by increasing interest payment obligations, our level of non- performing assets would increase, producing an adverse effect on operating results. Asset values, especially commercial real estate as collateral, securities or other fixed rate earning assets, can decline significantly with relatively minor changes in interest rates. Conversely, decreases in interest rates can affect the amount of interest we earn on our loans and investment securities, which could have a material adverse effect on the Company' s financial condition and results of operations. Although we have implemented strategies that we believe reduce the potential effects of adverse changes in interest rates on our results of operations, these strategies may not always be successful. Any of these events could adversely affect our results of operations, financial condition and liquidity.

~~We may be adversely impacted by the transition from London interbank offered rate ("LIBOR") as a reference rate. The United Kingdom's Financial Conduct Authority and the administrator of LIBOR have announced that the publication of the most commonly used U. S. dollar LIBOR settings will cease to be published or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be published as of December 31, 2021. Given consumer protection, litigation, and reputational risks, the bank regulatory agencies indicated that entering new contracts that use LIBOR as a reference rate after December 31, 2021, could create safety and soundness risks and that they would examine bank practices accordingly. The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace U. S. dollar LIBOR with a benchmark rate based on the Secured Overnight Financing Rate ("SOFR") for contracts governed by U. S. law that have no or ineffective fallbacks, and in December 2022, the Federal Reserve Board adopted related implementing rules. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved or that the use, level, and volatility of LIBOR or other interest rates or the value of LIBOR- based securities will not be adversely affected. As a result, and despite the enactment of the LIBOR Act, for the most commonly used LIBOR settings, the use or selection of a successor rate could expose us to risks associated with disputes and litigation with our customers and counterparties and other market participants in connection with implementing LIBOR fallback provisions. We discontinued originating LIBOR- based loans effective December 31, 2021 and are now negotiating loans using our preferred replacement indexes, AMERIBOR, a benchmark developed by the American Financial Exchange, as well as SOFR, a benchmark that is based on transactions from the Treasury repurchase market and Wall Street Journal Prime. At December 31, 2022, we have 13 loans totaling \$ 47. 16 million that have adjustable rates indexed to LIBOR. We continue to work with those customers, the Main Street lending program sponsored by the Federal Reserve and / or the originating bank for loan participations purchased to revise those documents to address the applicable index.~~ Credit Risk In our business, we must effectively manage our credit risk. As a lender, we are exposed to the risk that our borrowers may not repay their loans according to the terms of these loans and the collateral securing the payment of these loans may be inadequately documented or may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs to dispose of the collateral. We may experience significant loan losses,

which could have a material adverse effect on our operating results and financial condition. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the diversification by industry of our commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume, growth and composition of our loan portfolio, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers and the evaluation of our loan portfolio through our internal loan review process and other relevant factors. We maintain an allowance for credit losses, which is an allowance established through a provision for credit losses charged to expense that represents management's best estimate of probable losses inherent in our loan portfolio. Additional credit losses will occur in the future and may occur at a rate greater than we have experienced to date. In determining the amount of the allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Material additions to the allowance could materially decrease our net income. In addition, banking regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further charge-offs, based on judgments different than those of our management. Any increase in our allowance for credit losses or charge-offs as required by these regulatory agencies could have a material negative effect on our operating results and financial condition. We are subject to environmental liability risk associated with lending activities. A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. To remediate these risks, often we will obtain a phase 1 and if deemed necessary, a phase 2 inspection report to evaluate potential environmental risks before making loans secured by real property and before considering foreclosing on these assets. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition and results of operations. The value of real estate collateral may fluctuate significantly resulting in an under-collateralized loan portfolio. The market value of real estate, particularly real estate held-for-investment ("HFI"), can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. This could have a material adverse effect on our provision for credit losses and our operating results and financial condition.

**Liquidity Risk** We are subject to liquidity risk. The Company requires liquidity to meet our deposit and other obligations as they come due. The Company's access to funding sources in amounts adequate to finance its activities or on reasonable terms could be impaired by factors that affect it specifically or the financial services industry or the general economy. Factors that could reduce its access to liquidity sources include a downturn in the Texas market, difficult credit markets, depreciation in investment security values, or adverse regulatory actions against the Company. The Company's access to deposits may also be affected by the liquidity needs of its depositors. In particular, a substantial majority of the Company's liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of its assets are loans, which cannot be called or sold in the same time frame. The Company may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of its depositors sought to withdraw their accounts, regardless of the reason.

**On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down operations. On March 10, 2023, Silicon Valley Bank, Santa Clara, California, was closed by the California Department of Financial Protection and Innovation (the "DFPI"), on March 12, 2023, Signature Bank, New York, New York, was closed by the New York State Department of Financial Services and on May 1, 2023, First Republic Bank, San Francisco, California, was closed by the DFPI, and in each case the FDIC was appointed receiver for the failed institution. These banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failure failures led to maintain adequate volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions. These events have led to a greater focus by institutions, investors and regulators on the on-balance sheet liquidity could have of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. If we are unable to adequately manage our liquidity, we may experience a material adverse effect on our the Company's business, financial condition and results of operations. We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest-earning assets. While we emphasize the generation of low-cost core deposits as a source of funding, there is strong competition for such deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk / return tradeoff. Accordingly, as a part of our liquidity management, we must use a number of funding sources in addition to deposits and repayments and maturities of loans and investments, which may include Federal Home Loan Bank of Dallas advances, federal funds purchased and brokered certificates of deposit. Adverse operating results or**

changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, pay our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations. A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, certain additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Our financial flexibility would be severely constrained if we were unable to maintain our access to funding or if adequate financing were not available at acceptable interest rates. Further, if we were required to rely more heavily on more expensive funding sources to support liquidity, our revenues may not increase proportionately to cover our increased costs. In this case, our operating margins and profitability would be adversely affected. If alternative funding sources were no longer available to us, we may need to sell a portion of our investment and / or loan portfolio to raise funds, which, depending upon market conditions, could result in us realizing a loss on the sale of operations such assets. As of December 31, 2023, we had a net unrealized loss of \$ 403.30 million on our available for- sale investment securities portfolio as a result of the rising interest rate environment. Our investment securities totaled \$ 4.73 billion, or 36.11 % of total assets, at December 31, 2023. The details of this portfolio are included in Note 2 to the consolidated financial statements.

**Operational Risk** Our accounting estimates and risk management processes rely on analytical and forecasting models. The processes we use to estimate our allowance for credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates depends upon the use of analytical and forecasting models, including various inputs and assumptions (collectively, the "models"). In addition, these models are used to calculate the fair value of our assets and liabilities when we acquire other financial institutions. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset- liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our current expected credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge- offs. If the models we use to measure the fair value of financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations. The value of our goodwill and other intangible assets may decline in the future. As of December 31, 2022-2023, we had \$ 315-314.53-62 million of goodwill and other intangible assets. A significant decline in our financial condition, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write- down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations. Breakdowns in our internal controls and procedures could have an adverse effect on us. We believe our internal control system as currently documented and functioning is adequate to provide reasonable assurance over our internal controls. Nevertheless, because of the inherent limitation in administering a cost effective control system, misstatements due to error or fraud may occur and not be detected. Breakdowns in our internal controls and procedures could occur in the future, and any such breakdowns could have an adverse effect on us. See "Item 9A – Controls and Procedures" for additional information. New lines of business or new products and services may subject the Company to additional risks. From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and / or products and services, the Company may invest significant time and resources. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. If we are unable to successfully manage these risks in the development and implementation of new lines of business or new products or services, it could have a material adverse effect on the Company's business, financial condition and result of operations. First Financial Bankshares, Inc. relies on dividends from its subsidiaries for most of its revenue. First Financial Bankshares, Inc. is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's common stock to shareholders and interest and principal on First Financial Bankshares, Inc. debt (to the extent we have balances outstanding). Various federal and / or state laws and regulations limit the amount of dividends that our bank and trust subsidiaries may pay to First Financial Bankshares, Inc. In the event our subsidiaries are unable to pay dividends to First Financial Bankshares, Inc., the Company may not be able to service debt, if any, or pay dividends on the Company's common stock. The inability to receive dividends from our subsidiaries could have a material adverse effect on the Company's business, financial condition, results of operations and liquidity. Hurricanes, extended drought conditions, severe weather and natural disasters could significantly impact the Company's business. Hurricanes, extended drought conditions, severe weather and natural disasters and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of the collateral securing our loans, cause significant property damage, result in loss of revenue and / or cause the Company to incur additional expenses. The occurrence of any such events in the future could have a

material adverse effect on the Company's business, which in turn, could have a material adverse effect on the Company's business, financial condition and result of operations. We rely heavily on our management team, and the unexpected loss of key management or inability to recruit qualified personnel in the future may adversely impact our operations. Our success to date has been strongly influenced by our ability to attract and retain senior management experienced in banking in the markets we serve. Our ability to retain executive officers and the current management teams will continue to be important to the successful implementation of our strategies. We do not have employment agreements with these key employees other than executive agreements in the event of a change of control and a confidential information, non-solicitation and non-competition agreement related to our stock options and restricted stock award, restricted stock unit and performance stock unit grants. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results. In addition, the scope and content of U. S. banking regulators policies on incentive compensation, could adversely affect our ability to hire, retain and motivate our key employees. World events such as the Russia- Ukraine conflict, **the Israel- Palestine conflict** and **the other COVID pandemic world events, including health related events,** may adversely impact our business and our financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted. The Russia- Ukraine conflict, **the Israel- Palestine conflict** and **COVID pandemic other world events, including health- related events,** are creating extensive disruptions in the global economy and to the lives of individuals throughout the world. While the effects of COVID have reduced, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty, employment and labor markets and disrupted trade and supply chains. In addition, financial markets and global supply chains may be adversely affected by the current or anticipated impact of military conflict, including the current Russian invasion of Ukraine, **the Israel- Palestine conflict,** terrorism or other geopolitical events. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10- K could be exacerbated and such effects could have a material adverse impact on us in a number of ways related to credit, collateral, customer demand, funding, operations, interest rate risk, human capital, and self- insurance, as previously described. System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses. The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues, including “hacking” and “identity theft.” Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break- ins, cybersecurity breaches and other disruptive problems caused by the Internet or other users. Such computer break- ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, damage our reputation and inhibit current and potential customers from our Internet banking services. Each year, we add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches including firewalls and penetration testing. We continue to investigate cost effective measures as well as insurance protection. Furthermore, our customers could incorrectly blame the Company and terminate their accounts with the Company for a cyber- incident which occurred on their own system or to an unrelated third- party. In addition, a security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and possible financial liability. ~~Our business may~~ **Disruptions in our information technology systems or a compromise of security with respect to our systems could adversely affect our operating results by limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, or support our customer transactions. We rely on our information technology systems to be able to monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, and support our online banking system. Any disruptions in these systems or the failure of these systems to operate as expected have in the past adversely affected, and could in the future adversely affect, our ability to access and use certain applications and could, depending on the nature and magnitude of the problem, adversely affect our operating results by limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, and service customers. Although such disruptions and failures have not been material to date, we cannot guarantee that they will not be material in the future. In addition, the security measures we employ to protect our systems have in the past not detected or prevented, and may in the future not detect or prevent, all attempts to hack our systems, denial- of- service attacks, viruses, malicious software (malware), employee error or malfeasance, phishing attacks, security breaches at third-, disruptions during the process of upgrading or replacing computer software or hardware or integrating systems of acquired businesses or assets or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by the sites, networks, and systems that we otherwise maintain, which include cloud - based networks and data center storage. We have, from time to time, experienced threats to and breaches of our data and systems, including malware and computer virus attacks. We are continuously developing and enhancing our controls, processes and parties practices designed to protect our systems, computers, software, data and networks from attack, damage, or unauthorized access. Our customers interact with This continued development and enhancement requires us to expend significant resources. However, we may not anticipate or combat all types of future attacks until after they have been launched. If any of these breaches of security occur or are anticipated in their-- the own future, we could be required to expend additional capital and other resources, including costs to deploy additional personnel and protection technologies, train employees and engage third- party experts and consultants. Our response to attacks, and our investments in our technology and our controls, processes, and practices,**

may not be sufficient to shield us from significant losses or liability. Further, given the increasing sophistication of bad actors and complexity of the techniques used to obtain unauthorized access or disable systems, a breach or attack could potentially persist for an extended period of time before being detected. As a result, we may not be able to anticipate the attack or respond adequately or timely, and the extent of a particular incident, and the steps that we may need to take to investigate the incident, may not be immediately clear. It could take a significant amount of time before an investigation can be completed and full, reliable information about the incident becomes known. During an investigation, it is possible we may not necessarily know the extent of the harm or how to remediate it, which pose operational could further adversely impact us, and new regulations could result in us being required to disclose information about a material cybersecurity incident before it has been mitigated or resolved, or even fully investigated. We also face cybersecurity risks due to our reliance on internet technology and hybrid work arrangements, which could strain our technology resources or create additional opportunities for cybercriminals to exploit vulnerabilities. In addition, because our systems contain information about individuals and businesses, our failure to appropriately maintain the security of the data we hold, whether as a result of our own error or the malfeasance or errors could lead to unauthorized release of confidential or otherwise protected information or corruption of data. Our failure to appropriately maintain the security of the data we hold could also violate applicable privacy, data security and other laws and subject us to lawsuits, fines, and other means of regulatory enforcement. ~~We may~~ Any compromise or breach of our systems could result in adverse publicity, harm our reputation, lead to claims against us and affect our relationships with our customers and employees, any of which could have a material adverse effect on our business. Although we maintain insurance coverage for various cybersecurity risks, there can be no guarantee ~~adversely affected by data breaches at retailers and other third- parties who maintain data relating to our customers that~~ all costs involve the theft of customers data, including the theft of customers' debit card, merchant credit card, wire transfer and other identifying and /-or losses incurred will access information used to make purchases or payments at retailers and other third- parties. In the event of a data breach at one or more retailers of considerable magnitude, the Company's business, financial condition and results of operations may be adversely affected **fully insured**. We are subject to claims and litigation pertaining to intellectual property. We rely on technology companies to provide information technology products and services necessary to support our day- to- day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of our vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to us by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages. Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in litigation that could be expensive, time- consuming, disruptive to our operations, and distracting to management. If we are found to infringe on one or more patents or other intellectual property rights, we may be required to pay substantial damages or royalties to a third- party. In certain cases, we may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase our operating expenses. If legal matters related to intellectual property claims were resolved against us or settled, we could be required to make payments in amounts that could have a material adverse effect on our business, financial condition and results of operations. We depend on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions, we must rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of those customers, counterparties or other third- parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations. We do business with other financial institutions that could experience financial difficulty. We do business through the purchase and sale of federal funds, check clearing and through the purchase and sale of loan participations with other financial institutions. Because these financial institutions have many risks, as do we, we could be adversely affected should one of these financial institutions experience significant financial difficulties or fail to comply with our agreements with them. We are subject to possible claims and litigation pertaining to fiduciary responsibility. From time to time, customers could make claims and take legal actions pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal actions related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and / or adversely affect our market perception of our products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. Our operations rely on certain external vendors. We rely on certain external vendors to provide products and services necessary to maintain our day- to- day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted agreements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products or services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business and, in turn, our financial condition and results of operations. Security breaches at certain external vendors may expose our Company's or customers' data, which poses operational, compliance and reputation risks. Certain of our investment advisory and wealth management contracts are subject to termination on short notice, and termination of a significant number of investment advisory contracts could have a material adverse impact on our revenue. Certain of our

investment advisory and wealth management clients can terminate, with little or no notice, their relationships with us, reduce their aggregate assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, inflation, changes in investment preferences of clients, changes in our reputation in the marketplace, change in management or control of clients, loss of key investment management personnel and financial market performance. We cannot be certain that our trust company subsidiary will be able to retain all of its clients. If its clients terminate their investment advisory and wealth management contracts, our trust company subsidiary, and consequently we, could lose a substantial portion of our revenues. The trust wealth management fees we receive may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease our revenues and net earnings. Our trust company subsidiary derives its revenues primarily from investment management fees based on assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, in either relative or absolute terms, market and economic conditions, including changes in oil and gas prices, and competition from investment management companies. Financial markets are affected by many factors, all of which are beyond our control, including general economic conditions, changes in oil and gas prices; securities market conditions; the level and volatility of interest rates and equity prices; competitive conditions; liquidity of global markets; international and regional political conditions; regulatory and legislative developments; monetary and fiscal policy; investor sentiment; availability and cost of capital; technological changes and events; outcome of legal proceedings; changes in currency values; inflation; credit ratings; and the size, volume and timing of transactions. A decline in the fair value of the assets under management, caused by a decline in general economic conditions, would decrease our wealth management fee income. Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management clients. Poor investment performance could reduce our revenues and impair our growth in the following ways: • existing clients may withdraw funds from our wealth management business in favor of better performing products; • asset-based management fees could decline from a decrease in assets under management; • our ability to attract funds from existing and new clients might diminish; and • our wealth managers and investment advisors may depart to join a competitor or otherwise. Even when market conditions are generally favorable, our investment performance may be adversely affected by the investment style of our wealth management and investment advisors and the particular investments that they make. To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our wealth management business will likely be reduced and our ability to attract new clients will likely be impaired. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings. In addition, as approximately ~~18~~**15**% of trust fees came from management of oil and gas properties in ~~2022~~**2023**, a decline in the prices of oil and gas could lead to a loss of material amounts of our trust income. Our reputation and business could be damaged by negative publicity. Reputation risk, or the risk to our earnings and capital by negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to additional liquidity risk as well as adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, perception of our environmental, social and governance practices and disclosures, regulatory compliance or investigations, mergers and acquisitions, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Negative public opinion could also result from adverse news or publicity that impairs the reputation of the financial services industry. In addition, adverse publicity or negative information posted on social media, whether or not factually correct, may adversely impact our business prospects or financial results. External and Market Related Risks Our business faces unpredictable economic conditions, which could have an adverse effect on us. General economic conditions impact the banking industry. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success depends somewhat on factors beyond our control, including: • general economic conditions, including national and local real estate markets and the price of oil and gas, wind farm subsidies from the federal government and other commodity prices; • the supply of and demand for investable funds; • demand for loans and access to credit; • interest rates; and • federal, state and local laws affecting these matters. Any substantial deterioration in any of the foregoing conditions could have a material adverse effect on our financial condition, results of operations and liquidity, which would likely ~~have an adversely~~**adversely** ~~adversely~~**adversely** affect ~~on~~**on** the market price of our common stock. Our business is concentrated in Texas and a downturn in the economy of Texas may adversely affect our business. Our network of bank regions is concentrated in Texas, primarily in the Central, North Central, Southeast and Western regions of the state. Most of our customers and revenue are derived from these areas. These economies include dynamic centers of higher education, agriculture, energy and natural resources, retail, military, healthcare, tourism, retirement living, manufacturing and distribution. Because we generally do not derive revenue or customers from other parts of the state or nation, our business and operations are dependent on economic conditions in our Texas markets. Any significant decline in one or more segments of the local economies could adversely affect our business, revenue, operations and properties. The volatility in oil and gas prices results in uncertainty about the Texas economy. While we consider our exposure to credits related to the oil and gas industry to not be significant, at approximately ~~2.91~~**2.79**% ~~, net of PPP loans~~, of total loans HFI as of December 31, ~~2022~~**2023**, should the price of oil and gas decline and / or remain at low prices for an extended period, the general economic conditions in our Texas markets could be negatively affected, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, the Company's trust revenues may be impacted by oil and gas prices which represented approximately ~~15 % and 18 % and 12 %~~**15 % and 18 % and 12 %** of total trust revenues in ~~2023 and 2022 and 2021~~**2023 and 2022 and 2021**, respectively. Our Company lends primarily to small to medium- sized businesses that may have fewer resources to weather a downturn in the economy, which could adversely impact the Company's operating results. The Company makes loans to privately- owned businesses, many of which are considered to be small to medium- sized businesses. Small to medium- sized businesses frequently have smaller

market share than their competition, may be more vulnerable to economic downturns, often need additional capital to expand or compete and may experience more volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of small to medium-sized businesses often depends on the management talents and efforts of a small group of persons, and the death, disability or resignation of one or more of these persons could have adverse impact on the business and its ability to repay our loans. Economic downturns, a sustained decline in commodity prices and other events that could negatively impact the businesses could cause the Company to incur credit losses that could negatively affect the Company's results of operations and financial condition. If we are unable to continue to originate residential real estate loans and sell them into the secondary market for a profit, our earnings could decrease. We derive a portion of our noninterest income from the origination of residential real estate loans and the subsequent sale of such loans into the secondary market. If we are unable to continue to originate and sell residential real estate loans at historical or greater levels, our residential real estate loan volume would decrease, which could decrease our earnings. A rising interest rate environment, general economic conditions or other factors beyond our control could adversely affect our ability to originate residential real estate loans. We also are experiencing an increase in regulations and compliance requirements related to mortgage loan originations necessitating technology upgrades and other changes. If new regulations continue to increase and we are unable to make technology upgrades, our ability to originate mortgage loans will be reduced or eliminated. Additionally, we sell a large portion of our residential real estate loans to third-party investors, and rising interest rates could negatively affect our ability to generate suitable profits on the sale of such loans. If interest rates increase after we originate the loans, our ability to market those loans is impaired as the profitability on the loans decreases. These fluctuations can have an adverse effect on the revenue we generate from residential real estate loans and in certain instances, could result in a loss on the sale of the loans. We originate the majority of our secondary market loans by issuing interest rate lock commitments ("IRLCs") to the customer based on prevailing rates in the market. We are exposed to changes in interest rates between the date of the IRLC and the closing of the loans. We hedge the price risk of the IRLCs based on various models and other factors using financial instruments which typically, but not always, correlate to the change in value to offset the risk. These hedges may not be equally correlated or effective and expose the Company to risk and loss of earnings. Further, for the mortgage loans we sell in the secondary market, the mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first sixty to ninety days, or if documentation is determined not to be in compliance with regulations. While the Company's historic losses as a result of these indemnities have been insignificant, we could be required to repurchase the mortgage loans or reimburse the purchaser of our loans for losses incurred. Both of these situations could have an adverse effect on the profitability of our mortgage loan activities and negatively impact our net income. We compete in an industry that continually experiences technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements. The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services and new Fintech companies. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for conveniences, as well as to create additional efficiencies in our operations. **We may experience operational challenges in connection with the adoption of, or failure to adopt, new technology, such as artificial intelligence, which could result in unintended consequences or expenses as a result of the technology's limitations, our failure to use new technology effectively or at all, not fully realizing the anticipated benefits from such new technology, or the cost to implement or remedy any challenges associated with the adoption of new technology in a timely manner.** Many of our larger competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Difficult or changes in market conditions could adversely affect the financial services industry. The financial markets have experienced volatility over the past several years. In some cases, the financial markets have produced downward pressure on stock prices and credit availability for certain companies without regard to those companies' underlying financial strength. If financial market volatility worsens, or there are disruptions in these financial markets, including disruptions to the United States banking systems, there can be no assurance that we will not experience an adverse effect on our ability to access capital and our business, financial condition and result of operations could be adversely impacted. Inflationary pressures and rising prices may affect our results of operations and financial conditions. Inflation rose in 2022 at levels not seen for over 40 years, and such inflationary pressures ~~are currently expected to continue~~ **continued** into 2023. Inflation could lead to increased costs to our customers, making it more difficult for them to repay their loans or other obligations increasing our credit risk. In general, the impact of inflation on the banking industry differs significantly from that of other industries in which a large portion of total resources are invested in fixed assets such as property, plant and equipment. Assets and liabilities of financial institutions are primarily all monetary in nature, and therefore are principally impacted by interest rates rather than changing prices. While the general level of inflation underlies most interest rates, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy. Sustained higher interest rates by the Federal Reserve **Board** may be needed to tame persistent inflationary price pressures, which could depress asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations. Our financial instruments expose us to certain market risks and may increase the volatility of earnings and AOCI. We hold certain financial instruments measured at fair value. For those financial instruments measured at fair value, we are required to recognize the changes in the fair value of such instruments in earnings or accumulated other comprehensive income ("AOCI") each quarter. Therefore, any increases or decreases in the fair value of these financial instruments have a corresponding impact on reported

earnings or AOCI. Fair value can be affected by a variety of factors, many of which are beyond our control, including our credit position, interest rate volatility, capital markets volatility, and other economic factors. Accordingly, we are subject to mark- to-market risk and the application of fair value accounting may cause our earnings and AOCI to be more volatile than would be suggested by our underlying performance. We may need to raise additional capital and such funds may not be available when needed. We may need to raise additional capital in the future to provide us with sufficient capital resources to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital and financial markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, other financial institution borrowings and borrowings from the discount window of the Federal Reserve **Board**. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of other financial institutions, or counterparties participating in the capital markets, may adversely affect our costs and our ability to raise capital. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition and results of operations. Climate change, and related legislative and regulatory initiatives, have the potential to disrupt our business and adversely impact the operations and creditworthiness of our customers. Climate change may lead to more frequent and more extreme weather events, such as prolonged droughts or flooding, hurricanes, wildfires and extreme seasonal weather, which could disrupt operations at one or more of our locations and our ability to provide financial products and services to our customers. Such events could also have a negative effect on the financial status and creditworthiness of our customers, which may decrease revenues and business activities from those customers and increase the credit risk associated with loans and other credit exposures to such customers. In addition, weather disasters, shifts in local climates and other disruptions related to climate change may adversely affect the value of real properties securing our loans, which could diminish the value of our loan portfolio. Such events may also cause reductions in regional and local economic activity that may have an adverse effect on our customers, which could limit our ability to raise and invest capital in these areas and communities, each of which could have a material effect on our financial conditions and results of operations. Political and social attention to the issue of climate change has increased. The federal and state legislatures and regulatory agencies have proposed legislative and regulatory initiatives seeking to mitigate the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes. In addition, the federal banking agencies may address climate- related issues in their agendas in various ways, including by increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate- related factors, and encouraging investment by banks in climate- related initiatives and lending to communities disproportionately impacted by the effects of climate change. We may incur compliance, operating, maintenance and remediation costs. Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance (" ESG") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environmental, health and safety, diversity, labor conditions and human risks. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. We compete with many larger financial institutions which have substantially greater financial resources than we have. Competition among financial institutions in Texas is intense. We compete with other bank holding companies, state and national commercial banks, savings and loan associations, consumer financial companies, credit unions, securities brokers, insurance companies, mortgage banking companies, money market mutual funds, asset- based non- bank lenders and other non- bank financial institutions. Many of these competitors have substantially greater financial resources, larger lending limits, larger branch networks, enhanced technology and less regulatory oversight than we do, and are able to offer a broader range of products and services than we can. Failure to compete effectively for deposit, loan and other banking customers in our markets could cause us to lose market share, slow our growth rate and may have an adverse effect on our financial condition, results of operations and liquidity. Compliance and Regulatory Risks We may be subject to more stringent capital and liquidity requirements which would adversely affect our net income and future growth. The Federal Reserve Board adopted a final rule that implemented the Basel III Rule changes to the international regulatory capital framework and revised the U. S. risk- based and leverage capital requirements for U. S. banking organizations to strengthen identified areas of weakness in capital rules and to address relevant provisions of the Dodd- Frank Act. The final rule established a stricter regulatory capital framework that requires banking organizations to hold more and higher- quality capital to act as a financial cushion to absorb losses and help banking organizations better withstand periods of financial stress. The final rule increased capital ratios for all banking organizations and introduced a " capital conservation buffer " which is in addition to each capital ratio. If a banking organization dips into its capital conservation buffer, it may be restricted in its ability to pay dividends and discretionary bonus payments to its executive officers. The final rule assigned a higher risk weight to loans that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also required unrealized gains and losses on certain available- for- sale (" AFS") securities holdings to be included for purposes of calculating regulatory capital requirements unless a one- time opt- out is exercised. We exercised this opt- out right in our March 31, 2015 quarterly financial filing. The final rule also



included changes in what constitutes regulatory capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock are required to be deducted from capital. The final rule became effective for us on January 1, 2015. As of December 31, ~~2022~~ **2023**, we met all of these new requirements, including the full capital conservation buffer. Although we currently cannot predict the specific impact and long-term effects that Basel III will have on our Company and the banking industry more generally, the Company may be required to maintain higher regulatory capital levels through the capital conservation buffer which could impact our operations, net income and ability to grow. Furthermore, the Company's failure to comply with the minimum capital requirements could result in our regulators taking formal or informal actions against us which could restrict our future growth or operations. For example, climate change advocates might not be able to force a regulatory ban on lending to certain industries, but the regulators could increase risk weighting on oil and gas loans. Legislative and regulatory actions taken now or in the future that impact the financial industry may materially adversely affect us by increasing our costs, adding complexity in doing business, impeding the efficiency of our internal business processes, negatively impacting the recoverability of certain of our recorded assets, requiring us to increase our regulatory capital, limiting our ability to pursue business opportunities, and otherwise resulting in a material adverse impact on our financial condition, results of operation, liquidity, or stock price. Both the scope of the laws and regulations and the intensity of the supervision to which we are subject may increase in connection with legislative and regulatory developments to address perceived unfairness and abuses under current regulations. Regulatory enforcement and fines have also increased across the banking and financial services sector. Compliance with these laws and regulations have resulted in and will continue to result in additional costs, which could be significant, and may have a material and adverse effect on our results of operations. In addition, if we do not appropriately comply with current or future legislation and regulations, especially those that apply to our consumer operations, which has been an area of heightened focus, we may be subject to fines, penalties or judgments, or material regulatory restrictions on our businesses, which could adversely affect operations and, in turn, financial results. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, OCC, the Department of Justice and other federal and state agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of direct and indirect negative consequence sanctions, including the required payment of damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions, or even the threat of such actions, could have a material adverse effect on the Company's business, financial condition or results of operations. OFAC, the BSA and related FinCEN and FFIEC Guidelines and regulations could result in material implications. Regulatory authorities routinely examine financial institutions for compliance with the USA PATRIOT ACT, OFAC, the BSA and related FinCEN and FFIEC Guidelines. Certain products we offer may expose us to enhanced risk in the event of noncompliance, including and not limited to providing our treasury management services to certain money transmitter and money services businesses. Failure to maintain and implement adequate programs as required by these obligations to combat terrorist financing, elder abuse, human trafficking, anti-money laundering and other suspicious activity and to fully comply with all of the relevant laws or regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and significant civil money penalties against institutions found to be violating these regulations. Our business is subject to significant government regulation. We operate in a highly-regulated environment and are subject to supervision or regulation by a number of governmental regulatory agencies, including the Federal Reserve Board, the OCC, the FDIC and the CFPB. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. We are subject to heightened regulatory requirements as our total assets exceed \$ 10 billion. Our total assets were approximately \$ ~~42.13~~ **97.11** billion as of December 31, ~~2022~~ **2023**. The Dodd-Frank Act and its associated regulations impose various additional requirements on banks and bank holding companies with \$ 10 billion or more in total assets, including a more frequent and enhanced regulatory examination regime. In addition, banks with \$ 10 billion or more in total assets (including our bank) are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations, with the Federal Reserve **Board** maintaining supervision over some consumer related regulations. In light of evolving priorities among government and agency leaders, there is some uncertainty as to how the CFPB examination and regulatory authorities might impact our business in the near and medium terms. Debit card interchange fee restrictions set forth in the Dodd-Frank Act, which is known as the Durbin Amendment, as implemented by regulations of the Federal Reserve **Board**, cap the maximum debit interchange fee that a debit card issuer with \$ 10 billion or more in total assets may receive per transaction at the sum of \$ 0.21 plus five basis points of the transaction. A debit card issuer that adopts certain fraud prevention procedures may charge an additional \$ 0.01 per transaction. In July 2022, the Company became subject to the Durbin Amendment which ~~has~~ reduced our interchange income **per transaction** in 2022 and going forward. Federal income tax reform could have unforeseen effects on our financial condition and results of operations. The recent changes in the political makeup of the Senate and House of Representatives in the U. S. Congress could result also in the reversal of some or all of the effects of the Tax Cuts and Jobs Act, which may have an adverse effect on our business, financial conditions and results of operations. Our FDIC deposit insurance assessments could increase substantially resulting in higher operating costs. We have historically paid the lowest premium rate available due to our sound financial position. ~~In 2019 and 2020, we received certain credits that further~~

reduced the Company's FDIC insurance premium expense. Should the number of bank failures increase or the FDIC insurance fund become depleted in other ways, FDIC premiums could increase or additional special assessments could be imposed. ~~In addition, we are no longer eligible to utilize credits to reduce our FDIC insurance premiums as a result of our exceeding \$ 10 billion in assets.~~ These increased premiums would have an adverse effect on our net income and results of operations. **In the fourth quarter of 2023, the FDIC imposed a \$ 1. 75 million special assessment on the Bank in response to the FDIC-insured financial institutions that failed in March 2023.**

**Risks Related to Acquisition Activities** To continue our growth, we are affected by our ability to identify and acquire other financial institutions. We intend to continue our current growth strategy, including opening new branches and acquiring other banks. The market for acquisitions remains highly competitive, and we may be unable to find satisfactory acquisition candidates in the future that fit our acquisition and growth strategy. To the extent that we are unable to find suitable acquisition candidates, an important component of our growth strategy may be lost. Additionally, our completed acquisitions, or any future acquisitions, may not produce the revenue, earnings or synergies that we anticipated. We may not be able to complete future acquisitions, may not be successful in realizing the benefits of any acquisitions that are completed, or may choose not to pursue acquisition opportunities we might find beneficial. A substantial part of our historical growth has been a result of acquisitions of other financial institutions, and we may, from time to time, evaluate and engage in the acquisition of other financial institutions. We must generally satisfy a number of conditions prior to completing any such transaction, including certain bank regulatory approvals. Bank regulators consider a number of factors with regard to all institutions involved in the transaction when determining whether to approve a proposed transaction, including, among others, condition of the Company, its ratings and compliance history, anti- money laundering and BSA compliance history, CRA evaluation results, fair lending history and the effect of the proposed transaction on the financial stability of the institutions involved and the market as a whole. The process for obtaining required regulatory approvals has become substantially more difficult, time- consuming and unpredictable. We may fail to pursue, evaluate or complete strategic and competitively significant business opportunities as a result of our inability, or our perceived inability, to obtain required regulatory approvals in a timely manner or at all. Assuming we are able to successfully complete one or more transactions, we may not be able to successfully integrate and realize the expected synergies from any completed transaction in a timely manner or at all. In particular, we may be charged by federal and state regulators with regulatory and compliance failures at an acquired business prior to the date of the acquisition, and these failures by the acquired company may have negative consequences for us, including the imposition of formal or informal enforcement actions. Completion and integration of any transaction may also divert management' s attention from other matters, result in additional costs and expenses, or adversely affect our relationships with our customers and employees, any of which may adversely affect our business or results of operations. As a result, our financial condition may be affected, and we may become more susceptible to general economic conditions and competitive pressures. Use of our common stock for future acquisitions or to raise capital may be dilutive to existing stockholders. When we determine that appropriate strategic opportunities exist, we may acquire other financial institutions and related businesses, subject to applicable regulatory requirements. We may use our common stock for such acquisitions. We may also seek to raise capital through selling additional common stock, although we have not historically done so. It is possible that the issuance of additional common stock in such acquisition or capital transactions may be dilutive to the interests of our existing shareholders.

**Risks Associated with our Common Stock** The trading volume in our common stock is less than other larger financial institutions. Although the Company' s common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other, larger financial services companies although such volume has increased in recent years. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company' s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company' s common stock, significant sales of the Company' s common stock, or the expectation of these sales, could cause the Company' s stock price to fall. Our stock ownership has shifted to larger institutional shareholders. Our ownership base has shifted over the past several years resulting in institutional investors and indexed funds holding approximately 56 % of our shares as compared to shareholders located in our footprint and other retail individual investors. These institutional shareholders could decide to sell their holdings in our common stock and as such could result in lower market prices of our stock. Certain banking laws may have an anti- takeover effect. Provisions of federal banking laws, including regulatory approval requirements, could make it more difficult for a third- party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. These provisions effectively inhibit a non- negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock. We may not continue to pay dividends on our common stock in the future. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividends in the future. This could adversely affect the market price of our common stock. Also, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. The Company' s stock price can be volatile. Stock price volatility may make it more difficult for our shareholders to resell their common stock when they want and at prices they find attractive. The Company' s stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- new reports relating to trends, concerns and other issues in the financial services industry or Texas economy, including oil and gas and cattle prices;
- perceptions in the marketplace regarding the Company and / or its competitors;
- new technology used, or services offered, by competitors;
- governmental investigations of the Company or administrative actions imposed by bank regulatory agencies;
- significant

acquisitions or business combinations involving the Company or its competitors; and • changes in government regulations, including tax laws. General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends could also cause the Company' s stock price to decrease regardless of operational results. An investment in our common stock is not an insured deposit. Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “ Risk Factors ” section and elsewhere in this Report. As a result, if you acquire our common stock, you may lose some or all of your investment. General Risk Factors If we are unable to continue our historical levels of growth, we may not be able to maintain our historical earnings trends. To achieve our past levels of growth, we have focused on both internal growth and acquisitions. We may not be able to sustain our historical rate of growth or may not be able to grow at all. Additionally, we may not be able to obtain the financing necessary to fund additional growth and may not be able to find suitable acquisition candidates. Various factors, such as economic conditions, competition and heightened regulatory scrutiny, may impede or prohibit the opening of new banking centers and the completion of acquisitions. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our internal growth. If we are not able to continue our historical levels of growth, we may not be able to maintain our historical earnings trends. ~~ITEM 1B. UNRESOLVED STAFF COMMENTS~~