Risk Factors Comparison 2024-02-26 to 2023-02-24 Form: 10-K

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

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results. Risks Related to Our Industry We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, and changes in the laws and regulations to which we are subject could adversely affect our profitability. We and our bank subsidiary are subject to extensive federal and state regulation and supervision. As a registered bank holding company, we are primarily regulated by the Federal Reserve Board. Our bank subsidiary is also primarily regulated by the Federal Reserve Board and the Arkansas State Bank Department. Banking industry regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. Complying with such regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd- Frank Act, passed by Congress in 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the performance of and government intervention in the financial services sector during the economic recession leading up to its enactment. The act required the issuance of a substantial number of new regulations by federal regulatory agencies affecting financial institutions, some of which still have yet to be issued or implemented. While the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in 2018 reduced certain regulatory burdens on community and regional financial institutions resulting from the Dodd- Frank Act, we cannot assure that future legislation will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business. Certain provisions of the Dodd- Frank Act and regulations promulgated under the act may continue to be implemented, and there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies have intensified their response to concerns and trends identified in examinations, including through the issuance of formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and / or increasing the ability of non- banks to offer competing financial services. As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans. If these developments negatively impact our ability to implement our business strategies, it may have a material adverse effect on our results of operations and future prospects. We are subject to heightened regulatory requirements as our total assets exceed $ 10 billion. Because our total assets exceed $ 10 billion, we and our bank subsidiary are subject to increased regulatory requirements. The Dodd- Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $ 10 billion or more in total assets. In addition, banks with $ 10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Previously, our bank subsidiary had been subject to regulations adopted by the CFPB, but the Federal Reserve was primarily responsible for examining our bank subsidiary' s compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, the CFPB' s examination and regulatory authority has been and continues to be the subject of policy debates and uncertainty among lawmakers and differing presidential administrations, and thus we cannot ascertain the impact, if any, that future changes to the CFPB may have on our business. Banks with assets in excess of $ 10 billion are subject to a deposit assessment based on a scorecard issued by the FDIC that considers, among other things, the bank' s CAMELS rating, results of asset- related stress testing and funding- related stress, as well as our use of core deposits, among other things. Depending on the results of the bank' s performance under that scorecard, the total base assessment rate is between 2. 5 to 42 basis points. Any increase in our bank subsidiary' s deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over $ 10 billion in total assets are no longer exempt from the requirements of the Federal Reserve' s rules on interchange transaction fees for debit cards. Our bank subsidiary is limited to receiving only a " reasonable " interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $ 10 billion in total assets to receive more than $ 0. 21 plus 5 basis points of the transaction plus a $ 0. 01 fraud adjustment for an interchange transaction fee for debit card transactions. This limit in the amount of interchange fees we receive for electronic debit interchange has the effect of reducing our revenues. Prior to becoming subject to the heightened regulatory requirements, we hired additional compliance personnel and implemented structural initiatives to address these requirements. While some of these requirements, such as annual stress testing, were eliminated by the reforms enacted in May 2018, our continued compliance with the remaining requirements and compliance with any additional requirements that may be imposed in the future may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Our regulators may also consider our compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters. Difficult market and economic conditions may adversely affect our industry and our business. Economic downturns historically have had a significant adverse impact on the banking industry, and particularly community banks. Declines in the housing market, with falling home prices and increased delinquencies and foreclosures, can negatively impact the credit performance of mortgage and construction loans and result in significant write- downs of assets by financial institutions. Any reduced availability of commercial credit or periods of sustained higher unemployment can further negatively impact the credit performance of commercial and consumer credit, resulting in additional write- downs. Any such market conditions could cause commercial and consumer deficiencies, low customer confidence, market volatility and generally sluggish business activity in our industry. Unlike larger financial institutions that are more geographically diversified, our profitability depends primarily on the general economic conditions in our primary market areas. Local economic conditions have a significant impact on our residential real estate, commercial real estate, construction, commercial and industrial and consumer lending, including, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Certain economic indicators, such as real estate asset values, rents and unemployment, may vary between geographic markets and may lag behind the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly than other economic sectors. Additionally, our success significantly depends upon the growth in population, income levels, deposits and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions deteriorate locally or nationally, our business may be adversely affected. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. The adverse effects of any future economic downturn on us, our customers and the other financial institutions in our market may result in increased foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price. The impacts of **national or international pandemics could materially and adversely affect our business, financial condition and results of operations. Our operations and those of our customers and third- party service providers may be adversely affected by the widespread outbreak of contagious disease, including** the COVID- 19 **virus** ~~pandemic could materially and adversely affect our business, financial condition and results of operations~~ . The COVID- 19 pandemic disrupted U. S. and global supply chains and altered business and economic conditions throughout the U. S. and globally. Its economic impacts lowered equity market valuations; created significant volatility and disruption in financial markets; contributed to a decrease in the rates and yields on U. S. Treasury securities; resulted in ratings downgrades, credit deterioration, and defaults in many industries; increased demands on capital and liquidity; increased unemployment levels and decreased consumer confidence. In addition, the pandemic resulted in temporary or permanent closures of many businesses, the institution of social distancing, face covering requirements and other health directives, and in some cases, self- isolation requirements. The pandemic also caused us to recognize credit losses in our loan portfolios and increases in our allowance for credit losses. ~~Given the nature~~ **The extent to which any future outbreaks** of **the** COVID- 19 ~~variants, it~~ **virus or other contagious diseases may impact general economic and business conditions** is **highly uncertain** ~~difficult to predict whether or when any future outbreaks of the virus may occur or the impacts that any such outbreak may have on our business. Any impact will depend on future developments, including the long- term scope, severity~~ and **unpredictable** ~~duration of the outbreak, the success of vaccination, treatment and other mitigation efforts, any further actions taken by governmental authorities in response to the economic and health effects of the pandemic, and the long- term financial impact of the pandemic on our customers, employees, counterparties and service providers~~ . As part of these uncertainties, we could be subject to a number of risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, results of operations, and ability to execute our growth strategy. These risks include, but are not limited to, increased loan losses or other impairments in our loan portfolios and increases in our allowance for loan losses; further volatility in the valuation of real estate and other collateral supporting loans; impairment of our goodwill and our financial assets; increased cost of capital; inability to satisfy our minimum regulatory capital ratios and other supervisory requirements; or a downgrade in our credit ratings. We could also face an increased risk of governmental and regulatory scrutiny as a result of the effects of ~~the~~ **a** pandemic on market and economic conditions and actions governmental authorities take in response to those conditions. **Any such occurrence** ~~Even as the economic and health impacts of the coronavirus subside, we~~ could **have** ~~experience future volatility in the economy or~~ a **significant** ~~prolonged recession that could materially and adversely~~ -- **adverse** ~~affect~~ **impact on** our business, financial condition, liquidity ~~,~~ or results of operations. Our FDIC insurance premiums and assessments could increase and result in higher noninterest expense. Our bank subsidiary' s deposits are insured by the FDIC up to legal limits, and accordingly, we are subject to FDIC deposit insurance assessments. As our bank subsidiary exceeds $ 10 billion in assets, we are subject to higher FDIC assessments. Our bank subsidiary' s regular assessments are calculated under the large bank pricing rule using its average consolidated total assets minus average tangible equity as well as by risk classification, which includes regulatory capital levels. We are generally unable to control the amount and timetable for payment of premiums that we are required to pay for FDIC insurance. There is no guarantee that our assessment rate will not increase in the future. Additionally, if there is an increase in bank or financial institution failures or there is a future need to strengthen the DIF reserve ratio, the FDIC may further revise the assessment rates or the risk- based assessment system. Such changes may require us to pay higher FDIC premiums than our current levels, or the FDIC may charge additional special assessments, either of which would increase our noninterest expense. Our profitability is vulnerable to interest rate fluctuations and monetary policy and could be adversely affected by any future actions taken by the Federal Reserve Board to address rising inflation. Our results of operations are affected by the monetary policies of the Federal Reserve Board. Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, changes in the relationships between short- term and long- term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest- earning assets differently than the interest paid on interest- bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities. Changes in interest rates can also affect our business and profitability in numerous other ways. For example, increases in interest rates can have a negative impact on our results of operations by reducing loan demand and the ability of borrowers to repay their current obligations, while decreases in interest rates may affect loan prepayments. In response to recent inflation and its affects on U. S. business and consumers, the Federal Reserve Board ~~has~~ implemented ~~eight~~ **eleven** interest rate increases since March 2022. ~~It~~ **However, in response to slowing inflation, it** is **expected** ~~widely anticipated~~ that the Federal Reserve **Board** will **begin reducing** ~~implement multiple additional~~ interest ~~rate~~ **rates** ~~increases during~~ **sometime in** ~~2023~~ **2024** . **Future economic developments** ~~While we experienced loan growth during 2022 through acquisitions~~ and **the Federal Reserve Board' s policies in response** ~~organically sufficient to more than offset our increased interest expense and overall loan demand has remained relatively strong~~ , **however, cannot be predicted with certainty. At this time, it is unknown how future action by the Federal Reserve Board involving monetary policies will affect our business and the banking industry.** ~~there~~ **There** can be no assurance that any ~~such~~ future actions by the Federal Reserve Board involving monetary policies will not cause any of the adverse effects described above on our deposit levels, loan demand or business and earnings ~~.~~ . We may ~~be~~ **experience future** ~~adversely~~ - **adverse** ~~impacted~~ **impacts** ~~by~~ **from** the **recent** transition from the use of the LIBOR interest rate index ~~in the future~~ . We have certain loans **that were originally** ~~, investment securities and subordinated debt securities~~ indexed to LIBOR to calculate the interest rate. The ~~continued availability of the~~ **U. S. dollar** LIBOR index ~~is~~ **has** not **been** ~~guaranteed after the United Kingdom administrators of LIBOR have announced that the publication of the most commonly used U. S. dollar LIBOR settings will cease to be~~ published ~~after~~ **since** June 2023 ~~. We cannot predict~~ , ~~in~~ **which necessitated** the ~~interim, whether and~~ **refinancing of the existing loans which were indexed** to ~~what extent banks will continue to provide~~ LIBOR ~~submissions to~~ **. While** ~~the~~ **these** ~~administrator of~~ **loans have been transitioned to a** LIBOR ~~or whether any additional reforms to LIBOR may be enacted. With respect to our loan assets, at this time, there is some industry guidance regarding acceptable alternatives~~ - **alternative** ~~to LIBOR. After review and analysis from the Federal Reserve Board' s Alternative Reference Rates Committee~~ , ~~the Consumer Financial Protection Bureau published its final rule recommending the Secured Overnight Financing Rate, or SOFR, as~~ a **residual risk remains** ~~compliant replacement index to LIBOR that would not trigger a refinance under existing regulations~~ for **transition issues** ~~certain consumer loans. Loan contracts may also contain alternate rate language permitting transfer to SOFR, Wall Street Journal Prime or another index when LIBOR is no longer available~~ . The ~~timing and manner in which each customer' s contract transitions~~ - **transition impacted our market risk profiles and required changes** to ~~a~~ **our risk and pricing models, valuation tools, and product design. Additionally, the** new index ~~will vary on a case- by- case basis. There continues to be some uncertainty related to the LIBOR transition. New index~~ rates and payments ~~will~~ differ from LIBOR, which may lead to increased volatility. ~~The~~ **Residual issues that may remain from this** transition **are not certain** ~~has impacted our market risk profiles~~ and **any** ~~required changes to our risk and pricing models, valuation tools, and product design. Furthermore,~~ failure to adequately manage this transition process with our customers **may adversely impact our reputation. The failure of other financial institutions** could adversely ~~impact our reputation~~ **affect us, and we may incur losses on investments in other financial institutions** . **The financial system is highly interrelated, including as a result of lending, trading, clearing, counterparty, and other relationships. We have exposure to and routinely execute transactions** ~~With~~ **with** ~~respect to~~ **a wide variety of financial institutions, including brokers, dealers, commercial banks,** investment **banks and other substantial participants. In addition, we currently hold and may in the future acquire additional investments in the debt or equity** securities ~~and subordinated debt securities,~~ **of other financial institutions. Some of the institutions or other participants with whom** we ~~expect similar transition issues. Failure~~ **transact business or in which we hold investments may experience instability due** to ~~adequately manage~~ **financial challenges in the banking industry or may be perceived to be unstable. If any of** ~~the~~ **these** ~~transition~~ **institutions or participants were to fail in meeting its obligations in full and on time, or were to enter bankruptcy, conservatorship, or receivership, the consequences** could **ripple throughout the financial system and may adversely affect our business, results of operations, financial condition, or prospects. Our investments in any such institutions could decline in value or become valueless, which could result in us incurring losses in our investment portfolio that may** have a ~~material~~ **materially** adverse effect **our operating results. Further, our stock price may be negatively impacted by failures of other financial institutions and their effects** on **consumer and investor confidence, and we may experience increased deposit insurance premiums, increased regulatory scrutiny and other adverse effects on** our business, **profitability or** financial condition ~~and~~ **as a** ~~results~~ - **result** of ~~operations~~ **these failures** . Risks Related to Our Business Our decisions regarding credit risk could be inaccurate and our allowance for credit losses may be inadequate, which would materially and adversely affect us. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for credit losses that we consider adequate to absorb future losses that may occur in our loan portfolio. As of December 31, ~~2022~~ **2023** , our allowance for credit losses was approximately $ ~~289~~ **288** . ~~7~~ **2** million, or 2. ~~01~~ **00** % of our total loans. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non- accruals, national and local economic conditions, and other pertinent information. If our assumptions are incorrect, our current allowance may be insufficient to absorb future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. When there is an economic downturn, it is more difficult for us to estimate the losses that we will experience in our loan portfolio. In addition, federal and state regulators periodically review our allowance for credit losses and may require us to increase our allowance for credit losses or recognize further loan charge- offs based on judgments different than those of our management. Any increase in our allowance for credit losses or loan charge- offs could have a negative effect on our operating results. Our high concentration of real estate loans and especially commercial real estate loans exposes us to increased lending risk. As of December 31, ~~2022~~ **2023** , approximately 72. 5 % of our total loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. This includes commercial real estate loans (excluding construction / land development) of $ 5. ~~98~~ **88** billion, or ~~41~~ **40** . ~~5~~ **8** % of total loans, construction / land development loans of $ 2. ~~14~~ **29** billion, or ~~14~~ **15** . ~~8~~ **9** % of total loans, and residential real estate loans of $ 2. ~~33~~ **28** billion, or ~~16~~ **15** . ~~1~~ **8** % of total loans. This high concentration of real estate loans could subject us to increased credit risk in the event of a decrease in real estate values in our markets, a real estate recession or a natural disaster. Also, in any such event, our ability to recover on defaulted loans by foreclosing and selling real estate collateral would be diminished, and we would be more likely to suffer losses on defaulted loans. In addition to the risks associated with the high concentration of real estate- secured loans, the commercial real estate and construction / land development loans, which comprised 56. ~~3~~ **7** % of our total loan portfolio as of December 31, ~~2022~~ **2023** , expose us to a greater risk of loss than our residential real estate loans, which comprised ~~16~~ **15** . ~~1~~ **8** % of our total loan portfolio as of December 31, ~~2022~~ **2023** . Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan. The repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower' s ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan, or in the most extreme cases, we may have to foreclose. If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of loans, if we fail to evaluate the credit of these loans accurately when we underwrite them or if we do not continue to adequately monitor the performance of these loans, our lending portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations. Our geographic concentration of banking activities and loan portfolio makes us more vulnerable to adverse conditions in our local markets. Our bank subsidiary operates through branch locations in Arkansas, Florida, Texas, Alabama and New York City and loan production offices in Los Angeles, California, Dallas, Texas, Miami, Florida, Chesapeake, Virginia and Baltimore, Maryland. However, approximately 79. ~~7~~ **8** % of our total loans and 84. 6 % of our real estate loans as of December 31, ~~2022~~ **2023** , are to borrowers whose collateral is located in Arkansas, Florida, Texas, Alabama and New York, the states in which the Company has its branch locations. An adverse development with respect to the market conditions of any of these specific market areas or a decrease in real estate values in those market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geographic base. If the value of real estate were to deteriorate, a significant portion of our loans could become under- collateralized, which could have a material adverse effect on us. As of December 31, ~~2022~~ **2023** , approximately 72. 5 % of our total loans were secured by real estate. In prior years, difficult local economic conditions have adversely affected the values of our real estate collateral, and they could do so again if the economic conditions markets were to deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect us. We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20 % of its Tier 1 capital plus the allowance for credit losses. As of December 31, ~~2022~~ **2023** , the legal lending limit of our bank subsidiary for secured loans was approximately $ ~~539~~ **556** . 7 million. Our board of directors has established an in- house lending limit of $ 40. 0 million to any one borrowing relationship without obtaining the approval of two of the following: our Chairman, John W. Allison, our Vice Chairman, Jack E. Engelkes, or our director Richard H. Ashley. As of December 31, ~~2022~~ **2023** , we had a total of $ 6. ~~46~~ **93** billion, or ~~44~~ **48** . ~~8~~ **1** % of our total loans, committed to the aggregate group of borrowers whose total debt exceeds the established in- house lending limit of $ 40. 0 million. Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits, and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders. In addition, local deposits reflect a mix of transaction and time deposits, whereas brokered deposits typically are less stable time deposits, which may need to be replaced with higher cost funds. Our costs of funds and our profitability and liquidity are likely to be adversely affected if and to the extent we must rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio. The loss of key employees may materially and adversely affect us. Our success depends significantly on our Chairman, Chief Executive Officer and President, John W. Allison, and our executive officers, especially Brian S. Davis, J. Stephen Tipton and Kevin D. Hester plus Centennial Bank Chairman, Chief Executive Officer and President, Tracy M. French, as well as other key Centennial Bank personnel. Centennial Bank, in particular, relies heavily on its management team' s relationships in its local communities to generate business. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects. The value of securities in our investment portfolio may decline in the future. As of December 31, ~~2022~~ **2023** , we owned $ ~~4~~ **3** . ~~04~~ **51** billion of available- for-sale investment securities. The fair value of our available- for- sale investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We evaluate all securities quarterly to determine if any securities in a loss position requires a provision for credit losses in accordance with ASC 326, Measurement of Credit Losses on Financial Instruments. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security' s amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Because of changing economic and market conditions affecting issuers, we may be required to record provisions for credit losses in future periods, which could have a material adverse effect on our business, financial condition or results of operations. As of December 31, ~~2022~~ **2023** , we owned $ 1. ~~29~~ **28** billion of held- to- maturity investment securities. Securities held- to- maturity (" HTM"), which include any security for which we have the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized / accreted to the call date to interest income using the constant effective yield method over the estimated life of the security **. The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326** . The Company measures expected credit losses on HTM securities on a collective basis by major security type, with each type sharing similar risk characteristics. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Company has made the election to exclude accrued interest receivable on HTM securities from the estimate of credit losses and report accrued interest separately on the consolidated balance sheets **. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed** . Because of changing economic and market conditions affecting issuers, we may be required to record provisions for credit losses in future periods, which could have a material adverse effect on our business, financial condition or results of operations. Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock. We are unlikely to sustain our historical rate of growth and may not even be able to expand our business at all. Further, our growth in prior years may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected. We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired. Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that our existing capital (which well exceeds the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earnings levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital. Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired, our business, financial condition, results of operations and prospects may be adversely affected, and our stock price may decline. Our growth and expansion strategy may not be successful, and our market value and profitability may suffer. Growth through the acquisition of banks or specific bank assets or liabilities, including FDIC- assisted transactions, and de novo branching represent important components of our business strategy. Bank acquisitions are subject to regulatory approval, and we cannot assure that we will be able to obtain approval for a proposed acquisition in a timely manner or at all. Any future acquisitions we might make will also be accompanied by other risks commonly encountered in acquisitions. These risks include, among other things: • credit risk associated with the acquired bank' s loans and investments; • the use of inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets; • the potential exposure to unknown or contingent liabilities related to the acquisition; • the time and expense required to integrate an acquisition; • the effectiveness of integrating operations, personnel and customers; • risks of impairment to goodwill or other than temporary impairment; and • potential disruption of our ongoing business. We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions. We may continue to have opportunities from time to time to acquire the assets and liabilities of failed banks in FDIC- assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for integration of an acquired institution, we may face additional risks in FDIC- assisted transactions. These risks include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. In addition to the acquisition of existing financial institutions or their assets or liabilities, as opportunities arise, we may grow through de novo branching. De novo branching, and any acquisition carry with them numerous risks, including the following: • the inability to obtain all required regulatory approvals; • the significant upfront costs and anticipated operating losses associated with establishing a de novo branch or a new bank; • the inability to secure the services of qualified senior management; • the local market receptivity for branches established or banks acquired outside of those markets in which we currently maintain a material presence; • the local economic conditions within the market to be served by the de novo branch or new bank; • the inability to obtain attractive locations within a new market at a reasonable cost; and • the additional strain on management resources and internal systems and controls. We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC- assisted transactions) and de novo branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability. If we acquire additional banks or bank assets in the future, there may be undiscovered risks or losses associated with such acquisitions which would have a negative impact upon our future income. Our growth strategy includes strategic acquisitions of banks or bank assets. We have acquired 23 banks since we started our first subsidiary bank in 1999, including a total of 18 banks since 2010. We completed the acquisition of Happy Bancshares, headquartered in Amarillo, Texas, during the second quarter of 2022. We will continue to consider future strategic acquisitions, with a primary focus on Texas, Arkansas, Florida, Alabama and other nearby markets. In most cases, our acquisition of a bank includes the acquisition of all or a substantial portion of the target bank' s assets and liabilities, including all or a substantial portion of its loan portfolio, although we have in the past acquired and may in the future acquire specific lending divisions or loan portfolios. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or our determination of the fair value of any such loan may be inadequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in our allowance for credit losses, which would have a negative impact upon our financial condition and results of operations. If the goodwill that we may record or have recorded in connection with a business acquisition becomes impaired, it could require charges to earnings. When we acquire a business, a portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, ~~2022~~ **2023** , our goodwill and other identifiable intangible assets were $ 1. ~~46~~ **45** billion. Under current accounting standards, if we determine goodwill or intangible assets are impaired because, for example, the acquired business does not meet projected revenue targets or certain key employees leave, we are required to write down the carrying value of these assets. We conduct a review at least annually to determine whether goodwill is impaired. Our annual goodwill impairment evaluation performed during the fourth quarter of ~~2022~~ **2023** indicated no impairment of goodwill for our reporting segments. We cannot provide assurance, however, that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price. Competition from other financial institutions and financial service providers may adversely affect our profitability. We face substantial competition in all phases of our operations from a variety of different competitors. We experience strong competition, not only from commercial banks, savings and loan associations and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial services providers operating in or near our market areas. We compete with these institutions both in attracting deposits and in making loans. Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification. Due to their size, larger competitors can achieve economies of scale and may offer a broader range of products and services or more attractive pricing than us. If we are unable to offer competitive products and services, our business may be negatively affected. Many of our competitors are not subject to the same degree of regulation that we are as an FDIC- insured institution, which gives them greater operating flexibility and reduces their expenses relative to ours. As a result, these non- bank competitors have certain advantages over us in accessing funding and in providing various services. We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid- sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results. We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements and innovations. The financial services industry continues to undergo rapid technological changes, ~~with~~ **including the development and use of artificial intelligence (" AI").** ~~frequent~~ **Frequent** introductions of new technology- driven products and services, including innovative ways that customers can make payments or manage their accounts, such as through the use of digital wallets or digital currencies **, are continually occurring** . In addition to better serving customers, 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 convenience, as well as to create additional efficiencies in our operations. **New and evolving AI use, including generative AI, may make us susceptible to uncertain risks and may require additional**

investment to develop responsible use frameworks. Many of our 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 clients, which may adversely affect our results of operations and future prospects. A failure in or breach of our operational or security systems, or those of our third- party service providers, including as a result of cyber- attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems ~~could be~~ **are increasingly** threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber- attacks, electronic fraudulent activity or attempted theft of financial assets. Our information systems have from time to time experienced such interruptions or breaches despite our best efforts to prevent them. We cannot assure you that any future failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed **, or that any such events that have occurred or may occur in the future will not result in material harm to our business, operations, reputation or profitability** . While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures. Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance. ~~Future hurricanes~~ **We may incur losses as a result of unforeseen** or ~~other adverse~~ **catastrophic events, including extreme** weather events ~~could negatively affect our~~ **or other natural disasters** ~~local economies or disrupt our operations, which would have an adverse effect on us~~. As illustrated in recent years by the impact of Hurricanes ~~Irma,~~ Michael ~~and~~ **,** Ian ~~,~~ **and Idalia** our markets in Alabama and Florida, like other coastal areas, are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage that may be caused by future **unforeseen catastrophic events, including** hurricanes ~~or~~ **,** other **extreme** weather events **and natural disasters,** will affect our operations or the economies in our market areas, but such ~~weather~~ events could result in a decline in loan originations, a decline in the value or destruction of properties or other collateral securing our loans and an increase in the delinquencies, foreclosures and loan losses. Our business or results of operations may be adversely affected by these and other negative effects of **such** ~~hurricanes or other significant weather~~ events. We may incur environmental liabilities with respect to properties to which we take title. A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. In addition, we acquire branches and real estate in connection with our acquisitions of banks. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean- up costs incurred by those parties in connection with environmental contamination or may be required to investigate or clean- up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition. Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations. We depend to a significant extent on relationships with third party service providers. Specifically, we utilize third- party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third- party service providers. If these third- party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third- party vendors, particularly vendors providing our core banking, credit card and debit card services, in a timely manner if they were unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third- party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber- attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations. Our earnings could be adversely impacted by incidences of fraud and compliance failure. Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of our bank subsidiary, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio. Risks Related to Owning Our Stock The rights of our common shareholders are subordinate to the holders of any debt securities that we may issue from time to time and may be subordinate to the holders of any series of preferred stock that may issue in the future. On January 18, 2022, we issued $ 300. 0 million of 3. 125 % fixed- to- floating rate subordinated notes, which mature in 2032, and on April 1, 2022, the Company acquired $ 140. 0 million of subordinated notes from Happy, which mature in 2030 and carry a fixed rate of 5. 500 % for the first five years. Thereafter, the notes bear interest at 3- month Secured Overnight Funding Rate (SOFR) plus 5. 345 %, resetting quarterly. Because these subordinated notes are senior to our shares of common stock, in the event of our bankruptcy, dissolution or liquidation, the holders of any such subordinated notes then outstanding must be satisfied before any distributions can be made to the holders of our common stock. Our board of directors has the authority to issue in the aggregate up to 5, 500, 000 shares of preferred stock, and to incur senior or subordinated indebtedness, generally without shareholder approval. Our preferred stock could be issued with voting, liquidation, dividend and other rights that may be superior to the rights of our common stock. In addition, like our outstanding subordinated debentures, any future indebtedness that we incur would be expected to be senior to our common stock with respect to payment upon liquidation, dissolution or winding up. Accordingly, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock. We may be unable to, or choose not to, pay dividends on our common stock. Although we have paid a quarterly dividend on our common stock since 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others: • We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends. • Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization' s expected future needs and financial condition. • Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures. • Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy. If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our bank subsidiary becomes unable, due to regulatory restrictions, capital planning needs or otherwise, to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our bank subsidiary could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.