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

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

~~partnered with existing banks to allow them to offer deposit products to their customers. The loss of revenue streams and the reduction of lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. External funding which we rely on, in part, to provide liquidity may not be available to us on favorable terms or at all. Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. We rely on deposits, repurchase agreements, advances from the Federal Home Loan Bank (FHLB) of Dallas, the FHLB of Topeka and other borrowings to meet our liquidity demands. If we were unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows and liquidity, and level of regulatory- qualifying capital. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. Our earnings are subject to interest rate risk. Interest rates 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 FRB. Changes in monetary policy, interest rates, the yield curve, or market risk spreads, a prolonged inverted yield curve or instability in domestic or foreign financial markets could negatively influence the interest we receive on loans and securities, as well as the amount of interest we pay on deposits and borrowings. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. We may be adversely impacted by the transition from LIBOR as a reference rateThe United Kingdom' s Financial Conduct Authority announced that after 2021 it will no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate (" LIBOR "). This means that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021, however, certain USD LIBOR rates will continue to be published until June 30, 2023. 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 for contracts governed by U. S. law that have no or ineffective fallbacks, and in December 2022, the FRB 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. We have various loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk, even though our loan documents contain mitigating language around rates in the event LIBOR is phased out. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations. We are subject to or may become subject to extensive government regulation and supervision. Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. These regulations affect our lending practices, capital structure, investment practices, dividend policy, data 25and privacy protection policies and growth, among other things. The statutory and regulatory framework under which we operate has changed substantially over the years, and will likely continue to do so. These changes and other changes to statutes and regulations, including changes in the interpretation or implementation of statutes, regulations or policies, could affect our operations in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and / or increase the ability of non- banks to offer competing financial services and products. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and / or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. Our potential future acquisitions and branch expansion could be adversely affected by a number of factors. Acquisitions of other financial institutions and branch expansion have been a key element of our growth in the past. There are a number of factors that may impact our ability to continue to grow through acquisition transactions, including strong competition from other financial institutions who are active or potential acquirers of financial institutions in our existing or future markets. Acquisitions of other financial institutions and new branches must be approved by bank regulators and such approvals are dependent on many factors, including the results of regulatory examinations and CRA ratings. We rely heavily on our chief executive officer. We have experienced substantial growth in assets and deposits, particularly since Dennis E. Nixon became our President in 1979. We do not have an employment agreement with Mr. Nixon and the loss of his services could have a material adverse effect on our business and prospects. Our information systems may experience an interruption or breach in security. We rely heavily on communications and information systems to conduct our business. Our products and services involve the gathering, storage and transition of sensitive information regarding our customers and their accounts. While we conduct our own data processing, we are reliant on certain external~~

~~vendors to provide products and services necessary to maintain our day to day operations. As a financial institution we are also subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as our own internal privacy and information security policies and programs. If our information systems or infrastructure experience a significant disruption or breach, it could lead to unauthorized access to personal or confidential information of our customers in our possession and unauthorized access to our proprietary information, methodologies and business secrets. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. In addition, if our partners, vendors, or other market participants experience a disruption or breach, it could lead to unauthorized transactions on our or our customer accounts, or unauthorized access to personal or confidential information maintained by those entities. The occurrence of any failures, interruptions or security breaches of these information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. Additional capital or funding to increase liquidity levels may not be available when needed or at all. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside our control, and our financial performance. We have historically had access to a number of alternative sources of liquidity, but if there is an increase in volatility in the credit and liquidity markets, there is no assurance that we will be able to obtain such liquidity on terms that are favorable to us, or at all. If we were unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows and liquidity, and level of regulatory- qualifying capital. 26Our holding company relies on dividends from our Subsidiary Banks for most of our revenue. Our holding company receives substantially all of our revenue from dividends from our Subsidiary Banks. These dividends are the principal source of funds to pay dividends on our common stock to shareholders of our holding company, as well as interest and principal on our holding company' s debt. Various federal and / or state laws and regulations limit the amount of dividends that our Subsidiary Banks may pay to our holding company. Our Subsidiary Banks' ability to pay dividends to us is subject to, among other thing, their earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to our holding company and Subsidiary Banks which limit the amount that may be paid as dividends without prior regulatory approval, including a statutory requirement that our holding company serve as a source of financial strength for our Subsidiary Banks. Although our holding company has historically declared semi- annual cash dividends on our common stock, we are not required to do so and may reduce or cease to pay common stock dividends in the future. If we reduce or cease to pay common stock dividends, the market price of our common stock could be adversely affected. Severe weather, natural disasters, pandemics, acts of war or terrorism and other external events could significantly impact our business. Severe weather, natural disasters, pandemics, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. These events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and cause us to incur additional expenses. Although we have established disaster~~ recovery policies and procedures, any such event (s) in, near **,** or affecting the markets we serve could have a material adverse effect on our business. An impairment in the carrying value of our goodwill could negatively impact our earnings and capital. Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. If we experience disruption in our business, unexpected significant declines in our operating results, or sustained market capitalization declines, it could result in goodwill impairment charges in the future, which would be recorded as charges against earnings. We performed an annual goodwill impairment assessment as of October 1, ~~2022~~ **2023** . Based on our analyses, we concluded that the fair value of our reporting units exceeded the carrying value of our assets and liabilities and, therefore, goodwill was not considered impaired. Depending on the response of the financial industry to the legal, regulatory **,** and competitive changes related to interchange fees, overdraft services and interest on demand deposit accounts, financial institutions may need to change their policies, procedures **,** and operating plans in the future to compete more effectively. Such changes may require certain financial institutions to take a goodwill impairment charge to account for anticipated reduction in revenue related to such changes, which could have a material adverse effect on our financial condition and results of operation. We are subject to environmental liability risks as a result of certain 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. 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 remediation 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. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations. Our controls and procedures may fail or be circumvented. Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on its system of internal controls. While management regularly reviews and updates our ~~27internal~~ -- **internal** controls, disclosure controls and procedures, and corporate governance policies and procedures, any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition. New lines of business or new products and services may subject us to additional risks. From time to time, we may implement new lines of business or offer new products and services within existing lines of business. In developing and marketing new lines of business and / or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and / or new products may not be achieved and price and profitability targets may not prove feasible. 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. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition. Our accounting estimates and risk management processes rely on analytical and forecasting tools and models. The processes we use to estimate probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical tools and forecasting models. These tools and models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen ~~circumstances~~ **28circumstances** . Even if these assumptions are adequate, the tools or models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. Any such failure in our analytical or forecasting tools or models could have a material adverse effect on our business, financial condition **,** and results of operations. We may be adversely affected by declining crude oil prices. Decreased market oil prices compress margins for many U. S., Texas **,** and Oklahoma- based oil producers, particularly those that utilize higher- cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. Energy production and related industries represent a large part of the economies in some of our primary markets. Furthermore, a prolonged period of low oil prices could also have a negative impact on the U. S. economy and, in particular, the economies of energy dominant states such as Texas and Oklahoma. Accordingly, a prolonged period of low oil prices could have a material adverse effect on our business, financial condition **,** and results of operation. Risks Related to the Company' s IndustryOur success depends significantly on economic conditions in the local markets in which we operate. Our success depends, to a certain extent, on local, national **,** and international economic and political conditions and local, as well as governmental monetary policies. We are particularly affected by conditions in our primary market areas of south, central **,** and southeast Texas, including Austin, Dallas and Houston, the State of Oklahoma and Mexico. If economic conditions in these market areas weaken or worsen due to a decline in oil prices or other factors, or fail to improve or to continue to improve, we could experience an increase in loan delinquencies and non- performing assets, decreases in loan collateral values and a decrease in demand for our products and services, any of which could have a material adverse impact on our financial condition and results of operations. We depend on the accuracy and completeness of information about customers and counterparties as well as the soundness of other financial institutions. In deciding whether to extend credit or enter into other transactions, we may 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, financial institutions or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading ~~28financial~~ -- **financial** statements, credit reports or other financial information or problems with the soundness of other financial institutions with which we interact could have a material adverse impact on our business and our financial condition and results of operations. If we do not adjust to rapid changes in the financial services industry, our financial performance may suffer. Our ability to deliver strong financial performance and returns on investment to shareholders will depend in part on our ability to expand the scope of available financial services to meet the needs and demands of our customers and our ability to stay abreast of technological innovations and evaluate those technologies that will enable us to compete on a cost- effective basis. In addition to traditional banks, our competitors also include securities dealers, brokers, mortgage bankers, investment advisors, specialty finance and insurance companies who seek to offer one- stop financial services that may include services that banks have not been able or allowed to offer to their customers in the past. The continued competitive environment in our industry is primarily a result of changes in regulation, technology **,** and product delivery systems, and the accelerating pace of consolidation among financial service providers. Changes in the financial industry may result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. Further, the costs of new technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that our technology will meet or continue to meet our operational needs and the needs of our customers. ~~We~~ **29We** are subject to claims and litigation pertaining to intellectual property. Banking and other financial services companies, including us and our Subsidiary Banks, 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. 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 protracted litigation. Such litigation is often expensive, time- consuming, disruptive to our operations, and distracting to management. If legal matters related to intellectual property claims were resolved against us, we could be required to make payments in amounts that could have a material adverse effect on its business, financial condition **,** and results of operations. **Our financial condition, results of operation and stock price may be negatively impacted by negative publicity risk, diminished depositor confidence in depository institutions, and the increased threat of bank- run contagion. A total of five FDIC- insured banks failed between March to November 2023, three of which occurred during a less than two- month period from March to May 2023. The collapse of those banks, coupled with lingering fears of an economic downturn and market instability, have eroded customer confidence in the banking system and caused widespread market volatility among publicly traded bank holding companies. The collapse of those banks, the resulting coverage by media organizations, and the rapid spread through social media of negative sentiments concerning the banking industry have caused customers to doubt the safety and**

soundness of financial institutions, especially regional and community banks, and created a threat of bank- run contagion. Our reputation and the confidence our customers have in our business may be damaged by adverse publicity and negative information regarding the wider financial- services industry generally. As a result, customers may choose to maintain deposits with larger financial institutions, to remove their deposits from the banking system altogether, or to invest in higher yielding, short- term fixed- income securities, which could adversely impact our liquidity, loan funding capacity, net interest margin, and results of operations. Although we have amplified our efforts to promote deposit insurance coverage with our customers, to proactively communicate with our customers in order to address any depository fears they may be experiencing as a result of the unrelated bank failures, and to implement policies for effectively managing our liquidity, deposit portfolio retention and other related matters, our financial condition, results of operation and stock price may be adversely affected by future negative events within the banking industry and negative customer or investor responses to such events. Recent volatility in the banking industry could prompt new legislation, regulations, and policy changes that could cause us to be subjected to additional regulatory oversight and supervision. Negative developments in the banking industry during the past year, culminating in the failures of five banks, have prompted responses by the FDIC, the Federal Reserve, and the U. S. Treasury Secretary to protect the depositors of those failed institutions and to attempt to reinstate diminished public confidence in depository institutions. Congress and federal banking regulators have also intervened by initiating investigations into the root causes of the failures in an attempt to both understand and hold accountable the parties and policies responsible for the rapid banking crisis. Ultimately, congressional and regulatory oversight and supervision may result in the imposition of new legislation, regulations, and policy changes aimed at tightening risk- management practices, heightening standards for managing interest rate and liquidity risks, and minimizing financial contagion. While we cannot predict with certainty what interventions and initiatives legislators and regulatory agencies may pursue, any of the changes described above could affect our operations in substantial and unpredictable ways. Such changes could be subject to additional costs, limit the types of financial services and products we may offer, and / or increase the ability of non- banks to offer competing financial services and products. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties and / or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. 30 The Dodd- Frank Act, the powers of the CFPB, and the FDIC Overdraft Payment Supervisory Guidance may increase the likelihood of lawsuits against financial institutions. The Dodd- Frank Act provides that courts must make preemption determinations on a case- by- case basis with the respect to particular state laws and can no longer rely on blanket preemption determinations. Also, the CFPB is authorized to protect consumers from " unfair, " " deceptive " and " abusive " acts and practices. Depending on the future actions of the CFPB, the likelihood of lawsuits against financial institutions related to allegedly " unfair, " " deceptive " and " abusive " acts and practices could increase. Moreover, the costs related to such lawsuits would be significantly increased if the CFPB restricts the use of arbitration and / or class action waivers in consumer banking contracts. ~~29Risks~~ -- **Risks** Related to the Company' s StockThe trading price of our common stock may be volatile. The trading price of our common stock has fluctuated over time due in part to actual or anticipated variations in our earnings, changes in government regulations, policies and guidance, news reports of trends, concerns and other issues related to the financial services industry, operating and stock performance of our peer companies, new technology used or services offered by traditional and non- traditional competitors, continued low trading volume in our common stock ~~,~~ **and** the impact of short **-** selling activity in our common stock ~~and reports of trends, concerns and other issues related to the financial services industry~~ . Moreover, general market price declines or market volatility in the future could adversely affect the trading price of our common stock. The holders of our junior subordinated debentures have rights that are senior to those of our shareholders. As of December 31, ~~2022~~ **2023** , we had approximately $ ~~134~~ **108** million in junior subordinated debentures outstanding that were purchased by our statutory trusts using the proceeds from the sale of trust preferred securities to third party investors. The junior subordinated debentures are senior to our shares of common stock. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us to the extent not paid or made by each trust. We must make payments on the junior subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock. While we have the right to defer interest payments on the junior subordinated debentures at any time no dividends may be paid to holders of our common stock during any such deferral, which could cause the trading price of our stock to decline. Item 1B. Unresolved Staff CommentsN / AItem ~~2~~ **1C** . ~~PropertiesOur principal offices~~ **CybersecurityRisk Management and StrategyAs a financial institution in today' s digital landscape, we understand that cybersecurity and data protection** are ~~located at 1200 San Bernardo Avenue~~ **of paramount importance to our business** , ~~Laredo~~ **our customers** , ~~Texas~~ and ~~2418 Jacaman Road~~ **our reputation. With the proliferation of online banking and the digitalization of financial services** , ~~Laredo, Texas in buildings~~ we ~~own~~ **recognize that our policies** and ~~completely occupy and containing approximately 147, 000 square feet~~ **procedures for safeguarding sensitive customer data must be as sophisticated as the cyber threats we are defending against** . ~~The Subsidiary Banks~~ **Accordingly, cybersecurity is a high- priority component of our overall risk- management system and risk- control infrastructure. We** have ~~main banking~~ **implemented robust, multi- layer security procedures** and ~~branch facilities~~ **defense strategies that aim to proactively mitigate cyber risks, enable our early detection and prevention of security incidents, minimize our vulnerability to attacks, and protect us from both internal and external cybersecurity threats** . ~~All~~ **Commensurate with** the ~~facilities~~ **risks we face and the sensitivity of the data and systems we** are **protecting** ~~customary to the banking industry. The Subsidiary Banks own most of their banking facilities and the remainder are leased. The facilities are located in the regions of Laredo~~ , ~~San Antonio, Austin, Dallas, Houston, Zapata, Eagle Pass, the Rio Grande Valley of Texas, the Coastal Bend area of Texas, and throughout the State of Oklahoma. None of our Texas state chartered Subsidiary Banks, without the prior written consent of the Texas Banking Commissioner, may invest in an amount in excess of its Tier 1 capital in bank facilities, furniture,~~

~~fixtures and equipment. Our Oklahoma state chartered Subsidiary Bank, without the prior written consent of the Oklahoma Banking Commissioner, may not invest in an amount in excess of its Tier 1 and Tier 2 capital in bank facilities, furniture, fixtures and equipment. None of the Subsidiary Banks exceeds such applicable limitation. Item 3. Legal ProceedingsWe and our subsidiaries are involved in various legal proceedings that are in various stages of litigation. We and our subsidiaries have determined, based on discussions with our counsel that any material loss in such actions, individually or~~ **our Information Systems Security Program (ISSP) includes layers** ~~in the aggregate, is remote or the damages sought, even if fully recovered, would not be considered material to our consolidated financial position or results~~ of ~~operations. Many of~~ **administrative and technical safeguards designed to protect** ~~these~~ -- **the confidentiality** ~~matters are in various stages of proceedings~~ and **integrity** ~~further developments could cause management to revise our assessment~~ of **sensitive** ~~these matters. Further~~ information **belonging** ~~regarding legal proceedings has been provided in Note 16 of the Notes~~ to **us** ~~consolidated financial statements located on page 63 of the 2022 Annual Report to Shareholders which is Exhibit 13 hereto~~ and ~~incorporated herein by reference. 30~~ **our employees, partners, and 31**