

Risk Factors Comparison 2025-02-27 to 2024-02-26 Form: 10-K

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~~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, ~~2023~~ **2024**. 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 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~~ **considerable** 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~~ **circumstances**. 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~~ **30** ~~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 Industry Our 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 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. ~~29~~ **We** 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~~ **31** ~~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, **and two more failed in 2024**. 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 depositor 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 2023 and 2024**, culminating in the failures of ~~five~~ **seven** 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.

The imposition of new or increased international tariffs may have a material adverse effect on our business, financial condition, and results of operations. We do a significant amount of business for customers domiciled in Mexico, with an emphasis in Northern Mexico. Deposits from persons and entities domiciled in Mexico comprise a large and stable portion of the deposit base of our Subsidiary Banks, and some of our Subsidiary Banks are highly active in facilitating international trade along the United States border with Mexico and elsewhere. The imposition of tariffs and trade restrictions by the United States on Mexico may weaken the Mexican economy, reduce cross-border trade, and ultimately negatively impact the financial wellbeing of our customer base in Mexico, potentially leading to lower deposit balances or increased withdrawals from our depositors domiciled in Mexico. In turn, a decline in our deposit base and liquidity could strain our ability to compete with other financial institutions that are less reliant on cross-border deposits. Furthermore, in response to any increase in geopolitical tensions or strained U. S. – Mexico relations, depositors from Mexico may seek alternative financial institutions that they consider to be more integrated within the Mexican financial industry, which could cause us to face increased competition. Declined economic activity in Mexico and cross-border trade resulting from the imposition of tariffs and trade restrictions may lead to lower deposit balances, increase the likelihood of loan defaults, and reduce the demand for the banking products and services that our Subsidiary Banks provide to customers domiciled in Mexico, reducing the circulating of money in our border communities as well as the major cities in Texas. Macroeconomic conditions could have a material adverse effect on our business, results of operations, and financial condition. Unfavorable macroeconomic conditions, including low productivity growth, declining business investment, inflationary pressures, fluctuating interest rates, concerns regarding the imposition of tariffs (including retaliatory tariffs in response to tariffs imposed by the United States), concerns regarding the level of U. S. debt, shifts in monetary and fiscal policy, strained international trade relations, and heightened geopolitical pressures, could negatively impact our business, results of operations, and financial condition. Economic downturns may cause reduced consumer and business banking activity, lower loan demand, increased credit risk, and higher loan deficiencies. Trade policies like tariffs and retaliatory measures, as well as geopolitical tensions in the U. S. and global markets, may cause disruptions to economic stability, affect businesses that participate in international trade, and increase market volatility. Economic and inflationary pressure on consumers and prolonged uncertainty in the macroeconomic environment could result in changes in the spending, borrowing, and savings habits of consumers and businesses and may also weaken investor confidence, reduce capital markets activity, and increase regulatory scrutiny, all of which could have a material adverse effect on our business, financial condition, and results of operations.

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. 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, ~~2023~~ **2024**, we had approximately \$ 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 33~~ **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 Comments N / A Item 1C.

Cybersecurity Risk Management and StrategyAs a financial institution in today’s digital landscape, we understand that cybersecurity and data protection are of paramount importance to our business, our customers, and our reputation. With the proliferation of online banking and the digitalization of financial services, we recognize that our policies and procedures for safeguarding sensitive customer data must be as sophisticated as the cyber threats we are defending against. Accordingly, cybersecurity is a high-priority component of our overall risk-management system and risk-control infrastructure. We have implemented robust, multi-layer security procedures and 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. Commensurate with the risks we face and the sensitivity of the data and systems we are protecting, our Information Systems Security Program (ISSP) includes layers of administrative and technical safeguards designed to protect the confidentiality and integrity of sensitive information belonging to us and our employees, partners, and ~~31~~ **customers, to guard against the unauthorized access, alteration, disclosure, or destruction of that information, and to defend that information from potential, known, emerging, and evolving security risks. We have established multiple control points within our security infrastructure to reduce the risks associated with embedded technologies that could fail or be manipulated by nefarious actors, to prevent the intentional and unintentional infiltration of cybersecurity threats, and to maximize their separation from our sensitive information systems and assets. In developing our ISSP, our policies, standards, and procedures were heavily informed by and incorporated provisions from various sources of statutory and regulatory guidance as well as numerous leading industry frameworks, including the NIST Cybersecurity**

Framework, various NIST special publications, the Fair Information Practice Principles established by the Federal Privacy Council, the Privacy Management Framework developed by the American Institute of Certified Public Accountants, and the Center for Internet Security's Critical Security Controls. As part of our ISSP and strategy for managing cybersecurity risks, we have adopted the following cybersecurity policies: · Enterprise Information Systems Security Policy, which, among other objectives, prescribes a comprehensive framework for creating a practice-based Information Security Management System; protecting the confidentiality, integrity, and availability of our data and systems; providing for the development, review, maintenance, and ability to ensure the effectiveness of minimum security controls required to protect our data and systems; and recognizing the highly-networked nature of the current computing environment to provide effective company-wide management and oversight of related cybersecurity risks; · Corporate Account Takeover Policy, which serves to mitigate the risks of corporate account takeover crimes and to document our compliance with the Texas Department of Banking's Supervisory Memorandum 1029 on "Risk Management of Account Takeovers," dated September 30, 2019, and the FFIEC's guidance on "Authentication and Access to Financial Institution Services and Systems," dated August 11, 2021; · Vendor Management Policy, which provides a risk-based process for identifying, measuring, monitoring, and managing third-party relationships with new and existing vendors by requiring an assessment, categorization, and ranking of the risks associated with each third-party vendor and implements a third-party risk-management 34