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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2021

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _to

Commission file number 0-7674

FIRST FINANCIAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas	**75-0944023**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
400 Pine Street, Abilene, Texas	**79601**
(Address of principal executive offices)	**(Zip Code)**

(325) 627-7155
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**FFIN**	**The Nasdaq Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, anon-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2of the Act). Yes ☐ No ☒

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

Class	Outstanding at November 2, 2021
Common Stock, $0.01 par value per share	142,473,153

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. and Subsidiaries (the "Company" or "we") at September 30, 2021 and 2020 (unaudited) and December 31, 2020, and the consolidated statements of earnings, comprehensive earnings and shareholders' equity for the three and nine-months ended September 30, 2021 and 2020 (unaudited), and the consolidated statements of cash flows for the nine-months ended September 30, 2021 and 2020 (unaudited) and notes to consolidated financial statements (unaudited), follow on pages 4 through 38.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	September 30, 2021	September 30, 2020	December 31, 2020
	(Unaudited)		
ASSETS			
CASH AND DUE FROM BANKS	$ 201,901	$ 175,088	$ 211,113
INTEREST-BEARING DEMAND DEPOSITS IN BANKS	359,241	58,933	517,971
Total cash and cash equivalents	561,142	234,021	729,084
SECURITIES AVAILABLE-FOR-SALE, at fair value (amortized cost of these securities was $5,981,374, $4,238,624 and $4,177,179 as of September 30, 2021 and 2020 and December 31, 2020, respectively)	6,119,984	4,431,280	4,393,029
LOANS:			
Held-for-investment, excluding PPP loans	5,147,160	4,589,948	4,687,370
PPP loans	139,334	703,731	483,663
Total loans held-for-investments	5,286,494	5,293,679	5,171,033
Less—allowance for credit losses	(63,370)	(76,038)	(66,534)
Net loans held-for-investment	5,223,124	5,217,641	5,104,499
Held-for-sale ($46,081, $94,666 and $79,585 at fair value at September 30, 2021 and 2020 and December 31, 2020, respectively)	47,721	101,055	83,969
BANK PREMISES AND EQUIPMENT, net	147,516	141,002	142,269
INTANGIBLE ASSETS, net	317,170	318,875	318,392
OTHER ASSETS	126,601	123,778	133,258
Total assets	$ 12,543,258	$ 10,567,652	$ 10,904,500
LIABILITIES AND SHAREHOLDERS' EQUITY			
NONINTEREST-BEARING DEPOSITS	$ 3,574,405	$ 2,950,407	$ 2,982,697
INTEREST-BEARING DEPOSITS	6,318,712	5,344,481	5,693,120
Total deposits	9,893,117	8,294,888	8,675,817
DIVIDENDS PAYABLE	21,380	18,476	18,484
BORROWINGS	648,679	503,163	430,093
TRADE DATE PAYABLES	174,236	53,730	14,641
OTHER LIABILITIES	72,111	77,894	87,275
Total liabilities	10,809,523	8,948,151	9,226,310
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
COMMON STOCK — ($0.01 par value, authorized 200,000,000 shares; 142,467,687, 142,121,595 and 142,161,834 shares issued at September 30, 2021 and 2020 and December 31, 2020, respectively)	1,425	1,421	1,422
CAPITAL SURPLUS	675,139	668,815	669,644
RETAINED EARNINGS	947,724	797,202	836,729
TREASURY STOCK (shares at cost: 937,803, 934,859 and 938,591 at September 30, 2021 and 2020 and December 31, 2020, respectively)	(9,876)	(8,780)	(9,126)
DEFERRED COMPENSATION	9,876	8,780	9,126
ACCUMULATED OTHER COMPREHENSIVE EARNINGS, net	109,447	152,063	170,395
Total shareholders' equity	1,733,735	1,619,501	1,678,190
Total liabilities and shareholders' equity	$ 12,543,258	$ 10,567,652	$ 10,904,500

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS—(UNAUDITED)
(Dollars in thousands, except per share amounts)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2021	2020	2021	2020
INTEREST INCOME:				
Interest and fees on loans	$ 70,588	$ 66,372	$ 203,902	$ 195,299
Interest on investment securities:				
Taxable	12,122	12,063	33,834	40,748
Exempt from federal income tax	14,249	12,877	42,058	34,721
Interest on federal funds sold and interest-bearing demand deposits in banks	239	61	616	903
Total interest income	97,198	91,373	280,410	271,671
INTEREST EXPENSE:				
Interest on deposits	1,340	2,063	4,595	11,293
Other	76	100	260	1,030
Total interest expense	1,416	2,163	4,855	12,323
Net interest income	95,782	89,210	275,555	259,348
PROVISION FOR CREDIT LOSSES	—	9,000	(3,203)	27,550
Net interest income after provisions for credit losses	95,782	80,210	278,758	231,798
NONINTEREST INCOME:				
Trust fees	9,484	7,461	26,475	21,859
Service charges on deposit accounts	5,673	5,009	15,394	15,242
ATM, interchange and credit card fees	9,793	8,644	28,323	24,093
Gain on sale and fees on mortgage loans	8,788	15,228	26,973	32,756
Net gain on sale of available-for-sale securities	1	36	814	3,610
Net gain on sale of foreclosed assets	27	19	83	72
Net gain (loss) on sale of assets	(6)	(2)	213	90
Interest on loan recoveries	1,746	202	2,832	621
Other	2,220	1,978	6,166	5,883
Total noninterest income	37,726	38,575	107,273	104,226
NONINTEREST EXPENSE:				
Salaries, commissions and employee benefits	37,090	33,649	107,067	94,105
Net occupancy expense	3,288	3,193	9,676	9,321
Equipment expense	2,450	2,157	6,791	6,242
FDIC insurance premiums	815	587	2,282	1,095
ATM, interchange and credit card expenses	2,935	2,829	8,746	8,424
Professional and service fees	2,406	2,237	6,936	7,327
Printing, stationery and supplies	432	615	1,246	1,714
Operational and other losses	1,087	621	1,908	1,925
Software amortization and expense	2,855	2,265	8,303	6,299
Amortization of intangible assets	398	490	1,222	1,507
Other	9,183	6,950	25,859	26,274
Total noninterest expense	62,939	55,593	180,036	164,233
EARNINGS BEFORE INCOME TAXES	70,569	63,192	205,995	171,791
INCOME TAX EXPENSE	11,641	10,335	33,770	28,233
NET EARNINGS	$ 58,928	$ 52,857	$ 172,225	$ 143,558
NET EARNINGS PER SHARE, BASIC	$ 0.41	$ 0.37	$ 1.21	$ 1.01
NET EARNINGS PER SHARE, DILUTED	$ 0.41	$ 0.37	$ 1.20	$ 1.01
DIVIDENDS PER SHARE	$ 0.15	$ 0.13	$ 0.43	$ 0.38

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS—(UNAUDITED)
(Dollars in thousands)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2021	2020	2021	2020
NET EARNINGS	$ 58,928	$ 52,857	$ 172,225	$ 143,558
OTHER ITEMS OF COMPREHENSIVE EARNINGS:				
Change in unrealized gain on investment securities available-for-sale, before income taxes	(34,224)	1,083	(76,335)	110,644
Reclassification adjustment for realized gains on investment securities included in net earnings, before income taxes	(1)	(36)	(814)	(3,610)
Total other items of comprehensive earnings	(34,225)	1,047	(77,149)	107,034
Income tax benefit (expense) related to:				
Change in unrealized gain on investment securities available-for-sale	7,186	(227)	16,029	(23,235)
Reclassification adjustment for realized gains on investment securities included in net earnings	-	7	172	758
Total income tax benefit (expense)	7,186	(220)	16,201	(22,477)
COMPREHENSIVE EARNINGS	$ 31,889	$ 53,684	$ 111,277	$ 228,115

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	Earnings	Equity
Balances at June 30, 2020 (unaudited)	142,035,396	$ 1,420	$ 666,963	$ 762,830	(932,018)	$ (8,697)	$ 8,697	$ 151,236	$ 1,582,449
Net earnings (unaudited)	—	—	—	52,857	—	—	—	—	52,857
Stock option exercises (unaudited)	86,199	1	1,508	—	—	—	—	—	1,509
Cash dividends declared, $0.13 per share (unaudited)	—	—	—	(18,485)	—	—	—	—	(18,485)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	827	827
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(2,841)	(83)	83	—	—
Stock option expense (unaudited)	—	—	344	—	—	—	—	—	344
Balances at September 30, 2020 (unaudited)	142,121,595	$ 1,421	$ 668,815	$ 797,202	(934,859)	$ (8,780)	$ 8,780	$ 152,063	$ 1,619,501
Balances at June 30, 2021 (unaudited)	142,359,774	$ 1,424	$ 672,288	$ 910,171	(938,629)	$ (9,641)	$ 9,641	$ 136,486	$ 1,720,369
Net earnings (unaudited)	—	—	—	58,928	—	—	—	—	58,928
Stock option exercises (unaudited)	107,796	1	2,057	—	—	—	—	—	2,058
Restricted stock grant/fortfeiture, net (unaudited)	117	—	498	—	—	—	—	—	498
Cash dividends declared, $0.15 per share (unaudited)	—	—	—	(21,375)	—	—	—	—	(21,375)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(27,039)	(27,039)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	826	(235)	235	—	—
Stock option expense (unaudited)	—	—	296	—	—	—	—	—	296
Balances at September 30, 2021 (unaudited)	142,467,687	$ 1,425	$ 675,139	$ 947,724	(937,803)	$ (9,876)	$ 9,876	$ 109,447	$ 1,733,735

(continued)

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	Earnings	Equity
Balances at December 31, 2019	135,891,755	$ 1,359	$ 450,676	$ 707,656	(927,408)	$ (8,222)	$ 8,222	$ 67,506	$ 1,227,197
Stock issued in acquisition of TB&T Bancshares, Inc. (unaudited)	6,275,574	63	220,210						220,273
Net earnings (unaudited)	—	—	—	143,558	—	—	—	—	143,558
Stock option exercises (unaudited)	246,919	2	3,988	—	—	—	—	—	3,990
Restricted stock grant (unaudited)	32,149	—	913	—	—	—	—	—	913
Cash dividends declared, $0.38 per share (unaudited)	—	—	—	(54,012)	—	—	—	—	(54,012)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	84,557	84,557
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(7,451)	(558)	558	—	—
Stock option expense (unaudited)	—	—	1,033	—	—	—	—	—	1,033
Shares repurchased under stock repurchase authorization (unaudited)	(324,802)	(3)	(8,005)	—	—	—	—	—	(8,008)
Balances at September 30, 2020 (unaudited)	142,121,595	$ 1,421	$ 668,815	$ 797,202	(934,859)	$ (8,780)	$ 8,780	$ 152,063	$ 1,619,501
Balances at December 31, 2020	142,161,834	$ 1,422	$ 669,644	$ 836,729	(938,591)	$ (9,126)	$ 9,126	$ 170,395	$ 1,678,190
Net earnings (unaudited)	—	—	—	172,225	—	—	—	—	172,225
Stock option exercises (unaudited)	273,167	3	4,673	—	—	—	—	—	4,676
Restricted stock grant/fortfeiture, net (unaudited)	32,686	—	(165)	—	—	—	—	—	(165)
Cash dividends declared, $0.43 per share (unaudited)	—	—	—	(61,230)	—	—	—	—	(61,230)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(60,948)	(60,948)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	788	(750)	750	—	—
Stock option expense (unaudited)	—	—	987	—	—	—	—	—	987
Balances at September 30, 2021 (unaudited)	142,467,687	$ 1,425	$ 675,139	$ 947,724	(937,803)	$ (9,876)	$ 9,876	$ 109,447	$ 1,733,735

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(UNAUDITED)
(Dollars in thousands)

	Nine-Months Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 172,225	$ 143,558
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	9,746	9,493
Provision for credit losses	(3,203)	27,550
Securities premium amortization, net	48,333	28,586
Discount accretion on purchased loans	(1,771)	(3,209)
Gain on sale of assets, net	(1,110)	(3,882)
Deferred federal income tax benefit	3,017	7,080
Change in loans held-for-sale	34,562	(69,987)
Change in other assets	6,308	(13,064)
Change in other liabilities	(2,237)	8,780
Total adjustments	93,645	(8,653)
Net cash provided by operating activities	265,870	134,905
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received in acquisition of TB&T Bancshares, Inc.	—	61,028
Activity in available-for-sale securities:		
Sales	10,631	263,042
Maturities	8,270,218	5,851,760
Purchases	(9,972,985)	(6,902,770)
Net increase in loans held-for-investment	(110,404)	(653,105)
Purchases of bank premises and equipment	(14,282)	(12,539)
Proceeds from sale of bank premises and equipment and other assets	785	1,192
Net cash used in investing activities	(1,816,037)	(1,391,392)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	591,708	647,454
Net increase in interest-bearing deposits	625,592	494,503
Net increase in borrowings	218,586	121,807
Common stock transactions:		
Proceeds from stock option exercises	4,673	3,990
Dividends paid	(58,334)	(51,842)
Repurchase of stock	—	(8,008)
Net cash provided by financing activities	1,382,225	1,207,904
NET DECREASE IN CASH AND CASH EQUIVALENTS	(167,942)	(48,583)
CASH AND CASH EQUIVALENTS, beginning of period	729,084	282,604
CASH AND CASH EQUIVALENTS, end of period	$ 561,142	$ 234,021
SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:		
Interest paid	$ 4,938	$ 12,466
Federal income taxes paid	31,073	33,534
Transfer of loans to other real estate	296	45
Investment securities purchased but not settled	174,236	53,730
Stock issued in acquisition of TB&T Bancshares, Inc.	—	220,273

See notes to consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

First Financial Bankshares, Inc. (a Texas corporation) ("Bankshares", "Company," "we" or "us") is a financial holding company which owns all of the capital stock of one bank with 78 locations located in Texas as of September 30, 2021. The Company's subsidiary bank is First Financial Bank, N.A. The Company's primary source of revenue is providing loans and banking services to consumers and commercial customers in the market area in which First Financial Bank, N.A. is located. In addition, the Company also owns First Financial Trust & Asset Management Company, N.A., First Financial Insurance Agency, Inc. and First Technology Services, Inc.

Basis of Presentation

A summary of significant accounting policies of the Company and its subsidiaries applied in the preparation of the accompanying consolidated financial statements follows. The accounting principles followed by the Company and the methods of applying them are in conformity with both United States generally accepted accounting principles ("GAAP") and prevailing practices of the banking industry.

The Company evaluated subsequent events for potential recognition through the date the consolidated financial statements were issued.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include its allowance for credit losses and its valuation of financial instruments.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Stock Repurchase

On March 12, 2020, the Company's Board of Directors authorized the repurchase of up to 4,000,000 common shares through September 30, 2021. On July 27, 2021, the Company's Board of Directors renewed the prior authorization and authorized the repurchase of up to 5,000,000 common shares through July 31, 2023. The stock repurchase plan authorizes management to repurchase and retire the stock at such time as repurchases and retirements are considered beneficial to the Company and stockholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through September 30, 2021, 324,802 shares were repurchased and retired (all during the months of March and April 2020) totaling $8,008,000 under the prior repurchase plan.

Acquisition

On January 1, 2020, the Company acquired 100% of the outstanding capital stock of TB&T Bancshares, Inc. through the merger of a wholly-owned subsidiary with and into TB&T Bancshares, Inc. Following such merger, TB&T Bancshares, Inc. and its wholly-owned subsidiary, The Bank & Trust of Bryan/College Station, Texas were merged into the Company and First Financial Bank, N.A., respectively. The results of operations of TB&T Bancshares, Inc. subsequent to the acquisition date, are included in the consolidated earnings of the Company. See Note 10 for additional information.

Adoption of New Accounting Standards

On January 1, 2020, ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, became effective for the Company. Accounting Standards Codification ("ASC" Topic 326 ("ASC 326") replaced the previous "incurred loss" model for measuring credit losses with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet ("OBS") credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed by the President of the United States that included an option for entities to delay the implementation of ASC 326 until the earlier of the termination date of the national emergency declaration by the President or December 31, 2020. Under this option, the Company elected to delay its implementation of CECL and calculated and recorded the provision for credit losses through the nine-months ended September 30, 2020 under the incurred loss model. At December 31, 2020, the Company elected to adopt ASC 326, effective as of January 1, 2020, through a transition charge to retained earnings of $589,000 ($466,000 net of applicable

income taxes). This transition adjustment was comprised of a decrease of $619,000 in allowance for credit losses and an increase of $1,208,000 in the reserve for unfunded commitments.

With the adoption of ASC 326, we revised certain accounting policies and implemented certain accounting policy elections which are described below. For the 2020 interim reporting periods, the allowance for credit losses were based on the incurred loss methodology in accordance with accounting policies disclosed in Note 1 of the Consolidated Financial Statements included in the Company's 2019 Form10-K.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, net investment in leases and OBS credit exposures.

The Company adopted ASC 326 using the prospective transition approach for securities for which other-than-temporary impairment had been recognized prior to January 1, 2020. As a result, the amortized cost basis remains the same before and after the effective date of ASC 326. The effective interest rate on these debt securities was not changed.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. For the periods ended September 30, 2021 and 2020, and December 31, 2020, amounts related to the Company's PCD and PCI loans were insignificant and disclosures related to these balances have been omitted.

Other Recently Issued and Effective Authoritative Accounting Guidance

ASU 2017-04, "Intangibles – Goodwill and Other." ASU 2017-04 amended and simplified current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 became effective for the Company on January 1, 2020 and did not have a significant impact on the Company's financial statements.

ASU 2018-13, "Fair Value Measurement (Topic 820). – Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modified the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 remove disclosures that no longer are considered cost beneficial, modify/clarify the specific requirements of certain disclosures, and add disclosure requirements identified as relevant. ASU 2018-13 became effective on January 1, 2020 and did not have a significant impact on the Company's financial statements.

ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU 2019-12, simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intra-period tax aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 was effective for the Company for annual reporting periods after December 15, 2020, and interim periods within. Adoption of ASU 2019-12 did not have a significant impact on the Company's financial statements and related disclosures.

ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not have a significant impact on our financial statements.

ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." ASU 2021-01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2021-01 did not have a significant impact on our financial statements.

Investment Securities

Management classifies debt securities as held-to-maturity, available-for-sale, or trading based on its intent. Securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with unrealized holding gains and losses (those for which no allowance for credit losses are recorded) reported as a component of other comprehensive income, net of tax. Management determines the appropriate classification of securities at the time of purchase. Interest income includes amortization of purchase premiums and discounts over the period to maturity using a level-yield method, except for premiums on callable securities, which are amortized to their earliest call date. Realized gains and losses are recorded on the sale of securities in noninterest income.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of securities and report accrued interest separately in other assets on the consolidated balance sheets. A security is placed on non-accrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on non-accrual is reversed against interest income. There was no accrued interest related to securities reversed against interest income for the three and nine-months ended September 30, 2021 and 2020.

The Company records its available-for-sale securities portfolio at fair value. Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the marketplace as a result of the illiquid market specific to the type of security.

The Company's investment portfolio currently consists of obligations of state and political subdivisions, mortgage pass-through securities, corporate bonds and general obligation or revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third-party pricing services to value its investment securities, which the Company reviews as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with pricing matrices. The Company validates prices supplied by the independent pricing services by comparison to prices obtained from other third-party sources on a quarterly basis.

Allowance for Credit Losses –Available-for-Sale Securities

For available-for-sale securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we 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, any previously recognized allowances are charged-off and the security's amortized cost basis is written down to fair value through income as a provision for credit losses. For available-for-sale securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any 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.

Management has made the accounting policy election to exclude accrued interest receivable on available-for-sale securities from the estimate of credit losses. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses. Available-for-sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Prior to the adoption of ASC 326, declines in the fair value of securities below their cost that were deemed to be other-than-temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to the adoption, management considered, among other things, the length of time and the extent to which the fair value had been less than cost, the financial condition and near-term prospects of the issuer and the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Allowance for Credit Losses – Held-to-Maturity Securities

The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of held-to-maturity securities to present management's best estimate of the net amount expected to be collected. Held-to-maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on held-to-maturity securities from the estimate of credit losses.

At September 30, 2021, 2020 and December 31, 2020, the Company held no securities that were classified as held-to-maturity.

Loans Held-for-Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, fair value hedge accounting adjustments, deferred loan fees and costs. The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and report accrued interest separately from the related loan balance in other assets on the condensed consolidated balance sheets.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company defers and amortizes net loan origination fees and costs as an adjustment to yield.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as

when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, we consider the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to our collateral position. Regulatory provisions would typically require the placement of a loan on non-accrual status if principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or full payment of principal and interest is not expected. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income on non-accrual loans is recognized only to the extent that cash payments are received in excess of principal due. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured.

Prior to the adoption of ASC 326, loans were reported as impaired when, based on then current information and events, it was probable we would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment was evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan was impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis. Impaired loans, or portions thereof, were charged off when deemed uncollectible.

Further information regarding our accounting policies related to past due loans, non-accrual loans and troubled-debt restructurings is presented in Note 3.

Acquired Loans

Loans acquired in connection with acquisitions are recorded at their acquisition-date fair value. The allowance for credit losses related to the acquired loan portfolio is not carried over. Acquired loans are classified into two categories based on the credit risk characteristics of the underlying borrowers as either purchased credit deteriorated ("PCD") loans, or loans with no evidence of credit deterioration ("non-PCD").

PCD loans are defined as a loan or pool of loans that have experienced more-than-insignificant credit deterioration since the origination date. The Company uses a combination of individual and pooled review approaches to determine if acquired loans are PCD. At acquisition, the Company considers a number of factors to determine if an acquired loan or pool of loans has experienced more-than-insignificant credit deterioration.

The initial allowance related to PCD loans that share similar risk characteristics is established using a pooled approach. The Company uses either a discounted cash flow or weighted average remaining life method to determine the required level of the allowance. PCD loans that were classified as non-accrual as of the acquisition date and are collateral dependent are assessed for allowance on an individual basis.

For PCD loans, an initial allowance is established on the acquisition date and combined with the fair value of the loan to arrive at acquisition date amortized cost. Subsequent to the acquisition date, the initial allowance for credit losses on PCD loans will increase or decrease based on future evaluations, with changes recognized in the provision for credit losses.

Non-PCD loans are pooled into segments together with originated loans that share similar risk characteristics and have an allowance established on the acquisition date, which is recognized in the current period provision for credit losses.

Determining the fair value of the acquired loans involves estimating the principal and interest payment cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considers a number of factors in evaluating the acquisition-date fair value including the remaining life, interest rate profile, market interest rate environment, payment schedules, risk ratings, probability of default and loss given default, and estimated prepayment rates. For PCD loans, the non-credit discount or premium is allocated to individual loans as determined by the difference between the loan's unpaid principal balance and amortized cost basis. The non-credit premium or discount is recognized into interest income on a level yield basis over the remaining expected life of the loan. For non-PCD loans, the fair value discount or premium is allocated to individual loans and recognized into interest income on a level yield basis over the remaining expected life of the loan.

Prior to the adoption of ASC 326, loans acquired in a business combination that had evidence of credit impairment and for which it was probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable were considered PCI. PCI loans were accounted for individually or aggregated into pools of loans based on common risk characteristics such as credit grade, loan type, and date of origination.

Allowance for Credit Losses - Loans

The allowance for credit losses ("allowance" or "ACL") is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans. The ACL represents an amount which, in management's judgement, is adequate to absorb the lifetime expected credit losses that may be experienced on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions and prepayment experience. The allowance for credit losses is measured and recorded upon the initial recognition of a financial asset. Determination of the adequacy of the allowance is inherently complex and requires the use of significant and highly subjective estimates. Loans are charged-off against the allowance when deemed uncollectible by management. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

The Company's methodology for estimating the allowance includes: (1) a collective quantified reserve that reflects the Company's historical default and loss experience adjusted for expected economic conditions throughout a reasonable and supportable forecast period, including the Company's expected prepayment and curtailment rates; (2) collective qualitative factors that consider concentrations of the loan portfolio, expected changes to the economic forecasts, notable changes in a loan segments economic environment, large relationships, early delinquencies, and factors related to credit administrations, including, among others, loan-to-value ratios, borrowers' risk rating and credit score migrations; and (3) individual allowances on loans where borrowers are experiencing financial difficulty or when the Company determines that the foreclosure is probable.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, geographical similarity and historical/expected credit loss patterns. In developing these loan pools for the purposes of modeling expected credit losses, we also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors. For modeling purposes, our loan portfolio segments include Commercial and Industrial ("C&I"), Municipal, Agricultural, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied Commercial Real Estate ("CRE"), Residential, Consumer Auto and Consumer Non-Auto. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary. Refer to Note 3 for more details on the Company's portfolio segments.

The Company applies two methodologies to estimate the allowance on its pooled portfolio segments; discounted cash flows method and weighted average remaining life method. Allowance estimates on the following portfolio segments are calculated using the discounted cash flows method: C&I, Municipal, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied CRE and Residential. Allowance estimates on the following portfolio segments are calculated using the remaining life method: Agriculture, Consumer Auto and Consumer Non-Auto. The models related to these methodologies utilize the Company's historical default and loss experience adjusted for future economic forecasts. The reasonable and supportable forecast period represents a one-year economic outlook for the applicable economic variables. Following the end of the reasonable and supportable forecast period, expected losses revert back to the historical mean over the next two years on a straight-line basis. Economic variables that have the most significant impact on the allowance include; Texas unemployment rate, Texas house price index and Texas retail sales index. Contractual loan level cash flows within the discounted cash flows methodology are adjusted for the Company's historical prepayment and curtailment rate experience.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk rating of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on an ongoing basis.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor ("Q-Factor") adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) actual and expected changes in national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools, (iii) changes in the nature, volume and size of a loan or the loan pools and in the terms of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due financial assets, the volume of non-accrual assets, and the volume and severity of adversely classified or graded assets, (vi) changes in the quality of our credit review function, (vii) changes in the value of the underlying collateral for loans that are non-collateral dependent, (viii) the existence, growth, and effect of any concentrations of credit and (ix) other factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or health pandemics.

Management believes it uses relevant information available to make determinations about the allowance and that it has established the existing allowance in accordance with GAAP. However, the determination of the allowance requires significant judgment, and estimates of expected lifetime losses in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize expected losses, future additions to the allowance may be necessary based on changes in the loans comprising the portfolio, changes in the current and forecasted economic conditions, changes to the interest rate environment which may directly impact prepayment and curtailment rate assumptions, and changes in the financial condition of borrowers.

The adoption of the CECL standard did not result in a significant change to any other credit risk management and monitoring processes, including identification of past due or delinquent borrowers, non-accrual practices, assessment of troubled debt restructurings or charge-off policies.

Allowance for Credit Losses - Off-Balance-Sheet/Reserve for Unfunded Commitments

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. These obligations include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The allowance is reported as a component of accrued interest payable and other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of

the provision for credit losses. At September 30, 2021, 2020 and December 31, 2020, the Company's reserve for unfunded commitments totaled $6,751,000, $2,309,000 and $5,486,000, respectively, which is reported in other liabilities.

Other Real Estate

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value, less estimated costs to sell. At foreclosure, if the fair value of the real estate, less estimated costs to sell, is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for credit losses. Any subsequent reduction in value is recognized by a charge to income. Operating and holding expenses of such properties, net of related income, and gains and losses on their disposition are included in net gain (loss) on sale of foreclosed assets as incurred.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed principally on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the life of the respective lease or the estimated useful lives of the improvements, whichever is shorter.

Business Combinations, Goodwill and Other Intangible Assets

The Company accounts for all business combinations under the purchase method of accounting. Tangible and intangible assets and liabilities of the acquired entity are recorded at fair value. Intangible assets with finite useful lives represent the future benefit associated with the acquisition of the core deposits and are amortized over seven years, utilizing a method that approximates the expected attrition of the deposits. Goodwill with an indefinite life is not amortized, but rather tested annually for impairment as of June 30 each year. There was no impairment recorded for the three or nine-months ended September 30, 2021 or 2020, respectively.

Securities Sold Under Agreements To Repurchase

Securities sold under agreements to repurchase, which are classified as borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of the cash received in connection with the transaction. The Company may be required to provide additional collateral based on the estimated fair value of the underlying securities.

Segment Reporting

The Company has determined that its banking regions meet the aggregation criteria of the current authoritative accounting guidance since each of its banking regions offer similar products and services, operate in a similar manner, have similar customers and report to the same regulatory authority, and therefore operate one line of business (community banking) located in a single geographic area (Texas).

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks, including interest-bearing demand deposits in banks with original maturity of 90 days or less, and federal funds sold.

Accumulated Other Comprehensive Earnings (Loss)

Unrealized net gains on the Company's available-for-sale securities (after applicable income taxes) totaling $109,447,000, $152,063,000 and $170,395,000 at September 30, 2021 and 2020, and December 31, 2020, respectively, are included in accumulated other comprehensive earnings, net of applicable income taxes.

Income Taxes

The Company's provision for income taxes is based on income before income taxes adjusted for permanent differences between financial reporting and taxable income. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the grant date. The grant date fair value is amortized over the shorter of the service period or vesting period which generally is six years. The Company also grants restricted stock and restricted stock units for a fixed number of shares. The grant date fair value is amortized over the service period which generally is one to three years. See Note 8 for further information.

Advertising Costs

Advertising costs are expensed as incurred.

Per Share Data

Net earnings per share ("EPS") are computed by dividing net earnings by the weighted average number of common shares outstanding during the period. The Company calculates dilutive EPS assuming all outstanding stock options to purchase common shares and unvested restricted stock shares and units have been exercised and/or vested at the beginning of the year (or the time of issuance, if later.) The dilutive effect of the outstanding options and restricted stock is reflected by application of the treasury stock method, whereby the proceeds from the exercised options and unearned compensation for both restricted stock and stock options are assumed to be used to purchase common shares at the average market price during the respective period. There were 127,000 and 46,000 anti-dilutive shares for the three and nine-months ended September 30, 2021. There were 400,000 and 15,000 anti-dilutive shares for the three and nine-months ended September 30, 2020, respectively. The following table reconciles the computation of basic EPS to diluted EPS:

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the three-months ended September 30, 2021:			
Net earnings per share, basic	$ 58,928	142,334,449	$ 0.41
Effect of stock options and stock grants	—	884,471	—
Net earnings per share, diluted	$ 58,928	143,218,920	$ 0.41

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the nine-months ended September 30, 2021:			
Net earnings per share, basic	$ 172,225	142,242,783	$ 1.21
Effect of stock options and stock grants	—	941,009	(0.01)
Net earnings per share, diluted	$ 172,225	143,183,792	$ 1.20

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the three-months ended September 30, 2020:			
Net earnings per share, basic	$ 52,857	141,980,707	$ 0.37
Effect of stock options and stock grants	—	548,535	—
Net earnings per share, diluted	$ 52,857	142,529,242	$ 0.37

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the nine-months ended September 30, 2020:			
Net earnings per share, basic	$ 143,558	142,023,930	$ 1.01
Effect of stock options and stock grants	—	495,518	—
Net earnings per share, diluted	$ 143,558	142,519,448	$ 1.01

Note 2 - Securities

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost, related gross unrealized gains and losses, allowance for credit losses and the fair value of available-for-sale securities are as follows (in thousands):

	September 30, 2021			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
Obligations of states and political subdivisions	$ 2,568,224	$ 103,646	$ (6,503)	$ 2,665,367
Residential mortgage-backed securities	2,999,369	35,950	(7,170)	3,028,149
Commercial mortgage-backed securities	375,614	13,402	—	389,016
Corporate bonds and other	38,167	70	(785)	37,452
Total securities available-for-sale	$ 5,981,374	$ 153,068	$ (14,458)	$ 6,119,984

	September 30, 2020			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
Obligations of states and political subdivisions	$ 2,252,412	$ 119,952	$ (4,875)	$ 2,367,489
Residential mortgage-backed securities	1,454,422	54,744	(112)	1,509,054
Commercial mortgage-backed securities	527,392	22,776	—	550,168
Corporate bonds and other	4,398	171	—	4,569
Total securities available-for-sale	$ 4,238,624	$ 197,643	$ (4,987)	$ 4,431,280

	December 31, 2020			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
Obligations of states and political subdivisions	$ 2,283,616	$ 143,339	$ (79)	$ 2,426,876
Residential mortgage-backed securities	1,421,922	50,473	(115)	1,472,280
Commercial mortgage-backed securities	467,243	22,077	(4)	489,316
Corporate bonds and other	4,398	159	—	4,557
Total securities available-for-sale	$ 4,177,179	$ 216,048	$ (198)	$ 4,393,029

The Company did not hold any securities classified as held-to-maturity at September 30, 2021, September 30, 2020, or December 31, 2020.

The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at September 30, 2021 and 2020, and December 31, 2020, were computed by using scheduled amortization of balances and historical prepayment rates.

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2021, by contractual and expected maturity, are shown below (in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 473,997	$ 478,547
Due after one year through five years	2,934,396	3,023,175
Due after five years through ten years	2,485,328	2,531,243
Due after ten years	87,653	87,019
Total	$ 5,981,374	$ 6,119,984

The following tables disclose the Company's investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 or more months (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized
September 30, 2021	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
Obligations of states and political subdivisions	$ 570,916	$ 6,036	$ 18,711	$ 467	$ 589,627	$ 6,503
Residential mortgage-backed securities	1,208,129	7,166	2,051	4	1,210,180	7,170
Corporate bonds and other	32,985	785	—	—	32,985	785
Total	$ 1,812,030	$ 13,987	$ 20,762	$ 471	$ 1,832,792	$ 14,458

	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized
September 30, 2020	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
Obligations of states and political subdivisions	$ 395,729	$ 4,875	$ —	$ —	$ 395,729	$ 4,875
Residential mortgage-backed securities	49,559	76	4,916	36	54,475	112
Total	$ 445,288	$ 4,951	$ 4,916	$ 36	$ 450,204	$ 4,987

December 31, 2020	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or Longer Fair Value	12 Months or Longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
Obligations of state and political subdivisions	$ 25,214	$ 79	$ —	$ —	$ 25,214	$ 79
Residential mortgage-backed securities	36,017	96	3,156	19	39,173	115
Commercial mortgage-backed securities	16,218	4	—	—	16,218	4
Total	$ 77,449	$ 179	$ 3,156	$ 19	$ 80,605	$ 198

The number of investments in an unrealized loss position totaled 181 at September 30, 2021. Any unrealized losses in the obligations of state and political subdivisions, residential and commercial mortgage-backed and asset-backed investment securities at September 30, 2021 and 2020, and December 31, 2020, are due to changes in interest rates and not credit-related events. As such, no allowance for credit losses is required on these securities at September 30, 2021 and 2020, and December 31, 2020. Unrealized losses on investment securities are expected to recover over time as these securities approach maturity. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies. At September 30, 2021, 74.96% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 54.16% are guaranteed by the Texas Permanent School Fund.

At September 30, 2021, $3,262,605,000 of the Company's securities were pledged as collateral for public or trust fund deposits, repurchase agreements, a borrowing line with the Federal Reserve Bank of Dallas and for other purposes required or permitted by law.

During the three-months ended September 30, 2021, there were no sales of investment securities that were classified as available-for-sale. During the three-months ended September 30, 2020, sales of investment securities that were classified as available-for-sale totaled $10,084,000. Gross realized gains from security calls and sales during the third quarters of 2021 and 2020 totaled $1,000 and $36,000, respectively. There were no gross realized losses from security calls and sales during the third quarter of 2021 or 2020 .

During the nine-months ended September 30, 2021 and 2020, sales of investment securities that were classified as available-for-sale totaled $10,631,000 and $263,042,000, respectively. Gross realized gains from security calls and sales during the nine-months ended September 30, 2021 and 2020 totaled $814,000 and $3,614,000, respectively. There were no gross realized losses from security calls and sales during the nine-months ended September 30, 2021. Gross realized losses from security calls and sales during the nine-months ended September 30, 2020 totaled $4,000.

The specific identification method was used to determine cost in order to compute the realized gains and losses.

Note 3 – Loans Held-for-Investment and Allowance for Loan Losses

In conjunction with the adoption of ASC 326, the Company expanded its four loan portfolios into ten portfolio segments.

For the periods ended September 30, 2021 and December 31, 2020, the following tables outline the Company's loan portfolio by the ten portfolio segments where applicable. For disclosures related to the period ended September 30, 2020, management has elected to maintain its previously disclosed loan segments.

Loans held-for-investment by portfolio segment are as follows (in thousands):

	September 30, 2021	September 30, 2020	December 31, 2020
Commercial:			
C&I*	$ 819,597	$ N/A	$ 1,131,382
Municipal	165,847	N/A	181,325
Total Commercial	985,444	1,488,345	1,312,707
Agricultural	98,947	93,972	94,864
Real Estate:			
Construction & Development	656,530	N/A	553,959
Farm	203,064	N/A	152,237
Non-Owner Occupied CRE	674,958	N/A	617,686
Owner Occupied CRE	824,231	N/A	746,974
Residential	1,328,798	N/A	1,248,409
Total Real Estate	3,687,581	3,287,605	3,319,265
Consumer:			
Auto	394,072	N/A	353,595
Non-Auto	120,450	N/A	90,602
Total Consumer	514,522	423,757	444,197
Total Loans	5,286,494	5,293,679	5,171,033
Less: Allowance for credit losses	(63,370)	(76,038)	(66,534)
Loans, net	$ 5,223,124	$ 5,217,641	$ 5,104,499

* All disclosures for the C&I loan segment include PPP loan balances, net of deferred fees, as disclosed on the face of the consolidated balance sheet.

Outstanding loan balances at September 30, 2021 and 2020, and December 31, 2020, are net of unearned income, including net deferred loan fees.

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas ("FHLB") to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At September 30, 2021, this available line of credit was $1,643,084,000. At September 30, 2021, $3,434,685,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At September 30, 2021, there was no balance outstanding under this line of credit.

The Company's non-accrual loans, loans still accruing and past due 90 days or more and restructured loans are as follows (in thousands):

	September 30, 2021	September 30, 2020	December 31, 2020
Non-accrual loans	$ 25,210	$ 42,673	$ 42,619
Loans still accruing and past due 90 days or more	23	23	113
Troubled debt restructured loans still accruing*	22	25	24
Total	$ 25,255	$ 42,721	$ 42,756

* Troubled debt restructured loans of $4,732,000, $4,478,000 and $7,407,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2021, 2020 and December 31, 2020, respectively.

The Company had $25,283,000, $43,052,000 and $42,898,000 in non-accrual, past due 90 days or more and still accruing, restructured loans and foreclosed assets at September 30, 2021 and 2020, and December 31, 2020, respectively. Non-accrual loans at September 30, 2021 and 2020, and December 31, 2020, consisted of the following (in thousands):

	September 30, 2021	September 30, 2020	December 31, 2020
Commercial:			
C&I	$ 3,430	$ N/A	$ 5,015
Municipal	—	N/A	—
Total Commercial	3,430	6,915	5,015
Agricultural	949	967	1,076
Real Estate:			
Construction & Development	1,455	N/A	3,838
Farm	965	N/A	7,299
Non-OwnerOccupied CRE	2,776	N/A	5,243
Owner Occupied CRE	6,551	N/A	10,797
Residential	8,399	N/A	8,851
Total Real Estate	20,146	34,318	36,028
Consumer:			
Auto	589	N/A	407
Non-Auto	96	N/A	93
Total Consumer	685	473	500
Total	$ 25,210	$ 42,673	$ 42,619

No significant additional funds are committed to be advanced in connection with non-accrual loans as of September 30, 2021.

Summary information on the allowance for credit losses for the three and nine-months ended September 30, 2021 and 2020, are outlined by portfolio segment in the following tables (in thousands):

Three-months ended September 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 10,186	$ 588	$ 1,312	$ 15,632	$ 607
Provision for loan losses	(31)	(273)	1,022	1,230	(21)
Recoveries	1,140	—	5	—	—
Charge-offs	(902)	—	(50)	—	—
Ending balance	$ 10,393	$ 315	$ 2,289	$ 16,862	$ 586

Three-months ended September 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 10,432	$ 10,399	$ 11,234	$ 1,266	$ 482	$ 62,138
Provision for loan losses	(344)	(94)	(1,184)	(259)	(46)	—
Recoveries	556	806	7	129	64	2,707
Charge-offs	—	(222)	—	(176)	(125)	(1,475)
Ending balance	$ 10,644	$ 10,889	$ 10,057	$ 960	$ 375	$ 63,370

Nine-months ended September 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 13,609	$ 1,552	$ 1,255	$ 13,512	$ 1,876
Provision for loan losses	(3,597)	(1,237)	1,076	3,348	(1,300)
Recoveries	1,671	—	29	2	10
Charge-offs	(1,290)	—	(71)	—	—
Ending balance	$ 10,393	$ 315	$ 2,289	$ 16,862	$ 586

Nine-months ended September 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 8,391	$ 12,347	$ 12,601	$ 1,020	$ 371	$ 66,534
Provision for loan losses	1,609	(2,044)	(2,542)	139	80	(4,468)
Recoveries	650	816	90	305	172	3,745
Charge-offs	(6)	(230)	(92)	(504)	(248)	(2,441)
Ending balance	$ 10,644	$ 10,889	$ 10,057	$ 960	$ 375	$ 63,370

Three-months ended September 30, 2020	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 18,572	$ 2,544	$ 42,623	$ 5,208	$ 68,947
Provision for loan losses	1,955	(214)	4,416	1,343	7,500
Recoveries	200	1	138	105	444
Charge-offs	(536)	—	(52)	(265)	(853)
Ending balance	$ 20,191	$ 2,331	$ 47,125	$ 6,391	$ 76,038

Nine-months ended September 30, 2020	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 12,122	$ 1,206	$ 33,974	$ 5,197	$ 52,499
Provision for loan losses	9,571	1,096	13,806	1,577	26,050
Recoveries	890	31	272	271	1,464
Charge-offs	(2,392)	(2)	(927)	(654)	(3,975)
Ending balance	$ 20,191	$ 2,331	$ 47,125	$ 6,391	$ 76,038

Additionally, the Company records a reserve for unfunded commitments in other liabilities which totaled $6,751,000, $2,309,000 and $5,486,000 at September 30, 2021 and 2020, and December 31, 2020, respectively. There was no provision for credit losses for the three-months ended September 30, 2021. The reversal of provision for credit losses of $3,203,000 reported in the consolidated statement of earnings for the nine-months ended September 30, 2021 is the aggregate reversal of provision for loan losses of $4,468,000 net of the provision for unfunded commitments of $1,265,000. The provision for credit losses was $9,000,000 for the three-months ended September 30, 2020 and was the aggregate of $7,500,000 of provision for loan losses and $1,500,000 for the provision for unfunded commitments. The provision for credit losses was $27,550,000 for the nine-months ended September 30, 2020 and was the aggregate of $26,050,000 of provision for loan losses and $1,500,000 for the provision for unfunded commitments.

The Company's loans that are individually evaluated for credit losses (both collateral and non-collateral dependent) and their related allowances as of September 30, 2021 and December 31, 2020, are summarized in the following tables by loan segment (in thousands):

September 30, 2021	Collateral Dependent Loans Individually Evaluated for Credit Losses Without an Allowance	Collateral Dependent Loans Individually Evaluated for Credit Losses With an Allowance	Non-Collateral Dependent Loans Individually Evaluated for Credit Losses	Total Loans Individually Evaluated for Credit Losses	Related Allowance on Collateral Dependent Loans	Related Allowance on Non-Collateral Dependent Loans	Total Allowance for Credit Losses on Loans Individually Evaluated for Credit Losses
Commercial:							
C&I	$ 1,311	$ 2,119	$ 18,713	$ 22,143	$ 610	$ 3,296	$ 3,906
Municipal	—	—	121	121	—	—	—
Total Commercial	1,311	2,119	18,834	22,264	610	3,296	3,906
Agricultural	328	621	6,944	7,893	184	1,965	2,149
Real Estate:							
Construction & Development	1,225	230	4,872	6,327	6	158	164
Farm	878	87	2,140	3,105	—	6	6
Non-Owner Occupied CRE	2,629	147	33,382	36,158	16	3,959	3,975
Owner Occupied CRE	5,886	665	42,781	49,332	99	3,382	3,481
Residential	3,634	4,765	30,090	38,489	641	2,022	2,663
Total Real Estate	14,252	5,894	113,265	133,411	762	9,527	10,289
Consumer:							
Auto	—	589	1,181	1,770	2	2	4
Non-Auto	—	96	337	433	—	2	2
Total Consumer	—	685	1,518	2,203	2	4	6
Total	$ 15,891	$ 9,319	$ 140,561	$ 165,771	$ 1,558	$ 14,792	$ 16,350

December 31, 2020	Collateral Dependent Loans Individually Evaluated for Credit Losses Without an Allowance	Collateral Dependent Loans Individually Evaluated for Credit Losses With an Allowance	Non-Collateral Dependent Loans Individually Evaluated for Credit Losses	Total Loans Individually Evaluated for Credit Losses	Related Allowance on Collateral Dependent Loans	Related Allowance on Non-Collateral Dependent Loans	Total Allowance for Credit Losses on Loans Individually Evaluated for Credit Losses
Commercial:							
C&I	$ 1,544	$ 3,471	$ 25,629	$ 30,644	$ 799	$ 4,592	$ 5,391
Municipal	—	—	9,439	9,439	—	1,435	1,435
Total Commercial	1,544	3,471	35,068	40,083	799	6,027	6,826
Agricultural	470	606	5,572	6,648	96	886	982
Real Estate:							
Construction & Development	1,176	2,661	11,368	15,205	35	617	652
Farm	2,614	4,685	3,349	10,648	654	658	1,312
Non-Owner Occupied CRE	4,009	1,234	17,383	22,626	500	1,421	1,921
Owner Occupied CRE	7,279	3,518	51,933	62,730	657	5,172	5,829
Residential	4,347	4,504	28,196	37,047	676	2,431	3,107
Total Real Estate	19,425	16,602	112,229	148,256	2,522	10,299	12,821
Consumer:							
Auto	—	407	1,523	1,930	1	5	6
Non-Auto	—	94	440	534	1	1	2
Total Consumer	—	501	1,963	2,464	2	6	8
Total	$ 21,439	$ 21,180	$ 154,832	$ 197,451	$ 3,419	$ 17,218	$ 20,637

The following table presents the recorded investment with respect to impaired loans, the associated allowance by the applicable portfolio segment and the unpaid contractual principal balance of the impaired loans at September 30, 2020, in accordance with the legacy "incurred loss" methodology disclosure requirements (in thousands):

September 30, 2020	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-date Average Recorded Investment	Three-Month Average Recorded Investment
Commercial	$ 8,226	$ 967	$ 5,948	$ 6,915	$ 1,234	$ 8,403	$ 7,293
Agricultural	1,195	378	589	967	100	1,114	1,026
Real Estate	46,973	20,739	13,579	34,318	1,905	37,216	38,128
Consumer	603	6	467	473	2	547	514
Total	$ 56,997	$ 22,090	$ 20,583	$ 42,673	$ 3,241	$ 47,280	$ 46,961

The Company's allowance for loans that are individually evaluated for credit losses and collectively evaluated for credit losses as of September 30, 2021 and December 31, 2020, are summarized in the following table by loan segment (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 3,906	$ —	$ 2,149	$ 164	$ 6
Loans collectively evaluated for credit losses	6,487	315	140	16,698	580
Total	$ 10,393	$ 315	$ 2,289	$ 16,862	$ 586

September 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 3,975	$ 3,481	$ 2,663	$ 4	$ 2	$ 16,350

Loans collectively evaluated for credit losses	6,669	7,408	7,394	956	373	47,020
Total	$ 10,644	$ 10,889	$ 10,057	$ 960	$ 375	$ 63,370

December 31, 2020	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 5,391	$ 1,435	$ 982	$ 652	$ 1,312
Loans collectively evaluated for credit losses	8,218	117	273	12,860	564
Total	$ 13,609	$ 1,552	$ 1,255	$ 13,512	$ 1,876

December 31, 2020 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 1,921	$ 5,829	$ 3,107	$ 6	$ 2	$ 20,637
Loans collectively evaluated for credit losses	6,470	6,518	9,494	1,014	369	45,897
Total	$ 8,391	$ 12,347	$ 12,601	$ 1,020	$ 371	$ 66,534

The Company's allowance for loans that are individually evaluated for credit losses and collectively evaluated for credit losses as of September 30, 2020, are summarized in the following table by loan segment in accordance with the legacy "incurred loss" methodology disclosure requirements (in thousands):

September 30, 2020	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 1,234	$ 100	$ 1,905	$ 2	$ 3,241
Loan collectively evaluated for impairment	18,957	2,231	45,220	6,389	72,797
Total	$ 20,191	$ 2,331	$ 47,125	$ 6,391	$ 76,038

The Company's recorded investment in loans as of September 30, 2021 and December 31, 2020, related to the balance in the allowance for credit losses on the basis of the Company's adopted ASC 326 evaluation methodology follows below (in thousands):

September 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 22,143	$ 121	$ 7,893	$ 6,327	$ 3,105
Loans collectively evaluated for credit losses	797,454	165,726	91,054	650,203	199,959
Total	$ 819,597	$ 165,847	$ 98,947	$ 656,530	$ 203,064

September 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 36,158	$ 49,332	$ 38,489	$ 1,770	$ 433	$ 165,771
Loans collectively evaluated for credit losses	638,800	774,899	1,290,309	392,302	120,017	5,120,723
Total	$ 674,958	$ 824,231	$ 1,328,798	$ 394,072	$ 120,450	$ 5,286,494

December 31, 2020	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 30,644	$ 9,439	$ 6,648	$ 15,205	$ 10,648
Loans collectively evaluated for credit losses	1,100,738	171,886	88,216	538,754	141,589
Total	$ 1,131,382	$ 181,325	$ 94,864	$ 553,959	$ 152,237

December 31, 2020 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 22,626	$ 62,730	$ 37,047	$ 1,930	$ 534	$ 197,451
Loans collectively evaluated for credit losses	595,060	684,244	1,211,362	351,665	90,068	4,973,582
Total	$ 617,686	$ 746,974	$ 1,248,409	$ 353,595	$ 90,602	$ 5,171,033

The Company's recorded investment in loans as of September 30, 2020, related to the balance in the allowance for loan losses on the basis of the Company's legacy "incurred

loss" impairment methodology follows below (in thousands):

September 30, 2020	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 6,915	$ 967	$ 34,318	$ 473	$ 42,673
Loan collectively evaluated for impairment	1,481,430	93,005	3,253,287	423,284	5,251,006
Total	$ 1,488,345	$ 93,972	$ 3,287,605	$ 423,757	$ 5,293,679

From a credit risk standpoint, the Company rates its loans in one of five categories: (i) pass, (ii) special mention, (iii) substandard, (iv) doubtful or (v) loss (which are charged-off).

The ratings of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on our credits as part of our on-going monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are felt to be inherent in each credit as of each reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

The following summarizes the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at September 30, 2021 (in millions):

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 485	$ 185	$ 62	$ 35	$ 19	$ 12	$ —	$ 798
Special mention	2	1	1	1	1	—	—	6
Substandard	5	6	2	2	1	—	—	16
Doubtful	—	—	—	—	—	—	—	—
Total	$ 492	$ 192	$ 65	$ 38	$ 21	$ 12	$ —	$ 820

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 22	$ 17	$ 6	$ 22	$ 17	$ 82	$ —	$ 166
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 22	$ 17	$ 6	$ 22	$ 17	$ 82	$ —	$ 166

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 51	$ 19	$ 11	$ 6	$ 3	$ 1	$ —	$ 91
Special mention	—	1	—	—	—	—	—	1
Substandard	6	1	—	—	—	—	—	7
Doubtful	—	—	—	—	—	—	—	—
Total	$ 57	$ 21	$ 11	$ 6	$ 3	$ 1	$ —	$ 99

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 383	$ 195	$ 37	$ 18	$ 8	$ 8	$ —	$ 649
Special mention	3	—	—	—	—	—	—	3
Substandard	2	1	1	—	—	—	—	4
Doubtful	—	—	—	—	—	—	—	—
Total	$ 388	$ 196	$ 38	$ 18	$ 8	$ 8	$ —	$ 656

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 94	$ 46	$ 16	$ 11	$ 8	$ 25	$ —	$ 200
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	—	1	—	1	—	3
Doubtful	—	—	—	—	—	—	—	—
Total	$ 94	$ 47	$ 16	$ 12	$ 8	$ 26	$ —	$ 203

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 158	$ 156	$ 98	$ 75	$ 35	$ 117	$ —	$ 639
Special mention	—	1	13	—	7	3	—	24
Substandard	1	—	3	1	3	4	—	12
Doubtful	—	—	—	—	—	—	—	—
Total	$ 159	$ 157	$ 114	$ 76	$ 45	$ 124	$ —	$ 675

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 193	$ 166	$ 125	$ 99	$ 59	$ 133	$ —	$ 775
Special mention	3	0	1	0	1	1	—	6
Substandard	9	3	4	14	3	10	—	43
Doubtful	—	—	—	—	—	—	—	—
Total	$ 205	$ 169	$ 130	$ 113	$ 63	$ 144	$ —	$ 824

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								

Risk rating:								
Pass	$ 374	$ 279	$ 126	$ 94	$ 76	$ 245	$ 96	$ 1,290
Special mention	4	4	—	1	1	3	—	13
Substandard	4	3	3	2	2	10	2	26
Doubtful	—	—	—	—	—	—	—	—
Total	$ 382	$ 286	$ 129	$ 97	$ 79	$ 258	$ 98	$ 1,329

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 174	$ 121	$ 64	$ 21	$ 9	$ 3	$ —	$ 392
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	1	—	—	—	—	2
Doubtful	—	—	—	—	—	—	—	—
Total	$ 174	$ 122	$ 65	$ 21	$ 9	$ 3	$ —	$ 394

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 65	$ 27	$ 11	$ 4	$ 2	$ 5	$ 6	$ 120
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 65	$ 27	$ 11	$ 4	$ 2	$ 5	$ 6	$ 120

September 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 1,999	$ 1,211	$ 556	$ 385	$ 236	$ 631	$ 102	$ 5,120
Special mention	12	7	15	2	10	7	—	53
Substandard	27	16	14	20	9	25	2	113
Doubtful	—	—	—	—	—	—	—	—
Total	$ 2,038	$ 1,234	$ 585	$ 407	$ 255	$ 663	$ 104	$ 5,286

The following summarizes the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at December 31, 2020 (in millions):

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 874	$ 101	$ 70	$ 28	$ 10	$ 16	$ —	$ 1,099
Special mention	9	2	—	1	—	—	—	12
Substandard	12	4	4	—	—	—	—	20
Doubtful	—	—	—	—	—	—	—	—
Total	$ 895	$ 107	$ 74	$ 29	$ 10	$ 16	$ —	$ 1,131

	Revolving Loans

December 31,	2020	2019	2018	2017	2016	Prior	Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 26	$ 19	$ 29	$ 14	$ 13	$ 71	$ —	$ 172
Special mention	—	—	—	—	—	—	—	—
Substandard	2	—	—	5	1	1	—	9
Doubtful	—	—	—	—	—	—	—	—
Total	$ 28	$ 19	$ 29	$ 19	$ 14	$ 72	$ —	$ 181

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 57	$ 19	$ 9	$ 3	$ 1	$ —	$ —	$ 89
Special mention	—	—	—	—	—	—	—	—
Substandard	6	—	—	—	—	—	—	6
Doubtful	—	—	—	—	—	—	—	—
Total	$ 63	$ 19	$ 9	$ 3	$ 1	$ —	$ —	$ 95

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 371	$ 97	$ 36	$ 19	$ 7	$ 9	$ —	$ 539
Special mention	2	4	—	—	—	—	—	6
Substandard	4	1	—	3	—	1	—	9
Doubtful	—	—	—	—	—	—	—	—
Total	$ 377	$ 102	$ 36	$ 22	$ 7	$ 10	$ —	$ 554

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 57	$ 22	$ 18	$ 11	$ 11	$ 23	$ —	$ 142
Special mention	—	—	—	—	—	—	—	—
Substandard	7	1	—	1	—	1	—	10
Doubtful	—	—	—	—	—	—	—	—
Total	$ 64	$ 23	$ 18	$ 12	$ 11	$ 24	$ —	$ 152

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 197	$ 117	$ 93	$ 44	$ 55	$ 88	$ —	$ 594
Special mention	1	—	1	8	1	—	—	11
Substandard	—	2	—	—	—	11	—	13
Doubtful	—	—	—	—	—	—	—	—
Total	$ 198	$ 119	$ 94	$ 52	$ 56	$ 99	$ —	$ 618

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								

Risk rating:								
Pass	$ 176	$ 132	$ 105	$ 75	$ 65	$ 132	$ —	$ 685
Special mention	5	5	2	4	1	1	—	18
Substandard	5	4	20	4	1	10	—	44
Doubtful	—	—	—	—	—	—	—	—
Total	$ 186	$ 141	$ 127	$ 83	$ 67	$ 143	$ —	$ 747

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 373	$ 172	$ 134	$ 101	$ 101	$ 237	$ 93	$ 1,211
Special mention	3	1	1	1	1	3	—	10
Substandard	5	3	3	3	1	10	2	27
Doubtful	—	—	—	—	—	—	—	—
Total	$ 381	$ 176	$ 138	$ 105	$ 103	$ 250	$ 95	$ 1,248

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 177	$ 104	$ 39	$ 21	$ 9	$ 2	$ —	$ 352
Special mention	—	—	—	—	—	—	—	—
Substandard	1	1	—	—	—	—	—	2
Doubtful	—	—	—	—	—	—	—	—
Total	$ 178	$ 105	$ 39	$ 21	$ 9	$ 2	$ —	$ 354

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 48	$ 21	$ 7	$ 4	$ 1	$ 2	$ 7	$ 90
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	1	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 48	$ 21	$ 7	$ 4	$ 1	$ 3	$ 7	$ 91

December 31,	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 2,356	$ 804	$ 540	$ 320	$ 273	$ 580	$ 100	$ 4,973
Special mention	20	12	4	14	3	4	—	57
Substandard	42	16	27	16	3	35	2	141
Doubtful	—	—	—	—	—	—	—	—
Total	$ 2,418	$ 832	$ 571	$ 350	$ 279	$ 619	$ 102	$ 5,171

The following tables summarize the Company's internal ratings of its loans held-for-investment, at September 30, 2020 (in millions):

September 30, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 1,440	$ 16	$ 32	$ —	$ 1,488
Agricultural	87	5	2	—	94

Real Estate	3,143	45	100	—	3,288
Consumer	422	—	2	—	424
Total	$ 5,092	$ 66	$ 136	$ —	$ 5,294

The Company's past due loans are as follows (in thousands):

September 30, 2021	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial:							
C&I	$ 4,136	$ 516	$ 666	$ 5,318	$ 814,279	$ 819,597	$ 23
Municipal	—	—	—	—	165,847	165,847	—
Total Commercial	4,136	516	666	5,318	980,126	985,444	23
Agricultural	115	1,074	100	1,289	97,658	98,947	—
Real Estate:							
Construction & Development	4,676	—	114	4,790	651,740	656,530	—
Farm	1,182	13	—	1,195	201,869	203,064	—
Non-OwnerOccupied CRE	800	0	—	800	674,158	674,958	—
Owner Occupied CRE	260	315	1,537	2,112	822,119	824,231	—
Residential	7,807	475	415	8,697	1,320,101	1,328,798	—
Total Real Estate	14,725	803	2,066	17,594	3,669,987	3,687,581	—
Consumer:							
Auto	323	43	7	373	393,699	394,072	—
Non-Auto	59	3	—	62	120,388	120,450	—
Total Consumer	382	46	7	435	514,087	514,522	—
Total	$ 19,358	$ 2,439	$ 2,839	$ 24,636	$ 5,261,858	$ 5,286,494	$ 23

December 31, 2020	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial:							
C&I	$ 3,647	$ 406	$ 576	$ 4,629	$ 1,126,753	$ 1,131,382	$ 21
Municipal	—	—	—	—	181,325	181,325	—
Total Commercial	3,647	406	576	4,629	1,308,078	1,312,707	21
Agricultural	193	95	—	288	94,576	94,864	—
Real Estate:							
Construction & Development	4,775	44	—	4,819	549,140	553,959	—
Farm	708	—	—	708	151,529	152,237	—
Non-Owner Occupied CRE	613	—	—	613	617,073	617,686	—
Owner Occupied CRE	1,393	322	133	1,848	745,126	746,974	—
Residential	8,072	18	275	8,365	1,240,044	1,248,409	33
Total Real Estate	15,561	384	408	16,353	3,302,912	3,319,265	33
Consumer:							
Auto	551	158	75	784	352,811	353,595	59
Non-Auto	214	24	—	238	90,364	90,602	—
Total Consumer	765	182	75	1,022	443,175	444,197	59
Total	$ 20,166	$ 1,067	$ 1,059	$ 22,292	$ 5,148,741	$ 5,171,033	$ 113

September 30, 2020	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 5,165	$ 476	$ 116	$ 5,757	$ 1,482,588	$ 1,488,345	$ —
Agricultural	103	50	6	159	93,813	93,972	—
Real Estate	10,905	—	306	11,211	3,276,394	3,287,605	1
Consumer	541	80	31	652	423,105	423,757	22
Total	$ 16,714	$ 606	$ 459	$ 17,779	$ 5,275,900	$ 5,293,679	$ 23

* The Company monitors commercial, agricultural and real estate loans after such loans are 15 days past due. Consumer loans are monitored after such loans are 30 days past

due.

The restructuring of a loan is considered a "troubled debt restructuring" if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, reductions in collateral and other actions intended to minimize potential losses. The Company's loans that were modified and considered troubled debt restructurings are as follows (in thousands):

	Three-Months Ended September 30, 2021			Nine-Months Ended September 30, 2021		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial:						
C&I	—	$ —	$ —	4	$ 361	$ 361
Municipal	—	—	—	—	—	—
Total Commercial	—	—	—	4	361	361
Agricultural	—	—	—	1	68	68
Real Estate:						
Construction & Development	—	—	—	1	200	200
Farm	—	—	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—	—	—
Owner Occupied CRE	—	—	—	3	1,047	1,047
Residential	2	77	77	5	519	519
Total Real Estate	2	77	77	9	1,766	1,766
Consumer:						
Auto	1	19	19	2	51	51
Non-Auto	1	9	9	1	9	9
Total Consumer	2	28	28	3	60	60
Total	4	$ 105	$ 105	17	$ 2,255	$ 2,255

	Three-Months Ended September 30, 2020			Nine-Months Ended September 30, 2020		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	2	$ 667	$ 667	11	$ 1,151	$ 1,151
Agricultural	—	—	—	1	134	134
Real Estate	2	112	112	3	236	236
Consumer	—	—	—	1	14	14
Total	4	$ 779	$ 779	16	$ 1,535	$ 1,535

The balances below provide information as to how the loans were modified as troubled debt restructured loans (in thousands):

	Three-Months Ended September 30, 2021			Nine-Months Ended September 30, 2021		
	Adjusted Interest Rate	Maturity Extended	Combined Rate and Maturity	Adjusted Interest Rate	Maturity Extended	Combined Rate and Maturity
Commercial:						
C&I	$ —	$ —	$ —	$ —	$ 212	$ 149
Municipal	—	—	—	—	—	—
Total Commercial	—	—	—	—	212	149
Agricultural	—	—	—	—	68	—
Real Estate:						
Construction & Development	—	—	—	—	200	—
Farm	—	—	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—	—	—
Owner Occupied CRE	—	—	—	—	—	1,047
Residential	—	18	59	—	263	256
Total Real Estate	—	18	59	—	463	1,303
Consumer:						
Auto	—	—	19	—	—	51
Non-Auto	—	—	9	—	—	9
Total Consumer	—	—	28	—	—	60
Total	$ —	$ 18	$ 87	$ —	$ 743	$ 1,512

	Three-Months Ended September 30, 2020			Nine-Months Ended September 30, 2020		
	Adjusted Interest Rate	Maturity Extended	Combined Rate and Maturity	Adjusted Interest Rate	Maturity Extended	Combined Rate and Maturity
Commercial	$ —	$ 658	$ 9	$ —	$ 918	$ 233
Agricultural	—	—	—	—	134	—
Real Estate	—	—	112	—	—	236
Consumer	—	—	—	—	14	—
Total	$ —	$ 658	$ 121	$ —	$ 1,066	$ 469

During the three and nine-months ended September 30, 2021, one loan was modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default. During the three and nine-months ended September 30, 2020, no loans were modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or more or results in the foreclosure and repossession of the applicable collateral.

As of September 30, 2021, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

Note 4 - Loans Held-for-Sale

Loans held-for-sale totaled $47,721,000, $101,055,000 and $83,969,000 at September 30, 2021 and 2020, and December 31, 2020, respectively. At September 30, 2021 and 2020, and December 31, 2020, $1,640,000, $6,389,000 and $4,384,000 are valued at the lower of cost or fair value, and the remaining amounts are valued under the fair value option.

These loans, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of the securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures (see Note 9). Interest income on mortgage loans held-for-sale is recognized based on the contractual rates and reflected in interest income on loans in the consolidated statements of earnings. The Company has no continuing ownership in any residential mortgage loans sold.

The Company originates certain mortgage loans for sale in the secondary market. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of these indemnities have been insignificant.

Note 5 - Derivative Financial Instruments

The Company enters into interest rate lock commitments ("IRLCs") with customers to originate residential mortgage loans at a specific interest rate that are ultimately sold in the secondary market. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.

The Company purchases forward mortgage-backed securities contracts to manage the changes in fair value associated with changes in interest rates related to a portion of the IRLCs. These instruments are typically entered into at the time the IRLC is made in the aggregate.

These financial instruments are not designated as hedging instruments for accounting purposes. All derivatives are carried at fair value in either other assets or other liabilities, through earnings in the statement of earnings.

The fair values of IRLCs are based on current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (pull-through rate) net of estimated costs to originate the loan. The fair value of IRLCs is subject to change primarily due to changes in interest rates and the estimated pull-through rate. These commitments are classified as Level 2 in the fair value disclosures (see Note 9), as the valuations are based on observable market inputs.

Forward mortgage-backed securities contracts are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilizes the exchange price or dealer market price for the particular derivative contract and these instruments are therefore classified as Level 2 in the fair value disclosures (see Note 9). The estimated fair values are subject to change primarily due to changes in interest rates. The impact of these forward contracts is included in gain on sale and fees on mortgage loans in the statement of earnings.

The following tables provide the outstanding notional balances and fair values of outstanding derivative positions (in thousands):

	Outstanding Notional	Asset Derivative	Liability Derivative
September 30, 2021:	Balance	Fair Value	Fair Value
IRLCs	$ 141,121	$ 1,701	$ —
Forward mortgage-backed securities trades	145,000	828	—

September 30, 2020:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 247,751	$ 5,967	$ —
Forward mortgage-backed securities trades	232,000	—	872

December 31, 2020:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 202,906	$ 4,618	$ —
Forward mortgage-backed securities trades	198,000	—	1,560

Note 6 – Borrowings

Borrowings consisted of the following (dollars in thousands):

	September 30, 2021	2020	December 31, 2020
Securities sold under agreements with customers to repurchase	$ 612,239	$ 468,913	$ 412,743
Federal funds purchased	36,440	4,250	17,350
Advances from Federal Home Loan Bank of Dallas	—	30,000	—
Total	$ 648,679	$ 503,163	$ 430,093

Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which the Company pledges certain securities that have a fair value equal to at least the amount of the borrowings. The agreements mature daily and therefore the risk arising from a decline in the fair value of the collateral pledged is minimal. The securities pledged are mortgage-backed securities. These agreements do not include “right of set-off” provisions and therefore the Company does not offset such agreements for financial reporting purposes.

The Company renewed its loan agreement, effective June 30, 2021, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to $25,000,000 on a revolving line of credit. There was no outstanding balance under the line of credit as of September 30, 2021 and 2020, or December 31, 2020.

Note 7 - Income Taxes

Income tax expense was $11,641,000 for the third quarter of 2021 as compared to $10,335,000 for the same period in 2020. The Company’s effective tax rates on pretax income were 16.50% and 16.35% for the third quarters of 2021 and 2020, respectively. Income tax expense was $33,770,000 for the nine-months ended September 30, 20211 as compared to $28,233,000 for the same period in 2020. The Company’s effective tax rates on pretax income were 16.39% and 16.43% for the nine-months ended September 30, 2021 and 2020, respectively. The effective tax rates differ from the statutory federal tax rate of 21% primarily due to tax exempt interest income earned on certain investment securities and loans, the deductibility of dividends paid to our employee stock ownership plan and excess tax benefits related to our directors’ deferred compensation plan.

Note 8 - Stock Based Compensation

Omnibus Stock and Incentive Plan

On April 27, 2021, the Company’s shareholders approved a new 2021 Omnibus Stock and Incentive Plan (“2021 Plan”) and reserved 2,500,000 shares of the Company’s common stock for issuance under this plan. At September 30, 2021, the Company had 2,207,511 shares of stock remaining for issuance under the plan. The 2021 Plan supersedes all prior stock option and restricted stock plans with shares previously reserved for issuance under such plans cancelled.

The Company grants restricted stock units under compensation arrangements for the benefit of employees, executive officers and directors. Restricted stock unit grants are subject to time-based vesting. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the service conditions set forth in the grant agreements. The following table summarizes information about the changes in restricted stock units for the nine-months ended September 30, 2021. There was no restricted stock unit activity for the nine-months ended September 30, 2020.

	For the nine-months ended September 30, 2021	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	—	$ —
Grants	22,597	48.91
Vesting	—	—
Forfeited/expired	—	—
Balance at end of period	22,597	$ 48.91

The Company awards performance-based restricted stock units to executive officers and other officers and employees. Under the terms of the award, the number of units that will vest and convert to shares of common stock will be based on the extent to which the Company achieves specified performance criteria during the fixed three-year performance period. The number of shares issued upon vesting will range from 0% to 200% of the PSUs granted. The PSUs vest at the end of a three-year period based 50% each on average adjusted earnings per share growth and return on average assets as reported, adjusted for unusual gains/losses, merger expenses, and other items as approved by the compensation committee of the Company's board of directors. Performance for each period is measured relative to other publicly traded banks with $10 billion to $50 billion in assets. Compensation expense for the PSUs will be estimated each period based on the fair value of the stock at the grant date and the most probable outcome of the performance condition, adjusted for the passage of time within the vesting period of the awards.

The following table summarizes information about the changes in performance stock units as of and for the nine-months ended September 30, 2021. There was no performance stock unit activity during the nine-months ended September 30, 2020.

	For the nine-months ended September 30, 2021	
	Performance-Based Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	—	$ —
Grants	22,597	48.91
Vesting	—	—
Forfeited/expired	—	—
Balance at end of period	22,597	$ 48.91

Restricted Stock Plan

On April 28, 2015, shareholders of the Company approved the 2015 Restricted Stock Plan (the “2015 Plan”) for selected employees, officers, non-employee directors and consultants. On April 27, 2021, the 2015 Plan was superseded by the new 2021 Plan and all shares previously reserved for issuance under the 2015 Plan were cancelled.

The following table summarizes information about vested and unvested restricted stock.

	For the nine-months ended September 30,			
	2021		2020	
	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	95,888	$ 29.89	105,309	$ 29.93
Grants	12,110	49.58	32,149	28.55
Vesting	(31,081)	28.42	(36,880)	30.20
Forfeited/expired	(1,389)	32.76	(239)	29.70
Balance at end of period	75,528	$ 33.60	100,339	$ 29.39

The total fair value of restricted stock vested for the nine-months ended September 30, 2021 and 2020, was $883,000 and $1,114,000, respectively.

The Company recorded consolidated restricted stock, restricted stock unit and performance-based restricted stock unit expense for employees of $347,000 and $419,000, respectively, for the three-months ended September 30, 2021 and 2020, respectively. The Company recorded consolidated restricted stock, restricted stock unit and performance-based restricted stock unit expense for employees of $926,000 and $1,016,000 for the nine-months ended September 30, 2021 and 2020, respectively. The Company recorded director expense related to these restricted stock grants of $150,000 for the three-months ended September 30, 2021 and 2020, respectively. The Company recorded director expense related to these restricted stock grants of $450,000 and $485,000 for the nine-months ended September 30, 2021 and 2020, respectively.

As of September 30, 2021 and 2020, there were $3,556,000 and $1,872,000, respectively, of total unrecognized compensation cost related to consolidated unvested restricted stock, restricted stock units and performance-based restricted stock units which is expected to be recognized over a weighted-average period of 1.49 years and 1.51 years, respectively. At September 30, 2021 and 2020, and December 31, 2020, there was $72,000, $64,000 and $49,000, respectively, accrued in other liabilities related to dividends and dividend equivalent units declared to be paid upon vesting.

Stock Option Plans

Prior to the approval of the 2021 Plan, the 2012 Incentive Stock Option Plan (the "2012 Plan") provided for the granting of options to employees of the Company at prices not less than market value at the date of grant. On April 27, 2021, the 2012 Plan was superseded by the new 2021 Plan and all previous reserved shares were cancelled and the 2021 Plan reserved 2,500,000 shares for future issuances. The 2012 Plan provided that options granted vest and are exercisable after two years from the date of grant and vest at a rate of 20% each year thereafter and have a 10-year term. The most recent grant from the 2021 Plan provided that 20% of the options granted vest and are exercisable after one year from the date of grant and the remaining options vest and are exercisable at a rate of 20% each year thereafter and have a 10-year term. Shares are issued under the 2012 Plan and the 2021 Plan from available authorized shares. An analysis of stock option activity for the nine-months ended September 30, 2021 is presented in the table and narrative below:

	Shares	Weighted-Average Ex. Price
Outstanding, December 31, 2020	1,833,057	$ 20.85
Granted	212,588	48.91
Exercised	(273,646)	17.12
Cancelled	(27,240)	25.73
Outstanding, September 30, 2021	1,744,759	24.78
Exercisable, September 30, 2021	830,161	$ 19.04

The options outstanding at September 30, 2021 had exercise prices ranging between $7.87 and $48.91. Stock options have been adjusted retroactively for the effects of stock dividends and splits.

The Company grants incentive stock options for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant to employees.

The Company recorded stock option expense totaling $296,000 and $344,000 for the three-months ended September 30, 2021 and 2020, respectively. The Company recorded stock option expense totaling $987,000 and $1,033,000 for the nine-months ended September 30, 2021 and 2020, respectively.

As of September 30, 2021, there was $4,863,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements related to stock options granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 1.99 years. The total fair value of shares vested during the nine-months ended September 30, 2021 and 2020 was $1,246,000 and $878,000, respectively.

Note 9 - Fair Value Disclosures

The authoritative accounting guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The authoritative accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

- Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities classified as available-for-sale and trading are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, dealer quotes, market consensus prepayments speeds, credit information and the security's terms and conditions, among other items.

See Notes 4 and 5 related to the determination of fair value for loans held-for-sale, IRLCs and forward mortgage-backed securities trades.

There were no transfers between Level 2 and Level 3 during the three and nine-months ended September 30, 2021 and 2020, and the year ended December 31, 2020.

The following table summarizes the Company's available-for-sale securities, loans held-for-sale, and derivatives which are measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

September 30, 2021

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
Obligations of states and political subdivisions	$ —	$ 2,665,367	$ —	$ 2,665,367
Corporate bonds	—	32,984	—	32,984
Residential mortgage-backed securities	—	3,028,149	—	3,028,149
Commercial mortgage-backed securities	—	389,016	—	389,016
Other securities	4,468	—	—	4,468
Total	$ 4,468	$ 6,115,516	$ —	$ 6,119,984
Loans held-for-sale	$ —	$ 46,081	$ —	$ 46,081
IRLCs	$ —	$ 1,701	$ —	$ 1,701
Forward mortgage-backed securities trades asset	$ —	$ 828	$ —	$ 828

September 30, 2020

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
Obligations of states and political subdivisions	$ —	$ 2,367,489	$ —	$ 2,367,489
Residential mortgage-backed securities	—	1,509,054	—	1,509,054
Commercial mortgage-backed securities	—	550,168	—	550,168
Other securities	4,569	—	—	4,569
Total	$ 4,569	$ 4,426,711	$ —	$ 4,431,280
Loans held-for-sale	$ —	$ 94,666	$ —	$ 94,666
IRLCs	$ —	$ 5,967	$ —	$ 5,967
Forward mortgage-backed securities trades liability	$ —	$ (872)	$ —	$ (872)

December 31, 2020

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
Obligations of state and political subdivisions	$ —	$ 2,426,876	$ —	$ 2,426,876
Residential mortgage-backed securities	—	1,472,280	—	1,472,280
Commercial mortgage-backed securities	—	489,316	—	489,316
Other securities	4,557	—	—	4,557
Total	$ 4,557	$ 4,388,472	$ —	$ 4,393,029
Loans held-for-sale	$ —	$ 79,585	$ —	$ 79,585
IRLCs	$ —	$ 4,618	$ —	$ 4,618
Forward mortgage-backed securities trades liability	$ —	$ (1,560)	$ —	$ (1,560)

The following table summarizes the Company's loans held-for-sale at fair value and the net unrealized gains as of the balance sheet dates shown below (in thousands):

	September 30, 2021	September 30, 2020	December 31, 2020
Unpaid principal balance on loans held-for-sale	$ 44,784	$ 91,091	$ 76,602
Net unrealized gains on loans held-for-sale	1,297	3,575	2,983
Loans held-for-sale at fair value	$ 46,081	$ 94,666	$ 79,585

The following table summarizes the Company's gains on sale and fees of mortgage loans for the three and nine-months ended September 30, 2021 and 2020 (in thousand):

	Three-Months ended September 30,		Nine-Months ended September 30,	
	2021	2020	2021	2020
Realized gain on sale and fees on mortgage loans*	$ 9,050	$ 13,494	$ 29,245	$ 25,676
Change in fair value on loans held-for-sale and IRLCs	(1,466)	1,508	(4,659)	7,800
Change in forward mortgage-backed securities trades	1,204	226	2,387	(720)
Total gain on sale of mortgage loans	$ 8,788	$ 15,228	$ 26,973	$ 32,756

* This includes gains on loans held-for-sale carried under the fair value method and lower of cost or market.

No residential mortgage loans held-for-sale were 90 days or more past due or considered impaired as of September 30, 2021 or 2020, or December 31, 2020. No significant credit losses were recognized on residential mortgage loans held-for-sale for the three and nine-months ended September 30, 2021 and 2020.

Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include other real estate owned, goodwill and other intangible assets and other non-financial long-lived assets. Non-financial assets measured at fair value on a non-recurring basis during the three and nine-months ended September 30, 2021 and 2020 include other real estate owned which, subsequent to their initial transfer to other real estate owned from loans, were re-measured at fair value through a write-down included in gain (loss) on sale of foreclosed assets. During the reported periods, all fair value measurements for foreclosed assets utilized Level 2 inputs based on observable market data, generally third-party appraisals, or Level 3 inputs based on customized discounting criteria. These appraisals are evaluated individually and discounted as necessary due to the age of the appraisal, lack of comparable sales, expected holding periods of property or special use type of the property. Such discounts vary by appraisal based on the above factors but generally range from 5% to 25% of the appraised value. Re-evaluation of other real estate owned is performed at least annually as required by regulatory guidelines or more often if particular circumstances arise. There were no other real estate owned properties that were re-measured subsequent to their initial transfer to other real estate owned during the three and nine-months ended September 30, 2021 and 2020.

At September 30, 2021 and 2020, and December 31, 2020, other real estate owned totaled $28,000, $157,000 and $119,000, respectively.

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Cash and due from banks, federal funds sold, interest-bearing deposits and time deposits in banks and accrued interest receivable and payable are liquid in nature and considered Levels 1 or 2 of the fair value hierarchy.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities and are considered Levels 2 and 3 of the fair value hierarchy. Financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value and are considered Level 1 of the fair value hierarchy.

The carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material. The estimated fair values and carrying values of all financial instruments under current authoritative guidance were as follows (in thousands).

	September 30,				December 31,		
	2021		2020		2020		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 201,901	$ 201,901	$ 175,088	$ 175,088	$ 211,113	$ 211,113	Level 1
Interest-bearing demand deposits in banks	359,241	359,241	58,933	58,933	517,971	517,971	Level 1
Available-for-sale securities	6,119,984	6,119,984	4,431,280	4,431,280	4,393,029	4,393,029	Levels 1 and 2
Loans held-for-investment, net of allowance for credit losses	5,223,124	5,236,471	5,217,641	5,212,972	5,104,499	5,109,885	Level 3
Loans held-for-sale	47,721	47,748	101,055	101,480	83,969	84,233	Level 2
Accrued interest receivable	43,516	43,516	39,804	39,804	53,433	53,433	Level 2
Deposits with stated maturities	469,867	470,985	469,978	472,193	475,542	477,218	Level 2
Deposits with no stated maturities	9,423,250	9,423,250	7,824,910	7,824,910	8,200,275	8,200,275	Level 1
Borrowings	648,679	648,679	503,163	503,163	430,093	430,093	Level 2
Accrued interest payable	294	294	485	485	377	377	Level 2
IRLCs	1,701	1,701	5,967	5,967	4,618	4,618	Level 2
Forward mortgage-backed securities trades asset (liability)	828	828	(872)	(872)	(1,560)	(1,560)	Level 2

Note 10 – Acquisition

On September 19, 2019, we entered into an agreement and plan of reorganization to acquire TB&T Bancshares, Inc. and its wholly-owned bank subsidiary, The Bank & Trust of Bryan/College Station, Texas. On January 1, 2020, the transaction was completed. Pursuant to the agreement, we issued 6,275,574 shares of the Company's common stock in exchange for all of the outstanding shares of TB&T Bancshares, Inc. In addition, TBT Bancshares, Inc. made a $1,920,000 special dividend to its shareholders prior to closing of the transaction.

At closing, a wholly-owned subsidiary of the Company merged into TB&T Bancshares, Inc. and immediately thereafter TB&T Bancshares, Inc. was merged into the Company and The Bank & Trust of Bryan/College Station, Texas, was merged into First Financial Bank, N.A., a wholly-owned subsidiary of the Company. The primary purpose of the acquisition was to expand the Company's market share near the Houston market. Factors that contributed to a purchase price resulting in goodwill include its record of earnings, strong management and board of directors, strong local economic environment and opportunity for growth. The results of operations from this acquisition are included in the consolidated earnings of the Company commencing January 1, 2020.

The following table presents the final amounts recorded on the consolidated balance sheet on the acquisition date (dollars in thousands):

Fair value of consideration paid:	
Common stock issued (6,275,574 shares)	$ 220,273
Fair value of identifiable assets acquired:	
Cash and cash equivalents	$ 61,028
Securities available-for-sale	93,967
Loans	447,702
Identifiable intangible assets	4,798
Other assets	25,377
Total identifiable assets acquired	$ 632,872
Fair value of liabilities assumed:	
Deposits	$ 549,125
Other liabilities	5,397
Total liabilities assumed	$ 554,522
Fair value of net identifiable assets acquired	78,350
Goodwill resulting from acquisition	$ 141,923

Goodwill recorded in the acquisition was accounted for in accordance with the authoritative business combination guidance. Accordingly, goodwill will not be amortized but will be tested for impairment annually. The goodwill recorded is not deductible for federal income tax purposes.

The fair value of total loans acquired was $447,702,000 at acquisition compared to contractual amounts of $455,181,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as "anticipate," "believe," "estimate," "expect," "intend," "indicate," "predict," "project," and similar expressions, as they relate to us or our management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited, to those discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, under the heading "Risk Factors," and the following:

- general economic conditions, including our local, state and national real estate markets and employment trends;
- effect of the coronavirus ("COVID") on our Company, the communities where we have our branches, the state of Texas and the United States, related to the economy and overall financial stability;
- government and regulatory responses to the COVID pandemic;
- effect of severe weather conditions, including hurricanes, tornadoes, flooding and droughts;
- volatility and disruption in national and international financial and commodity markets;
- government intervention in the U.S. financial system including the effects of recent legislative, tax, accounting and regulatory actions and reforms, including the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau ("CFPB"), the capital ratios of Basel III as adopted by the federal banking authorities and the Tax Cuts and Jobs Act;
- political and racial instability;
- the ability of the Federal government to address the national economy;
- changes in our competitive environment from other financial institutions and financial service providers;
- the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board");
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board ("PCAOB"), the Financial Accounting Standards Board ("FASB") and other accounting standard setters;
- the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply;
- changes in the demand for loans, including loans originated for sale in the secondary market;
- fluctuations in the value of collateral securing our loan portfolio and in the level of the allowance for credit losses;
- the accuracy of our estimates of future credit losses;
- the accuracy of our estimates and assumptions regarding the performance of our securities portfolio;
- soundness of other financial institutions with which we have transactions;
- inflation, interest rate, market and monetary fluctuations;
- changes in consumer spending, borrowing and savings habits;
- changes in commodity prices (e.g., oil and gas, cattle, and wind energy);
- our ability to attract deposits and increase market share;
- changes in our liquidity position;
- changes in the reliability of our vendors, internal control system or information systems;
- cyber attacks on our technology information systems, including fraud from our customers and external third-party vendors;
- our ability to attract and retain qualified employees;
- acquisitions and integration of acquired businesses;
- the possible impairment of goodwill and other intangibles associated with our acquisitions;
- consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors;
- expansion of operations, including branch openings, new product offerings and expansion into new markets;
- changes in our compensation and benefit plans;

- acts of God or of war or terrorism;
- potential risk of environmental liability associated with lending activities; and
- our success at managing the risk involved in the foregoing items.
- Such forward-looking statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by law).

Introduction

As a financial holding company, we generate most of our revenue from interest on loans and investments, trust fees, gain on sale of mortgage loans and service charges. Our primary source of funding for our loans and investments are deposits held by our subsidiary, First Financial Bank, N.A. Our largest expense is salaries and related employee benefits. We measure our performance by calculating our return on average assets, return on average equity, regulatory capital ratios, net interest margin and efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income.

The following discussion and analysis of operations and financial condition should be read in conjunction with the financial statements and accompanying footnotes included in Item 1 of this Form 10-Q as well as those included in the Company's 2020 Annual Report on Form 10-K.

Recent Coronavirus Developments

During March 2020, the outbreak of the novel Coronavirus Disease 2019 was recognized as a pandemic by the World Health Organization and a national emergency by the President of the United States. The spread of COVID has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that we serve across the State of Texas. National, state and local governmental responses to the pandemic have included orders to close or limit businesses activity not deemed essential and directing individuals to limit their movements and travel, observe social distancing, and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, have resulted in decreases in commercial and consumer activity. These responses and restrictions have led to a loss of revenues for certain industries and a sudden increase in unemployment, volatility in oil and gas prices and in business valuations, market downturns and volatility, changes in consumer behaviors, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future.

The following is an update on our response through the date of filing:

- The Company assisted borrowers in the second round of the Paycheck Protection Program ("PPP") under the December 2020 Bipartisan-Bicameral Omnibus COVID Relief Deal through the expiration of the program on May 31, 2021. See Participation in the PPP Loan Program in the following section. We did not participate in the PPP Facility program.
- We are continuing to encourage our employees to take the COVID vaccinations when available and allowing employees and customers to wear a mask on an optional basis based on their preferences.
- COVID continues to be a source of disruption in the U.S. supply chain impacting the overall economic recovery currently. Continued delays in the supply chain may cause delays in the future economic recovery in the United States.

Recent actions taken by the U.S. government to further mitigate the economic effects of COVID may also have an impact on our financial position and results of operations.

Notwithstanding the foregoing actions, the COVID outbreak could still, among other things, greatly affect our routine and essential operations due to staff absenteeism, particularly among key personnel, further limit access to or result in further closures of our branch facilities and other physical offices, exacerbate operational, technical or security-related risks arising from a remote workforce, and result in adverse government or regulatory agency orders. The business and operations of our third-party service providers, many of whom perform critical services for our business, could also be significantly impacted, which in turn could impact us. As a result, we are currently unable to fully assess or predict the extent of the effects of COVID on our operations as the ultimate impact will depend on factors that are currently unknown and/or beyond our control.

Critical Accounting Policies

We prepare consolidated financial statements based on generally accepted accounting principles ("GAAP") and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

We deem our most critical accounting policies to be (1) our allowance for credit losses and our provision for credit losses and (2) our valuation of financial instruments. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated

financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period. A discussion of (1) our allowance for credit losses and our provision for credit losses and (2) our valuation of financial instruments is included in Note 1 to our Consolidated Financial Statements beginning on page 10. Additional detailed information is included in Notes 4 and 5 to our notes to the consolidated financial statements (unaudited) and should be read in conjunction with this analysis.

Stock Repurchase

On March 12, 2020, the Company's Board of Directors authorized the repurchase of up to 4.00 million common shares through September 30, 2021. On July 27, 2021, the Company's Board of Directors renewed the prior authorization and authorized the repurchase of up to 5.00 million common shares through July 31, 2023. The stock repurchase plan authorizes management to repurchase and retire the stock at such time as repurchases are considered beneficial to the Company and its stockholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through September 30, 2021, the Company repurchased and retired 324,802 shares (all during the months of March and April of 2020) totaling $8.01 million under the previous repurchase plan.

Acquisition

On September 19, 2019, we entered into an agreement and plan of reorganization to acquire TB&T Bancshares, Inc. and its wholly-owned bank subsidiary, The Bank & Trust of Bryan/College Station, Texas. On January 1, 2020, the transaction was completed. Pursuant to the agreement, we issued 6.28 million shares of the Company's common shares in exchange for all of the outstanding shares of TB&T Bancshares, Inc. In addition, in accordance with the plan of reorganization, TB&T Bancshares, Inc. paid a special dividend totaling $1.92 million to its shareholders prior to the closing of this transaction. At the closing, Brazos Merger Sub., Inc., a wholly-owned subsidiary of the Company, merged into TB&T Bancshares Inc., with TB&T Bancshares, Inc. surviving as a wholly-owned subsidiary of the Company. Immediately following such merger, TB&T Bancshares, Inc. was merged into the Company and The Bank & Trust of Bryan/College Station, Texas was merged into First Financial Bank, N.A., a wholly-owned subsidiary of the Company. The total purchase price of $220.27 million exceeded the estimated fair value of the net assets acquired by $141.92 million and the Company recorded such excess as goodwill. The balance sheet and results of operations of TB&T Bancshares, Inc. have been included in the financial statements of the Company effective January 1, 2020. See Note 10 to the consolidated financial statements for additional information and disclosure.

Participation in PPP Loan Program

The Company elected to participate in the first and second rounds of PPP loan program processing a total of 9,709 loans and funded $970.87 million from March 31, 2020 through September 30, 2021. The Company has received fees totaling approximately $40.16 million and incurred incremental direct origination costs of $3.62 million related to its participation in the PPP loan program from March 31, 2020 through the expiration of the program on May 31, 2021, both of which have been deferred and are being amortized over the shorter of the repayment period or the contractual life of these loans. During the first nine months of 2021, the Company recognized $19.13 million in interest income related to PPP loan fees. The remainder of the PPP loan deferred fees totaled approximately $6.09 million at September 30, 2021, including approximately $6.03 million for 2021 originations for the second round of PPP loans. These remaining deferred fees related to the second round of PPP loans will be amortized over the shorter of the repayment period or the contractual life of 60 months. Additional information related to the Company's PPP loan balances are included in the following table (dollars in thousands):

	PPP Loans Originated		PPP Amounts as of September 30, 2021				
	Number of Loans	Amount	Number of Loans	Period-End Amount, Net	Un-amortized Fees	Recognized Fees During the Quarter Ended September 30, 2021	Recognized Fees During the Nine-Months Ended September 30, 2021
PPP Round 1	6,530	$ 703,450	51	$ 4,324	$ 63	$ 1,044	$ 11,210
PPP Round 2	3,179	267,423	1,298	135,010	6,025	6,590	7,916
PPP Total	9,709	$ 970,873	1,349	$ 139,334	$ 6,088	$ 7,634	$ 19,126

Implementation of New Accounting Standard for Allowance for Credit Losses

On January 1, 2020, Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, became effective for the Company. Accounting Standards Codification ("ASC") Topic 326 ("ASC 326") replaced the previous "incurred loss" model for measuring credit losses with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet ("OBS", "reserve for unfunded commitments") credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

On March 27, 2020, the CARES Act was signed by the President of the United States that included an option for entities to delay the implementation of ASC 326 until the earlier of the termination date of the national emergency declaration by the President, or December 31, 2020. Under this option, the Company elected to delay implementation of CECL and calculated and recorded the provision for credit losses through the nine-months ended September 30, 2020 under the incurred loss model. At December 31, 2020, the Company elected to adopt ASC 326, effective as of January 1, 2020, through a transition charge to retained earnings of $589 thousand ($466 thousand net of applicable income taxes), which was reflected in the consolidated financial statements as of and for the year ended December 31, 2020. This transition adjustment was comprised of a decrease of $619 thousand in allowance for credit losses and an increase of $1.21 million in the reserve for unfunded commitments.

The Company completed its CECL implementation plan by forming a cross-functional working group, under the direction of our Chief Credit Officer along with our Chief Accounting Officer, Chief Lending Officer and Chief Financial Officer. The working group also included individuals from various functional areas including credit, risk management, accounting and information technology, among others. The implementation plan included assessment and documentation of processes, internal controls and data sources, model development, documentation and validation, and system configuration, among other things. The Company contracted with a third-party vendor to assist in the implementation of CECL.

Results of Operations

Performance Summary. Net earnings for the third quarter of 2021 were $58.93 million, up $6.07 million or 11.49%, when compared with earnings of $52.86 million for the third quarter of 2020. Diluted earnings per share was $0.41 for the third quarter of 2021 compared with $0.37 in the same quarter a year ago.

The return on average assets was 1.90% for the third quarter of 2021, as compared to 2.01% for the third quarter of 2020. The return on average equity was 13.43% for the third quarter of 2021 as compared to 13.14% for the third quarter of 2020.

Net earnings for the nine-month period ended September 30, 2021 were $172.23 million compared to $143.56 million for the same period in 2020. Diluted earnings per share for the first nine months of 2021 were $1.20 compared to $1.01 for the same period in 2020.

The return on average assets was 1.94% for the first nine months of 2021 as compared to 1.91% for the same period a year ago. The return on average equity was 13.55% for the first nine months of 2021 as compared to 12.46% for the first nine months of 2020.

Net Interest Income. Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits.

Tax-equivalent net interest income was $99.45 million for the third quarter of 2021, as compared to $92.38 million for the same period last year. The increase in 2021 compared to 2020 was largely attributable to the increase in interest-earning assets primarily derived from an increase in investment securities held and the impact of the Company's swift deployment of the PPP loan program which brought new business from other banks. Average earning assets were $11.58 billion for the third quarter of 2021, as compared to $9.80 billion during the third quarter of 2020. The increase of $1.77 billion in average earning assets in 2021 when compared to 2020 was primarily a result of increases of tax-exempt securities of $484.57 million, interest-bearing deposits in nonaffiliated banks of $389.45 million and taxable securities of $893.67 million when compared to September 30, 2020 balances. Average interest-bearing liabilities were $6.95 billion for the third quarter of 2021, as compared to $5.75 billion in the same period in 2020. The increase in average interest-bearing liabilities primarily resulted from our customers depositing their PPP loan amounts into our Bank and organic growth. The yield on earning assets decreased 38 basis points while the rate paid on interest-bearing liabilities decreased seven basis points for the third quarter of 2021 compared to the third quarter of 2020.

Tax-equivalent net interest income was $286.41 million for the first nine months of 2021 as compared to $267.25 million for the same period last year. The increase in 2021 compared to 2020 was largely attributable to the increase in interest earning assets primarily derived from an increase in investment securities held and the impact of the Company's swift deployment of the PPP loan program which brought new business from other banks. Average earning assets increased $1.77 billion for the first nine months of 2021 over the same period in 2020. Average tax exempt securities increased $722.10 million, interest-bearing deposits in nonaffiliated banks increased $414.23 million and loans increased $255.26 million, respectively, for the first nine months of 2021 over the first nine months of 2020. Average interest-bearing liabilities increased $983.95 million for the first nine months of 2021, as compared to the same period in 2020 primarily resulting from our customers depositing their PPP loan amounts into our Bank and internal organic growth. The yield on earning assets decreased 49 basis points while the rate paid on interest-bearing liabilities decreased 19 basis points for the first nine months of 2021 compared to the first nine months of 2020.

Table 1 allocates the change in tax-equivalent net interest income between the amount of change attributable to volume and to rate.

Table 1 - Changes in Interest Income and Interest Expense (in thousands):

	Three-Months Ended September 30, 2021 Compared to Three-Months Ended September 30, 2020			Nine-Months Ended September 30, 2021 Compared to Nine-Months Ended September 30, 2020		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ 102	$ 74	$ 176	$ 1,377	$ (1,665)	$ (288)
Taxable investment securities	4,928	(4,869)	59	6,834	(13,748)	(6,914)
Tax-exemptinvestment securities (1)	3,705	(1,741)	1,964	17,331	(6,911)	10,420
Loans (1) (2)	45	4,081	4,126	9,853	(1,387)	8,466
Interest income	8,780	(2,455)	6,325	35,395	(23,711)	11,684
Interest-bearing deposits	421	(1,145)	(724)	2,349	(9,047)	(6,698)
Short-term borrowings	25	(48)	(23)	(188)	(582)	(770)
Interest expense	446	(1,193)	(747)	2,161	(9,629)	(7,468)
Net interest income	$ 8,334	$ (1,262)	$ 7,072	$ 33,234	$ (14,082)	$ 19,152

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 21%.
(2) Non-accrual loans are included in loans.

The net interest margin, on a tax equivalent basis, was 3.41% for the third quarter of 2021, a decrease of 34 basis points from the same period in 2020. The net interest margin for the first nine months of 2021 was 3.43%, a decrease of 38 basis points from the same period in 2020. We have continued to experience downward pressures on our net interest margin in 2021 and 2020 primarily due to (i) the extended period of fluctuating historically low levels of short-term interest rates and (ii) the flat to inverted yield curve currently being experienced in the bond market. Additionally, the net interest margin was particularly impacted in the third quarter of 2021 as a result of the overall level of excess liquidity, which totaled $561.14 million at September 30, 2021, pending investment. We have been able to somewhat mitigate the impact of these lower short-term interest rates and the flat/inverted yield curve by establishing minimum interest rates on certain of our loans, improving the pricing for loan risk and reducing the rates paid on our interest-bearing liabilities. In March 2020, as the market experienced volatility, we took advantage of that volatility to purchase high quality municipal bonds at favorable tax-equivalent interest yields. The Federal Reserve increased rates 100 basis points in 2018 but then decreased rates 75 basis points during the third and fourth quarters of 2019 and then an additional 150 basis points in the first quarter of 2020, resulting in a current target rate range of zero to 25 basis points.

The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in Table 2.

Table 2 - Average Balances and Average Yields and Rates (in thousands, except percentages):

	Three-Months Ended September 30,					
	2021			2020		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 614,105	$ 238	0.15 %	$ 225,113	$ 62	0.11 %
Taxable investment securities (2)	3,081,215	12,122	1.57	2,187,547	12,063	2.21
Tax-exempt investment securities (2)(3)	2,542,606	17,701	2.78	2,058,032	15,737	3.06
Loans (3)(4)	5,337,807	70,807	5.26	5,334,174	66,681	4.97
Total earning assets	11,575,733	$ 100,868	3.46 %	9,804,866	$ 94,543	3.84 %
Cash and due from banks	205,929			186,177		
Bank premises and equipment, net	147,071			139,758		
Other assets	97,827			98,261		
Goodwill and other intangible assets, net	317,327			319,059		
Allowance for credit losses	(63,055)			(71,881)		
Total assets	$ 12,280,832			$ 10,476,240		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$ 6,346,267	$ 1,340	0.08 %	$ 5,270,600	$ 2,064	0.16 %
Short-term borrowings	599,934	76	0.05	482,555	99	0.08
Total interest-bearing liabilities	6,946,201	$ 1,416	0.08 %	5,753,155	$ 2,163	0.15 %
Noninterest-bearing deposits	3,490,685			3,016,700		
Other liabilities	103,446			106,295		
Total liabilities	10,540,332			8,876,150		
Shareholders' equity	1,740,500			1,600,090		
Total liabilities and shareholders' equity	$ 12,280,832			$ 10,476,240		
Net interest income		$ 99,452			$ 92,380	
Rate Analysis:						
Interest income/earning assets			3.46 %			3.84 %
Interest expense/earning assets			(0.05)			(0.09)
Net interest margin			3.41 %			3.75 %

(1) Short-term investments are comprised of federal funds sold, interest-bearing deposits in banks and interest-bearing time deposits in banks.
(2) Average balances include unrealized gains and losses on available-for-sale securities.
(3) Computed on a tax-equivalent basis assuming a marginal tax rate of 21%.
(4) Non-accrual loans are included in loans.

	Nine-Months Ended September 30,					
	2021			2020		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 684,263	$ 615	0.12 %	$ 269,704	$ 903	0.45 %
Taxable investment securities (2)	2,665,988	33,834	1.69	2,283,064	40,748	2.38
Tax-exempt investment securities (2)(3)	2,458,352	52,090	2.83	1,736,250	41,670	3.20
Loans (3)(4)	5,339,398	204,721	5.13	5,084,136	196,255	5.16
Total earning assets	11,148,001	$ 291,260	3.49 %	9,373,154	$ 279,576	3.98 %
Cash and due from banks	204,246			188,241		
Bank premises and equipment, net	144,566			139,600		
Other assets	97,234			91,324		
Goodwill and other intangible assets, net	317,726			318,902		
Allowance for credit losses	(64,446)			(64,742)		
Total assets	$ 11,847,327			$ 10,046,479		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$ 6,165,740	$ 4,595	0.10 %	$ 5,104,096	$ 11,293	0.30 %
Short-term borrowings	528,599	260	0.07	606,291	1,030	0.23
Total interest-bearing liabilities	6,694,339	$ 4,855	0.10 %	5,710,387	$ 12,323	0.29 %
Noninterest-bearing deposits	3,349,719			2,714,173		
Other liabilities	103,354			82,670		
Total liabilities	10,147,412			8,507,230		
Shareholders' equity	1,699,915			1,539,249		
Total liabilities and shareholders' equity	$ 11,847,327			$ 10,046,479		
Net interest income		$ 286,405			$ 267,253	
Rate Analysis:						
Interest income/earning assets			3.49 %			3.98 %
Interest expense/earning assets			(0.06)			(0.17)
Net interest margin			3.43 %			3.81 %

(1) Short-term investments are comprised of federal funds sold, interest-bearing deposits in banks and interest-bearing time deposits in banks.
(2) Average balances include unrealized gains and losses on available-for-sale securities.
(3) Computed on a tax-equivalent basis assuming a marginal tax rate of 21%.
(4) Non-accrual loans are included in loans.

Noninterest Income. Noninterest income for the third quarter of 2021 was $37.73 million compared to $38.58 million in the same quarter of 2020. Increases in certain categories of noninterest income included (1) trust fees of $2.02 million, (2) service charges on deposits of $664 thousand, (3) ATM, interchange and credit card fees of $1.15 million and (4) interest on loan recoveries of $1.54 million when compared to the third quarter of 2020. Mortgage related income was $8.79 million in the third quarter of 2021 compared to $15.23 million in the third quarter of 2020 due to lower overall origination volumes. The increase in trust fees resulted from an increase in assets under management over the prior year and overall improvement in market prices. The fair value of trust assets managed, which are not reflected in our consolidated balance sheets, totaled $8.08 billion at September 30, 2021, up 16.23% when compared to $6.95 billion at September 30, 2020. The increase in ATM, interchange and credit card fees was driven by continued growth in the number of net new accounts and debit cards issued and overall customer utilization.

Noninterest income for the nine-month period ended September 30, 2021 was $107.27 million, an increase of $3.05 million compared to the same period in 2020. Trust fees increased $4.62 million to $26.48 million for the first nine-months of 2021 compared to the same period of 2020. The fair value of Trust assets managed increased to $8.08 billion at September 30, 2021 when compared with $6.95 billion at September 30, 2020. ATM, interchange and credit card fees increased $4.23 million, or 17.56%, to $28.32 million compared with $24.09 million in the same period last year due to continued growth in debit cards. Interest on loan recoveries increased to $2.83 million for the nine-months ended September 30, 2021 as compared to $621 thousand for the same period of 2020. Mortgage related income was $26.97 million in the first nine months of 2021 compared to $32.76 million in the same period of 2020 due to lower overall origination volumes. Gains on available-for-sale securities were $814 thousand for the first nine months of 2021 compared to $3.61 million for the same period in 2020.

ATM and interchange fees are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. ATM and interchange fees consist of income from debit card usage, point of sale income for debit card transactions and ATM service fees.

Federal Reserve rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is limited to the sum of 21 cents per transaction plus 5 basis points multiplied by the value of the transaction. Management has estimated the impact of this reduction in ATM and interchange fees to approximate $16 million annually (pre-tax) once the Federal Reserve rules apply to the Company. Federal Reserve requirements stipulate that these rules would go into effect on July 1st following the year-end in which a financial institution's total assets exceeded $10 billion at December 31st. At September 30, 2021, the Company's total assets exceeded the $10 billion threshold, due primarily to the effect of the Company's participation in the PPP loan program and growth in deposits from related activities. However, on November 20, 2020, the federal bank regulatory agencies announced an interim final rule that provides temporary relief for certain community banking organizations that have crossed this threshold as of December 31, 2020 if they had less than $10 billion in assets as of December 31, 2019. Under the interim final rule, these banks, which includes us, will generally have until 2022 to either reduce their size, or to prepare for the regulatory and reporting standards under the Dodd-Frank Act. Management will continue to monitor the Company's balance sheet levels and prepare for the effects of this future loss of debit card income.

Table 3 - Noninterest Income (in thousands):

	Three-Months Ended September 30,			Nine-Months Ended September 30,		
	2021	Increase (Decrease)	2020	2021	Increase (Decrease)	2020
Trust fees	$ 9,484	$ 2,023	$ 7,461	$ 26,475	$ 4,616	$ 21,859
Service charges on deposit accounts	5,673	664	5,009	15,394	152	15,242
ATM, interchange and credit card fees	9,793	1,149	8,644	28,323	4,230	24,093
Gain on sale and fees on mortgage loans	8,788	(6,440)	15,228	26,973	(5,783)	32,756
Net gain on sale of available-for-sale securities	1	(35)	36	814	(2,796)	3,610
Net gain on sale of foreclosed assets	27	8	19	83	11	72
Net gain on sale of assets	(6)	(4)	(2)	213	123	90
Interest on loan recoveries	1,746	1,544	202	2,832	2,211	621
Other:						
Check printing fees	88	33	55	155	(22)	177
Safe deposit rental fees	192	7	185	690	135	555
Credit life fees	256	126	130	835	139	696
Brokerage commissions	337	36	301	1,039	19	1,020
Wire transfer fees	367	61	306	1,037	198	839
Miscellaneous income	980	(21)	1,001	2,410	(186)	2,596
Total other	2,220	242	1,978	6,166	283	5,883
Total Noninterest Income	$ 37,726	$ (849)	$ 38,575	$ 107,273	$ 3,047	$ 104,226

Noninterest Expense. Total noninterest expense for the third quarter of 2021 was $62.94 million, an increase of $7.35 million, or 13.21%, as compared to the same period of 2020. An important measure in determining whether a financial institution effectively manages noninterest expense is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Lower ratios indicate better efficiency since more income is generated with a lower noninterest expense total. Our efficiency ratio for the third quarter of 2021 was 45.88 % compared to 42.45% for the same quarter in 2020.

Salaries, commissions and employee benefits for the third quarter of 2021 totaled $37.09 million, compared to $33.65 million for the same period in 2020. The increase over the prior year was primarily driven by (i) annual merit-based pay increases that were effective March 1, 2021 and (ii) increases in incentive compensation and profit sharing expenses in the third quarter of 2021. All other categories of noninterest expense for the third quarter of 2021 totaled $25.85 million, up from $21.94 million in the same quarter a year ago.

Total noninterest expense for the first nine months of 2021 was $180.04 million, an increase of $15.80 million when compared to $164.23 million in the same period in 2020. Our efficiency ratio for the first nine months of 2021 was 45.73%, compared to 44.21% for the same period in 2020.

Salaries, commissions and employee benefits for the first nine months of 2021 totaled $107.07 million, an increase of $12.96 million when compared to the same period in 2020. The increase was primarily driven by (i) annual pay increases that were effective March 1, 2021, (ii) increases in incentive compensation and profit sharing expenses in the first nine months of 2021 and (iii) the deferral of $3.62 million PPP origination costs in the first nine months of 2020. All other categories of noninterest expense for the first nine months of 2021 totaled $72.97 million, an increase of $2.84 million when compared to the same period of 2020. Included in noninterest expense in the first nine months of 2020 were technology contract termination and conversion related costs totaling $4.40 million related to the TB&T acquisition.

Table 4 - Noninterest Expense (in thousands):

	Three-Months Ended September 30,			Nine-Months Ended September 30,		
	2021	Increase (Decrease)	2020	2021	Increase (Decrease)	2020
Salaries and commissions	$ 28,107	$ 1,637	$ 26,470	$ 81,079	$ 8,636	$ 72,443
Medical	3,200	739	2,461	8,795	1,353	7,442
Profit sharing	2,630	1,085	1,545	7,035	2,540	4,495
401(k) match expense	881	41	840	2,771	195	2,576
Payroll taxes	1,627	57	1,570	5,471	371	5,100
Stock based compensation	645	(118)	763	1,916	(133)	2,049
Total salaries and employee benefits	37,090	3,441	33,649	107,067	12,962	94,105
Net occupancy expense	3,288	95	3,193	9,676	355	9,321
Equipment expense	2,450	293	2,157	6,791	549	6,242
FDIC assessment fees	815	228	587	2,282	1,187	1,095
ATM, interchange and credit card expense	2,935	106	2,829	8,746	322	8,424
Professional and service fees	2,406	169	2,237	6,936	(391)	7,327
Printing, stationery and supplies	432	(183)	615	1,246	(468)	1,714
Operational and other losses	1,087	466	621	1,908	(17)	1,925
Software amortization and expense	2,855	590	2,265	8,303	2,004	6,299
Amortization of intangible assets	398	(92)	490	1,222	(285)	1,507
Other:						
Data processing fees	501	134	367	1,345	111	1,234
Postage	420	43	377	1,086	24	1,062
Advertising	856	608	248	2,182	1,129	1,053
Correspondent bank service charges	267	32	235	757	91	666
Telephone	679	(233)	912	2,777	(11)	2,788
Public relations and business development	890	342	548	2,344	395	1,949
Directors' fees	588	41	547	1,800	17	1,783
Audit and accounting fees	515	(50)	565	1,501	(278)	1,779
Legal fees and other related costs	438	99	339	1,869	832	1,037
Regulatory exam fees	374	98	276	1,048	219	829
Travel	348	128	220	945	213	732
Courier expense	234	17	217	698	64	634
Other real estate owned	10	(8)	18	49	(40)	89
Other	3,063	982	2,081	7,458	(3,181)	10,639
Total other	9,183	2,233	6,950	25,859	(415)	26,274
Total Noninterest Expense	$ 62,939	$ 7,346	$ 55,593	$ 180,036	$ 15,803	$ 164,233

Balance Sheet Review

Loans. Our portfolio is comprised of loans made to businesses, professionals, individuals, and farm and ranch operations located in the primary trade areas served by our subsidiary bank. As of September 30, 2021, total loans held-for-investment were $5.29 billion, an increase of $115.46 million, as compared to December 31, 2020. During the third quarter of 2021, $181.06 million of PPP loans originated were forgiven. Total PPP loans outstanding were $139.33 million at September 30, 2021, which are included in the Company's commercial loan totals. PPP loan balances accounted for $229.81 million in average balances for the quarter ended September 30, 2021. At September 30, 2021, approximately $6.09 million of deferred loan fees related to PPP loans, including approximately $6.03 million for 2021 originations, continues to be amortized over the shorter of the repayment period or the contractual life of 24 to 60 months.

As compared to year-end 2020 balances, total real estate loans increased $368.32 million, total commercial loans decreased $327.26 million, agricultural loans increased $4.08 million and total consumer loans increased $70.33 million. Loans averaged $5.34 billion for the third quarter of 2021, an increase of $3.63 million from the prior year third quarter average balances. Loans averaged $5.34 billion for the first nine months of 2021, an increase of $255.26 million from the prior year nine-month period average balances.

In conjunction with the adoption of ASC 326, the Company expanded its four loan portfolio segments used under its legacy disclosures into the following ten portfolio segments. For modeling purposes, our loan portfolio segments include C&I, Municipal, Agricultural, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied CRE, Residential, Consumer Auto and Consumer Non-Auto. This additional segmentation allows for a more precise pooling of loans with similar credit risk characteristics and credit monitor procedures for the Company's calculation of its allowance for credit losses.

The loans originated as a result of the Company's participation in the PPP program, discussed in further detail on page 41, are included in the C&I loan portfolio segment as of September 30, 2021 and December 31, 2020.

Table 5 outlines the composition of the Company's held-for-investment loans by portfolio segment. For all periods prior to December 31, 2020, management has elected to maintain its previously disclosed loan portfolio segments.

Table 5 - Composition of Loans (in thousands):

	September 30, 2021	September 30, 2020	December 31, 2020
Commercial:			
C&I *	$ 819,597	N/A	$ 1,131,382
Municipal	165,847	N/A	181,325
Total Commercial	985,444	1,488,345	1,312,707
Agricultural	98,947	93,972	94,864
Real Estate:			
Construction & Development	656,530	N/A	553,959
Farm	203,064	N/A	152,237
Non-Owner Occupied CRE	674,958	N/A	617,686
Owner Occupied CRE	824,231	N/A	746,974
Residential	1,328,798	N/A	1,248,409
Total Real Estate	3,687,581	3,287,605	3,319,265
Consumer:			
Auto	394,072	N/A	353,595
Non-Auto	120,450	N/A	90,602
Total Consumer	514,522	423,757	444,197
Total	$ 5,286,494	$ 5,293,679	$ 5,171,033

* All disclosures for the C&I loan segment include PPP loan balances, net of deferred fees, as disclosed on the face of the consolidated balance sheet.

Loans held-for-sale, consisting of secondary market mortgage loans, totaled $47.72 million, $101.06 million, and $83.97 million at September 30, 2021 and 2020, and December 31, 2020, respectively. At September 30, 2021 and 2020, and December 31, 2020, $1.64 million, $6.39 million and $4.38 million, respectively, are valued using the lower of cost or fair value, and the remaining amounts are valued under the fair value option.

Asset Quality. Our loan portfolio is subject to periodic reviews by our centralized independent loan review group as well as periodic examinations by bank regulatory agencies. Loans are placed on non-accrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Non-accrual, past due 90 days or more and still accruing, and restructured loans plus foreclosed assets were $25.28 million at September 30, 2021, as compared to $43.05 million at September 30, 2020 and $42.90 million at December 31, 2020. As a percent of loans held-for-investment and foreclosed assets, these assets were 0.48% at September 30, 2021, as compared to 0.81% at September 30, 2020 and 0.83% at December 31, 2020. As a percent of total assets, these assets were 0.20% at September 30, 2021, as compared to 0.41% at September 30, 2020 and 0.39% at December 31, 2020. We believe the level of these assets to be manageable and are not aware of any material classified credits not properly disclosed as nonperforming at September 30, 2021.

Supplemental Oil and Gas Information. As of September 30, 2021, the Company's exposure to the oil and gas industry totaled 1.87% of total loans held-for-investment, excluding PPP loans, or $96.47 million, down $9.77 million from December 31, 2020 year-end levels. These oil and gas loans consisted (based on collateral supporting the loan) of (i) development and production loans of 13.65%, (ii) oil and gas field servicing loans of 6.24%, (iii) real estate loans of 47.58%, (iv) accounts receivable and inventory of 2.93%, (v) automobile of 6.58% and (vi) other of 23.02%. These have warranted additional scrutiny because of fluctuating oil and gas prices and the COVID pandemic. The Company instituted additional monitoring procedures for these loans and has classified and downgraded loans as appropriate. The following oil and gas information is as of and for the quarters ended September 30, 2021 and 2020, and the year ended December 31, 2020 (in thousands, except percentages):

	September 30, 2021	September 30, 2020	December 31, 2020
Oil and gas related loans, excluding PPP loans	$ 96,469	$ 118,567	$ 106,237
Oil and gas related loans as a % of total loans held-for-investment, excluding PPP loans	1.87%	2.58%	2.27%
Classified oil and gas related loans	$ 10,831	$ 26,823	$ 13,298
Non-accrual oil and gas related loans	3,058	6,800	4,774
Net charge-offs (recoveries) on oil and gas related loans for quarter/year then ended	(71)	—	825

Supplemental COVID-19 Industry Exposure. In addition, at September 30, 2021, loan balances in the retail/restaurant/hospitality industries totaled $496.52 million or 9.65% of the Company's total loans held-for-investment, excluding PPP loans. These loans comprised $34.34 million of classified loans, including $2.00 million in non-accrual loans. There were net recoveries related to this portfolio for the three and nine-months ended September 30, 2021 of $506 thousand. Additional information related to the Company's retail/restaurant/hospitality industries follows below (in thousands, except percentages):

	September 30,		December 31,
	2021	2020	2020
Retail loans	$ 348,797	$ 229,386	$ 216,244
Restaurant loans	59,031	39,523	48,618
Hotel loans	60,733	63,273	71,716
Other hospitality loans	27,369	26,041	21,970
Travel loans	593	801	780
Total Retail/Restaurant/Hospitality loans, excluding PPP loans	$ 496,523	$ 359,024	$ 359,328
Retail/Restaurant/Hospitality loans as a % of total loans held-for-investment, excluding PPP loans	9.65%	7.82%	7.67%
Classified Retail/Restaurant/Hospitality loans	$ 34,341	$ 28,171	$ 31,192
Non-accrual Retail/Restaurant/Hospitality loans	1,995	5,689	5,975
Net charge-offs (recoveries) on Retail/Restaurant/Hospitality loans quarter/year then ended	(506)	26	895

Table 6 – Non-accrual, Past Due 90 Days or More and Still Accruing, Restructured Loans and Foreclosed Assets (in thousands, except percentages):

	September 30,		December 31,
	2021	2020	2020
Non-accrual loans	$ 25,210	$ 42,673	$ 42,619
Loans still accruing and past due 90 days or more	23	23	113
Troubled debt restructured loans*	22	25	24
Nonperforming loans	25,255	42,721	42,756
Foreclosed assets	28	331	142
Total nonperforming assets	$ 25,283	$ 43,052	$ 42,898
As a % of loans held-for-investment and foreclosed assets	0.48%	0.81%	0.83%
As a % of total assets	0.20	0.41	0.39

* Troubled debt restructured loans of $4.73 million, $4.48 million and $7.41 million, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2021 and 2020, and December 31, 2020, respectively.

We record interest payments received on non-accrual loans as reductions of principal. Prior to the loans being placed on non-accrual, we recognized interest income on these loans of approximately $255 thousand for the year ended December 31, 2020. If interest on these loans had been recognized on a full accrual basis during the year ended December 31, 2020, such income would have approximated $4.46 million. Such amounts for the 2021 and 2020 interim periods were not significant.

Allowance for Credit Losses. The allowance for credit losses is the amount we determine as of a specific date to be appropriate to absorb current expected credit losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. For a discussion of our methodology, see our accounting policies in Note 1 to the consolidated financial statements (unaudited). There was no provision for credit losses or provision for unfunded commitments for the third quarter of 2021 as compared to $9.00 million for the third quarter of 2020, which was the aggregate of a $7.50 million provision for loan losses and $1.50 million provision for unfunded commitments. The provision for credit losses for the nine-months ended September 30, 2021 was a reversal of $3.20 million, which was made up of a reversal of provision for loan losses of $4.47 million offset by a $1.27 million provision for unfunded commitments, as compared to $27.55 million for the same period in 2020, which was made up of $26.05 million of provision for loan losses and $1.50 million provision for unfunded commitments. The net reversal of the Company's provision for credit losses year-to-date in 2021 reflects the continued improvement in the economic outlook for our markets across Texas and overall improvements in asset quality offset by loan growth. As a percent of average loans, net loan recoveries were 0.09% for the third quarter of 2021, as compared to net charge-offs of 0.03% for the third quarter of 2020. The allowance for credit losses as a percent of loans held-for-investment was 1.20% as of September 30, 2021, as compared to 1.44% as of September 30, 2020 and 1.29% as of December 31, 2020. The allowance for credit losses as a percent of loans held-for-investment, excluding PPP loans, was 1.23% as of September 30, 2021, as compared to 1.66% as of September 30, 2020 and 1.42% as of December 31, 2020.

Table 7 - Loan Loss Experience and Allowance for Credit Losses (in thousands, except percentages):

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2021	2020	2021	2020
Allowance for credit losses at period-end	$ 63,370	$ 76,038	$ 63,370	$ 76,038
Loans held-for-investment at period-end	5,286,494	5,293,679	5,286,494	5,293,679
Average loans for period	5,337,807	5,334,174	5,339,398	5,084,136
Net charge-offs (recoveries)/average loans (annualized)	(0.09)%	0.03 %	(0.03)%	0.07 %
Allowance for loan losses/period-end loans held-for-investment	1.20 %	1.44 %	1.20 %	1.44 %
Allowance for loan losses/non-accrual loans, past due 90 days still accruing and restructured loans	250.92 %	177.99 %	250.92 %	177.99 %

Interest-Bearing Demand Deposits in Banks. At September 30, 2021, our interest-bearing deposits in banks were $359.24 million compared to $58.93 million at September 30, 2020 and $517.97 million at December 31, 2020, respectively. At September 30, 2021, interest-bearing deposits in banks included $356.04 million maintained at the Federal Reserve Bank of Dallas and $3.20 million on deposit with the FHLB.

Available-for-Sale Securities. At September 30, 2021, securities with a fair value of $6.12 billion were classified as securities available-for-sale. As compared to December 31, 2020, the available-for-sale portfolio at September 30, 2021 reflected (i) an increase of $238.49 million in obligations of states and political subdivisions, (ii) an increase of $32.90 million in corporate bonds and other, and (iii) an increase of $1.46 billion in mortgage-backed securities. Our mortgage related securities are backed by GNMA, FNMA or FHLMC or are collateralized by securities backed by these agencies.

See Note 2 to the consolidated financial statements (unaudited) for additional disclosures relating to the investment portfolio at September 30, 2021 and 2020, and December 31, 2020.

Table 8 - Maturities and Yields of Available-for-Sale Securities Held at September 30, 2021 (in thousands, except percentages):

	Maturing by Contractual Maturity									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
Available-for-Sale:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of states and political subdivisions	$ 196,413	4.20 %	$ 719,539	3.86 %	$ 1,723,726	2.63 %	$ 25,689	3.12 %	$ 2,665,367	3.08 %
Corporate bonds and other securities	4,468	1.26	—	—	32,984	1.65	—	—	37,452	1.61
Mortgage-backed securities	277,666	1.80	2,303,636	1.65	774,533	1.54	61,330	1.74	3,417,165	1.64
Total	$ 478,547	2.78 %	$ 3,023,175	2.18 %	$ 2,531,243	2.28 %	$ 87,019	2.15 %	$ 6,119,984	2.27 %

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 21%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

As of September 30, 2021, the investment portfolio had an overall tax equivalent yield of 2.27%, a weighted average life of 4.87 years and modified duration of 4.40 years.

At September 30, 2021, the investment portfolio included $174.25 million of investments which have not yet settled and is reflected as a liability on the consolidated balance sheet.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $9.89 billion as of September 30, 2021, as compared to $8.29 billion as of September 30, 2020 and $8.68 billion as of December 31, 2020. Table 9 provides a breakdown of average deposits and rates paid for the three and nine-month periods ended September 30, 2021 and 2020, respectively.

Table 9 - Composition of Average Deposits (in thousands, except percentages):

	Three-Months Ended September 30,			
	2021		2020	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 3,490,685	—%	$ 3,016,700	—%
Interest-bearing deposits:				
Interest-bearing checking	3,142,769	0.07	2,498,641	0.10
Savings and money market accounts	2,732,149	0.06	2,301,920	0.12
Time deposits under $250,000	317,843	0.26	332,431	0.46
Time deposits of $250,000 or more	153,506	0.43	137,608	1.01
Total interest-bearing deposits	6,346,267	0.08%	5,270,600	0.16%
Total average deposits	$ 9,836,952		$ 8,287,300	
Total cost of deposits		0.05%		0.10%

	Nine-Months Ended September 30,			
	2021		2020	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 3,349,719	—%	$ 2,714,173	—%
Interest-bearing deposits:				
Interest-bearing checking	3,030,830	0.08	2,477,035	0.26
Savings and money market accounts	2,658,570	0.08	2,156,906	0.24
Time deposits under $250,000	320,743	0.29	338,237	0.61
Time deposits of $250,000 or more	155,597	0.51	131,918	1.14
Total interest-bearing deposits	6,165,740	0.10%	5,104,096	0.30%
Total average deposits	$ 9,515,459		$ 7,818,269	
Total cost of deposits		0.06%		0.19%

Borrowings. Included in borrowings were federal funds purchased, securities sold under repurchase agreements and advances from the FHLB of $648.68 million, $503.16 million and $430.09 million at September 30, 2021 and 2020 and December 31, 2020, respectively. Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which we pledge certain securities that have a fair value equal to at least the amount of the short-term borrowings. The average balance of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB were $599.93 million and $482.56 million in the third quarters of 2021 and 2020, respectively. The weighted average interest rates paid on these borrowings were 0.05% and 0.08% for the third quarters of 2021 and 2020, respectively. The average balance of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB were $528.60 million and $606.29 million for the nine-months ended September 30, 2021 and 2020, respectively. The weighted average interest rates paid on these borrowings were 0.07% and 0.23% for the nine-month periods ended September 30, 2021 and 2020, respectively.

Capital Resources

We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate but not retaining a significant amount of our profits or when we experience significant asset quality deterioration.

Total shareholders' equity was $1.73 billion, or 13.82% of total assets at September 30, 2021, as compared to $1.62 billion, or 15.33% of total assets at September 30, 2020, and $1.68 billion, or 15.39% of total assets at December 31, 2020. Included in shareholders' equity at September 30, 2021 and 2020 and December 31, 2020 were $109.45 million, $152.06 million and $170.40 million, respectively, in unrealized gains on investment securities available-for-sale, net of related income taxes. For the third quarter of 2021, total shareholders' equity averaged $1.74 billion, or 14.17% of average assets, as compared to $1.60 billion, or 15.27% of average assets, during the same period in 2020. For the first nine months of 2021, total shareholders' equity averaged $1.70 billion, or 14.35% of average assets, as compared to $1.54 billion, or 15.32% of average assets, during the same period in 2020.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and the leverage ratio under the Basel III regulatory capital framework and prompt corrective action regulations. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets.

Beginning in January 2015, under the Basel III regulatory capital framework, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reached 2.50% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

As of September 30, 2021 and 2020, and December 31, 2020, we had a total capital to risk-weighted assets ratio of 20.76%, 21.82% and 22.03%, a Tier 1 capital to risk-weighted assets ratio of 19.71%, 20.56% and 20.79%; a common equity Tier 1 to risk-weighted assets ratio of 19.71%, 20.56% and 20.79% and a leverage ratio of 11.19%, 11.65% and 11.86%, respectively. The regulatory capital ratios as of September 30, 2021 and 2020, and December 31, 2020 were calculated under Basel III rules.

The regulatory capital ratios of the Company and Bank under the Basel III regulatory capital framework are as follows:

				Minimum Capital		Required to be Considered Well-		
	Actual			Required-Basel III		Capitalized		
As of September 30, 2021:	**Amount**	**Ratio**		**Amount**	**Ratio**		**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:								
Consolidated	$ 1,389,929	20.76%	$	702,959	10.50%	$	669,485	10.00%
First Financial Bank, N.A	$ 1,246,266	18.65%	$	701,572	10.50%	$	668,164	10.00%
Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$ 1,319,809	19.71%	$	569,062	8.50%	$	401,691	6.00%
First Financial Bank, N.A	$ 1,176,146	17.60%	$	567,939	8.50%	$	534,531	8.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$ 1,319,809	19.71%	$	468,639	7.00%		—	N/A
First Financial Bank, N.A	$ 1,176,146	17.60%	$	467,715	7.00%	$	434,306	6.50%
Leverage Ratio:								
Consolidated	$ 1,319,809	11.19%	$	471,745	4.00%		—	N/A
First Financial Bank, N.A	$ 1,176,146	10.00%	$	470,355	4.00%	$	587,944	5.00%

				Minimum Capital		Required to be Considered Well-		
	Actual			Required-Basel III		Capitalized		
As of September 30, 2020:	**Amount**	**Ratio**		**Amount**	**Ratio**		**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:								
Consolidated	$ 1,231,395	21.82%	$	592,680	10.50%	$	564,457	10.00%
First Financial Bank, N.A	$ 1,102,365	19.57%	$	591,382	10.50%	$	563,221	10.00%
Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$ 1,160,742	20.56%	$	479,788	8.50%	$	338,674	6.00%
First Financial Bank, N.A	$ 1,031,864	18.32%	$	478,738	8.50%	$	450,577	8.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$ 1,160,742	20.56%	$	395,120	7.00%		—	N/A
First Financial Bank, N.A	$ 1,031,864	18.32%	$	394,255	7.00%	$	366,094	6.50%
Leverage Ratio:								
Consolidated	$ 1,160,742	11.65%	$	398,660	4.00%		—	N/A
First Financial Bank, N.A	$ 1,031,864	10.39%	$	397,410	4.00%	$	496,763	5.00%

As of December 31, 2020:	Actual Amount	Actual Ratio	Minimum Capital Required Basel III Amount	Minimum Capital Required Basel III Ratio	Required to be Considered Well-Capitalized Amount	Required to be Considered Well-Capitalized Ratio
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,273,749	22.03 %	$ 607,038	10.50 %	$ 578,131	10.00 %
First Financial Bank, N.A	$ 1,123,275	19.47 %	$ 605,830	10.50 %	$ 576,981	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,201,729	20.79 %	$ 491,412	8.50 %	$ 346,879	6.00 %
First Financial Bank, N.A	$ 1,051,255	18.22 %	$ 490,434	8.50 %	$ 461,585	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,201,729	20.79 %	$ 404,692	7.00 %	—	N/A
First Financial Bank, N.A	$ 1,051,255	18.22 %	$ 403,887	7.00 %	$ 375,038	6.50 %
Leverage Ratio:						
Consolidated	$ 1,201,729	11.86 %	$ 405,268	4.00 %	—	N/A
First Financial Bank, N.A	$ 1,051,255	10.41 %	$ 404,002	4.00 %	$ 505,002	5.00 %

In connection with the adoption of the Basel III regulatory capital framework, our subsidiary bank made the election to continue to exclude accumulated other comprehensive income from available-for-sale securities ("AOCI") from capital in connection with its quarterly financial filing and, in effect, to retain the AOCI treatment under the prior capital rules.

Interest Rate Risk

Interest rate risk results when the maturity or re-pricing intervals of interest-earning assets and interest-bearing liabilities are different. Our exposure to interest rate risk is managed primarily through our strategy of selecting the types and terms of interest-earning assets and interest-bearing liabilities that generate favorable earnings while limiting the potential negative effects of changes in market interest rates. We use no off-balance-sheet financial instruments to manage interest rate risk.

Our subsidiary bank has an asset liability management committee that monitors interest rate risk and compliance with investment policies. The subsidiary bank utilizes an earnings simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model quantifies the effects of various interest rate scenarios on projected net interest income and net income over the next twelve months. The model measures the impact on net interest income relative to a base case scenario of hypothetical fluctuations in interest rates over the next twelve months. These simulations incorporate assumptions regarding balance sheet growth and mix, pricing and the re-pricing and maturity characteristics of the existing and projected balance sheet.

The following analysis depicts the estimated impact on net interest income of immediate changes in interest rates at the specified levels for period presented.

Change in interest rates: (in basis points)	Percentage change in net interest income: September 30, 2021	September 30, 2020	December 31, 2020
+400	8.60 %	15.02 %	18.18 %
+300	7.13 %	11.54 %	13.99 %
+200	5.23 %	7.81 %	9.51 %
+100	3.04 %	3.93 %	4.75 %
-100	(5.57)%	(4.23)%	(3.46)%
-200	(8.24)%	(6.21)%	(5.44)%

The results for the net interest income simulations as of September 30, 2021, September 30, 2020 and December 31, 2020 resulted in an asset sensitive position. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve-month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics on specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.

Should we be unable to maintain a reasonable balance of maturities and re-pricing of our interest-earning assets and our interest-bearing liabilities, we could be required to dispose of our assets in an unfavorable manner or pay a higher than market rate to fund our activities. Our asset liability committee oversees and monitors this risk.

Liquidity

Liquidity is our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position. The potential need for liquidity arising from these types of financial instruments is represented by the contractual notional amount of the instrument. Asset liquidity is provided by cash and assets which are readily marketable or which will mature in the near future. Liquid assets include cash, federal funds sold, and short-term investments in time deposits in banks. Liquidity is also provided by access to funding sources, which include core depositors and correspondent banks that maintain accounts with and sell federal funds to our subsidiary bank. Other sources of funds include our ability to borrow from short-term sources, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and advances from the FHLB (see below) and an unfunded $25.00 million revolving line of credit established with Frost Bank, a nonaffiliated bank, which matures in June 2023 (see next paragraph). Our subsidiary bank also has federal funds purchased lines of credit with two non-affiliated banks totaling $130.00 million. At September 30, 2021, there were no amounts drawn on these lines of credit. Our subsidiary bank also has (i) an available line of credit with the FHLB totaling $1.64 billion at September 30, 2021, secured by portions of our loan portfolio and certain investment securities and (ii) access to the Federal Reserve Bank of Dallas lending program. At September 30, 2021, the Company had no outstanding advances from the FHLB.

The Company renewed its loan agreement, effective June 30, 2021, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to $25.00 million on a revolving line of credit. Prior to June 30, 2023, interest is paid quarterly at *The Wall Street Journal* Prime Rate and the line of credit matures June 30, 2023. If a balance exists at June 30, 2023, the principal balance converts to a term facility payable quarterly over five years and interest is paid quarterly at *The Wall Street Journal* Prime Rate. The line of credit is unsecured. Among other provisions in the credit agreement, we must satisfy certain financial covenants during the term of the loan agreement, including, without limitation, covenants that require us to maintain certain capital, tangible net worth, loan loss reserve, non-performing asset and cash flow coverage ratios. In addition, the credit agreement contains certain operational covenants, which among others, restricts the payment of dividends above 55% of consolidated net income, limits the incurrence of debt (excluding any amounts acquired in an acquisition) and prohibits the disposal of assets except in the ordinary course of business. Since 1995, we have historically declared dividends as a percentage of our consolidated net income in a range of 36% (low) in 2021 to 53% (high) in 2003 and 2006. The Company was in compliance with the financial and operational covenants at September 30, 2021. There was no outstanding balance under the line of credit as of September 30, 2021 and 2020, or December 31, 2020.

In addition, we anticipate that future acquisitions of financial institutions, expansion of branch locations or offerings of new products could also place a demand on our cash resources. Available cash and cash equivalents at our parent company which totaled $129.21 million at September 30, 2021, investment securities which totaled $2.50 million at September 30, 2021 and mature over 8 to 9 years, available dividends from our subsidiaries which totaled $334.51 million at September 30, 2021, utilization of available lines of credit, and future debt or equity offerings are expected to be the source of funding for these potential acquisitions or expansions.

Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Liquidity risk management is an important element in our asset/liability management process. We regularly model liquidity stress scenarios to assess potential liquidity outflows or funding problems resulting from economic disruptions, volatility in the financial markets, unexpected credit events or other significant occurrences deemed potentially problematic by management. These scenarios are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs. As of September 30, 2021, management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations. We are monitoring closely the economic impact of the coronavirus on our customers and the communities we serve. Given the strong core deposit base and relatively low loan to deposit ratios maintained at our subsidiary bank, we consider our current liquidity position to be adequate to meet our short-term and long-term liquidity needs. In addition, management is not aware of any regulatory recommendations regarding liquidity that would have a material adverse effect on us.

Off-Balance Sheet ("OBS")/Reserve for Unfunded Commitments. We are a party to financial instruments with OBS risk in the normal course of business to meet the financing needs of our customers. These financial instruments include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in our consolidated balance sheets. At September 30, 2021, the Company's reserve for unfunded commitments totaled $6.75 million which is recorded in other liabilities.

Our exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. We generally use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

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

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The average collateral value held on letters of credit usually exceeds the contract amount.

Table 10 – Commitments as of September 30, 2021 (in thousands):

	Total Notional Amounts Committed
Unfunded lines of credit	$ 961,094
Unfunded commitments to extend credit	818,316
Standby letters of credit	39,080
Total commercial commitments	$ 1,818,490

We believe we have no other OBS arrangements or transactions with unconsolidated, special purpose entities that would expose us to liability that is not reflected on the face of the financial statements. The above table does not include balances related to the Company's IRLC and forward mortgage-backed security trades.

Parent Company Funding. Our ability to fund various operating expenses, dividends, and cash acquisitions is generally dependent on our own earnings (without giving effect to our subsidiaries), cash reserves and funds derived from our subsidiaries. These funds historically have been produced by intercompany dividends and management fees that are limited to reimbursement of actual expenses. We anticipate that our recurring cash sources will continue to include dividends and management fees from our subsidiaries. At September 30, 2021, $334.51 million was available for the payment of intercompany dividends by our subsidiaries without the prior approval of regulatory agencies. Our subsidiaries paid aggregate dividends of $53.50 million and $46.00 million for the nine-months ended September 30, 2021 and 2020, respectively.

Dividends. Our long-term dividend policy is to pay cash dividends to our shareholders of approximately 40% of annual net earnings while maintaining adequate capital to support growth. We are also restricted by a loan covenant within our line of credit agreement with Frost Bank to dividend no greater than 55% of net income, as defined in such loan agreement. The cash dividend payout ratios have amounted to 35.55% and 37.62% of net earnings for the first nine months of 2021 and 2020, respectively. Given our current capital position and projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy.

Our bank subsidiary, which is a national banking association and a member of the Federal Reserve System, is required by federal law to obtain the prior approval of the OCC to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus.

To pay dividends, we and our subsidiary bank must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve, the FDIC and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Management considers interest rate risk to be a significant market risk for the Company. See “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources—Interest Rate Risk” for disclosure regarding this market risk.

Item 4. Controls and Procedures.

As of September 30, 2021, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934). Our management, which includes our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our principal executive officer and principal financial officer have concluded, based on our evaluation of our disclosure controls and procedures, that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2021.

Subsequent to our evaluation, there were no significant changes in internal controls over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, these internal controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we and our subsidiaries are parties to lawsuits arising in the ordinary course of our banking business. However, there are no material pending legal proceedings to which we, our subsidiaries, or any of their properties, are currently subject. Other than regular, routine examinations by state and federal banking authorities, there are no proceedings pending or known to be contemplated by any governmental authorities.

Item 1A. Risk Factors.

There has been no material change in the risk factors previously disclosed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not Applicable

Item 3. Defaults Upon Senior Securities.

Not Applicable

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

Not Applicable

Item 6. Exhibits.

2.1	—	Agreement and Plan of Reorganization, dated October 12, 2017, by and among First Financial Bankshares, Inc., Kingwood Merger Sub, Inc., and Commercial Bancshares, Inc. (schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference from Exhibit 2.1 to Registrant's Form 8-K filed October 12, 2017).
2.2	—	Agreement and Plan of Reorganization, dated September 19, 2019, by and among First Financial Bankshares, Inc., Brazos Merger Sub, Inc., and TB&T Bancshares, Inc. (schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference from Exhibit 2.1 to Registrant's Form 8-K filed September 20, 2019).
3.1	—	Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 of the Registrant's Form 10-Q filed July 30, 2019).
3.2	—	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K filed April 3, 2020).
3.3	—	Amendment to the Amended and Restated Bylaws of the Registrant, dated July 27, 2021 (incorporated by reference from Exhibit 3.3 to the Registrant's Form 10-Q filed August 2, 2021).
4.1	—	Specimen certificate of First Financial Common Stock (incorporated by reference from Exhibit 3 of the Registrant's Amendment No. 1 to Form 8-A filed on Form 8-A/A No. 1 on January 7, 1994).
4.2	—	Description of Registrant's Securities (incorporated by reference from Exhibit 4.2 of the Registrant's Form 10-K filed February 22, 2021).
10.1	—	2002 Incentive Stock Option Plan (incorporated by reference from Exhibit 10.3 of the Registrant's Form 10-Q filed May 4, 2010).++
10.2	—	2012 Incentive Stock Option Plan (incorporated by reference from Appendix A of the Registrant's Definitive Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed March 1, 2012).++
10.3	—	Loan agreement dated June 30, 2013, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 1, 2013).
10.4	—	First Amendment to Loan Agreement, dated June 30, 2015, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 30, 2015).
10.5	—	Second Amendment to Loan Agreement, dated June 30, 2017, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 30, 2017).
10.6	—	Third Amendment to Loan Agreement, dated June 30, 2019, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 1, 2019).
10.7	—	Fourth Amendment to Loan Agreement, dated June 30, 2021, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrants Form 8-K filed July 7, 2021).
10.8	—	2015 Restricted Stock Plan as Amended and Restated April 28, 2020 (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed May 1, 2020).++
10.9	—	Form of Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 30, 2020).++
10.10	—	2021 Omnibus Stock and Incentive Plan as Amended (incorporated by reference from Exhibit 10 of the Registrant's Form 8-K filed April 28, 2021).++
10.11	—	First Financial Bankshares, Inc. Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2022 (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed November 1, 2021.)++
31.1	—	Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Executive Officer of First Financial Bankshares, Inc.*
31.2	—	Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Financial Officer of First Financial Bankshares, Inc.*
32.1	—	Section 1350 Certification of Chief Executive Officer of First Financial Bankshares, Inc.+
32.2	—	Section 1350 Certification of Chief Financial Officer of First Financial Bankshares, Inc.+
101.INS	—	Inline XBRL Instance Document.- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.*
101.SCH	—	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	—	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	—	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	—	Inline XBRL Taxonomy Extension Label Linkbase Document.*

* Filed herewith

+ Furnished herewith. This Exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.
++ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST FINANCIAL BANKSHARES, INC.

Date: November 2, 2021

By: /s/ F. Scott Dueser
F. Scott Dueser
Chairman of the Board, President and Chief Executive Officer

Date: November 2, 2021

By: /s/ James R. Gordon
James R. Gordon
Executive Vice President and
Chief Financial Officer, Secretary and Treasurer

Exhibit 31.1

Certification of
Chief Executive Officer
of First Financial Bankshares, Inc.

I, F. Scott Dueser, Chairman of the Board, President and Chief Executive Officer of First Financial Bankshares, Inc., certify that:

1. I have reviewed this Form 10-Q of First Financial Bankshares, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 2, 2021

By: /s/ F. Scott Dueser
F. Scott Dueser
Chairman of the Board, President and Chief Executive Officer

Exhibit 31.2

Certification of
Chief Financial Officer
of First Financial Bankshares, Inc.

I, James R. Gordon, Executive Vice President and Chief Financial Officer, Secretary and Treasurer of First Financial Bankshares, Inc., certify that:

1. I have reviewed this Form 10-Q of First Financial Bankshares, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 2, 2021

By: /s/ James R. Gordon
James R. Gordon
Executive Vice President and Chief
Financial Officer, Secretary and Treasurer

Exhibit 32.1

Certification of
Chief Executive Officer
of First Financial Bankshares, Inc.

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the quarterly report on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2021 of First Financial Bankshares, Inc. (the "Company").

I, F. Scott Dueser, the Chairman of the Board, President and Chief Executive Officer of the Company, certify that:

1. the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2021

By: /s/ F. Scott Dueser
F. Scott Dueser
Chairman of the Board, President and Chief Executive Officer

Subscribed and sworn to before me this 2nd day of November, 2021.

/s/ Melissa Ann Fenton
Melissa Ann Fenton
Notary Public

My commission expires: October 11, 2024

Exhibit 32.2

Certification of
Chief Financial Officer
of First Financial Bankshares, Inc.

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the quarterly report on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2021 of First Financial Bankshares, Inc. (the "Company").

I, James R. Gordon, the Executive Vice President and Chief Financial Officer, Secretary and Treasurer of the Company, certify that:

1. the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2021

By: /s/ James R. Gordon
James R. Gordon
Executive Vice President and Chief
Financial Officer, Secretary and Treasurer

Subscribed and sworn to before me this 2nd day of November, 2021.

/s/ Melissa Ann Fenton
Melissa Ann Fenton
Notary Public

My commission expires: October 11, 2024