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 June 30, 2022

☐ **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 0-07674

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, a non-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 August 2, 2022
Common Stock, $0.01 par value per share	142,542,554

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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 June 30, 2022 and 2021, (unaudited) and December 31, 2021, and the consolidated statements of earnings, comprehensive earnings and shareholders' equity for the three and six-months ended June 30, 2022 and 2021 (unaudited), and the consolidated statements of cash flows for the six-months ended June 30, 2022 and 2021 (unaudited) and notes to consolidated financial statements (unaudited), follow on pages 4 through 40.

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

	June 30,		December 31,
	2022	2021	2021
	(Unaudited)		
ASSETS			
CASH AND DUE FROM BANKS	$ 242,665	$ 190,061	$ 205,053
INTEREST-BEARING DEMAND DEPOSITS IN BANKS	222,899	654,531	323,535
Total cash and cash equivalents	465,564	844,592	528,588
SECURITIES AVAILABLE-FOR-SALE, at fair value (amortized cost of these securities was $6,722,336, $5,405,189 and $6,447,510 as of June 30, 2022 and 2021, and December 31, 2021, respectively)	6,215,036	5,578,048	6,573,179
LOANS:			
Held-for-investment, excluding PPP loans	5,876,281	4,984,210	5,336,179
PPP loans	2,301	320,392	52,793
Total loans held-for-investment	5,878,582	5,304,602	5,388,972
Less—allowance for credit losses	(71,932)	(62,138)	(63,465)
Net loans held-for-investment	5,806,650	5,242,464	5,325,507
Held-for-sale ($23,848, $56,257 and $34,122 at fair value at June 30, 2022 and 2021, and December 31, 2021, respectively)	26,445	61,802	37,810
BANK PREMISES AND EQUIPMENT, net	149,280	147,655	149,764
INTANGIBLE ASSETS, net	316,139	317,568	316,779
OTHER ASSETS	281,098	136,954	170,834
Total assets	$ 13,260,212	$ 12,329,083	$ 13,102,461
LIABILITIES AND SHAREHOLDERS' EQUITY			
NONINTEREST-BEARING DEPOSITS	$ 4,104,034	$ 3,427,038	$ 3,780,230
INTEREST-BEARING DEPOSITS	7,018,949	6,354,656	6,786,258
Total deposits	11,122,983	9,781,694	10,566,488
BORROWINGS	768,364	549,969	671,152
TRADE DATE PAYABLE	—	189,838	—
OTHER LIABILITIES	39,847	87,213	105,597
Total liabilities	11,931,194	10,608,714	11,343,237
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
COMMON STOCK — ($0.01 par value, authorized 200,000,000 shares; 142,586,601, 142,359,774 and 142,532,116 shares issued at June 30, 2022 and 2021, and December 31, 2021, respectively)	1,426	1,424	1,425
CAPITAL SURPLUS	675,653	672,288	676,871
RETAINED EARNINGS	1,052,453	910,171	981,675
TREASURY STOCK (shares at cost: 937,924, 938,629 and 936,897 at June 30, 2022 and 2021, and December 31, 2021, respectively)	(10,656)	(9,641)	(10,090)
DEFERRED COMPENSATION	10,656	9,641	10,090
ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS), net	(400,514)	136,486	99,253
Total shareholders' equity	1,329,018	1,720,369	1,759,224
Total liabilities and shareholders' equity	$ 13,260,212	$ 12,329,083	$ 13,102,461

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 June 30,		Six-Months Ended June 30,	
	2022	2021	2022	2021
INTEREST INCOME:				
Interest and fees on loans	$ 68,158	$ 66,879	$ 132,656	$ 133,314
Interest on investment securities:				
Taxable	19,151	11,449	36,974	21,712
Exempt from federal income tax	14,120	14,060	28,712	27,809
Interest on federal funds sold and interest-bearing demand deposits in banks	552	214	648	377
Total interest income	101,981	92,602	198,990	183,212
INTEREST EXPENSE:				
Interest on deposits	2,966	1,560	4,336	3,255
Other	233	93	433	184
Total interest expense	3,199	1,653	4,769	3,439
Net interest income	98,782	90,949	194,221	179,773
PROVISION FOR CREDIT LOSSES	5,350	(1,206)	10,132	(3,203)
Net interest income after provision for credit losses	93,432	92,155	184,089	182,976
NONINTEREST INCOME:				
Trust fees	9,742	8,692	19,559	16,991
Service charges on deposit accounts	6,038	4,928	11,744	9,721
ATM, interchange and credit card fees	10,568	9,853	20,096	18,530
Gain on sale and fees on mortgage loans	5,728	8,291	12,061	18,185
Net gain on sale of available-for-sale securities	1,648	5	1,679	813
Net gain on sale of foreclosed assets	18	1	1,102	56
Net gain (loss) on sale of other assets	6	74	(4)	219
Interest on loan recoveries	1,649	704	1,932	1,086
Other	1,920	2,125	4,029	3,947
Total noninterest income	37,317	34,673	72,198	69,548
NONINTEREST EXPENSE:				
Salaries, commissions and employee benefits	33,147	35,046	67,285	69,977
Net occupancy expense	3,292	3,241	6,517	6,388
Equipment expense	2,346	2,177	4,603	4,341
FDIC insurance premiums	904	766	1,773	1,467
ATM, interchange and credit card expenses	3,201	3,039	6,169	5,811
Professional and service fees	2,191	2,392	4,415	4,531
Printing, stationery and supplies	501	489	1,041	814
Operational and other losses	782	534	1,378	821
Software amortization and expense	2,522	2,829	4,979	5,448
Amortization of intangible assets	320	412	640	824
Other	9,127	8,449	18,758	16,676
Total noninterest expense	58,333	59,374	117,558	117,098
EARNINGS BEFORE INCOME TAXES	72,416	67,454	138,729	135,426
INCOME TAX EXPENSE	11,922	11,075	22,263	22,129
NET EARNINGS	$ 60,494	$ 56,379	$ 116,466	$ 113,297
NET EARNINGS PER SHARE, BASIC	$ 0.42	$ 0.40	$ 0.82	$ 0.80
NET EARNINGS PER SHARE, DILUTED	$ 0.42	$ 0.39	$ 0.81	$ 0.79
DIVIDENDS PER SHARE	$ 0.17	$ 0.15	$ 0.32	$ 0.28

See notes to consolidated financial statements.

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

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2022	2021	2022	2021
NET EARNINGS	$ 60,494	$ 56,379	$ 116,466	$ 113,297
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(240,038)	24,659	(630,937)	(42,111)
Reclassification adjustment for realized gains (loss) on investment securities included in net earnings, before income taxes	(1,648)	(5)	(1,679)	(813)
Total other items of comprehensive earnings (loss)	(241,686)	24,654	(632,616)	(42,924)
Income tax benefit (expense) related to:				
Change in unrealized gain (loss) on investment securities available-for-sale	50,409	(5,178)	132,497	8,843
Reclassification adjustment for realized gains (loss) on investment securities included in net earnings	346	1	353	172
Total income tax benefit (expense)	50,754	(5,177)	132,849	9,015
COMPREHENSIVE EARNINGS (LOSS)	$ (130,438)	$ 75,856	$ (383,301)	$ 79,388

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 Surplus	Retained Earnings	Treasury Stock		Deferred Compensation	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity
	Shares	Amount			Shares	Amounts			
Balances at March 31, 2021 (unaudited)	142,285,611	$ 1,423	$ 671,849	$ 875,147	(938,004)	$ (9,385)	$ 9,385	$ 117,009	$ 1,665,428
Net earnings (unaudited)	—	—	—	56,379	—	—	—	—	56,379
Stock option exercises (unaudited)	40,847	1	713	—	—	—	—	—	714
Restricted stock grant/forfeiture, net (unaudited)	33,316	—	(646)	—	—	—	—	—	(646)
Cash dividends declared, $0.15 per share (unaudited)	—	—	—	(21,355)	—	—	—	—	(21,355)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	19,477	19,477
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(625)	(256)	256	—	—
Stock option expense (unaudited)	—	—	372	—	—	—	—	—	372
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
Balances at March 31, 2022 (unaudited)	142,704,495	$ 1,427	$ 680,665	$ 1,016,239	(936,847)	$ (10,404)	$ 10,404	$ (209,582)	$ 1,488,749
Net earnings (unaudited)	—	—	—	60,494	—	—	—	—	60,494
Stock option exercises (unaudited)	61,834	1	1,424	—	—	—	—	—	1,425
Restricted stock grant/forfeiture, net (unaudited)	12,259	—	651	—	—	—	—	—	651
Cash dividends declared, $0.17 per share (unaudited)	—	—	—	(24,280)	—	—	—	—	(24,280)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(190,932)	(190,932)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(1,077)	(252)	252	—	—
Stock option expense (unaudited)	—	—	316	—	—	—	—	—	316
Shares repurchased under stock repurchase authorization (unaudited)	(191,987)	(2)	(7,403)	—	—	—	—	—	(7,405)
Balances at June 30, 2022 (unaudited)	142,586,601	$ 1,426	$ 675,653	$ 1,052,453	(937,924)	$ (10,656)	$ 10,656	$ (400,514)	$ 1,329,018

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				Treasury Stock				
	Shares	Amount	Capital Surplus	Retained Earnings	Shares	Amounts	Deferred Compensation	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity
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)	—	—	—	113,297	—	—	—	—	113,297
Stock option exercises (unaudited)	165,371	2	2,616	—	—	—	—	—	2,618
Restricted stock grant/forfeiture, net (unaudited)	32,569	—	(663)	—	—	—	—	—	(663)
Cash dividends declared, $0.28 per share (unaudited)	—	—	—	(39,855)	—	—	—	—	(39,855)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(33,909)	(33,909)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(38)	(515)	515	—	—
Stock option expense (unaudited)	—	—	691	—	—	—	—	—	691
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
Balances at December 31, 2021	142,532,116	$ 1,425	$ 676,871	$ 981,675	(936,897)	$ (10,090)	$ 10,090	$ 99,253	$ 1,759,224
Net earnings (unaudited)	—	—	—	116,466	—	—	—	—	116,466
Stock option exercises (unaudited)	234,585	3	4,343	—	—	—	—	—	4,346
Restricted stock grant/forfeiture, net (unaudited)	11,887	—	1,210	—	—	—	—	—	1,210
Cash dividends declared, $0.32 per share (unaudited)	—	—	—	(45,688)	—	—	—	—	(45,688)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	(499,767)	(499,767)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	(1,027)	(566)	566	—	—
Stock option expense (unaudited)	—	—	632	—	—	—	—	—	632
Shares repurchased under stock repurchase authorization (unaudited)	(191,987)	(2)	(7,403)	—	—	—	—	—	(7,405)
Balances at June 30, 2022 (unaudited)	142,586,601	$ 1,426	$ 675,653	$ 1,052,453	(937,924)	$ (10,656)	$ 10,656	$ (400,514)	$ 1,329,018

See notes to consolidated financial statements.

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

	Six-Months Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 116,466	$ 113,297
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,436	6,407
Provision for credit losses	10,132	(3,203)
Securities premium amortization, net	38,727	30,288
Discount accretion on purchased loans	(746)	(1,181)
Gain on sale of securities and other assets, net	(2,777)	(1,088)
Deferred federal income tax benefit	1,421	814
Change in loans held-for-sale	10,980	20,899
Change in other assets	(1,077)	(4,125)
Change in other liabilities	(21,216)	(13,792)
Total adjustments	41,880	35,019
Net cash provided by operating activities	158,346	148,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	188,363	10,631
Maturities	2,615,256	8,037,370
Purchases	(3,115,482)	(9,130,287)
Net increase in loans held-for-investment	(487,862)	(130,765)
Purchases of bank premises and equipment	(5,245)	(11,640)
Proceeds from sale of bank premises and equipment and other assets	6	494
Net cash used in investing activities	(804,964)	(1,224,197)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	323,804	444,341
Net increase in interest-bearing deposits	232,691	661,536
Net increase in borrowings	97,212	119,876
Common stock transactions:		
Proceeds from stock option exercises	4,346	2,618
Dividends paid	(67,054)	(36,982)
Repurchases of stock	(7,405)	—
Net cash provided by financing activities	583,594	1,191,389
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(63,024)	115,508
CASH AND CASH EQUIVALENTS, beginning of period	528,588	729,084
CASH AND CASH EQUIVALENTS, end of period	$ 465,564	$ 844,592
SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:		
Interest paid	$ 4,567	$ 3,500
Federal income taxes paid	20,981	19,263
Transfer of loans to other real estate	—	283
Investment securities purchased but not settled	—	189,838
Restricted stock grant (forfeiture)	1,210	(663)

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 June 30, 2022. 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., First Technology Services, Inc. and FB Investment Paris Fund, LLC.

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 July 27, 2021, the Company's Board of Directors 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. Subsequent to July 27, 2021 and through the date of this report, 244,559 shares were repurchased and retired totaling $9,450,000 under this repurchase plan.

Other Recently Issued and Effective Authoritative Accounting Guidance

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.

ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. ASU 2022-02 will also require that an entity disclose current-period gross charge-offs by year of origination for financial receivables and net investment leases within the scope of ASC Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost. ASU 2022-02 will become effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, though early adoption is permitted. The adoption of ASU 2022-02 is not expected to 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 nonaccrual 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 nonaccrual is reversed against interest income. There was no accrued interest related to securities reversed against interest income for the three and six-months ended June 30, 2022 and 2021.

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.

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.

At June 30, 2022 and 2021, and December 31, 2021, no allowance for credit losses - available-for-sale securities was recorded.

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 June 30, 2022 and 2021, and December 31, 2021, 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 nonaccrual 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 nonaccrual 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 nonaccrual 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 nonaccrual 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.

Further information regarding our accounting policies related to past due loans, nonaccrual 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. Upon the adoption of ASC 326, 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 nonaccrual 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. 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 as well as a fair value adjustment to the amortized cost of the loan and accreted into income over the life of the loan.

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. 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.

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 period and the Company's prepayment and curtailment rates; (2) collective qualitative factors that consider concentrations of the loan portfolio, expected changes to the economic forecasts, 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 nonaccrual 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.

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 June 30, 2022 and 2021, and December 31, 2021, the Company's reserve for unfunded commitments totaled $8,718,000, $6,751,000 and $6,436,000, respectively, which is included in other liabilities in the consolidated balance sheet.

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/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 six-months ended June 30, 2022 or 2021, 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 deposits in banks with original maturity of 90 days or less, and federal funds sold.

Accumulated Other Comprehensive Earnings (Loss)

Unrealized net gains or losses on the Company's available-for-sale securities (after applicable income tax expense) totaling $400,514,000 of losses at June 30, 2022 and $136,486,000 and $99,253,000 of gains at June 30, 2021 and December 31, 2021, respectively, are included in accumulated other comprehensive earnings (loss) as a separate component of shareholders' equity.

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 using the Black-Scholes model of the shares at the grant date. The grant date fair value is amortized over the vesting period which generally is five or six years. The Company also grants restricted stock and/or units for a fixed number of shares which generally vests over periods of one to three years and/or performance metrics over a three-year period related to a defined group of peers. For stock option grants, the exercise price is established based on the closing trading price. No adjustments have been necessary to properly value the grant based on the terms or other conditions of the grants. 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 207,000 and 209,000 anti-dilutive shares for the three and six-months ended June 30, 2022, respectively, that were excluded from the computation of EPS. There were no anti-dilutive shares for the three or six-months ended June 30, 2021, 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 June 30, 2022:			
Net earnings per share, basic	$ 60,494	142,682,251	$ 0.42
Effect of stock options and stock grants	—	556,418	—
Net earnings per share, diluted	$ 60,494	143,238,669	$ 0.42

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the six-months ended June 30, 2022:			
Net earnings per share, basic	$ 116,466	142,620,838	$ 0.82
Effect of stock options and stock grants	—	652,553	(0.01)
Net earnings per share, diluted	$ 116,466	143,273,391	$ 0.81

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the three-months ended June 30, 2021:			
Net earnings per share, basic	$ 56,379	142,245,555	$ 0.40
Effect of stock options and stock grants	—	919,056	(0.01)
Net earnings per share, diluted	$ 56,379	143,164,611	$ 0.39

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the six-months ended June 30, 2021:			
Net earnings per share, basic	$ 113,297	142,196,190	$ 0.80
Effect of stock options and stock grants	—	906,418	(0.01)
Net earnings per share, diluted	$ 113,297	143,102,608	$ 0.79

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 (dollars in thousands):

	June 30, 2022			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 501,098	$ 12	$ (14,752)	$ 486,358
Obligations of states and political subdivisions	2,419,232	7,737	(182,365)	2,244,604
Residential mortgage-backed securities	3,265,654	399	(301,149)	2,964,904
Commercial mortgage-backed securities	423,168	476	(8,819)	414,825
Corporate bonds and other	113,184	88	(8,927)	104,345
Total securities available-for-sale	$ 6,722,336	$ 8,712	$ (516,012)	$ 6,215,036

	June 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	$ 2,490,468	$ 125,612	$ (993)	$ 2,615,087
Residential mortgage-backed securities	2,471,278	38,619	(5,711)	2,504,186
Commercial mortgage-backed securities	405,146	15,822	—	420,968
Corporate bonds and other	38,297	91	(581)	37,807
Total securities available-for-sale	$ 5,405,189	$ 180,144	$ (7,285)	$ 5,578,048

	December 31, 2021			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 126,716	$ 125	$ —	$ 126,841
Obligations of states and political subdivisions	2,638,369	116,319	(1,217)	2,753,471
Residential mortgage-backed securities	3,256,746	23,990	(21,287)	3,259,449
Commercial mortgage-backed securities	356,207	8,914	(1)	365,120
Corporate bonds and other	69,472	32	(1,206)	68,298
Total securities available-for-sale	$ 6,447,510	$ 149,380	$ (23,711)	$ 6,573,179

The Company did not hold any securities classified as held-to-maturity at June 30, 2022, June 30, 2021, or December 31, 2021.

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 June 30, 2022 and 2021, and December 31, 2021, 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 June 30, 2022, by contractual and expected maturity, are shown below (dollars in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 239,670	$ 239,640
Due after one year through five years	2,912,498	2,780,193
Due after five years through ten years	2,925,448	2,630,741
Due after ten years	644,720	564,462
Total	$ 6,722,336	$ 6,215,036

The following tables disclose as of June 30, 2022 and 2021, and December 31, 2021, 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 (dollars in thousands):

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$ 466,438	$ 14,752	$ —	$ —	$ 466,438	$ 14,752
Obligations of states and political subdivisions	1,623,146	178,446	24,038	3,919	1,647,184	182,365
Residential mortgage-backed securities	2,631,511	266,352	277,404	34,797	2,908,915	301,149
Commercial mortgage-backed securities	341,997	8,819	—	—	341,997	8,819
Corporate bonds and other	73,358	4,287	26,397	4,640	99,755	8,927
Total	$ 5,136,450	$ 472,656	$ 327,839	$ 43,356	$ 5,464,289	$ 516,012

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2021	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$ 170,483	$ 992	$ —	$ —	$ 170,483	$ 992
Residential mortgage-backed securities	712,100	5,706	2,478	6	714,578	5,712
Commercial mortgage-backed securities	866	—	—	—	866	—
Corporate bonds and other	33,318	581	—	—	33,318	581
Total	$ 916,767	$ 7,279	$ 2,478	$ 6	$ 919,245	$ 7,285

December 31, 2021	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$ 163,698	$ 1,096	$ 18,943	$ 122	$ 182,641	$ 1,218
Residential mortgage-backed securities	2,263,010	19,742	54,392	1,544	2,317,402	21,286
Commercial mortgage-backed securities	820	1	—	—	820	1
Corporate bonds and other	47,436	635	16,432	571	63,868	1,206
Total	$ 2,474,964	$ 21,474	$ 89,767	$ 2,237	$ 2,564,731	$ 23,711

The number of investments in an unrealized loss position totaled 834 at June 30, 2022. We believe any unrealized losses in the U.S. treasury securities, obligations of state and political subdivisions, residential and commercial mortgage-backed and asset-backed investment securities, and corporate bonds and other at June 30, 2022 and 2021, and December 31, 2021, 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 June 30, 2022 and 2021, and December 31, 2021. 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 June 30, 2022, 72.75% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 54.15% are guaranteed by the Texas Permanent School Fund.

At June 30, 2022, $3,744,730,000 of the Company's securities were pledged, at fair value, as collateral for public or trust fund deposits, repurchase agreements, borrowings and for other purposes required or permitted by law.

During the three-months ended June 30, 2022, there were $188,363,000 sales of investment securities that were classified as available-for-sale. During the three-months ended June 30, 2021, there were calls of investment securities that were classified as available-for-sale. Gross realized security gains from calls and sales during the second quarters of 2022 and 2021 totaled $3,990,000 and $5,000, respectively. Gross realized security losses from calls and sales during the second quarter of 2022 totaled $2,342,000 with no gross realized security losses from calls and sales during the second quarter of 2021.

During the six-months ended June 30, 2022 and 2021, sales of investment securities that were classified as available-for-sale totaled $188,363,000 and $10,631,000, respectively. Gross realized security gains from calls and sales during the six-months ended June 30, 2022 and 2021 totaled $4,023,000 and $813,000, respectively. Gross realized security losses from calls and sales during the six-months ended June 30, 2022 totaled $2,344,000 with no gross realized security losses from calls and sales during the six-months ended June 30, 2021.

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 Credit Losses

For the periods ended June 30, 2022 and 2021, and December 31, 2021, the following tables outline the Company's loan portfolio by the ten portfolio segments where applicable.

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

	June 30,		December 31,
	2022	2021	2021
Commercial:			
C&I*	$ 839,928	$ 983,103	$ 837,075
Municipal	200,577	179,356	177,905
Total Commercial	1,040,505	1,162,459	1,014,980
Agricultural	90,420	95,212	98,089
Real Estate:			
Construction & Development	928,644	550,928	749,793
Farm	250,028	185,288	217,220
Non-Owner Occupied CRE	636,432	673,608	623,434
Owner Occupied CRE	909,899	820,055	821,653
Residential	1,412,125	1,328,474	1,334,419
Total Real Estate	4,137,128	3,558,353	3,746,519
Consumer:			
Auto	468,147	383,764	405,416
Non-Auto	142,382	104,814	123,968
Total Consumer	610,529	488,578	529,384
Total Loans	5,878,582	5,304,602	5,388,972
Less: Allowance for credit losses	(71,932)	(62,138)	(63,465)
Loans, net	$ 5,806,650	$ 5,242,464	$ 5,325,507

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

Outstanding loan balances at June 30, 2022 and 2021, and December 31, 2021, 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 June 30, 2022, this available line of credit was $2,087,115,000. At June 30, 2022, $3,690,957,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At June 30, 2022, there was no balance outstanding under this line of credit.

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

	June 30,		December 31,
	2022	2021	2021
Nonaccrual loans	$ 25,475	$ 29,786	$ 31,652
Loans still accruing and past due 90 days or more	22	—	8
Troubled debt restructured loans still accruing*	20	23	21
Total	$ 25,517	$ 29,809	$ 31,681

* Troubled debt restructured loans of $2,242,000, $7,305,000 and $6,721,000, for which interest collection is doubtful are included in nonaccrual loans as of June 30, 2022 and 2021, and December 31, 2021, respectively.

The Company had $25,517,000, $30,114,000 and $34,158,000 in nonaccrual, past due 90 days or more and still accruing, restructured loans, and foreclosed assets at June 30, 2022 and 2021, and December 31, 2021, respectively. Nonaccrual loans at June 30, 2022 and 2021, and December 31, 2021, consisted of the following (dollars in thousands):

	June 30,		December 31,
	2022	2021	2021
Commercial:			
C&I	$ 6,695	$ 3,587	$ 5,370
Municipal	—	—	—
Total Commercial	6,695	3,587	5,370
Agricultural	482	1,055	4,920
Real Estate:			
Construction & Development	990	1,520	708
Farm	97	1,791	1,173
Non-Owner Occupied CRE	2,477	6,584	2,671
Owner Occupied CRE	6,823	8,976	7,897
Residential	7,492	5,901	8,360
Total Real Estate	17,879	24,772	20,809
Consumer:			
Auto	389	329	514
Non-Auto	30	43	39
Total Consumer	419	372	553
Total	$ 25,475	$ 29,786	$ 31,652

No significant additional funds are committed to be advanced in connection with nonaccrual loans as of June 30, 2022.

Summary information on the allowance for credit losses for the three and six-months ended June 30, 2022 and 2021, are outlined by portfolio segment in the following tables (dollars in thousands):

Three-Months Ended June 30, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 15,737	$ 1,418	$ 1,911	$ 17,887	$ 873
Provision for loan losses	2,521	(66)	(832)	3,198	133
Recoveries	402	—	92	—	—
Charge-offs	(71)	—	(9)	—	—
Ending balance	$ 18,589	$ 1,352	$ 1,162	$ 21,085	$ 1,006

Three-Months Ended June 30, 2022 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 8,499	$ 11,536	$ 7,829	$ 869	$ 354	$ 66,913
Provision for loan losses	(576)	(809)	466	64	4	4,103
Recoveries	487	13	12	102	83	1,191
Charge-offs	—	—	(3)	(123)	(69)	(275)
Ending balance	$ 8,410	$ 10,740	$ 8,304	$ 912	$ 372	$ 71,932

Six-Months Ended June 30, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 12,280	$ 348	$ 1,597	$ 17,627	$ 663
Provision for loan losses	5,976	1,004	(543)	3,558	343
Recoveries	558	—	117	—	—
Charge-offs	(225)	—	(9)	(100)	—
Ending balance	$ 18,589	$ 1,352	$ 1,162	$ 21,085	$ 1,006

Six-Months Ended June 30, 2022 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 10,722	$ 10,828	$ 8,133	$ 896	$ 371	$ 63,465
Provision for loan losses	(2,854)	(20)	303	44	39	7,850
Recoveries	542	20	17	168	129	1,551
Charge-offs	—	(88)	(149)	(196)	(167)	(934)
Ending balance	$ 8,410	$ 10,740	$ 8,304	$ 912	$ 372	$ 71,932

Three-Months Ended June 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 12,323	$ 2,191	$ 1,985	$ 13,246	$ 1,223
Provision for loan losses	(2,327)	(1,603)	(667)	2,386	(617)
Recoveries	308	—	15	—	1
Charge-offs	(118)	—	(21)	—	—
Ending balance	$ 10,186	$ 588	$ 1,312	$ 15,632	$ 607

Three-Months Ended June 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 9,492	$ 9,878	$ 11,189	$ 1,068	$ 379	$ 62,974
Provision for loan losses	901	517	26	257	88	(1,039)
Recoveries	39	4	64	103	61	595
Charge-offs	—	—	(45)	(162)	(46)	(392)
Ending balance	$ 10,432	$ 10,399	$ 11,234	$ 1,266	$ 482	$ 62,138

Six-Months Ended June 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	(3,566)	(964)	54	2,118	(1,279)
Recoveries	531	—	24	2	10
Charge-offs	(388)	—	(21)	—	—
Ending balance	$ 10,186	$ 588	$ 1,312	$ 15,632	$ 607

Six-Months Ended June 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	1,953	(1,950)	(1,358)	398	126	(4,468)
Recoveries	94	10	83	176	108	1,038
Charge-offs	(6)	(8)	(92)	(328)	(123)	(966)
Ending balance	$ 10,432	$ 10,399	$ 11,234	$ 1,266	$ 482	$ 62,138

Additionally, the Company records a reserve for unfunded commitments in other liabilities which totaled $8,718,000, $6,751,000 and $6,436,000 at June 30, 2022 and 2021, and December 31, 2021, respectively. The provision for loan losses of $4,103,000 for the three-months ended June 30, 2022

is combined with the provision for unfunded commitments of $1,247,000 and reported in the aggregate of $5,350,000 under the provision for credit losses in the consolidated statement of earnings for the three-months ended June 30, 2022. The provision for loan losses of $7,850,000 for the six-months ended June 30, 2022 above is combined with the provision for unfunded commitments of $2,282,000 and reported in the aggregate of $10,132,000 under the provision for credit losses in the consolidated statement of earnings for the six-months ended June 30, 2022.

The $1,039,000 reversal of the provision for loan losses for the three-months ended June 30, 2021 above is combined with the reversal of the provision for unfunded commitments of $167,000 and reported in the aggregate of a reversal of $1,206,000 under the provision for credit losses for the three-months ended June 30, 2021. The $4,468,000 reversal of the provision for loan losses for the six-months ended June 30, 2021 above is combined with the provision for unfunded commitments of $1,265,000 and reported in the net aggregate reversal of $3,203,000 under the provision for credit losses for the six-months ended June 30, 2021.

The Company's loans that are individually evaluated for credit losses (both collateral and non-collateral dependent) and their related allowances as of June 30, 2022 and 2021, and December 31, 2021, are summarized in the following tables by loan segment (dollars in thousands):

June 30, 2022	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	$ 1,224	$ 5,471	$ 25,674	$ 32,369	$ 2,794	$ 6,797	$ 9,591
Municipal	—	—	84	84	—	—	—
Total Commercial	1,224	5,471	25,758	32,453	2,794	6,797	9,591
Agricultural	178	304	270	752	146	214	360
Real Estate:							
Construction & Development	441	549	9,622	10,612	34	352	386
Farm	—	97	1,565	1,662	3	43	46
Non-Owner Occupied CRE	2,391	86	32,225	34,702	7	2,836	2,843
Owner Occupied CRE	5,727	1,096	30,616	37,439	58	2,527	2,585
Residential	4,307	3,185	25,662	33,154	355	1,297	1,652
Total Real Estate	12,866	5,013	99,690	117,569	457	7,055	7,512
Consumer:							
Auto	—	389	1,002	1,391	1	2	3
Non-Auto	—	30	473	503	—	1	1
Total Consumer	—	419	1,475	1,894	1	3	4
Total	$ 14,268	$ 11,207	$ 127,193	$ 152,668	$ 3,398	$ 14,069	$ 17,467

June 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	$ 1,091	$ 2,496	$ 20,838	$ 24,425	$ 723	$ 3,865	$ 4,588
Municipal	—	—	885	885	—	275	275
Total Commercial	1,091	2,496	21,723	25,310	723	4,140	4,863
Agricultural	328	727	5,195	6,250	171	1,084	1,255
Real Estate:							
Construction & Development	1,282	238	9,201	10,721	24	1,075	1,099
Farm	1,697	94	2,745	4,536	—	9	9
Non-Owner Occupied CRE	6,444	140	33,707	40,291	15	4,185	4,200
Owner Occupied CRE	5,605	3,371	42,832	51,808	544	2,600	3,144
Residential	3,762	2,139	28,110	34,011	191	2,418	2,609
Total Real Estate	18,790	5,982	116,595	141,367	774	10,287	11,061
Consumer:							
Auto	—	329	1,342	1,671	1	4	5
Non-Auto	—	43	353	396	—	2	2
Total Consumer	—	372	1,695	2,067	1	6	7
Total	$ 20,209	$ 9,577	$ 145,208	$ 174,994	$ 1,669	$ 15,517	$ 17,186

December 31, 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	$ 749	$ 4,621	$ 19,021	$ 24,391	$ 2,533	$ 4,094	$ 6,627
Municipal	—	—	109	109	—	—	—
Total Commercial	749	4,621	19,130	24,500	2,533	4,094	6,627
Agricultural	3,026	1,894	478	5,398	1,086	359	1,445
Real Estate:							
Construction & Development	102	606	4,765	5,473	90	135	225
Farm	997	176	1,969	3,142	—	2	2
Non-Owner Occupied CRE	2,543	128	31,797	34,468	15	4,044	4,059
Owner Occupied CRE	6,548	1,349	40,607	48,504	152	3,329	3,481
Residential	5,990	2,370	29,210	37,570	307	1,719	2,026
Total Real Estate	16,180	4,629	108,348	129,157	564	9,229	9,793
Consumer:							
Auto	—	514	1,161	1,675	1	3	4
Non-Auto	—	39	416	455	—	1	1
Total Consumer	—	553	1,577	2,130	1	4	5
Total	$ 19,955	$ 11,697	$ 129,533	$ 161,185	$ 4,184	$ 13,686	$ 17,870

The Company's allowance for loans that are individually evaluated for credit losses and collectively evaluated for credit losses as of June 30, 2022 and 2021, and December 31, 2021, are summarized in the following table by loan segment (dollars 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.

June 30, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 9,591	$ —	$ 360	$ 386	$ 46
Loans collectively evaluated for credit losses	8,998	1,352	802	20,699	960
Total	$ 18,589	$ 1,352	$ 1,162	$ 21,085	$ 1,006

June 30, 2022 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 2,843	$ 2,585	$ 1,652	$ 3	$ 1	$ 17,467
Loans collectively evaluated for credit losses	5,567	8,155	6,652	909	371	54,465
Total	$ 8,410	$ 10,740	$ 8,304	$ 912	$ 372	$ 71,932

June 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 4,588	$ 275	$ 1,255	$ 1,099	$ 9
Loans collectively evaluated for credit losses	5,598	313	57	14,533	598
Total	$ 10,186	$ 588	$ 1,312	$ 15,632	$ 607

June 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 4,200	$ 3,144	$ 2,609	$ 5	$ 2	$ 17,186
Loans collectively evaluated for credit losses	6,232	7,255	8,625	1,261	480	44,952
Total	$ 10,432	$ 10,399	$ 11,234	$ 1,266	$ 482	$ 62,138

December 31, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 6,627	$ —	$ 1,445	$ 225	$ 2
Loans collectively evaluated for credit losses	5,653	348	152	17,402	661
Total	$ 12,280	$ 348	$ 1,597	$ 17,627	$ 663

December 31, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 4,059	$ 3,481	$ 2,026	$ 4	$ 1	$ 17,870
Loans collectively evaluated for credit losses	6,663	7,347	6,107	892	370	45,595
Total	$ 10,722	$ 10,828	$ 8,133	$ 896	$ 371	$ 63,465

The Company's recorded investment in loans as of June 30, 2022 and 2021, and December 31, 2021, related to the balance in the allowance for credit losses follows below (dollars in thousands):

June 30, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 32,369	$ 84	$ 752	$ 10,612	$ 1,662
Loans collectively evaluated for credit losses	807,559	200,493	89,668	918,032	248,366
Total	$ 839,928	$ 200,577	$ 90,420	$ 928,644	$ 250,028

June 30, 2022 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 34,702	$ 37,439	$ 33,154	$ 1,391	$ 503	$ 152,668
Loans collectively evaluated for credit losses	601,730	872,460	1,378,971	466,756	141,879	5,725,914
Total	$ 636,432	$ 909,899	$ 1,412,125	$ 468,147	$ 142,382	$ 5,878,582

June 30, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 24,425	$ 885	$ 6,250	$ 10,721	$ 4,536
Loans collectively evaluated for credit losses	958,678	178,471	88,962	540,207	180,752
Total	$ 983,103	$ 179,356	$ 95,212	$ 550,928	$ 185,288

June 30, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 40,291	$ 51,808	$ 34,011	$ 1,671	$ 396	$ 174,994
Loans collectively evaluated for credit losses	633,317	768,247	1,294,463	382,093	104,418	5,129,608
Total	$ 673,608	$ 820,055	$ 1,328,474	$ 383,764	$ 104,814	$ 5,304,602

December 31, 2021	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 24,391	$ 109	$ 5,398	$ 5,473	$ 3,142
Loans collectively evaluated for credit losses	812,684	177,796	92,691	744,320	214,078
Total	$ 837,075	$ 177,905	$ 98,089	$ 749,793	$ 217,220

December 31, 2021 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 34,468	$ 48,504	$ 37,570	$ 1,675	$ 455	$ 161,185
Loans collectively evaluated for credit losses	588,966	773,149	1,296,849	403,741	123,513	5,227,787
Total	$ 623,434	$ 821,653	$ 1,334,419	$ 405,416	$ 123,968	$ 5,388,972

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 ongoing 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 nonaccrual.

The following summarizes the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at June 30, 2022 (dollars in millions):

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 342	$ 317	$ 79	$ 28	$ 20	$ 22	$ —	$ 808
Special mention	4	1	—	2	—	—	—	7
Substandard	11	5	3	3	3	—	—	25
Doubtful	—	—	—	—	—	—	—	—
Total	$ 357	$ 323	$ 82	$ 33	$ 23	$ 22	$ —	$ 840

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 49	$ 21	$ 14	$ 5	$ 21	$ 91	$ —	$ 201
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 49	$ 21	$ 14	$ 5	$ 21	$ 91	$ —	$ 201

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 39	$ 41	$ 4	$ 3	$ 1	$ 1	$ —	$ 89
Special mention	—	—	—	—	—	—	—	—
Substandard	1	—	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 40	$ 41	$ 4	$ 3	$ 1	$ 1	$ —	$ 90

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 330	$ 440	$ 104	$ 22	$ 11	$ 11	$ —	$ 918
Special mention	—	4	—	—	—	—	—	4
Substandard	2	5	—	—	—	—	—	7
Doubtful	—	—	—	—	—	—	—	—
Total	$ 332	$ 449	$ 104	$ 22	$ 11	$ 11	$ —	$ 929

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 63	$ 104	$ 35	$ 13	$ 8	$ 26	$ —	$ 249
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	1	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 63	$ 104	$ 35	$ 13	$ 8	$ 27	$ —	$ 250

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 130	$ 203	$ 109	$ 52	$ 24	$ 83	$ —	$ 601
Special mention	—	—	1	11	—	7	—	19
Substandard	6	—	1	2	1	6	—	16
Doubtful	—	—	—	—	—	—	—	—
Total	$ 136	$ 203	$ 111	$ 65	$ 25	$ 96	$ —	$ 636

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 240	$ 218	$ 122	$ 88	$ 71	$ 133	$ —	$ 872
Special mention	—	2	2	1	—	1	—	6
Substandard	1	4	2	3	11	11	—	32
Doubtful	—	—	—	—	—	—	—	—
Total	$ 241	$ 224	$ 126	$ 92	$ 82	$ 145	$ —	$ 910

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 277	$ 399	$ 188	$ 94	$ 70	$ 239	$ 112	$ 1,379
Special mention	1	2	2	1	—	4	—	10
Substandard	2	3	2	2	2	8	4	23
Doubtful	—	—	—	—	—	—	—	—
Total	$ 280	$ 404	$ 192	$ 97	$ 72	$ 251	$ 116	$ 1,412

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 168	$ 171	$ 77	$ 36	$ 11	$ 4	$ —	$ 467
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	1	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 168	$ 171	$ 77	$ 37	$ 11	$ 4	$ —	$ 468

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 54	$ 56	$ 15	$ 5	$ 2	$ 2	$ 7	$ 141
Special mention	1	—	—	—	—	—	—	1
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 55	$ 56	$ 15	$ 5	$ 2	$ 2	$ 7	$ 142

June 30,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 1,692	$ 1,970	$ 747	$ 346	$ 239	$ 612	$ 119	$ 5,725
Special mention	6	9	5	15	—	12	—	47
Substandard	23	17	8	11	17	26	4	106
Doubtful	—	—	—	—	—	—	—	—
Total	$ 1,721	$ 1,996	$ 760	$ 372	$ 256	$ 650	$ 123	$ 5,878

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

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 485	$ 316	$ 71	$ 46	$ 22	$ 19	$ —	$ 959
Special mention	4	2	1	1	1	—	—	9
Substandard	4	6	2	3	—	—	—	15
Doubtful	—	—	—	—	—	—	—	—
Total	$ 493	$ 324	$ 74	$ 50	$ 23	$ 19	$ —	$ 983

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 23	$ 23	$ 8	$ 22	$ 18	$ 84	$ —	$ 178
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	1	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 23	$ 23	$ 8	$ 22	$ 18	$ 85	$ —	$ 179

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 30	$ 34	$ 15	$ 7	$ 3	$ 1	$ —	$ 90
Special mention	—	—	—	—	—	—	—	—
Substandard	—	5	—	—	1	—	—	6
Doubtful	—	—	—	—	—	—	—	—
Total	$ 30	$ 39	$ 15	$ 7	$ 4	$ 1	$ —	$ 96

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 220	$ 237	$ 39	$ 18	$ 9	$ 17	$ —	$ 540
Special mention	1	2	—	—	—	—	—	3
Substandard	2	2	4	—	—	—	—	8
Doubtful	—	—	—	—	—	—	—	—
Total	$ 223	$ 241	$ 43	$ 18	$ 9	$ 17	$ —	$ 551

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 59	$ 53	$ 17	$ 12	$ 9	$ 31	$ —	$ 181
Special mention	—	—	—	—	—	—	—	—
Substandard	—	2	—	1	—	1	—	4
Doubtful	—	—	—	—	—	—	—	—
Total	$ 59	$ 55	$ 17	$ 13	$ 9	$ 32	$ —	$ 185

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 101	$ 171	$ 104	$ 80	$ 40	$ 138	$ —	$ 634
Special mention	—	1	13	1	7	3	—	25
Substandard	2	—	3	—	3	7	—	15
Doubtful	—	—	—	—	—	—	—	—
Total	$ 103	$ 172	$ 120	$ 81	$ 50	$ 148	$ —	$ 674

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 137	$ 178	$ 129	$ 103	$ 64	$ 157	$ —	$ 768
Special mention	1	2	1	1	4	1	—	10
Substandard	8	3	5	14	2	10	—	42
Doubtful	—	—	—	—	—	—	—	—
Total	$ 146	$ 183	$ 135	$ 118	$ 70	$ 168	$ —	$ 820

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 266	$ 316	$ 145	$ 105	$ 84	$ 282	$ 96	$ 1,294
Special mention	—	3	1	1	1	3	—	9
Substandard	2	5	3	2	2	10	1	25
Doubtful	—	—	—	—	—	—	—	—
Total	$ 268	$ 324	$ 149	$ 108	$ 87	$ 295	$ 97	$ 1,328

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 118	$ 140	$ 76	$ 26	$ 13	$ 9	$ —	$ 382
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	1	—	—	—	—	2
Doubtful	—	—	—	—	—	—	—	—
Total	$ 118	$ 141	$ 77	$ 26	$ 13	$ 9	$ —	$ 384

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 40	$ 33	$ 14	$ 5	$ 2	$ 5	$ 6	$ 105
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 40	$ 33	$ 14	$ 5	$ 2	$ 5	$ 6	$ 105

June 30,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 1,479	$ 1,501	$ 618	$ 424	$ 264	$ 743	$ 102	$ 5,131
Special mention	6	10	16	4	13	7	—	56
Substandard	18	24	18	20	8	29	1	118
Doubtful	—	—	—	—	—	—	—	—
Total	$ 1,503	$ 1,535	$ 652	$ 448	$ 285	$ 779	$ 103	$ 5,305

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, 2021 (dollars in millions):

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 526	$ 178	$ 52	$ 29	$ 17	$ 11	$ —	$ 813
Special mention	4	1	4	—	—	—	—	9
Substandard	7	4	1	3	—	—	—	15
Doubtful	—	—	—	—	—	—	—	—
Total	$ 537	$ 183	$ 57	$ 32	$ 17	$ 11	$ —	$ 837

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 39	$ 15	$ 6	$ 22	$ 17	$ 79	$ —	$ 178
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 39	$ 15	$ 6	$ 22	$ 17	$ 79	$ —	$ 178

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 69	$ 8	$ 6	$ 6	$ 3	$ 1	$ —	$ 93
Special mention	—	—	—	—	—	—	—	—
Substandard	4	1	—	—	—	—	—	5
Doubtful	—	—	—	—	—	—	—	—
Total	$ 73	$ 9	$ 6	$ 6	$ 3	$ 1	$ —	$ 98

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 557	$ 134	$ 24	$ 14	$ 7	$ 8	$ —	$ 744
Special mention	2	—	—	—	—	—	—	2
Substandard	2	2	—	—	—	—	—	4
Doubtful	—	—	—	—	—	—	—	—
Total	$ 561	$ 136	$ 24	$ 14	$ 7	$ 8	$ —	$ 750

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 117	$ 42	$ 15	$ 10	$ 7	$ 23	$ —	$ 214
Special mention	—	—	—	—	—	—	—	—
Substandard	1	1	—	1	—	—	—	3
Doubtful	—	—	—	—	—	—	—	—
Total	$ 118	$ 43	$ 15	$ 11	$ 7	$ 23	$ —	$ 217

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 214	$ 128	$ 77	$ 56	$ 31	$ 84	$ —	$ 590
Special mention	—	1	12	—	7	3	—	23
Substandard	—	1	3	1	3	3	—	11
Doubtful	—	—	—	—	—	—	—	—
Total	$ 214	$ 130	$ 92	$ 57	$ 41	$ 90	$ —	$ 624

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 250	$ 143	$ 114	$ 90	$ 59	$ 117	$ —	$ 773
Special mention	2	2	1	—	1	1	—	7
Substandard	8	2	3	13	5	11	—	42
Doubtful	—	—	—	—	—	—	—	—
Total	$ 260	$ 147	$ 118	$ 103	$ 65	$ 129	$ —	$ 822

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 477	$ 230	$ 115	$ 84	$ 68	$ 222	$ 100	$ 1,296
Special mention	3	4	—	1	1	3	1	13
Substandard	3	3	3	2	2	10	2	25
Doubtful	—	—	—	—	—	—	—	—
Total	$ 483	$ 237	$ 118	$ 87	$ 71	$ 235	$ 103	$ 1,334

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 218	$ 105	$ 54	$ 17	$ 7	$ 2	$ —	$ 403
Special mention	1	—	—	—	—	—	—	1
Substandard	—	—	1	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 219	$ 105	$ 55	$ 17	$ 7	$ 2	$ —	$ 405

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 81	$ 22	$ 8	$ 4	$ 1	$ 1	$ 7	$ 124
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 81	$ 22	$ 8	$ 4	$ 1	$ 1	$ 7	$ 124

December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 2,548	$ 1,005	$ 471	$ 332	$ 217	$ 548	$ 107	$ 5,228
Special mention	12	8	17	1	9	7	1	55
Substandard	25	14	11	20	10	24	2	106
Doubtful	—	—	—	—	—	—	—	—
Total	$ 2,585	$ 1,027	$ 499	$ 353	$ 236	$ 579	$ 110	$ 5,389

At June 30, 2022 and 2021, and December 31, 2021, the Company's past due loans are as follows (dollars in thousands):

June 30, 2022	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	$ 3,240	$ 2,704	$ 1,470	$ 7,414	$ 832,514	$ 839,928	$ —
Municipal	—	—	—	—	200,577	200,577	—
Total Commercial	3,240	2,704	1,470	7,414	1,033,091	1,040,505	—
Agricultural	432	30	27	489	89,931	90,420	—
Real Estate:							
Construction & Development	2,841	734	—	3,575	925,069	928,644	—
Farm	1,005	—	—	1,005	249,023	250,028	—
Non-Owner Occupied CRE	569	—	107	676	635,756	636,432	—
Owner Occupied CRE	4,061	495	1,292	5,848	904,051	909,899	—
Residential	5,387	92	596	6,075	1,406,050	1,412,125	2
Total Real Estate	13,863	1,321	1,995	17,179	4,119,949	4,137,128	2
Consumer:							
Auto	292	104	30	426	467,721	468,147	14
Non-Auto	161	—	7	168	142,214	142,382	6
Total Consumer	453	104	37	594	609,935	610,529	20
Total	$ 17,988	$ 4,159	$ 3,529	$ 25,676	$ 5,852,906	$ 5,878,582	$ 22

June 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	$ 3,432	$ 707	$ 230	$ 4,369	$ 978,734	$ 983,103	$ —
Municipal	1,656	—	—	1,656	177,700	179,356	—
Total Commercial	5,088	707	230	6,025	1,156,434	1,162,459	—
Agricultural	193	10	35	238	94,974	95,212	—
Real Estate:							
Construction & Development	1,973	—	162	2,135	548,793	550,928	—
Farm	1,138	—	—	1,138	184,150	185,288	—
Non-Owner Occupied CRE	896	161	—	1,057	672,551	673,608	—
Owner Occupied CRE	97	821	—	918	819,137	820,055	—
Residential	5,946	373	100	6,419	1,322,055	1,328,474	—
Total Real Estate	10,050	1,355	262	11,667	3,546,686	3,558,353	—
Consumer:							
Auto	330	55	25	410	383,354	383,764	—
Non-Auto	44	11	—	55	104,759	104,814	—
Total Consumer	374	66	25	465	488,113	488,578	—
Total	$ 15,705	$ 2,138	$ 552	$ 18,395	$ 5,286,207	$ 5,304,602	$ —

December 31, 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	$ 3,638	$ 34	$ 222	$ 3,894	$ 833,181	$ 837,075	$ 5
Municipal	63	—	—	63	177,842	177,905	—
Total Commercial	3,701	34	222	3,957	1,011,023	1,014,980	5
Agricultural	181	—	—	181	97,908	98,089	—
Real Estate:							
Construction & Development	2,953	39	—	2,992	746,801	749,793	—
Farm	600	215	—	815	216,405	217,220	—
Non-Owner Occupied CRE	235	—	—	235	623,199	623,434	—
Owner Occupied CRE	813	—	280	1,093	820,560	821,653	—
Residential	4,984	327	410	5,721	1,328,698	1,334,419	—
Total Real Estate	9,585	581	690	10,856	3,735,663	3,746,519	—
Consumer:							
Auto	393	26	—	419	404,997	405,416	—
Non-Auto	145	24	3	172	123,796	123,968	3
Total Consumer	538	50	3	591	528,793	529,384	3
Total	$ 14,005	$ 665	$ 915	$ 15,585	$ 5,373,387	$ 5,388,972	$ 8

* 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.

There were no loans that were modified and considered troubled debt restructurings for the three and six-months ended June 30, 2022. The Company's loans that were modified and considered troubled debt restructurings for the three and six-months ended June 30, 2021 are as follows (dollars in thousands):

	Three-Months Ended June 30, 2021			Six-Months Ended June 30, 2021		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial:						
C&I	2	$ 212	$ 212	4	$ 361	$ 361
Municipal	—	—	—	—	—	—
Total Commercial	2	212	212	4	361	361
Agricultural	1	68	68	1	68	68
Real Estate:						
Construction & Development	1	200	200	1	200	200
Farm	—	—	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—	—	—
Owner Occupied CRE	2	548	548	3	1,047	1,047
Residential	1	245	245	3	443	443
Total Real Estate	4	993	993	7	1,690	1,690
Consumer:						
Auto	1	31	31	1	31	31
Non-Auto	—	—	—	—	—	—
Total Consumer	1	31	31	1	31	31
Total	8	$ 1,304	$ 1,304	13	$ 2,150	$ 2,150

The balances below provide information as to how the loans were modified as troubled debt restructured loans for the three and six-months ended June 30, 2021 (in thousands):

	Three-Months Ended June 30, 2021			Six-Months Ended June 30, 2021		
	Adjusted Interest Rate	Maturity Extended	Combined Rate and Maturity	Adjusted Interest Rate	Maturity Extended	Combined Rate and Maturity
Commercial:						
C&I	$ —	$ 212	$ —	$ —	$ 212	$ 149
Municipal	—	—	—	—	—	—
Total Commercial	—	212	—	—	212	149
Agricultural	—	68	—	—	68	—
Real Estate:						
Construction & Development	—	200	—	—	200	—
Farm	—	—	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—	—	—
Owner Occupied CRE	—	—	548	—	—	1,047
Residential	—	245	—	—	245	198
Total Real Estate	—	445	548	—	445	1,245
Consumer:						
Auto	—	—	31	—	—	31
Non-Auto	—	—	—	—	—	—
Total Consumer	—	—	31	—	—	31
Total	$ —	$ 725	$ 579	$ —	$ 725	$ 1,425

During the three and six-months ended June 30, 2022 and 2021, no loans were modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default and still outstanding, respectively. 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 June 30, 2022, 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 $26,445,000, $61,802,000 and $37,810,000 at June 30, 2022 and 2021, and December 31, 2021, respectively. At June 30, 2022 and 2021, and December 31, 2021, $2,597,000, $5,545,000 and $3,688,000, respectively, 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 time frame 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.

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.

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 and are reflected in the gain on sale and fees on mortgage loans in the consolidated statement of earnings.

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

June 30, 2022:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 99,429	$ 1,414	$ —
Forward mortgage-backed securities trades	101,500	58	—

June 30, 2021:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 143,879	$ 2,670	$ —
Forward mortgage-backed securities trades	165,000	—	376

December 31, 2021:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 85,973	$ 1,279	$ —
Forward mortgage-backed securities trades	116,000	—	147

Note 6 – Borrowings

Borrowings consisted of the following (dollars in thousands):

	June 30,		December 31,
	2022	2021	2021
Securities sold under agreements with customers to repurchase	$ 738,986	$ 531,469	$ 625,499
Federal funds purchased	8,325	18,500	24,600
Other borrowings	21,053	—	21,053
Total	$ 768,364	$ 549,969	$ 671,152

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 June 30, 2022 and 2021, or December 31, 2021.

During 2021, the Company began investing in qualifying Community Development Entities ("CDE") under the federal New Market Tax Credits ("NMTC") program. See Note 7 for further discussion of our activity and related balances on the consolidated balance sheets, including the $21,053,000 in other borrowings shown above.

Note 7 - Income Taxes

Income tax expense was $11,922,000 for the second quarter of 2022 as compared to $11,075,000 for the same period in 2021. The Company’s effective tax rates on pretax income were 16.46% and 16.42% for the second quarters of 2022 and 2021, respectively. Income tax expense was $22,263,000 for the first six months of 2022 as compared to $22,129,000 for the same period in 2021. The Company’s effective tax rates on pretax income were 16.05% and 16.34% for the first six months of 2022 and 2021, 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, excess tax benefits for distributions under our deferred compensation plan and vesting of equity awards, and NMTC benefits.

Low Income Housing Tax Credit Investments - During 2021, the Company began investing in an affordable housing fund that will invest in real estate projects that qualify for the federal low income housing tax credit ("LIHTC") program designed to promote private development of low income housing. The investments made by the fund will generate a return to the Company primarily through the realization of LIHTCs, and also through federal tax deductions generated from the ongoing operating losses from the investees of the fund. The Company's investment in the fund will be amortized through income tax expense using the proportional amortization method as related tax credits are utilized by the Company. The initial capital contribution commitment to the fund was for up to $5,500,000 and the initial contribution was $55,000 which is included in other assets at June 30, 2022 and December 31, 2021. There were no balances related to this investment on the consolidated balance sheet as of June 30, 2021.

New Market Tax Credit Investments - During 2021, the Company began investing in qualifying CDEs under the federal NMTC program. NMTC investments are made through the third-party CDEs which are qualified through the U.S. Department of Treasury and receive periodic allocation of amounts under the NMTC program. NMTCs are generated from qualified investments by the CDEs utilizing equity investments made by a taxpayer, like the Company. Through these equity investments, the Company will receive the tax benefits from the NMTCs equal to 39% of the qualified investment from the CDE yield method and related tax credits are allocated to the Company. At June 30, 2022 and December 31, 2021, the consolidated balance sheet of the Company included a $18,000,000 loan to the investee in loans, the $29,000,000 CDE investments in other assets and the $21,053,000 leveraged loan from the investee in other borrowings (see Note 6). There were no balances related to this investment on the consolidated balance sheet as of June 30, 2021.

Note 8 - Stock Based Compensation

On April 27, 2021, the Company's shareholders approved the 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 June 30, 2022, the Company had 2,198,336 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.

Restricted Stock Units

Under the 2021 Plan, the Company grants restricted stock units under compensation arrangements for the benefit of senior officers, 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 six-months ended June 30, 2022. There was no restricted stock unit activity during the six-months ended June 30, 2021.

	For the six-months ended June 30, 2022	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	22,597	$ 48.91
Grants	—	—
Vesting	—	—
Forfeited/expired	—	—
Balance at end of period	22,597	$ 48.91

Also under the 2021 Plan, the Company awards performance-based restricted stock units ("PSUs") 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 specific 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 U.S. 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 PSUs as of and for the six-months ended June 30, 2022. There was no PSU activity during the six-months ended June 30, 2021.

	For the six-months ended June 30, 2022	
	Performance-Based Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	22,597	$ 48.91
Grants	—	—
Vesting	—	—
Forfeited/expired	—	—
Balance at end of period	22,597	$ 48.91

Restricted Stock Awards

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

	For the Six-Months Ended June 30,			
	2022		2021	
	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	46,598	$ 35.75	95,888	$ 29.89
Grants	15,425	40.89	12,110	49.58
Vesting	(23,898)	40.40	(31,081)	28.42
Forfeited/expired	(200)	29.70	(1,027)	34.55
Balance at end of period	37,925	$ 34.94	75,890	$ 33.57

The total fair value of restricted stock vested for the six-months ended June 30, 2022 and 2021, was $980,000 and $883,000, respectively.

The Company recorded consolidated restricted stock, restricted stock unit and performance-based restricted stock unit expense for employees of $594,000 and $289,000 for the three-months ended June 30, 2022 and 2021, respectively. The Company recorded consolidated restricted stock, restricted stock unit and performance-based restricted stock unit expense for employees of $1,020,000 and $579,000 for the six-months ended June 30, 2022 and 2021, respectively. The Company recorded director expense related to these restricted stock grants of $160,000 and $150,000, for the three-months ended June 30, 2022 and 2021, respectively. The Company recorded director expense related to these restricted stock grants of $331,000 and $300,000, for the six-months ended June 30, 2022 and 2021, respectively.

As of June 30, 2022 and 2021, there were $2,281,000 and $1,845,000 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 1.10 years and 1.33 years, respectively. At June 30, 2022 and 2021, and December 31, 2021, there was $57,000, $59,000 and $52,000, respectively, accrued in other liabilities related to dividends 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 the grant. 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 six-months ended June 30, 2022 is presented in the table and narrative below:

	Shares	Weighted-Average Ex. Price
Outstanding, December 31, 2021	1,669,976	$ 25.11
Granted	—	—
Exercised	(234,585)	18.52
Cancelled	(47,650)	29.14
Outstanding, June 30, 2022	1,387,741	26.08
Exercisable, June 30, 2022	852,453	$ 20.31

The options outstanding at June 30, 2022 had exercise prices ranging between $15.43 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 $316,000 and $372,000 for the three-months ended June 30, 2022 and 2021, respectively. The Company recorded stock option expense totaling $632,000 and $691,000 for the six-months ended June 30, 2022 and 2021, respectively.

As of June 30, 2022, there was $3,709,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.71 years. The total fair value of shares vested during the six-months ended June 30, 2022 and 2021 was $1,221,000 and $1,246,000, 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 six-months ended June 30, 2022 and 2021, and the year ended December 31, 2021.

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):

June 30, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 486,358	$ —	$ —	$ 486,358
Obligations of state and political subdivisions	—	2,244,604	—	2,244,604
Corporate bonds	—	100,267	—	100,267
Residential mortgage-backed securities	—	2,964,904	—	2,964,904
Commercial mortgage-backed securities	—	414,825	—	414,825
Other securities	4,078	—	—	4,078
Total	$ 490,436	$ 5,724,600	$ —	$ 6,215,036
Loans held-for-sale	$ —	$ 23,848	$ —	$ 23,848
IRLCs	$ —	$ 1,414	$ —	$ 1,414
Forward mortgage-backed securities trades	$ —	$ 58	$ —	$ 58

June 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	$ —	$ 2,615,087	$ —	$ 2,615,087
Corporate bonds	—	33,318	—	33,318
Residential mortgage-backed securities	—	2,504,186	—	2,504,186
Commercial mortgage-backed securities	—	420,968	—	420,968
Other securities	4,489	—	—	4,489
Total	$ 4,489	$ 5,573,559	$ —	$ 5,578,048
Loans held-for-sale	$ —	$ 56,257	$ —	$ 56,257
IRLCs	$ —	$ 2,670	$ —	$ 2,670
Forward mortgage-backed securities trades	$ —	$ (376)	$ —	$ (376)

December 31, 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 126,841	$ —	$ —	$ 126,841
Obligations of state and political subdivisions	—	2,753,471	—	2,753,471
Corporate bonds	—	63,868	—	63,868
Residential mortgage-backed securities	—	3,259,449	—	3,259,449
Commercial mortgage-backed securities	—	365,120	—	365,120
Other securities	4,430	—	—	4,430
Total	$ 131,271	$ 6,441,908	$ —	$ 6,573,179
Loans held-for-sale	$ —	$ 34,122	$ —	$ 34,122
IRLCs	$ —	$ 1,279	$ —	$ 1,279
Forward mortgage-backed securities trades	$ —	$ (147)	$ —	$ (147)

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 (dollars in thousands):

	June 30,		December 31,
	2022	2021	2021
Unpaid principal balance on loans held-for-sale	$ 23,312	$ 54,542	$ 33,200
Net unrealized gains on loans held-for-sale	536	1,715	922
Loans held-for-sale at fair value	$ 23,848	$ 56,257	$ 34,122

The following table summarizes the Company's gains on sale and fees of mortgage loans for the three and six-months ended June 30, 2022 and 2021 (dollars in thousand):

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2022	2021	2022	2021
Realized gain on sale and fees on mortgage loans*	$ 6,311	$ 9,465	$ 12,309	$ 20,195
Change in fair value on loans held-for-sale and IRLCs	1,462	2,008	(453)	(3,193)
Change in forward mortgage-backed securities trades	(2,045)	(3,182)	205	1,183
Total gain on sale of mortgage loans	$ 5,728	$ 8,291	$ 12,061	$ 18,185

* 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 nonaccrual as of June 30, 2022, June 30, 2021, or December 31, 2021. No significant credit losses were recognized on mortgage loans held-for-sale for the three and six-months ended June 30, 2022 and 2021.

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 six-months ended June 30, 2021 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. The Company had no other real estate owned during the three and six-months ended June 30, 2022. 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 six-months ended June 30, 2022 and 2021.

At June 30, 2022 and December 31, 2021, the Company had no other real estate owned. At June 30, 2021, other real estate owned totaled $283,000.

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 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 (dollars in thousands).

	June 30,				December 31,		
	2022		2021		2021		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 242,665	$ 242,665	$ 190,061	$ 190,061	$ 205,053	$ 205,053	Level 1
Interest-bearing demand deposits in banks	222,899	222,899	654,531	654,531	323,535	323,535	Level 1
Available-for-sale securities	6,215,036	6,215,036	5,578,048	5,578,048	6,573,179	6,573,179	Levels 1 and 2
Loans held-for-investment, net of allowance for credit losses	5,806,650	5,852,415	5,242,464	5,273,264	5,325,507	5,335,791	Level 3
Loans held-for-sale	26,445	26,445	61,802	61,969	37,810	37,844	Level 2
Accrued interest receivable	58,047	58,047	54,128	54,128	57,169	57,169	Level 2
Deposits with stated maturities	441,387	439,546	470,481	471,857	461,415	462,312	Level 2
Deposits with no stated maturities	10,681,596	10,681,596	9,311,213	9,311,213	10,105,073	10,105,073	Level 1
Borrowings	768,364	768,364	549,969	549,969	671,152	671,152	Level 2
Accrued interest payable	423	423	316	316	221	221	Level 2
IRLCs	1,414	1,414	2,670	2,670	1,279	1,279	Level 2
Forward mortgage-backed securities trades asset (liability)	58	58	(376)	(376)	(147)	(147)	Level 2

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," "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, 2021, 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, including disruptions to supply channels and labor availability;
- 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 or social unrest and economic 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, including securities with a current unrealized loss;
- 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 maintain and/or 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 together with increasing wage costs in our markets;
- 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;
- the impact of changes to the global climate and its effects on our operations and customers;
- 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 2021 Annual Report on Form 10-K.

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 (i) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (ii) 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 (i) our allowance for credit losses and our provision for credit losses and (ii) 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 (i) our allowance for credit losses and our provision for credit losses and (ii) our valuation of financial instruments is included in Note 1 to our Consolidated Financial Statements beginning on page 10.

Stock Repurchase

On July 27, 2021, the Company's Board of Directors 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. Subsequent to July 27, 2021 and through the date of this report, 244,559 shares were repurchased and retired totaling $9.45 million under this repurchase plan.

Results of Operations

Performance Summary. Net earnings for the second quarter of 2022 were $60.49 million compared with earnings of $56.38 million for the second quarter of 2021. Diluted earnings per share was $0.42 for the second quarter of 2022 compared with $0.39 in the same quarter a year ago.

The return on average assets was 1.82% for the second quarter of 2022, as compared to 1.89% for the second quarter of 2021. The return on average equity was 17.26% for the second quarter of 2022 as compared to 13.38% for the second quarter of 2021.

Net earnings for the six-month period ended June 30, 2022 were $116.47 million compared to earnings of $113.30 million for the same period in 2021. Diluted earnings per share was $0.81 for the first six months of 2022 as compared to $0.79 for the same period in 2021.

The return on average assets was 1.77% for the first six months of 2022 as compared to 1.97% for the same period a year ago. The return on average equity was 15.24% for the first six months of 2022 as compared to 13.61% for the same period in 2021.

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 $102.15 million for the second quarter of 2022, as compared to $94.58 million for the same period last year. The increase in 2022 tax equivalent net interest income compared to 2021 was largely attributable to the increases in and change in the mix of interest earning assets primarily derived from an increase in loans and investment securities held partially offset by the lower amortization of PPP origination fees which totaled $313 thousand in the second quarter of 2022 compared to $5.24 million in the second quarter of 2021. PPP loan balances totaled $2.30 million at June 30, 2022. Average earning assets were $12.49 billion for the second quarter of 2022, as compared to $11.30 billion during the second quarter of 2021. The increase of $1.19 billion in average earning assets in 2022 when compared to 2021 was primarily a result of increases of taxable securities of $1.45 billion offset by decreases in short-term investments of $509.63 million and tax-exempt securities of $85.60 million when compared to June 30, 2021 balances. Additionally, average loans increased $337.02 million from a year ago and the mix shifted from PPP loans which earned 1.00% excluding origination fees, to other loan categories with higher yields. Average interest-bearing liabilities were $7.78 billion for the second quarter of 2022, as compared to $6.76 billion in the same period in 2021. The increase in average interest-bearing liabilities primarily resulted from continued organic growth. The yield on earning assets decreased four basis points while the rate paid on interest-bearing liabilities increased six basis points for the second quarter of 2022 compared to the second quarter of 2021.

Tax-equivalent net interest income was $201.37 million for the first six months of 2022 as compared to $186.95 million for the same period last year. The increase in 2022 tax equivalent net interest income compared to 2021 was largely attributable to the increases in and change in the mix of interest earning assets primarily derived from an increase in loans and investment securities held partially offset by the lower amortization of PPP origination fees which totaled $1.69 million for the first half of 2022 compared to $11.49 million for the first half of 2021. Average earning assets were $12.50 billion for the first six months of 2022, as compared to $10.93 billion during the first six months of 2021. The increase of $1.57 billion in average earning assets in 2022 when compared to 2021 was primarily a result of increases of taxable securities of $1.71 billion and tax-exempt securities of $78.00 million offset by decreases in short-term investments of $487.98 million when compared to June 30, 2021 balances. Additionally, average loans increased $264.61 million when compared to a year ago and the mix shifted from PPP loans, which earned 1.00%, excluding origination fees, to other loan categories with higher yields. Average interest-bearing liabilities were $7.73 billion for the first six months of 2022, as compared to $6.57 billion in the same period in 2021. The increase in average interest-bearing liabilities primarily resulted from continued organic growth. The yield on earning assets decreased 18 basis points while the rate paid on interest-bearing liabilities increased one basis point for the first six months of 2022 compared to the first six months of 2021.

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 (dollars in thousands):

	Three-Months Ended June 30, 2022 Compared to Three-Months Ended June 30, 2021			Six-Months Ended June 30, 2022 Compared to Six-Months Ended June 30, 2021		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ (137)	$ 474	$ 337	$ (255)	$ 526	$ 271
Taxable investment securities	6,231	1,471	7,702	15,137	125	15,262
Tax-exempt investment securities (1)	(605)	361	(244)	1,113	(226)	887
Loans (1) (2)	4,205	(2,888)	1,317	6,632	(7,306)	(674)
Interest income	9,694	(582)	9,112	22,627	(6,881)	15,746
Interest-bearing deposits	205	1,202	1,407	484	597	1,081
Short-term borrowings	30	109	139	99	150	249
Interest expense	235	1,311	1,546	583	747	1,330
Net interest income	$ 9,459	$ (1,893)	$ 7,566	$ 22,044	$ (7,628)	$ 14,416

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

The net interest margin, on a tax equivalent basis, was 3.28% for the second quarter of 2022, a decrease of eight basis points from the same period in 2021. The net interest margin, on a tax equivalent basis, was 3.25% for the first six months of 2022, a decrease of 20 basis points from the same period in 2021. We experienced downward pressure on our net interest margin during 2021 primarily due to (i) the extended period of historically low levels of short-term interest rates, (ii) the shift in the mix of interest-earning assets and (iii) the impact of the overall level of excess liquidity, which totaled $465.56 million and $844.59 million at June 30, 2022 and 2021, respectively. We have been able to somewhat mitigate the impact of these lower short-term interest rates 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. The Federal Reserve increased rates 150 basis points during the first half of 2022 resulting in a target rate range of 150 to 175 basis points. Most recently, on July 27, 2022, the Federal Reserve increased rates 75 basis points resulting in a current target rate range of 225 to 250 basis points. However, short-term and long-term treasury interest rates have remained flat and the rate curve has continued to become inverted recently, which may impact our ongoing net interest income and net interest margin.

Loan rates on variable loans have increased as the majority of such loans are indexed to the applicable prime rate (currently 4.75% at June 30, 2022), subject to underlying floors. With the latest increase in the federal funds rate, the majority of variable rate loans have increased with approximately $1 billion subject to floors as shown below on page 50. Subsequent to June 30, 2022, on July 28, 2022, the applicable prime rate increased to 5.50%.

During June 2022, we increased rates on each of the primary depository products in response to the increasing federal funds rate and expect those rates will continue to move upward in the foreseeable future. Additionally, we have approximately $1.1 billion of municipal and related deposits which are indexed to short-term treasury rates which have continued to increase with the changes in the applicable rate index.

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 (dollars in thousands, except percentages):

	Three-Months Ended June 30,					
	2022			2021		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 290,250	$ 552	0.76 %	$ 799,884	$ 215	0.11 %
Taxable investment securities (2)	4,101,751	19,151	1.87	2,656,211	11,449	1.72
Tax-exempt investment securities (2)(3)	2,376,324	17,166	2.89	2,461,924	17,410	2.83
Loans (3)(4)	5,720,804	68,478	4.80	5,383,781	67,161	5.00
Total earning assets	12,489,129	$ 105,347	3.38 %	11,301,800	$ 96,235	3.42 %
Cash and due from banks	233,621			197,412		
Bank premises and equipment, net	149,887			144,671		
Other assets	193,308			95,575		
Goodwill and other intangible assets, net	316,278			317,721		
Allowance for credit losses	(67,383)			(63,097)		
Total assets	$ 13,314,840			$ 11,994,082		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$ 7,049,041	$ 2,967	0.17 %	$ 6,229,991	$ 1,560	0.10 %
Short-term borrowings	730,477	232	0.13	527,669	93	0.07
Total interest-bearing liabilities	7,779,518	$ 3,199	0.16 %	6,757,660	$ 1,653	0.10 %
Noninterest-bearing deposits	4,064,207			3,439,683		
Other liabilities	65,475			106,994		
Total liabilities	11,909,200			10,304,337		
Shareholders' equity	1,405,640			1,689,745		
Total liabilities and shareholders' equity	$ 13,314,840			$ 11,994,082		
Net interest income		$ 102,148			$ 94,582	
Rate Analysis:						
Interest income/earning assets			3.38 %			3.42 %
Interest expense/earning assets			(0.10)			(0.06)
Net interest margin			3.28 %			3.36 %

(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) Includes tax equivalent yield adjustment of approximately $3.37 million and $3.63 million in the second quarters of 2022 and 2021, respectively, using an effective tax rate of 21% for both periods.
(4) Nonaccrual loans are included in loans.

	Six-Months Ended June 30,					
	2022			2021		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 231,941	$ 648	0.56 %	$ 719,922	$ 377	0.11 %
Taxable investment securities (2)	4,166,490	36,974	1.77	2,454,933	21,712	1.77
Tax-exempt investment securities (2)(3)	2,493,523	35,276	2.83	2,415,527	34,389	2.85
Loans (3)(4)	5,604,815	133,240	4.79	5,340,207	133,914	5.06
Total earning assets	12,496,769	$ 206,138	3.33 %	10,930,589	$ 190,392	3.51 %
Cash and due from banks	232,063			203,392		
Bank premises and equipment, net	149,764			143,293		
Other assets	152,715			96,931		
Goodwill and other intangible assets, net	316,432			317,930		
Allowance for credit losses	(65,488)			(65,153)		
Total assets	$ 13,282,255			$ 11,626,982		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$ 6,973,967	$ 4,336	0.13 %	$ 6,073,981	$ 3,255	0.11 %
Short-term borrowings	755,755	433	0.12	492,341	184	0.08
Total interest-bearing liabilities	7,729,722	$ 4,769	0.12 %	6,566,322	$ 3,439	0.11 %
Noninterest-bearing deposits	3,946,483			3,278,067		
Other liabilities	65,239			103,307		
Total liabilities	11,741,444			9,947,696		
Shareholders' equity	1,540,811			1,679,286		
Total liabilities and shareholders' equity	$ 13,282,255			$ 11,626,982		
Net interest income (tax equivalent)		$ 201,369			$ 186,953	
Rate Analysis:						
Interest income/earning assets			3.33 %			3.51 %
Interest expense/earning assets			(0.08)			(0.06)
Net interest margin			3.25 %			3.45 %

(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) Includes tax equivalent yield adjustment of approximately $7.15 million and $7.18 million in the first six months of 2022 and 2021, respectively, using an effective tax rate of 21% for both periods.
(4) Nonaccrual loans are included in loans.

Noninterest Income. Noninterest income for the second quarter of 2022 was $37.32 million compared to $34.67 million in the same quarter of 2021. Increases in certain categories of noninterest income included (i) trust fees of $1.05 million, (ii) service charges on deposit accounts of $1.11 million and, (iii) ATM, interchange and credit card fees of $715 thousand, (iv) net gain on sale of available-for-sale securities of $1.64 million and (v) recoveries of interest on previously charged-off or nonaccrual loans of $945 thousand when compared to the second quarter of 2021. Mortgage related income was $5.73 million in the second quarter of 2022 compared to $8.29 million in the second quarter of 2021 due to lower overall origination volumes. The increase in trust fees was driven mainly by the continued increase in oil and gas revenue. The increase in ATM, interchange and credit card fees were driven by continued growth in the number of net new accounts and debit cards issued and overall customer utilization.

Noninterest income for the six-month period ended June 30, 2022 was $72.20 million compared to $69.55 million compared to the same period in 2021. Increases in certain categories of noninterest income included (i) trust fees of $2.57 million, (ii) service charges on deposit accounts of $2.02 million, (iii) ATM, interchange and credit card fees of $1.57 million, (iv) net gain on sale of available-for-sale securities of $866 thousand, (v) net gain on sale of foreclosed assets of $1.05 million and (vi) recoveries of interest on previously charged-off or nonaccrual loans of $846 thousand when compared to the same period of 2021. Mortgage related income was $12.06 million for the six-month period ended June 30, 2022 compared to $18.19 million in the same period of 2021 due to lower overall origination volumes. The increase in trust fees was driven mainly by the continued increase in oil and gas revenue.

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 interchange fees to approximate $18 million annually (pre-tax). Based on the applicable Federal Reserve rules, as amended, the Company became subject to the limitation effective July 1, 2022 and forward.

Table 3 - Noninterest Income (dollars in thousands):

	Three-Months Ended June 30,			Six-Months Ended June 30,		
	2022	Increase (Decrease)	2021	2022	Increase (Decrease)	2021
Trust fees	$ 9,742	$ 1,050	$ 8,692	$ 19,559	$ 2,568	$ 16,991
Service charges on deposit accounts	6,038	1,110	4,928	11,744	2,023	9,721
ATM, interchange and credit card fees	10,568	715	9,853	20,096	1,566	18,530
Gain on sale and fees on mortgage loans	5,728	(2,563)	8,291	12,061	(6,124)	18,185
Net gain on sale of available-for-sale securities	1,648	1,643	5	1,679	866	813
Net gain on sale of foreclosed assets	18	17	1	1,102	1,046	56
Net gain on sale of assets	6	(68)	74	(4)	(223)	219
Interest on loan recoveries	1,649	945	704	1,932	846	1,086
Other:						
Check printing fees	31	(2)	33	58	(9)	67
Safe deposit rental fees	189	(3)	192	478	(20)	498
Credit life fees	366	2	364	585	6	579
Brokerage commissions	401	44	357	775	73	702
Wire transfer fees	436	82	354	824	154	670
Miscellaneous income	497	(328)	825	1,309	(122)	1,431
Total other	1,920	(205)	2,125	4,029	82	3,947
Total Noninterest Income	$ 37,317	$ 2,644	$ 34,673	$ 72,198	$ 2,650	$ 69,548

Noninterest Expense. Total noninterest expense for the second quarter of 2022 was $58.33 million, a decrease of $1.04 million, or 1.75%, as compared to the same period of 2021. 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 improved to 41.83% for the second quarter of 2022 compared to 45.94% for the same quarter in 2021.

Salaries, commissions and employee benefits for the second quarter of 2022 totaled $33.15 million, compared to $35.05 million for the same period in 2021. The net decrease reflected lower mortgage compensation expenses of $1.49 million and a decrease of $803 thousand in profit sharing expenses offset by annual merit-based and other market-based pay increases that were effective March 1, 2022 for the second quarter of 2022.

All other categories of noninterest expense for the second quarter of 2022 totaled $25.19 million, up from $24.33 million in the same quarter a year ago. Noninterest expense, excluding salary related costs, for the three-months ended June 30, 2022 increased primarily due to increases in FDIC insurance, deposit account charge-offs and interchange processing costs compared to the three-months ended June 30, 2021.

Total noninterest expense for the first six months of 2022 was $117.56 million, an increase of $460 thousand, or 0.39%, as compared to the same period of 2021. Our efficiency ratio for the first six months of 2022 was 42.97% compared to 45.65% for the same period in 2021.

Salaries, commissions and employee benefits for the first six months of 2022 totaled $67.29 million, compared to $69.98 million for the same period in 2021. The net decrease reflected lower mortgage compensation expenses of $2.89 million and a decrease of $1.50 million in profit sharing expenses offset by annual merit-based and other market-based pay increases that were effective March 1, 2022 for the first six months of 2022.

All other categories of noninterest expense for the first six months of 2022 totaled $50.27 million, up from $47.12 million in the same period a year ago. Noninterest expense, excluding salary related costs, for the six-months ended June 30, 2022, increased primarily due to increases in FDIC insurance, deposit account charge-offs and interchange processing costs compared to the six-months ended June 30, 2021.

Table 4 - Noninterest Expense (dollars in thousands):

	Three-Months Ended June 30,			Six-Months Ended June 30,		
	2022	Increase (Decrease)	2021	2022	Increase (Decrease)	2021
Salaries and commissions	$ 25,772	$ (1,106)	$ 26,878	$ 51,530	$ (1,442)	$ 52,972
Medical	2,496	(259)	2,755	5,388	(207)	5,595
Profit sharing	1,307	(803)	2,110	2,905	(1,500)	4,405
401(k) match expense	942	15	927	1,924	34	1,890
Payroll taxes	1,719	6	1,713	3,887	43	3,844
Stock based compensation	911	248	663	1,651	380	1,271
Total salaries and employee benefits	33,147	(1,899)	35,046	67,285	(2,692)	69,977
Net occupancy expense	3,292	51	3,241	6,517	129	6,388
Equipment expense	2,346	169	2,177	4,603	262	4,341
FDIC assessment fees	904	138	766	1,773	306	1,467
ATM, interchange and credit card expense	3,201	162	3,039	6,169	358	5,811
Professional and service fees	2,191	(201)	2,392	4,415	(116)	4,531
Printing, stationery and supplies	501	12	489	1,041	227	814
Operational and other losses	782	248	534	1,378	557	821
Software amortization and expense	2,522	(307)	2,829	4,979	(469)	5,448
Amortization of intangible assets	320	(92)	412	640	(184)	824
Other:						
Data processing fees	445	7	438	890	46	844
Postage	332	43	289	640	(26)	666
Advertising	739	134	605	1,439	113	1,326
Correspondent bank service charges	278	18	260	532	42	490
Telephone	754	(68)	822	1,519	(579)	2,098
Public relations and business development	815	28	787	1,608	154	1,454
Directors' fees	629	33	596	1,349	137	1,212
Audit and accounting fees	513	32	481	1,025	39	986
Legal fees and other related costs	260	(649)	909	930	(501)	1,431
Regulatory exam fees	395	58	337	789	115	674
Travel	461	109	352	774	177	597
Courier expense	314	56	258	579	115	464
Other real estate owned	2	(9)	11	2	(37)	39
Other	3,190	886	2,304	6,682	2,287	4,395
Total other	9,127	678	8,449	18,758	2,082	16,676
Total Noninterest Expense	$ 58,333	$ (1,041)	$ 59,374	$ 117,558	$ 460	$ 117,098

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 June 30, 2022, total loans held-for-investment were $5.88 billion, an increase of $489.61 million, as compared to December 31, 2021. Total PPP loans outstanding were $2.30 million at June 30, 2022, which are included in the Company's commercial loan totals. PPP loan balances accounted for $4.55 million and $19.47 million in average balances for the three and six-months ended June 30, 2022.

As compared to year-end 2021 balances, total real estate loans increased $390.61 million, total commercial loans increased $25.53 million, agricultural loans decreased $7.67 million and total consumer loans increased $81.15 million. Loans averaged $5.72 billion for the second quarter of 2022, an increase of $337.02 million over the prior year second quarter average balances. Loans averaged $5.60 billion for the first six months of 2022, an increase of $264.61 million from the prior year six-month period average balances.

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 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 are included in the C&I loan portfolio segment as of June 30, 2022 and 2021, and December 31, 2021.

Table 5 outlines the composition of the Company's held-for-investment loans by portfolio segment.

Table 5 - Composition of Loans Held-for-Investment (dollars in thousands):

	June 30,		December 31,
	2022	2021	2021
Commercial:			
C&I *	$ 839,928	$ 983,103	$ 837,075
Municipal	200,577	179,356	177,905
Total Commercial	1,040,505	1,162,459	1,014,980
Agricultural	90,420	95,212	98,089
Real Estate:			
Construction & Development	928,644	550,928	749,793
Farm	250,028	185,288	217,220
Non-Owner Occupied CRE	636,432	673,608	623,434
Owner Occupied CRE	909,899	820,055	821,653
Residential	1,412,125	1,328,474	1,334,419
Total Real Estate	4,137,128	3,558,353	3,746,519
Consumer:			
Auto	468,147	383,764	405,416
Non-Auto	142,382	104,814	123,968
Total Consumer	610,529	488,578	529,384
Total	$ 5,878,582	$ 5,304,602	$ 5,388,972

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

Loans held-for-sale, consisting of secondary market mortgage loans, totaled $26.45 million, $61.80 million, and $37.81 million at June 30, 2022 and 2021, and December 31, 2021, respectively. At June 30, 2022 and 2021, and December 31, 2021, $2.60 million, $5.55 million and $3.69 million, respectively, are valued using the lower of cost or fair value, and the remaining amounts are valued under the fair value option.

The following tables summarize maturity information of our loan portfolio as of June 30, 2022. The table also presents the portions of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index.

Maturity Distribution and Interest Sensitivity of Loans at June 30, 2022 (dollars in thousands):

Total Loans Held-for-Investment:	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
Commercial:					
C&I	$ 310,414	$ 416,815	$ 88,800	$ 21,598	$ 837,627
PPP	—	2,301	—	—	2,301
Municipal	4,139	48,569	111,026	36,843	200,577
Total Commercial	314,553	467,685	199,826	58,441	1,040,505
Agricultural	67,765	20,852	1,803	—	90,420
Real Estate:					
Construction & Development	462,479	178,723	174,936	112,506	928,644
Farm	23,092	24,805	131,929	70,202	250,028
Non-Owner Occupied CRE	22,048	165,880	316,298	132,206	636,432
Owner Occupied CRE	30,382	203,760	466,544	209,213	909,899
Residential	115,259	100,270	646,545	550,051	1,412,125
Total Real Estate	653,260	673,438	1,736,252	1,074,178	4,137,128
Consumer:					
Auto	5,707	439,885	22,555	—	468,147
Non-Auto	25,802	96,053	14,464	6,063	142,382
Total Consumer	31,509	535,938	37,019	6,063	610,529
Total	$ 1,067,087	$ 1,697,913	$ 1,974,900	$ 1,138,682	$ 5,878,582
% of Total Loans	18.15%	28.88%	33.60%	19.37%	100.00%

Loans with fixed interest rates:	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
Commercial:					
C&I	$ 55,587	$ 244,429	$ 8,168	$ —	$ 308,184
PPP	—	2,301	—	—	2,301
Municipal	3,670	47,112	87,847	7,594	146,223
Total Commercial	59,257	293,842	96,015	7,594	456,708
Agricultural	7,877	13,654	515	—	22,046
Real Estate:					
Construction & Development	176,235	82,124	47,485	458	306,302
Farm	5,823	19,740	73,397	949	99,909
Non-Owner Occupied CRE	8,591	111,167	71,950	—	191,708
Owner Occupied CRE	14,916	143,508	52,110	224	210,758
Residential	40,910	83,609	428,792	37,809	591,120
Total Real Estate	246,475	440,148	673,734	39,440	1,399,797
Consumer:					
Auto	5,707	439,885	22,555	—	468,147
Non-Auto	20,527	94,191	14,044	5,682	134,444
Total Consumer	26,234	534,076	36,599	5,682	602,591
Total	$ 339,843	$ 1,281,720	$ 806,863	$ 52,716	$ 2,481,142
% of Total Loans	5.78%	21.80%	13.73%	0.90%	42.21%

Loans with variable interest rates:	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
Commercial:					
C&I	$ 254,827	$ 172,386	$ 80,632	$ 21,598	$ 529,443
PPP	—	—	—	—	—
Municipal	469	1,457	23,179	29,249	54,354
Total Commercial	255,296	173,843	103,811	50,847	583,797
Agricultural	59,888	7,198	1,288	—	68,374
Real Estate:					
Construction & Development	286,244	96,599	127,451	112,048	622,342
Farm	17,269	5,065	58,532	69,253	150,119
Non-Owner Occupied CRE	13,457	54,713	244,348	132,206	444,724
Owner Occupied CRE	15,466	60,252	414,434	208,989	699,141
Residential	74,349	16,661	217,753	512,242	821,005
Total Real Estate	406,785	233,290	1,062,518	1,034,738	2,737,331
Consumer:					
Auto	—	—	—	—	—
Non-Auto	5,275	1,862	420	381	7,938
Total Consumer	5,275	1,862	420	381	7,938
Total	$ 727,244	$ 416,193	$ 1,168,037	$ 1,085,966	$ 3,397,440
% of Total Loans	12.37%	7.08%	19.87%	18.47%	57.79%

Of the $3.40 billion of variable interest rate loans shown above, loans totaling $1.34 billion mature or reprice over the next twelve months. Of this amount, approximately $1 billion will reprice immediately upon changes in the underlying index rate (primarily U.S. prime rate) with the remaining $300 million being subject to floors above the current index (however, with the recent 75 basis point increase in prime rate the majority of these are now at or above their stated floors).

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 nonaccrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Nonaccrual, past due 90 days or more and still accruing, and restructured loans plus foreclosed assets were $25.52 million at June 30, 2022, as compared to $30.11 million at June 30, 2021 and $34.16 million at December 31, 2021. As a percent of loans held-for-investment and foreclosed assets, these assets were 0.43% at June 30, 2022, as compared to 0.57% at June 30, 2021 and 0.63% at December 31, 2021. As a percent of total assets, these assets were 0.19% at June 30, 2022, as compared to 0.24% at June 30, 2021 and 0.26% at December 31, 2021. 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 June 30, 2022.

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

	June 30,		December 31,
	2022	2021	2021
Nonaccrual loans	$ 25,475	$ 29,786	$ 31,652
Loans still accruing and past due 90 days or more	22	—	8
Troubled debt restructured loans*	20	23	21
Nonperforming loans	25,517	29,809	31,681
Foreclosed assets	—	305	2,477
Total nonperforming assets	$ 25,517	$ 30,114	$ 34,158
As a % of loans held-for-investment and foreclosed assets	0.43%	0.57%	0.63%
As a % of total assets	0.19	0.24	0.26

* Troubled debt restructured loans of $2.24 million, $7.31 million and $6.72 million, respectively, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in nonaccrual loans as of June 30, 2022 and 2021, and December 31, 2021, respectively.

We record interest payments received on nonaccrual loans as reductions of principal. Prior to the loans being placed on nonaccrual, we recognized interest income on these loans of approximately $1.35 million for the year ended December 31, 2021. If interest on these loans had been recognized on a full accrual basis during the year ended December 31, 2021, such income would have approximated $2.61 million. Such amounts for the 2022 and 2021 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. For a discussion of our methodology, see our accounting policies in Note 1 to the Consolidated Financial Statements (unaudited).

The provision for loan losses of $4.10 million for the three-months ended June 30, 2022 is combined with the provision for unfunded commitments of $1.25 million and reported in the aggregate of $5.35 million under the provision for credit losses in the consolidated statements of earnings for the three-months ended June 30, 2022. The provision for loan losses of $7.85 million for the six-months ended June 30, 2022 is combined with the provision for unfunded commitments of $2.28 million and reported in the aggregate of $10.13 million under the provision for credit losses in the consolidated statements of earnings for the six-months ended June 30, 2022. The increase in the Company's provision for credit losses during the second quarter of 2022 was primarily driven by strong organic loan growth and a slight decline in the projected economic forecast.

The $1.04 million reversal of the provision for loan losses for the three-months ended June 30, 2021 is combined with the reversal of the provision for unfunded commitments of $167 thousand and reported in the aggregate of a reversal of $1.21 million under the provision for credit losses for the three-months ended June 30, 2021. The $4.47 million reversal of the provision for loan losses for the six-months ended June 30, 2021 is combined with the provision for unfunded commitments $1.27 million and reported in the net aggregate reversal of $3.20 million under the provision for credit losses for the six-months ended June 30, 2021. The increase in the Company's provision for credit losses during the first half of 2022 was primarily driven by strong organic loan growth and a slight decline in the projected economic forecast.

As a percent of average loans, net loan recoveries were 0.06% for the second quarter of 2022, as compared to 0.02% for the second quarter of 2021. As a percent of average loans, net loan recoveries were 0.02% for the first half of 2022, as compared to net charge-offs of zero percent for the first half of 2021. The allowance for credit losses as a percent of loans held-for-investment was 1.22% as of June 30, 2022, as compared to 1.17% and 1.18% as of June 30, 2021 and December 31, 2021, respectively.

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

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2022	2021	2022	2021
Allowance for credit losses at period-end	$ 71,932	$ 62,138	$ 71,932	$ 62,138
Loans held-for-investment at period-end	5,878,582	5,304,602	5,878,582	5,304,602
Average loans for period	5,720,804	5,383,781	5,604,815	5,340,207
Net charge-offs (recoveries)/average loans (annualized)	(0.06)%	(0.02)%	(0.02)%	—
Allowance for loan losses/period-end loans held-for-investment	1.22%	1.17%	1.22%	1.17%
Allowance for loan losses/nonaccrual loans, past due 90 days still accruing and restructured loans	281.90%	208.45%	281.90%	208.45%

Interest-Bearing Demand Deposits in Banks. The Company had interest-bearing deposits in banks of $222.90 million at June 30, 2022 compared to $654.53 million at June 30, 2021 and $323.54 million at December 31, 2021, respectively. At June 30, 2022, interest-bearing deposits in banks included $222.46 million maintained at the Federal Reserve Bank of Dallas and $443 thousand on deposit with the FHLB.

Available-for-Sale Securities. At June 30, 2022, securities with a fair value of $6.22 billion were classified as securities available-for-sale. As compared to December 31, 2021, the available-for-sale portfolio at June 30, 2022 reflected (i) an increase of $359.52 million in U.S. Treasury securities, (ii) a decrease of $508.87 million in obligations of states and political subdivisions, (iii) an increase of $36.05 million and in corporate bonds and other securities, and (iv) a decrease of $244.84 million 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 the below table and Note 2 to the Consolidated Financial Statements (unaudited) for additional disclosures relating to the maturities and fair values of the investment portfolio at June 30, 2022 and 2021, and December 31, 2021.

Table 8 - Maturities and Yields of Available-for-Sale Securities Held at June 30, 2022 (dollars 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
U.S. Treasury securities	$ —	—%	$ 486,358	1.86%	$ —	—%	$ —	—%	$ 486,358	1.86%
Obligations of states and political subdivisions	139,895	4.38	504,141	3.76	1,450,796	2.59	149,772	2.76	2,244,604	2.98
Corporate bonds and other securities	4,078	1.17	58,235	2.93	42,032	1.96	—	—	104,345	2.47
Mortgage-backed securities	95,667	2.47	1,731,459	1.88	1,137,913	1.79	414,690	2.22	3,379,729	1.91
Total	$ 239,640	3.56%	$ 2,780,193	2.24%	$ 2,630,741	2.24%	$ 564,462	2.36%	$ 6,215,036	2.30%

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 June 30, 2022, the investment portfolio had an overall tax equivalent yield of 2.30%, a weighted average life of 5.94 years and modified duration of 5.14 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $11.12 billion as of June 30, 2022, as compared to $9.78 billion as of June 30, 2021 and $10.57 billion as of December 31, 2021.

Table 9 provides a breakdown of average deposits and rates paid over the three and six month periods ended June 30, 2022 and 2021, respectively.

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

	Three-Months Ended June 30,			
	2022		2021	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 4,064,207	—%	$ 3,439,683	—%
Interest-bearing deposits:				
Interest-bearing checking	3,690,920	0.22	3,045,255	0.08
Savings and money market accounts	2,911,318	0.10	2,705,925	0.08
Time deposits under $250,000	303,759	0.19	319,705	0.28
Time deposits of $250,000 or more	143,044	0.28	159,106	0.50
Total interest-bearing deposits	7,049,041	0.17%	6,229,991	0.10%
Total average deposits	$ 11,113,248		$ 9,669,674	
Total cost of deposits		0.11%		0.06%

	Six-Months Ended June 30,			
	2022		2021	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 3,946,483	—%	$ 3,278,067	—%
Interest-bearing deposits:				
Interest-bearing checking	3,656,398	0.15	2,973,933	0.08
Savings and money market accounts	2,868,000	0.08	2,621,171	0.09
Time deposits under $250,000	305,926	0.20	322,217	0.31
Time deposits of $250,000 or more	143,643	0.28	156,660	0.55
Total interest-bearing deposits	6,973,967	0.13%	6,073,981	0.11%
Total average deposits	$ 10,920,450		$ 9,352,048	
Total cost of deposits		0.08%		0.07%

The estimated amount of uninsured and uncollateralized deposits including related accrued and unpaid is approximately $4.11 billion as of June 30, 2022.

Borrowings. Included in borrowings were federal funds purchased, securities sold under repurchase agreements, advances from the FHLB and other borrowings of $768.36 million, $549.97 million and $671.15 million at June 30, 2022 and 2021, and December 31, 2021, 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, advances from the FHLB and other borrowings were $730.48 million and $527.67 million in the second quarters of 2022 and 2021, respectively. The weighted average interest rates paid on these borrowings were 0.13% and 0.07% for the second quarters of 2022 and 2021, respectively. The average balance of federal funds purchased, securities sold under repurchase agreements, advances from the FHLB and other borrowings were $755.76 million and $492.34 million for the six-months ended June 30, 2022 and June 30, 2021, respectively. The weighted average interest rates paid on these borrowings were 0.12% and 0.08% for the six-month periods ended June 30, 2022 and June 30, 2021, respectively.

Interest Rate Risk

Interest rate risk results when the maturity or repricing 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 the periods presented.

Change in interest rates:	Percentage change in net interest income: June 30,		December 31,
(in basis points)	2022	2021	2021
+400	7.34%	11.19%	10.56%
+300	5.80%	8.94%	8.52%
+200	4.36%	6.41%	6.13%
+100	2.63%	3.57%	3.42%
-100	(2.85)%	(4.98)%	(5.64)%
-200	(6.67)%	(7.85)%	(9.06)%

The results for the net interest income simulations as of June 30, 2022 and 2021, and December 31, 2021 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 reprice 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 repricing 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.

The fair value of our investment securities classified as available-for-sale totaled $6.22 billion at June 30, 2022. During the six months ended June 30, 2022, the corresponding unrealized gain before taxes on the portfolio of $125.67 million at December 31, 2021, moved into an unrealized loss before taxes of $507.30 million at June 30, 2022, which is recorded net of taxes in accumulated other comprehensive earnings (loss) in shareholders' equity. The unrealized gains or losses, net of taxes, on the portfolio are excluded from the calculation of all regulatory capital ratios. The changes in the fair value were driven by increases in interest rates based on expected actions by the Federal Reserve Board and other market conditions. The overall valuation of the portfolio is most correlated to the 5-year U.S. Treasury rates based on the composition and duration of the portfolio. At June 30, 2022, the 5-year U.S. Treasury rate was 3.01% compared to 1.26% at December 31, 2021, representing a 175 basis point increase during the first six months of 2022. As of June 30, 2022, an additional 100 basis point increase in the 5-year U.S. Treasury rate would result in an increase to unrealized losses by approximately $300 million before taxes, while a 100 basis point decrease in the same rate would result in a decrease to unrealized losses by approximately $270 million before taxes. We currently have the ability to hold these securities based on our overall liquidity and intent to hold the portfolio.

Capital and Liquidity

Capital. 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 $1.33 billion, or 10.02% of total assets at June 30, 2022, as compared to $1.72 billion, or 13.95% of total assets at June 30, 2021, and $1.76 billion, or 13.43% of total assets at December 31, 2021. Included in shareholders’ equity at June 30, 2022 were $400.51 million in unrealized losses on investment securities available-for-sale, net of related income taxes. Included in shareholders' equity at June 30, 2021 and December 31, 2021 were $136.49 million and $99.25 million, respectively, in unrealized gains on investment securities available-for-sale, net of related income taxes, although such amount is excluded from and does not impact regulatory capital. For the second quarter of 2022, total shareholders’ equity averaged $1.41 billion, or 10.56% of average assets, as compared to $1.69 billion, or 14.09% of average assets, during the same period in 2021. For the first six months of 2022, total shareholders’ equity averaged $1.54 billion, or 11.60% of average assets, as compared to $1.68 billion, or 14.44% of average assets, during the same period in 2021.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and the leverage ratio under the Basel III rules 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 rules, 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 June 30, 2022 and 2021, and December 31, 2021, we had a total risk-based capital ratio of 19.54%, 21.12% and 20.34%, a Tier 1 capital to risk-weighted assets ratio of 18.50%, 20.04% and 19.35%; a common equity Tier 1 to risk-weighted assets ratio of 18.50%, 20.04% and 19.35% and a Tier 1 leverage ratio of 10.65%, 11.10% and 11.13%, respectively. The regulatory capital ratios as of June 30, 2022 and 2021, and December 31, 2021 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:

	Actual		Minimum Capital Required-Basel III		Required to be Considered Well-Capitalized	
As of June 30, 2022:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,507,098	19.54 %	$ 809,783	10.50 %	$ 771,222	10.00 %
First Financial Bank, N.A	$ 1,379,750	17.93 %	$ 808,070	10.50 %	$ 769,591	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,426,448	18.50 %	$ 655,538	8.50 %	$ 462,733	6.00 %
First Financial Bank, N.A	$ 1,299,100	16.88 %	$ 654,152	8.50 %	$ 615,672	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,426,448	18.50 %	$ 539,855	7.00 %	—	N/A
First Financial Bank, N.A	$ 1,299,100	16.88 %	$ 538,713	7.00 %	$ 500,234	6.50 %
Leverage Ratio:						
Consolidated	$ 1,426,448	10.65 %	$ 535,975	4.00 %	—	N/A
First Financial Bank, N.A	$ 1,299,100	9.73 %	$ 534,178	4.00 %	$ 667,723	5.00 %

	Actual		Minimum Capital Required-Basel III		Required to be Considered Well-Capitalized	
As of June 30, 2021:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,347,772	21.12 %	$ 669,931	10.50 %	$ 638,030	10.00 %
First Financial Bank, N.A	$ 1,227,741	19.28 %	$ 668,612	10.50 %	$ 636,773	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,278,883	20.04 %	$ 542,325	8.50 %	$ 382,818	6.00 %
First Financial Bank, N.A	$ 1,158,852	18.20 %	$ 541,257	8.50 %	$ 509,418	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,278,883	20.04 %	$ 446,621	7.00 %	—	N/A
First Financial Bank, N.A	$ 1,158,852	18.20 %	$ 445,741	7.00 %	$ 413,902	6.50 %
Leverage Ratio:						
Consolidated	$ 1,278,883	11.10 %	$ 460,851	4.00 %	—	N/A
First Financial Bank, N.A	$ 1,158,852	10.09 %	$ 459,483	4.00 %	$ 574,353	5.00 %

	Actual		Minimum Capital Required Basel III		Required to be Considered Well-Capitalized	
As of December 31, 2021:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,425,907	20.34 %	$ 736,003	10.50 %	$ 700,955	10.00 %
First Financial Bank, N.A	$ 1,258,965	17.99 %	$ 734,604	10.50 %	$ 699,623	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,356,006	19.35 %	$ 595,812	8.50 %	$ 420,573	6.00 %
First Financial Bank, N.A	$ 1,189,064	17.00 %	$ 594,679	8.50 %	$ 559,698	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,356,006	19.35 %	$ 490,669	7.00 %	—	N/A
First Financial Bank, N.A	$ 1,189,064	17.00 %	$ 489,736	7.00 %	$ 454,755	6.50 %
Leverage Ratio:						
Consolidated	$ 1,356,006	11.13 %	$ 487,459	4.00 %	—	N/A
First Financial Bank, N.A	$ 1,189,064	9.79 %	$ 485,926	4.00 %	$ 607,407	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.

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 other borrowings (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 June 30, 2022, 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 $2.09 billion at June 30, 2022, secured by portions of our loan portfolio and certain investment securities and (ii) access to the Federal Reserve Bank of Dallas lending program secured by portions of certain investment securities. At June 30, 2022, the Company did not have any balances under this line of credit.

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 and 2020 to 53% (high) in 2003 and 2006. The Company was in compliance with the financial and operational covenants at June 30, 2022. There was no outstanding balance under the line of credit as of June 30, 2022 and 2021, or December 31, 2021.

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 $89.10 million at June 30, 2022, investment securities which totaled $2.26 million at June 30, 2022 and mature over 8 to 9 years, available dividends from our subsidiaries which totaled $375.31 million at June 30, 2022, 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 June 30, 2022, 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 June 30, 2022, the Company's reserve for unfunded commitments totaled $8.72 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 June 30, 2022 (in thousands):

	Total Notional Amounts Committed
Unfunded lines of credit	$ 1,020,918
Unfunded commitments to extend credit	845,774
Standby letters of credit	37,986
Total commercial commitments	$ 1,904,678

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 June 30, 2022, $375.31 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 $7.50 million and $9.00 million for the six-months ended June 30, 2022 and 2021, respectively.

Dividends. Our long-term dividend policy is to pay cash dividends to our shareholders of approximately 35% to 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 39.23% and 35.18% of net earnings for the first six months of 2022 and 2021, respectively. Given our current capital position, projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy. On April 26, 2022, the Board of Directors declared a $0.17 per share cash dividend for the second quarter of 2022, a 13.33% increase over the dividend declared in the second quarter of 2021. The record date for this dividend was June 16, 2022, payable on July 1, 2022 (although such amount was prefunded with our transfer agent prior to June 30, 2022).

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 (i) such bank's net profits (as defined and interpreted by regulation) for that year plus (ii) 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 June 30, 2022, 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 June 30, 2022.

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, our internal control over financial reporting.

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, 2021.

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

Repurchase of Common Stock

On July 27, 2021, the Company's Board of Directors 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. Subsequent to July 27, 2021 and through June 30, 2022, 191,987 shares were repurchased and retired totaling $7,405,000 under this repurchase plan.

The following table presents shares that have been repurchased under the Company's repurchase program:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announce plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
April 1, 2022 through April 30, 2022	-	$ -	-	5,000,000
May 1, 2022 through May 31, 2022	-	$ -	-	5,000,000
June 1, 2022 through June 30, 2022	191,987	$ 38.5314	191,987	4,808,013
Total	191,987	$ 38.5314	191,987	4,808,013

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 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, 2022).
10.1	—	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).++
10.2	—	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).++
10.3	—	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	—	First Financial Bankshares, Inc. Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2023 (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 29, 2022.)++
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.*
104	—	Cover Page Interactive Data File (embedded within the Inline XBRL 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: August 2, 2022

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

Date: August 2, 2022

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: August 2, 2022

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: August 2, 2022

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 June 30, 2022 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: August 2, 2022

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 August, 2022.

/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 June 30, 2022 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: August 2, 2022

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 August, 2022.

/s/ Melissa Ann Fenton
Melissa Ann Fenton
Notary Public

My commission expires: October 11, 2024