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, 2023

☐ **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, 2023
Common Stock, $0.01 par value per share	142,741,196

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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, 2023 and 2022 (unaudited), and December 31, 2022, and the consolidated statements of earnings, comprehensive earnings (loss) and shareholders' equity for the three and six-months ended June 30, 2023 and 2022 (unaudited), and the consolidated statements of cash flows for the six-months ended June 30, 2023 and 2022 (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,
	2023	2022	2022
	(Unaudited)		
ASSETS			
CASH AND DUE FROM BANKS	$ 255,018	$ 242,665	$ 293,286
INTEREST-BEARING DEMAND DEPOSITS IN BANKS	23,839	222,899	37,392
Total cash and cash equivalents	278,857	465,564	330,678
SECURITIES AVAILABLE-FOR-SALE, at fair value (amortized cost of these securities was $5,687,352, $6,722,336 and $6,152,348 as of June 30, 2023 and 2022, and December 31, 2022, respectively)	5,066,262	6,215,036	5,474,359
LOANS:			
Held-for-investment, excluding PPP loans	6,777,429	5,876,281	6,441,699
PPP loans	141	2,301	169
Total loans held-for-investment	6,777,570	5,878,582	6,441,868
Less—allowance for credit losses	(86,541)	(71,932)	(75,834)
Net loans held-for-investment	6,691,029	5,806,650	6,366,034
Held-for-sale ($18,089, $23,848 and $10,497 at fair value at June 30, 2023 and 2022, and December 31, 2022, respectively)	19,220	26,445	11,965
BANK PREMISES AND EQUIPMENT, net	152,876	149,280	152,973
INTANGIBLE ASSETS, net	315,078	316,139	315,534
OTHER ASSETS	302,115	281,098	322,523
Total assets	$ 12,825,437	$ 13,260,212	$ 12,974,066
LIABILITIES AND SHAREHOLDERS' EQUITY			
NONINTEREST-BEARING DEPOSITS	$ 3,578,483	$ 4,104,034	$ 4,061,788
INTEREST-BEARING DEPOSITS	7,229,077	7,018,949	6,943,719
Total deposits	10,807,560	11,122,983	11,005,507
DIVIDENDS PAYABLE	25,714	—	24,278
BORROWINGS	587,656	768,364	642,507
OTHER LIABILITIES	37,274	39,847	36,037
Total liabilities	11,458,204	11,931,194	11,708,329
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
COMMON STOCK — ($0.01 par value, authorized 200,000,000 shares; 142,741,196, 142,586,601 and 142,657,871 shares issued at June 30, 2023 and 2022, and December 31, 2022, respectively)	1,427	1,426	1,427
CAPITAL SURPLUS	680,676	675,653	677,593
RETAINED EARNINGS	1,175,410	1,052,453	1,121,945
TREASURY STOCK (shares at cost: 927,608, 937,924 and 929,210 at June 30, 2023 and 2022, and December 31, 2022, respectively)	(11,466)	(10,656)	(11,035)
DEFERRED COMPENSATION	11,466	10,656	11,035
ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS), net	(490,280)	(400,514)	(535,228)
Total shareholders' equity	1,367,233	$ 1,329,018	1,265,737
Total liabilities and shareholders' equity	$ 12,825,437	$ 13,260,212	$ 12,974,066

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,	
	2023	2022	2023	2022
INTEREST INCOME:				
Interest and fees on loans	$ 98,067	$ 68,158	$ 187,076	$ 132,656
Interest on investment securities:				
Taxable	20,033	19,151	40,815	36,974
Exempt from federal income tax	9,321	14,120	19,388	28,712
Interest on federal funds sold and interest-bearing demand deposits in banks	1,584	552	3,234	648
Total interest income	129,005	101,981	250,513	198,990
INTEREST EXPENSE:				
Interest on deposits	27,629	2,966	49,441	4,336
Interest on borrowings	5,510	233	8,920	433
Total interest expense	33,139	3,199	58,361	4,769
Net interest income	95,866	98,782	192,152	194,221
PROVISION FOR CREDIT LOSSES	5,573	5,350	8,354	10,132
Net interest income after provision for credit losses	90,293	93,432	183,798	184,089
NONINTEREST INCOME:				
Trust fees	9,883	9,742	19,728	19,559
Service charges on deposit accounts	6,310	6,038	12,346	11,744
Debit card fees	6,720	9,868	11,656	18,795
Credit card fees	711	700	1,320	1,301
Gain on sale and fees on mortgage loans	3,534	5,728	6,508	12,061
Net gain on sale of available-for-sale securities	46	1,648	58	1,679
Net gain (loss) on sale of foreclosed assets	(1)	18	33	1,102
Net gain (loss) on sale of other assets	—	6	930	(4)
Interest on loan recoveries	475	1,649	821	1,932
Other	2,269	1,920	4,554	4,029
Total noninterest income	29,947	37,317	57,954	72,198
NONINTEREST EXPENSE:				
Salaries, commissions and employee benefits	31,766	33,147	63,227	67,285
Net occupancy expense	3,423	3,292	6,853	6,517
Equipment expense	2,198	2,346	4,325	4,603
FDIC insurance premiums	1,417	904	3,071	1,773
Debit card expense	3,221	3,200	6,420	6,164
Professional and service fees	2,397	2,191	4,762	4,415
Printing, stationery and supplies	740	501	1,450	1,041
Operational and other losses	856	782	1,787	1,378
Software amortization and expense	2,519	2,522	4,830	4,979
Amortization of intangible assets	228	320	456	640
Other	8,848	9,128	17,688	18,763
Total noninterest expense	57,613	58,333	114,869	117,558
EARNINGS BEFORE INCOME TAXES	62,627	72,416	126,883	138,729
INCOME TAX EXPENSE	11,754	11,922	23,442	22,263
NET EARNINGS	$ 50,873	$ 60,494	$ 103,441	$ 116,466
NET EARNINGS PER SHARE, BASIC	$ 0.36	$ 0.42	$ 0.72	$ 0.82
NET EARNINGS PER SHARE, DILUTED	$ 0.36	$ 0.42	$ 0.72	$ 0.81
DIVIDENDS PER SHARE	$ 0.18	$ 0.17	$ 0.35	$ 0.32

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,	
	2023	2022	2023	2022
NET EARNINGS	$ 50,873	$ 60,494	$ 103,441	$ 116,466
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(40,500)	(240,038)	56,954	(630,937)
Reclassification adjustment for realized gains on investment securities included in net earnings, before income taxes	(46)	(1,648)	(58)	(1,679)
Total other items of comprehensive earnings (loss)	(40,546)	(241,686)	56,896	(632,616)
Income tax benefit (expense) related to:				
Change in unrealized gain (loss) on investment securities available-for-sale	8,506	50,409	(11,960)	132,497
Reclassification adjustment for realized gains on investment securities included in net earnings	9	346	12	353
Total income tax benefit (expense)	8,515	50,754	(11,948)	132,849
COMPREHENSIVE EARNINGS (LOSS)	$ 18,842	$ (130,438)	$ 148,389	$ (383,301)

See notes to consolidated financial statements.

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

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive Earnings	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	(Loss)	Equity
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
Balances at March 31, 2023 (unaudited)	142,703,531	$ 1,427	$ 679,429	$ 1,150,246	(927,789)	$ (11,271)	$ 11,271	$ (458,249)	$ 1,372,853
Net earnings (unaudited)	—	—	—	50,873	—	—	—	—	50,873
Stock option exercises (unaudited)	12,475	—	215	—	—	—	—	—	215
Restricted stock grant/forfeiture, net (unaudited)	25,190	—	587	—	—	—	—	—	587
Cash dividends declared, $0.18 per share (unaudited)	—	—	—	(25,709)	—	—	—	—	(25,709)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—		—	—	—	(32,031)	(32,031)
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	181	(195)	195	—	—
Stock option expense (unaudited)	—	—	445	—	—	—	—	—	445
Balances at June 30, 2023 (unaudited)	142,741,196	$ 1,427	$ 680,676	$ 1,175,410	(927,608)	$ (11,466)	$ 11,466	$ (490,280)	$ 1,367,233

See notes to consolidated financial statements.

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

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive Earnings	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	(Loss)	Equity
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
Balances at December 31, 2022	142,657,871	$ 1,427	$ 677,593	$ 1,121,945	(929,210)	$ (11,035)	$ 11,035	$ (535,228)	$ 1,265,737
Net earnings (unaudited)	—	—	—	103,441	—	—	—	—	103,441
Stock option exercises (unaudited)	60,095	—	1,128	—	—	—	—	—	1,128
Restricted stock grant/forfeiture, net (unaudited)	23,230	—	1,066	—	—	—	—	—	1,066
Cash dividends declared, $0.35 per share (unaudited)	—	—	—	(49,976)	—	—	—	—	(49,976)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)	—	—	—	—	—	—	—	44,948	44,948
Shares purchased in connection with directors' deferred compensation plan, net (unaudited)	—	—	—	—	1,602	(431)	431	—	—
Stock option expense (unaudited)	—	—	889	—	—	—	—	—	889
Balances at June 30, 2023 (unaudited)	142,741,196	$ 1,427	$ 680,676	$ 1,175,410	(927,608)	$ (11,466)	$ 11,466	$ (490,280)	$ 1,367,233

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,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 103,441	$ 116,466
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,268	6,436
Provision for credit losses	8,354	10,132
Securities premium amortization, net	27,151	38,727
Discount accretion on purchased loans	—	(746)
Gain on sale of securities and other assets, net	(1,021)	(2,777)
Deferred federal income tax benefit	1,555	1,421
Change in loans held-for-sale	(7,167)	10,980
Change in other assets	9,397	(1,077)
Change in other liabilities	5,001	(21,216)
Total adjustments	49,538	41,880
Net cash provided by operating activities	152,979	158,346
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	207,287	188,363
Maturities	233,935	2,615,256
Purchases	(3,322)	(3,115,482)
Net increase in loans held-for-investment	(336,122)	(487,862)
Purchases of bank premises and equipment	(8,966)	(5,245)
Proceeds from sale of bank premises and equipment and other assets	2,598	6
Net cash provided by (used in) investing activities	95,410	(804,964)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(483,305)	323,804
Net increase in interest-bearing deposits	285,358	232,691
Net change in borrowings	(54,851)	97,212
Common stock transactions:		
Proceeds from stock option exercises	1,128	4,346
Dividends paid	(48,540)	(67,054)
Repurchases of stock	—	(7,405)
Net cash provided by (used in) financing activities	(300,210)	583,594
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(51,821)	(63,024)
CASH AND CASH EQUIVALENTS, beginning of period	330,678	528,588
CASH AND CASH EQUIVALENTS, end of period	$ 278,857	$ 465,564
SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:		
Interest paid	$ 51,327	$ 4,567
Federal income taxes paid	25,032	20,981
Transfer of loans to other real estate	190	—
Restricted stock grant	1,066	1,210

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 79 locations located in Texas as of June 30, 2023. 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., FB Investment Paris Fund, LLC, and FFB Portfolio Management, Inc.

Basis of Presentation

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

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

Use of Estimates

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. On July 25, 2023, the Company's Board of Directors renewed the prior authorization through July 31, 2024. The stock repurchase plan authorizes management to repurchase and retire the stock at such time as repurchases and retirements are considered beneficial to the Company and stockholders. Any repurchase of stock will be made through the open market, block trades, or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through June 30, 2023, 244,559 shares were repurchased and retired (all during the months of June and July 2022) at an average price of $38.61. The Company did not repurchase any shares during the first half of 2023.

Other Recently Issued and Effective Authoritative Accounting Guidance

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 based upon the amendments provided in ASU 2022-06 discussed below, can generally be applied through December 31, 2024. 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 based upon the amendments provided in ASU 2022-06 discussed below, can generally be applied through December 31, 2024. 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 did not have a significant impact on our financial statements.

ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance provided by ASU 2020-04 and ASU 2021-01, which are discussed above. ASU 2022-06, which was effective upon issuance, defers the sunset date of this prior guidance from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief guidance in Topic 848. The adoption of ASU 2022-06 did not have a significant impact on our financial statements.

Investment Securities

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

Interest income includes amortization of purchase premiums and discounts over the period to maturity using a level-yield method, except for premiums on callable securities, which are amortized to their earliest call date. Realized gains and losses are recorded on the sale of securities in noninterest income.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of securities and report accrued interest separately in other assets on the consolidated balance sheets. A security is placed on 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, 2023 and 2022.

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, 2023 and 2022, and December 31, 2022, 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, 2023 and 2022, and December 31, 2022, 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 loans to borrowers experiencing financial difficulty 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, 2023 and 2022, and December 31, 2022, the Company's reserve for unfunded commitments totaled $9,449,000, $8,718,000 and $12,323,000, 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, and is included in other assets in the consolidated balance sheet. 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 during the six-months ended June 30, 2023 or 2022, 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 losses on the Company's available-for-sale securities, net of applicable income taxes, totaled $490,280,000, $400,514,000 and $535,228,000 at June 30, 2023, and 2022, and December 31, 2022, 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. As of June 30, 2023, and 2022, and December 31, 2022, deferred tax assets totaled $133,016,000, $109,450,000 and $145,511,000, respectively, and were included in other assets on the consolidated balance sheets.

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 performance stock units which vest over a 3-year period based on Company performance metrics relative to a defined peer group. 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. Expense is recognized based on the fair value of the portion of stock-based payment awards that ultimately expected to vest, reduced for forfeitures based on grant-date fair value. 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 778,000 and 485,000 anti-dilutive shares for the three and six-months ended June 30, 2023, respectively, that were excluded from the computation of EPS. 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. 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, 2023:			
Net earnings per share, basic	$ 50,873	142,700,905	$ 0.36
Effect of stock options and stock grants	—	386,650	—
Net earnings per share, diluted	$ 50,873	143,087,555	$ 0.36

	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, 2023:			
Net earnings per share, basic	$ 103,441	142,683,322	$ 0.72
Effect of stock options and stock grants	—	344,181	—
Net earnings per share, diluted	$ 103,441	143,027,503	$ 0.72

	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

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, 2023			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 508,124	$ —	$ (24,348)	$ 483,776
Obligations of states and political subdivisions	1,859,193	405	(166,634)	1,692,964
Residential mortgage-backed securities	2,875,699	2	(402,760)	2,472,941
Commercial mortgage-backed securities	331,829	—	(17,442)	314,387
Corporate bonds and other	112,507	—	(10,313)	102,194
Total securities available-for-sale	$ 5,687,352	$ 407	$ (621,497)	$ 5,066,262

	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

	December 31, 2022			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 508,275	$ 11	$ (25,737)	$ 482,549
Obligations of states and political subdivisions	2,104,193	1,217	(206,799)	1,898,611
Residential mortgage-backed securities	3,034,120	8	(417,562)	2,616,566
Commercial mortgage-backed securities	392,914	1	(18,046)	374,869
Corporate bonds and other	112,846	-	(11,082)	101,764
Total securities available-for-sale	$ 6,152,348	$ 1,237	$ (679,226)	$ 5,474,359

The Company did not hold any securities classified as held-to-maturity at June 30, 2023, June 30, 2022, or December 31, 2022.

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, 2023 and 2022, and December 31, 2022, 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, 2023, by contractual and expected maturity, are shown below (dollars in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 326,804	$ 320,734
Due after one year through five years	1,487,053	1,379,040
Due after five years through ten years	2,817,340	2,473,140
Due after ten years	1,056,155	893,348
Total	$ 5,687,352	$ 5,066,262

The following tables disclose as of June 30, 2023 and 2022, and December 31, 2022, 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, 2023	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$ 47,498	$ 1,614	$ 436,278	$ 22,734	$ 483,776	$ 24,348
Obligations of states and political subdivisions	137,728	1,838	1,457,431	164,796	1,595,159	166,634
Residential mortgage-backed securities	68,439	3,609	2,403,837	399,151	2,472,276	402,760
Commercial mortgage-backed securities	99,347	4,771	215,040	12,671	314,387	17,442
Corporate bonds and other	38,042	1,282	64,152	9,031	102,194	10,313
Total	$ 391,054	$ 13,114	$ 4,576,738	$ 608,383	$ 4,967,792	$ 621,497

	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	
December 31, 2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$ 307,012	$ 11,650	$ 173,105	$ 14,087	$ 480,117	$ 25,737
Obligations of states and political subdivisions	770,469	55,943	946,571	150,856	1,717,040	206,799
Residential mortgage-backed securities	470,970	37,065	2,143,869	380,497	2,614,839	417,562
Commercial mortgage-backed securities	319,303	11,677	54,862	6,369	374,165	18,046
Corporate bonds and other	41,920	1,698	59,844	9,384	101,764	11,082
Total	$ 1,909,674	$ 118,033	$ 3,378,251	$ 561,193	$ 5,287,925	$ 679,226

The number of investments in an unrealized loss position totaled 934 at June 30, 2023. 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, 2023 and 2022, and December 31, 2022, 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, 2023 and 2022, and December 31, 2022. 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, 2023, 69.19% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 52.59% are guaranteed by the Texas Permanent School Fund.

Securities, carried at approximately $3,447,659,000 on June 30, 2023, were pledged 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, 2023 and 2022, sales of investment securities that were classified as available-for-sale were $61,339,000 and $188,363,000, respectively. Gross realized security gains from sales and calls during the second quarter of 2023 and 2022 totaled $596,000 and $3,990,000, respectively. Gross realized security losses from sales or calls during the second quarter of 2023 or 2022 totaled $550,000 and $2,342,000, respectively.

During the six-months ended June 30, 2023 and 2022, sales of investment securities that were classified as available-for-sale were $207,287,000 and $188,363,000, respectively. Gross realized security gains from sales and calls during the six-months ended June 30, 2023 and 2022 totaled $1,648,000 and $4,023,000, respectively. Gross realized security losses from sales or calls during the six-months ended June 30, 2023 and 2022 totaled $1,590,000 and $2,344,000, respectively.

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, 2023 and 2022, and December 31, 2022, 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,
	2023	2022	2022
Commercial:			
C&I*	$ 1,021,863	$ 839,928	$ 917,317
Municipal	215,977	200,577	221,090
Total Commercial	1,237,840	1,040,505	1,138,407
Agricultural	82,032	90,420	76,947
Real Estate:			
Construction & Development	915,221	928,644	959,426
Farm	335,644	250,028	306,322
Non-Owner Occupied CRE	811,347	636,432	732,089
Owner Occupied CRE	1,011,511	909,899	954,400
Residential	1,698,679	1,412,125	1,575,758
Total Real Estate	4,772,402	4,137,128	4,527,995
Consumer:			
Auto	534,603	468,147	550,635
Non-Auto	150,693	142,382	147,884
Total Consumer	685,296	610,529	698,519
Total Loans	6,777,570	5,878,582	6,441,868
Less: Allowance for credit losses	(86,541)	(71,932)	(75,834)
Loans, net	$ 6,691,029	$ 5,806,650	$ 6,366,034

* 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, 2023 and 2022, and December 31, 2022, are net of unearned income, including net deferred loan fees.

At June 30, 2023, $4,717,880,000 in loans held by our bank subsidiary were subject to blanket liens as security for a line of credit with the Federal Home Loan Bank of Dallas ("FHLB"). At June 30, 2023, this available line of credit was $2,516,497,000. At June 30, 2023, there was no balance outstanding under this line of credit.

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

	June 30,		December 31,
	2023	2022	2022
Nonaccrual loans	$ 28,672	$ 25,495	$ 24,325
Loans still accruing and past due 90 days or more	552	22	—
Total nonperforming loans [(1)]	$ 29,224	$ 25,517	$ 24,325

(1) With the adoption of ASU 2022-02, effective January 1, 2023, troubled debt restructuring ("TDR") accounting has been eliminated.

The Company had $29,249,000, $25,517,000 and $24,325,000 in nonaccrual, past due 90 days or more and still accruing, and foreclosed assets at June 30, 2023 and 2022, and December 31, 2022, respectively. Nonaccrual loans at June 30, 2023 and 2022, and December 31, 2022, consisted of the following (dollars in thousands):

	June 30,		December 31,
	2023	2022	2022
Commercial:			
C&I	$ 4,818	$ 6,695	$ 5,057
Municipal	—	—	—
Total Commercial	4,818	6,695	5,057
Agricultural	133	482	324
Real Estate:			
Construction & Development	2,835	990	1,567
Farm	701	97	85
Non-Owner Occupied CRE	5,329	2,477	2,321
Owner Occupied CRE	7,308	6,823	7,092
Residential	6,769	7,512	7,419
Total Real Estate	22,942	17,899	18,484
Consumer:			
Auto	649	389	429
Non-Auto	130	30	31
Total Consumer	779	419	460
Total	$ 28,672	$ 25,495	$ 24,325

No significant additional funds are committed to be advanced in connection with nonaccrual loans as of June 30, 2023.

Summary information on the allowance for credit losses for the three and six-months ended June 30, 2023 and 2022, are outlined by portfolio segment in the following tables (dollars in thousands):

Three-Months Ended June 30, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 16,083	$ 1,067	$ 1,214	$ 28,627	$ 1,937
Provision for loan losses	988	(880)	(153)	339	867
Recoveries	113	—	21	—	—
Charge-offs	(654)	—	—	—	—
Ending balance	$ 16,530	$ 187	$ 1,082	$ 28,966	$ 2,804

Three-Months Ended June 30, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 9,051	$ 11,948	$ 9,702	$ 857	$ 332	$ 80,818
Provision for loan losses	4,398	610	167	99	87	6,522
Recoveries	22	14	12	101	36	319
Charge-offs	—	—	(114)	(228)	(122)	(1,118)
Ending balance	$ 13,471	$ 12,572	$ 9,767	$ 829	$ 333	$ 86,541

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, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 16,129	$ 1,026	$ 1,041	$ 26,443	$ 1,957
Provision for loan losses	924	(839)	(181)	2,423	847
Recoveries	165	—	222	100	—
Charge-offs	(688)	—	—	—	—
Ending balance	$ 16,530	$ 187	$ 1,082	$ 28,966	$ 2,804

Six-Months Ended June 30, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Beginning balance	$ 9,075	$ 9,928	$ 9,075	$ 845	$ 315	$ 75,834
Provision for loan losses	4,349	2,623	791	169	123	11,229
Recoveries	47	21	15	233	81	884
Charge-offs	—	—	(114)	(418)	(186)	(1,406)
Ending balance	$ 13,471	$ 12,572	$ 9,767	$ 829	$ 333	$ 86,541

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

Additionally, the Company records a reserve for unfunded commitments in other liabilities which totaled $9,449,000, $8,718,000 and $12,323,000 at June 30, 2023 and 2022, and December 31, 2022, respectively. The provision for loan losses of $6,522,000 for the three-months ended June 30, 2023 is combined with the reversal of the provision for unfunded commitments of $949,000 and reported in the net aggregate of $5,573,000 under the provision for credit losses in the consolidated statement of earnings for the three-months ended June 30, 2023. The provision for loan losses of $11,229,000 for the six-months ended June 30, 2023 is combined with the reversal of the provision for unfunded commitments of $2,875,000 and reported in the net aggregate of $8,354,000 under the provision for credit losses in the consolidated statement of earnings for the six-months ended June 30, 2023.

The $4,103,000 provision for loan losses for the three-months ended June 30, 2022 above 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 for the three-months ended June 30, 2022. The $7,850,000 provision for loan losses 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 for the six-months ended June 30, 2022.

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, 2023 and 2022, and December 31, 2022, are summarized in the following tables by loan segment (dollars in thousands):

June 30, 2023	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	$ 610	$ 4,208	$ 23,282	$ 28,100	$ 2,780	$ 5,671	$ 8,451
Municipal	—	—	1,507	1,507	—	—	—
Total Commercial	610	4,208	24,789	29,607	2,780	5,671	8,451
Agricultural	—	133	1,855	1,988	37	517	554
Real Estate:							
Construction & Development	2,672	163	21,787	24,622	15	2,194	2,209
Farm	578	123	7,038	7,739	18	1,117	1,135
Non-Owner Occupied CRE	2,062	3,267	27,112	32,441	421	2,502	2,923
Owner Occupied CRE	5,643	1,665	31,870	39,178	299	1,769	2,068
Residential	4,283	2,486	29,923	36,692	261	1,611	1,872
Total Real Estate	15,238	7,704	117,730	140,672	1,014	9,193	10,207
Consumer:							
Auto	29	620	1,571	2,220	1	2	3
Non-Auto	—	130	522	652	—	1	1
Total Consumer	29	750	2,093	2,872	1	3	4
Total	$ 15,877	$ 12,795	$ 146,467	$ 175,139	$ 3,832	$ 15,384	$ 19,216

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	3,205	25,642	33,154	355	1,297	1,652
Total Real Estate	12,866	5,033	99,670	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	$ 11,227	$ 127,173	$ 152,668	$ 3,398	$ 14,069	$ 17,467

December 31, 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	$ —	$ 5,057	$ 24,325	$ 29,382	$ 3,513	$ 4,885	$ 8,398
Municipal	—	—	58	58	—	—	—
Total Commercial	—	5,057	24,383	29,440	3,513	4,885	8,398
Agricultural	116	209	354	679	122	276	398
Real Estate:							
Construction & Development	577	990	4,873	6,440	193	112	305
Farm	—	85	1,578	1,663	2	34	36
Non-Owner Occupied CRE	2,062	259	36,037	38,358	16	2,341	2,357
Owner Occupied CRE	4,363	2,728	29,115	36,206	91	1,509	1,600
Residential	5,132	2,287	28,564	35,983	229	1,215	1,444
Total Real Estate	12,134	6,349	100,167	118,650	531	5,211	5,742
Consumer:							
Auto	—	429	931	1,360	1	1	2
Non-Auto	—	31	538	569	—	1	1
Total Consumer	—	460	1,469	1,929	1	2	3
Total	$ 12,250	$ 12,075	$ 126,373	$ 150,698	$ 4,167	$ 10,374	$ 14,541

The Company's allowance for loans that are individually evaluated for credit losses and collectively evaluated for credit losses as of June 30, 2023 and 2022, and December 31, 2022, 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, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 8,451	$ —	$ 554	$ 2,209	$ 1,135
Loans collectively evaluated for credit losses	8,079	187	528	26,757	1,669
Total	$ 16,530	$ 187	$ 1,082	$ 28,966	$ 2,804

June 30, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 2,923	$ 2,068	$ 1,872	$ 3	$ 1	$ 19,216
Loans collectively evaluated for credit losses	10,548	10,504	7,895	826	332	67,325
Total	$ 13,471	$ 12,572	$ 9,767	$ 829	$ 333	$ 86,541

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

December 31, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 8,398	$ —	$ 398	$ 305	$ 36
Loans collectively evaluated for credit losses	7,731	1,026	643	26,138	1,921
Total	$ 16,129	$ 1,026	$ 1,041	$ 26,443	$ 1,957

December 31, 2022 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 2,357	$ 1,600	$ 1,444	$ 2	$ 1	$ 14,541
Loans collectively evaluated for credit losses	6,718	8,328	7,631	843	314	61,293
Total	$ 9,075	$ 9,928	$ 9,075	$ 845	$ 315	$ 75,834

The Company's recorded investment in loans as of June 30, 2023 and 2022, and December 31, 2022, related to the balance in the allowance for credit losses follows below (dollars in thousands):

June 30, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 28,100	$ 1,507	$ 1,988	$ 24,622	$ 7,739
Loans collectively evaluated for credit losses	993,763	214,470	80,044	890,599	327,905
Total	$ 1,021,863	$ 215,977	$ 82,032	$ 915,221	$ 335,644

June 30, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 32,441	$ 39,178	$ 36,692	$ 2,220	$ 652	$ 175,139
Loans collectively evaluated for credit losses	778,906	972,333	1,661,987	532,383	150,041	6,602,431
Total	$ 811,347	$ 1,011,511	$ 1,698,679	$ 534,603	$ 150,693	$ 6,777,570

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

December 31, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 29,382	$ 58	$ 679	$ 6,440	$ 1,663
Loans collectively evaluated for credit losses	887,935	221,032	76,268	952,986	304,659
Total	$ 917,317	$ 221,090	$ 76,947	$ 959,426	$ 306,322

December 31, 2022 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 38,358	$ 36,206	$ 35,983	$ 1,360	$ 569	$ 150,698
Loans collectively evaluated for credit losses	693,731	918,194	1,539,775	549,275	147,315	6,291,170
Total	$ 732,089	$ 954,400	$ 1,575,758	$ 550,635	$ 147,884	$ 6,441,868

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, 2023 (dollars in millions):

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 333	$ 468	$ 105	$ 44	$ 18	$ 26	$ —	$ 994
Special mention	8	1	—	—	1	—	—	10
Substandard	3	7	4	2	—	2	—	18
Doubtful	—	—	—	—	—	—	—	—
Total	$ 344	$ 476	$ 109	$ 46	$ 19	$ 28	$ —	$ 1,022
Year-to-Date Gross Charge-Offs	$ —	$ —	$ 1	$ —	$ —	$ —	$ —	$ 1

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 11	$ 84	$ 17	$ 14	$ 1	$ 87	$ —	$ 214
Special mention	—	—	—	—	1	—	—	1
Substandard	—	—	1	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 11	$ 84	$ 18	$ 14	$ 2	$ 87	$ —	$ 216
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 30	$ 42	$ 5	$ 2	$ 1	$ —	$ —	$ 80
Special mention	—	1	—	—	—	—	—	1
Substandard	—	1	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 30	$ 44	$ 5	$ 2	$ 1	$ —	$ —	$ 82
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 242	$ 498	$ 103	$ 24	$ 11	$ 12	$ —	$ 890
Special mention	8	4	—	—	—	—	—	12
Substandard	4	8	1	—	—	—	—	13
Doubtful	—	—	—	—	—	—	—	—
Total	$ 254	$ 510	$ 104	$ 24	$ 11	$ 12	$ —	$ 915
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 63	$ 126	$ 78	$ 26	$ 9	$ 26	$ —	$ 328
Special mention	—	—	—	5	—	—	—	5
Substandard	—	1	1	—	—	1	—	3
Doubtful	—	—	—	—	—	—	—	—
Total	$ 63	$ 127	$ 79	$ 31	$ 9	$ 27	$ —	$ 336
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 101	$ 234	$ 185	$ 125	$ 46	$ 88	$ —	$ 779
Special mention	—	5	1	—	11	2	—	19
Substandard	—	1	4	1	2	5	—	13
Doubtful	—	—	—	—	—	—	—	—
Total	$ 101	$ 240	$ 190	$ 126	$ 59	$ 95	$ —	$ 811
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 67	$ 321	$ 240	$ 121	$ 68	$ 156	$ —	$ 973
Special mention	—	—	—	—	6	1	—	7
Substandard	2	5	1	1	6	17	—	32
Doubtful	—	—	—	—	—	—	—	—
Total	$ 69	$ 326	$ 241	$ 122	$ 80	$ 174	$ —	$ 1,012
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 228	$ 461	$ 335	$ 172	$ 73	$ 255	$ 138	$ 1,662
Special mention	—	2	3	2	—	3	1	11
Substandard	1	6	4	3	2	8	2	26
Doubtful	—	—	—	—	—	—	—	—
Total	$ 229	$ 469	$ 342	$ 177	$ 75	$ 266	$ 141	$ 1,699
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 110	$ 265	$ 99	$ 39	$ 16	$ 4	$ —	$ 533
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	1	—	—	—	—	2
Doubtful	—	—	—	—	—	—	—	—
Total	$ 110	$ 266	$ 100	$ 39	$ 16	$ 4	$ —	$ 535
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 41	$ 63	$ 29	$ 6	$ 2	$ 1	$ 8	$ 150
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 41	$ 63	$ 29	$ 6	$ 2	$ 1	$ 8	$ 150
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

June 30,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 1,226	$ 2,562	$ 1,196	$ 573	$ 245	$ 655	$ 146	$ 6,603
Special mention	16	13	4	7	19	6	1	66
Substandard	10	30	17	7	10	33	2	109
Doubtful	—	—	—	—	—	—	—	—
Total	$ 1,252	$ 2,605	$ 1,217	$ 587	$ 274	$ 694	$ 149	$ 6,778
Year-to-Date Gross Charge-Offs	$ —	$ —	$ 1	$ —	$ —	$ —	$ —	$ 1

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 December 31, 2022 (dollars in millions):

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 627	$ 157	$ 52	$ 22	$ 16	$ 13	$ —	$ 887
Special mention	4	1	2	1	—	—	—	8
Substandard	13	5	2	1	1	—	—	22
Doubtful	—	—	—	—	—	—	—	—
Total	$ 644	$ 163	$ 56	$ 24	$ 17	$ 13	$ —	$ 917

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 79	$ 19	$ 15	$ 4	$ 20	$ 84	$ —	$ 221
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	$ 79	$ 19	$ 15	$ 4	$ 20	$ 84	$ —	$ 221

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 60	$ 9	$ 3	$ 2	$ 1	$ 1	$ —	$ 76
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 60	$ 10	$ 3	$ 2	$ 1	$ 1	$ —	$ 77

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 638	$ 218	$ 70	$ 13	$ 8	$ 7	$ —	$ 954
Special mention	1	—	—	—	—	—	—	1
Substandard	4	1	—	—	—	—	—	5
Doubtful	—	—	—	—	—	—	—	—
Total	$ 643	$ 219	$ 70	$ 13	$ 8	$ 7	$ —	$ 960

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 147	$ 85	$ 32	$ 11	$ 8	$ 21	$ —	$ 304
Special mention	—	—	—	—	—	—	—	—
Substandard	1	—	—	—	—	1	—	2
Doubtful	—	—	—	—	—	—	—	—
Total	$ 148	$ 85	$ 32	$ 11	$ 8	$ 22	$ —	$ 306

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 258	$ 191	$ 100	$ 49	$ 21	$ 75	$ —	$ 694
Special mention	—	1	1	11	—	7	—	20
Substandard	8	1	1	2	1	5	—	18
Doubtful	—	—	—	—	—	—	—	—
Total	$ 266	$ 193	$ 102	$ 62	$ 22	$ 87	$ —	$ 732

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 316	$ 224	$ 128	$ 74	$ 63	$ 113	$ —	$ 918
Special mention	1	—	1	8	—	1	—	11
Substandard	1	2	1	2	9	10	—	25
Doubtful	—	—	—	—	—	—	—	—
Total	$ 318	$ 226	$ 130	$ 84	$ 72	$ 124	$ —	$ 954

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 513	$ 355	$ 173	$ 82	$ 64	$ 214	$ 139	$ 1,540
Special mention	1	3	2	—	—	3	1	10
Substandard	6	3	2	2	1	9	3	26
Doubtful	—	—	—	—	—	—	—	—
Total	$ 520	$ 361	$ 177	$ 84	$ 65	$ 226	$ 143	$ 1,576

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 331	$ 131	$ 55	$ 25	$ 6	$ 2	$ —	$ 550
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	1	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 331	$ 131	$ 56	$ 25	$ 6	$ 2	$ —	$ 551

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 85	$ 41	$ 9	$ 3	$ 1	$ 1	$ 7	$ 147
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 85	$ 42	$ 9	$ 3	$ 1	$ 1	$ 7	$ 148

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 3,054	$ 1,430	$ 637	$ 285	$ 208	$ 531	$ 146	$ 6,291
Special mention	7	5	6	20	—	11	1	50
Substandard	33	14	7	7	12	25	3	101
Doubtful	—	—	—	—	—	—	—	—
Total	$ 3,094	$ 1,449	$ 650	$ 312	$ 220	$ 567	$ 150	$ 6,442

At June 30, 2023 and 2022, and December 31, 2022, the Company's past due loans are as follows (dollars in thousands):

June 30, 2023	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	$ 3,734	$ 722	$ 1,651	$ 6,107	$ 1,015,756	$ 1,021,863	$ 3
Municipal	215	—	—	215	215,762	215,977	—
Total Commercial	3,949	722	1,651	6,322	1,231,518	1,237,840	3
Agricultural	580	1,024	15	1,619	80,413	82,032	—
Real Estate:							
Construction & Development	14,390	2,062	—	16,452	898,769	915,221	—
Farm	776	205	372	1,353	334,291	335,644	—
Non-Owner Occupied CRE	1,395	—	2,988	4,383	806,964	811,347	—
Owner Occupied CRE	3,356	3,818	—	7,174	1,004,337	1,011,511	—
Residential	7,265	2,210	1,301	10,776	1,687,903	1,698,679	520
Total Real Estate	27,182	8,295	4,661	40,138	4,732,264	4,772,402	520
Consumer:							
Auto	574	118	14	706	533,897	534,603	—
Non-Auto	135	18	65	218	150,475	150,693	29
Total Consumer	709	136	79	924	684,372	685,296	29
Total	$ 32,420	$ 10,177	$ 6,406	$ 49,003	$ 6,728,567	$ 6,777,570	$ 552

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

December 31, 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	$ 3,924	$ 297	$ 1,646	$ 5,867	$ 911,450	$ 917,317	$ —
Municipal	76	783	—	859	220,231	221,090	—
Total Commercial	4,000	1,080	1,646	6,726	1,131,681	1,138,407	—
Agricultural	243	—	—	243	76,704	76,947	—
Real Estate:							
Construction & Development	3,751	—	175	3,926	955,500	959,426	—
Farm	668	—	—	668	305,654	306,322	—
Non-Owner Occupied CRE	1,444	160	—	1,604	730,485	732,089	—
Owner Occupied CRE	1,151	—	—	1,151	953,249	954,400	—
Residential	8,720	707	266	9,693	1,566,065	1,575,758	—
Total Real Estate	15,734	867	441	17,042	4,510,953	4,527,995	—
Consumer:							
Auto	779	30	—	809	549,826	550,635	—
Non-Auto	50	—	—	50	147,834	147,884	—
Total Consumer	829	30	—	859	697,660	698,519	—
Total	$ 20,806	$ 1,977	$ 2,087	$ 24,870	$ 6,416,998	$ 6,441,868	$ —

* 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.

Modifications of receivables to debtors experiencing financial difficulty

On January 1, 2023, the Company adopted the accounting guidance in ASU 2022-02, which eliminates the recognition and measurement of a TDR. Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, term extensions, interest rate reduction, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows.

An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses due to the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. During the six-months ended June 30, 2023, loan modifications made to borrowers experiencing financial difficulty was insignificant.

Note 4 - Loans Held-for-Sale

Loans held-for-sale totaled $19,220,000, $26,445,000 and $11,965,000 at June 30, 2023 and 2022, and December 31, 2022, respectively. At June 30, 2023 and 2022, and December 31, 2022, $1,131,000, $2,597,000 and $1,468,000, 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 timeframe established by the Company.

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

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, 2023:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 47,824	$ 455	$ —
Forward mortgage-backed securities trades	66,000	160	—

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	—

December 31, 2022:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 41,664	$ 400	$ —
Forward mortgage-backed securities trades	45,000	85	—

Note 6 – Borrowings

Borrowings consisted of the following (dollars in thousands):

	June 30,		December 31,
	2023	2022	2022
Securities sold under agreements with customers to repurchase	$ 559,478	$ 738,986	$ 618,829
Federal funds purchased	7,125	8,325	2,625
Other borrowings	21,053	21,053	21,053
Total	$ 587,656	$ 768,364	$ 642,507

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, 2023, 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, 2023.

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 $11,754,000 for the second quarter of 2023 as compared to $11,922,000 for the same period in 2022. The Company’s effective tax rates on pretax income were 18.77% and 16.46% for the second quarters of 2023 and 2022, respectively. Income tax expense was $23,442,000 for the first six months of 2023 as compared to $22,263,000 for the same period is 2022. The Company's effective tax rates on pretax income were 18.48% and 16.05% for first six months of 2023 and 2022, 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. Contributions were $218,000 at June 30, 2023, $55,000 at June 30, 2022, and $131,000 at December 31, 2022, which is included in other assets on the consolidated balance sheet.

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, 2023, June 30, 2022, and December 31, 2022, the consolidated balance sheet of the Company included a $18,000,000 loan to the investee in loans and the $21,053,000 leveraged loan from the investee in other borrowings (see Note 6). At June 30, 2023 and 2022, and December 31, 2022, the consolidated balance sheet of the Company included CDE investments in other assets of $26,281,000, $29,000,000, and $26,825,000, respectively.

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, 2023, the Company had 1,911,022 shares of stock remaining for issuance under the plan. The 2021 Plan superseded 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 employees, senior and 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, 2023 and 2022.

	For the Six-Months Ended June 30,			
	2023		2022	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	39,657	$ 47.83	22,597	$ 48.91
Grants	—	—	—	—
Vesting	—	—	—	—
Forfeited/expired	(2,888)	47.87	—	—
Balance at end of period	36,769	$ 47.83	22,597	$ 48.91

Performance Stock Units

Also under the 2021 Plan, the Company awards performance-based restricted stock units ("PSUs") to employees, senior and executive officers and directors. 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, 2023 and 2022.

	For the Six-Months Ended June 30,			
	2023		2022	
	Performance-Based Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Performance-Based Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	47,082	$ 48.00	22,597	$ 48.91
Grants	—	—	—	—
Vesting	—	—	—	—
Forfeited/expired	(3,456)	48.04	—	—
Balance at end of period	43,626	$ 48.00	22,597	$ 48.91

Restricted Stock Awards

Under the 2021 Plan, the Company grants restricted stock awards under compensation arrangements for the benefit of employees, senior and executive officers and directors. Restricted stock awards are subject to time-based vesting. The total number of restricted stock awards granted represents the maximum number of shares of restricted stock eligible to vest based upon the service conditions set forth in the grant agreements.

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

	For the Six-Months Ended June 30,			
	2023		2022	
	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	24,813	$ 36.21	46,598	$ 35.75
Grants	25,190	27.79	15,425	40.89
Vesting	(17,682)	38.54	(23,898)	40.40
Forfeited/expired	(1,105)	29.70	(200)	29.70
Balance at end of period	31,216	$ 28.25	37,925	$ 34.94

The total fair value of restricted stock vested for the six-months ended June 30, 2023 and 2022, was $510,000 and $980,000, respectively.

The Company recorded restricted stock unit, performance-based restricted stock unit and restricted stock award expense for employees of $420,000 and $594,000 for the three-months ended June 30, 2023 and 2022, respectively. The Company recorded restricted stock unit, performance-based restricted stock unit and restricted stock award expense for employees of $779,000 and $1,020,000 for the six-months ended June 30, 2023 and 2022, respectively. The Company recorded director expense related to these restricted stock grants of $167,000 and $160,000, for the three-months ended June 30, 2023 and 2022, respectively. The Company recorded director expense related to these restricted stock grants of $317,000 and $331,000, for the six-months ended June 30, 2023 and 2022, respectively.

As of June 30, 2023 and 2022, there were $2,689,000 and $2,281,000 respectively, of total unrecognized compensation cost related to unvested restricted stock, restricted stock units and performance-based restricted stock units which is expected to be recognized over a weighted-average period of 1.08 years and 1.10 years, respectively. At June 30, 2023 and 2022, and December 31, 2022, there was $92,000, $57,000 and $74,000, 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 grants 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, 2023 is presented in the table and narrative below:

	Shares	Weighted-Average Ex. Price
Outstanding, December 31, 2022	1,490,413	$ 29.99
Granted	—	—
Exercised	(60,095)	18.65
Cancelled	(44,355)	42.96
Outstanding, June 30, 2023	1,385,963	30.07
Exercisable, June 30, 2023	883,853	$ 22.68

The options outstanding at June 30, 2023 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 $445,000 and $316,000 for the three-months ended June 30, 2023 and 2022, respectively. The Company recorded stock option expense totaling $889,000 and $632,000 for the six-months ended June 30, 2023 and 2022, respectively.

As of June 30, 2023, there was $4,398,000 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 1.82 years. The total fair value of shares vested during the six-months ended June 30, 2023 and 2022 was $1,048,000 and $1,221,000, 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 prepayment 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, 2023 and 2022, and the year ended December 31, 2022.

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, 2023	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 483,776	$ —	$ —	$ 483,776
Obligations of state and political subdivisions	—	1,692,964	—	1,692,964
Corporate bonds	—	98,280	—	98,280
Residential mortgage-backed securities	—	2,472,941	—	2,472,941
Commercial mortgage-backed securities	—	314,387	—	314,387
Other securities	3,914	—	—	3,914
Total	$ 487,690	$ 4,578,572	$ —	$ 5,066,262
Loans held-for-sale	$ —	$ 18,089	$ —	$ 18,089
IRLCs	$ —	$ 455	$ —	$ 455
Forward mortgage-backed securities trades	$ —	$ 160	$ —	$ 160

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 states 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

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 482,549	$ —	$ —	$ 482,549
Obligations of state and political subdivisions	—	1,898,611	—	1,898,611
Corporate bonds	—	97,850	—	97,850
Residential mortgage-backed securities	—	2,616,566	—	2,616,566
Commercial mortgage-backed securities	—	374,869	—	374,869
Other securities	3,914	—	—	3,914
Total	$ 486,463	$ 4,987,896	$ —	$ 5,474,359
Loans held-for-sale	$ —	$ 10,497	$ —	$ 10,497
IRLCs	$ —	$ 400	$ —	$ 400
Forward mortgage-backed securities trades	$ —	$ 85	$ —	$ 85

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,
	2023	2022	2022
Unpaid principal balance on loans held-for-sale	$ 17,730	$ 23,312	$ 10,226
Net unrealized gains on loans held-for-sale	359	536	271
Loans held-for-sale at fair value	$ 18,089	$ 23,848	$ 10,497

The following table summarizes the Company's gains on sale and fees of mortgage loans for the three and six-months ended June 30, 2023 and 2022 (dollars in thousand):

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2023	2022	2023	2022
Realized gain on sale and fees on mortgage loans*	$ 3,429	$ 6,311	$ 6,288	$ 12,309
Change in fair value on loans held-for-sale and IRLCs	(389)	1,462	145	(453)
Change in forward mortgage-backed securities trades	494	(2,045)	75	205
Total gain on sale of mortgage loans	$ 3,534	$ 5,728	$ 6,508	$ 12,061

* 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, 2023, June 30, 2022, or December 31, 2022. No significant credit losses were recognized on mortgage loans held-for-sale for the three and six-months ended June 30, 2023 and 2022.

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 six-months ended June 30, 2023 include other real estate owned which, subsequent to their initial transfer to other real estate owned from loans, were re-measured at fair value through a write-down included in gain (loss) on sale of foreclosed assets. During the reported periods, all fair value measurements for foreclosed assets utilized Level 2 inputs based on observable market data, generally third-party appraisals, or Level 3 inputs based on customized discounting criteria. These appraisals are evaluated individually and discounted as necessary due to the age of the appraisal, lack of comparable sales, expected holding periods of property or special use type of the property. Such discounts vary by appraisal based on the above factors but generally range from 5% to 25% of the appraised value. Re-evaluation of other real estate owned is performed at least annually as required by regulatory guidelines or more often if particular circumstances arise. There were no other real estate owned properties that were re-measured subsequent to their initial transfer to other real estate owned during the three and six-months ended June 30, 2023 and 2022.

At June 30, 2023, other real estate owned totaled $15,000. At June 30, 2022 and December 31, 2022, the Company had no other real estate owned.

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,		
	2023		2022		2022		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 255,018	$ 255,018	$ 242,665	$ 242,665	$ 293,286	$ 293,286	Level 1
Interest-bearing demand deposits in banks	23,839	23,839	222,899	222,899	37,392	37,392	Level 1
Available-for-sale securities	5,066,262	5,066,262	6,215,036	6,215,036	5,474,359	5,474,359	Levels 1 and 2
Loans held-for-investment, net of allowance for credit losses	6,691,029	6,672,348	5,806,650	5,852,415	6,366,034	6,372,859	Level 3
Loans held-for-sale	19,220	19,264	26,445	26,445	11,965	11,965	Level 2
Accrued interest receivable	56,236	56,236	58,047	58,047	58,162	58,162	Level 2
Deposits with stated maturities	893,429	891,181	441,387	439,546	524,666	518,811	Level 2
Deposits with no stated maturities	9,914,131	9,914,131	10,681,596	10,681,596	10,480,841	10,480,841	Level 1
Borrowings	587,656	587,656	768,364	768,364	642,507	642,507	Level 2
Accrued interest payable	8,155	8,155	423	423	1,121	1,121	Level 2
IRLCs	455	455	1,414	1,414	400	400	Level 2
Forward mortgage-backed securities trades asset (liability)	160	160	58	58	85	85	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," "could," "may," or "would" 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, 2022, under the heading "Risk Factors," and the following:

- general economic conditions, including our local, state and national real estate markets and employment trends;
- 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");
- 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 Inflation Reduction Act of 2022, 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 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;
- 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;
- 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;
- the costs, effects and results of regulatory examinations, investigations or reviews and the ability to obtain required regulatory approvals;
- 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;
- inflation, interest rate, market and monetary fluctuations;
- soundness of other financial institutions with which we have transactions;
- 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, maintain and/or increase market share;
- changes in our liquidity position; including a result of a reduction in the amount of sources of liquidity we currently have;
- fluctuations in the market value and liquidity of the investment securities we have classified as held-for-sale ("HFS"), including the effects of changes in market interest rates;
- changes in the reliability of our vendors, internal control system or information systems;
- cyber-attacks on our technology information systems, including fraud from our customers and external third-party vendors;
- our ability to attract and retain qualified employees;
- acquisitions and integration of acquired businesses;

- the possible impairment of goodwill and other intangibles associated with our acquisitions;
- consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors;
- expansion of operations, including branch openings, new product offerings and expansion into new markets;
- changes in our compensation and benefit plans;
- acts of God or of war or terrorism;
- the impact of changes to the global climate and its effect 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.

In addition, financial markets and global supply chains may continue to be adversely affected by the current or anticipated impact of military conflict, including the current Russian invasion of Ukraine, terrorism or other geopolitical events.

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 and fees on deposit accounts. Our primary source of funding for our loans and investments are deposits held by our bank subsidiary, First Financial Bank, N.A. Our largest expenses are 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 2022 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. On July 25, 2023, the Company's Board of Directors renewed the prior authorization through July 31, 2024.The stock repurchase plan authorizes management to repurchase and retire the stock at such time as repurchases are considered beneficial to the Company and its stockholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through June 30, 2023, 244,559 shares were repurchased and retired (all during the months of June and July 2022) at an average price of $38.61. The Company did not repurchase any shares during the first half of 2023.

Results of Operations

Performance Summary. Net earnings for the second quarter of 2023 were $50.87 million compared to earnings of $60.49 million for the second quarter of 2022. Diluted earnings per share was $0.36 for the second quarter of 2023 and $0.42 for the second quarter of 2022.

The return on average assets was 1.58% for the second quarter of 2023, as compared to 1.82% for the second quarter of 2022. The return on average equity was 14.89% for the second quarter of 2023 as compared to 17.26% for the second quarter of 2022.

Net earnings for the six-month period ended June 30, 2023 were $103.44 million compared to earnings of $116.47 million for the same period in 2022. Diluted earnings per share was $0.72 for the first six months of 2023, as compared to $0.81 for the same period in 2022.

The return on average assets was 1.62% for the first six months of 2023, as compared to 1.77% for the same period a year ago. The return on average equity was 15.58% for the first six months of 2023, as compared to 15.24% for the same period in 2022.

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 $98.82 million for the second quarter of 2023, as compared to $102.87 million for the same period last year. The change in 2023 tax equivalent net interest income compared to 2022 was largely attributable to the increases in the rates paid on deposits and borrowings offset by a change in the mix of interest earning assets primarily derived from a decrease in tax-exempt investment securities and an increase in average loans. Average earning assets were $12.05 billion for the second quarter of 2023, as compared to $12.49 billion during the second quarter of 2022. The decrease of $441.64 million in average earning assets in 2023 when compared to 2022 was primarily a result of (i) a decrease in tax-exempt securities of $722.91 million, (ii) the decrease of taxable securities of $512.37 million, and (iii) a decrease in short-term investments of $168.84 million, offset by (iv) the increase of average loans of $962.47 million, when compared to June 30, 2022 balances. Average interest-bearing liabilities were $7.75 billion for the second quarter of 2023, as compared to $7.78 billion in the same period in 2022. The yield on earning assets increased 98 basis points while the rate paid on interest-bearing liabilities increased 155 basis points for the second quarter of 2023 compared to the second quarter of 2022.

Tax-equivalent net interest income was $198.23 million for the six-months ended June 30, 2023, as compared to $202.09 million for the same period last year. The change in 2023 tax equivalent net interest income compared to 2022 was largely attributable to the increases in the rates paid on deposits and borrowings offset by a change in the mix of interest earning assets primarily derived from a decrease in tax-exempt investment securities and an increase in average loans. Average earning assets were $12.06 billion for the six-months ended June 30, 2023, as compared to $12.50 billion during same period last year. The decrease of $438.50 million in average earning assets in 2023 when compared to 2022 was primarily a result of (i) a decrease in tax-exempt securities of $791.82 million, (ii) the decrease of taxable securities of $535.90 million, and (iii) a decrease in short-term investments of $98.28 million, offset by (iv) the increase of average loans of $987.50 million, when compared to June 30, 2022 balances. Average interest-bearing liabilities were $7.73 billion for the six-months ended June 30, 2023, and June 30, 2022, respectively. Interest-bearing deposits continued to grow organically offset by the decrease in short-term borrowings. The yield on earning assets increased 95 basis points while the rate paid on interest-bearing liabilities increased 140 basis points for the six-months ended June 30, 2023 compared to the six-months ended June 30, 2022.

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, 2023 Compared to Three-Months Ended June 30, 2022			Six-Months Ended June 30, 2023 Compared to Six-Months Ended June 30, 2022		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ (319)	$ 1,350	$ 1,031	$ (270)	$ 2,856	$ 2,586
Taxable investment securities	(2,392)	3,273	881	(4,756)	8,597	3,841
Tax-exempt investment securities (1)	(5,437)	(637)	(6,074)	(11,425)	(13)	(11,438)
Loans (1) (2)	11,522	18,531	30,053	23,478	31,270	54,748
Interest income	3,374	22,517	25,891	7,027	42,710	49,737
Interest-bearing deposits	(5)	24,667	24,662	53	45,052	45,105
Short-term borrowings	(5)	5,283	5,278	(49)	8,536	8,487
Interest expense	(10)	29,950	29,940	4	53,588	53,592
Net interest income	$ 3,384	$ (7,433)	$ (4,049)	$ 7,023	$ (10,878)	$ (3,855)

(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 3.29% for the second quarter of 2023, a decrease of 1 basis point from the same period in 2022. The net interest margin, on a tax equivalent basis, was 3.32% for the first six-months of 2023, an increase of 6 basis points from the same period in 2022. We continued to experience downward pressure on our net interest margin into the early part of 2023 compared to the early part of 2022 primarily

due to (i) the effects of the Federal Reserve's accelerated rate of raising interest rates in 2022 and 2023, which was preceded by the extended period of historically low levels of short-term interest rates during the first quarter of 2022, and (ii) the shift in the mix of interest-earning assets and interest-bearing deposits. The Federal Reserve began increasing interest rates by raising rates 25 basis points in March 2022, 50 basis points in May 2022, and 75 basis points in June, July, September and November 2022, respectively, 50 basis points in December 2022, and 25 basis points in February, March and May 2023, respectively, resulting in a target rate range of 5.00% to 5.25% at June 30, 2023. Most recently, on July 26, 2023, the Federal Reserve increased rates 25 basis points resulting in a current target range of 5.25% to 5.50%.

Loan rates on variable loans have increased as the majority of such loans are indexed to the applicable prime rate (currently 8.25% at June 30, 2023), subject to underlying floors. With the latest increase in the federal funds rate, the majority of variable rate loans have increased (see additional discussion beginning on page 50).

During 2022, we increased rates on each of the primary depository products in response to the increasing federal funds rate. Additionally, we have approximately $984 million 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. Average municipal and related deposits totaled $1.48 billion and $1.56 billion for the six-months ended June 30, 2023 and 2022, respectively, with an average rate paid of 2.62% and 0.35%, for the respective six-months then ended.

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,					
	2023			2022		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 121,410	$ 1,583	5.23 %	$ 290,250	$ 552	0.76 %
Taxable investment securities (2)	3,589,381	20,032	2.23	4,101,751	19,151	1.87
Tax-exempt investment securities (2)(3)	1,653,418	11,799	2.85	2,376,324	17,873	3.01
Loans (3)(4)	6,683,276	98,541	5.91	5,720,804	68,488	4.80
Total earning assets	12,047,485	$ 131,955	4.39 %	12,489,129	$ 106,064	3.41 %
Cash and due from banks	222,220			233,621		
Bank premises and equipment, net	152,712			149,887		
Other assets	232,881			193,308		
Goodwill and other intangible assets, net	315,192			316,278		
Allowance for credit losses	(80,721)			(67,383)		
Total assets	$ 12,889,769			$ 13,314,840		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$ 7,037,677	$ 27,629	1.57 %	$ 7,049,041	$ 2,967	0.17 %
Short-term borrowings	715,071	5,510	3.09	730,477	232	0.13
Total interest-bearing liabilities	7,752,748	$ 33,139	1.71 %	7,779,518	$ 3,199	0.16 %
Noninterest-bearing deposits	3,704,143			4,064,207		
Other liabilities	62,227			65,475		
Total liabilities	11,519,118			11,909,200		
Shareholders' equity	1,370,651			1,405,640		
Total liabilities and shareholders' equity	$ 12,889,769			$ 13,314,840		
Net interest income		$ 98,816			$ 102,865	
Rate Analysis:						
Interest income/earning assets			4.39 %			3.41 %
Interest expense/earning assets			(1.10)			(0.11)
Net interest margin			3.29 %			3.30 %

(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 $2.95 million and $4.08 million in the second quarters of 2023 and 2022, respectively, using an effective tax rate of 21% for both periods.
(4) Includes nonaccrual loans.

	Six-Months Ended June 30,					
	2023			2022		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 133,662	$ 3,234	4.87 %	$ 231,941	$ 648	0.56 %
Taxable investment securities (2)	3,630,591	40,815	2.25	4,166,490	36,974	1.77
Tax-exempt investment securities (2)(3)	1,701,707	24,542	2.88	2,493,523	35,980	2.89
Loans (3)(4)	6,592,310	188,002	5.75	5,604,815	133,254	4.79
Total earning assets	12,058,270	$ 256,593	4.29 %	12,496,769	$ 206,856	3.34 %
Cash and due from banks	232,160			232,063		
Bank premises and equipment, net	153,017			149,764		
Other assets	230,712			152,715		
Goodwill and other intangible assets, net	315,300			316,432		
Allowance for credit losses	(78,436)			(65,488)		
Total assets	$ 12,911,023			$ 13,282,255		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$ 7,058,979	$ 49,441	1.41 %	$ 6,973,967	$ 4,336	0.13 %
Short-term borrowings	670,352	8,920	2.68	755,755	433	0.12
Total interest-bearing liabilities	7,729,331	$ 58,361	1.52 %	7,729,722	$ 4,769	0.12 %
Noninterest-bearing deposits	3,781,876			3,946,483		
Other liabilities	61,134			65,239		
Total liabilities	11,572,341			11,741,444		
Shareholders' equity	1,338,682			1,540,811		
Total liabilities and shareholders' equity	$ 12,911,023			$ 13,282,255		
Net interest income (tax equivalent)		$ 198,232			$ 202,087	
Rate Analysis:						
Interest income/earning assets			4.29 %			3.34 %
Interest expense/earning assets			(0.97)			(0.08)
Net interest margin			3.32 %			3.26 %

(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 $6.08 million and $7.87 million in the first six months of 2023 and 2022, respectively, using an effective tax rate of 21% for both periods.
(4) Includes nonaccrual loans.

Noninterest Income. Noninterest income for the second quarter of 2023 was $29.95 million compared to $37.32 million in the same quarter of 2022. Debit card fees for the second quarter of 2023 decreased by $3.15 million from the second quarter of 2022 due to the impact of the Bank becoming subject to regulations imposed by the Federal Reserve that limits debit card interchange revenue (also known as the "Durbin Amendment") which became effective for the Company as of July 1, 2022, and is consistent with our previously disclosed expectations. Accordingly, the second quarter of 2023 is the last quarter that will be impacted for comparability purposes to the prior year. Mortgage related income was $3.53 million in the second quarter of 2023 compared to $5.73 million in the second quarter of 2022 due to lower overall origination volumes and margins on loan sales as a result of the increases in interest rates. Available for sale securities were sold in the second quarter last year for gain on sales of $1.65 million. Securities sales activity in subsequent quarters in 2022 and the second quarter in 2023 did not generate similar gains. Recoveries of interest on previously charged-off or nonaccrual loans totaled $475 thousand for the second quarter of 2023 compared to $1.65 million for the second quarter of 2022, which was larger than normal. Service charges on deposits increased to $6.31 million for the second quarter of 2023 compared with $6.04 million for the second quarter of 2022, driven by the growth in net new accounts.

Noninterest income for the six-months ended June 30, 2023 was $57.95 million compared to $72.20 million in the same period in 2022. Debit card fees for the six-months ended June 30, 2023 were $11.66 million compared to $18.80 million during the six-months ended June 30, 2022 due to the impact of the Bank becoming subject to regulations imposed by the Federal Reserve that limits debit card interchange revenue (also known as the "Durbin Amendment") which became effective for the Company as of July 1, 2022, and is consistent with our previously disclosed expectations. Mortgage related income was $6.51 million in the six-months ended June 30, 2023 compared to $12.06 million in the six-months ended June 30, 2022 due to lower overall origination volumes and margins on loan sales as a result of the increases in interest rates. Total net gain on the sale of other assets and interest on loan recoveries was $1.84 million for the first six months of 2023 compared to $4.71 million during the same period of 2022. Service charges on deposits increased to $12.35 million for the first six months of 2023 compared with $11.74 million for the same period of 2022, driven by the growth in net new accounts.

Debit card fees are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Debit card fees consist of income from debit card usage, point of sale income for debit card transactions and ATM service fees. Federal Reserve Board 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. Based on the applicable Federal Reserve Board rules, the Company became subject to the limitation effective July 1, 2022, which reduced debit card fees during the first six months of 2023, as discussed above.

Table 3 - Noninterest Income (dollars in thousands):

	Three-Months Ended June 30,			Six-Months Ended June 30,		
	2023	Increase (Decrease)	2022	2023	Increase (Decrease)	2022
Trust fees	$ 9,883	$ 141	$ 9,742	$ 19,728	$ 169	$ 19,559
Service charges on deposit accounts	6,310	272	6,038	12,346	602	11,744
Debit card fees	6,720	(3,148)	9,868	11,656	(7,139)	18,795
Credit card fees	711	11	700	1,320	19	1,301
Gain on sale and fees on mortgage loans	3,534	(2,194)	5,728	6,508	(5,553)	12,061
Net gain on sale of available-for-sale securities	46	(1,602)	1,648	58	(1,621)	1,679
Net gain (loss) on sale of foreclosed assets	(1)	(19)	18	33	(1,069)	1,102
Net gain (loss) on sale of assets	—	(6)	6	930	934	(4)
Interest on loan recoveries	475	(1,174)	1,649	821	(1,111)	1,932
Other:						
Check printing fees	22	(9)	31	42	(16)	58
Safe deposit rental fees	187	(2)	189	467	(11)	478
Credit life fees	134	(232)	366	275	(310)	585
Brokerage commissions	376	(25)	401	734	(41)	775
Wire transfer fees	417	(19)	436	804	(20)	824
Miscellaneous income	1,133	636	497	2,232	923	1,309
Total other	2,269	349	1,920	4,554	525	4,029
Total Noninterest Income	$ 29,947	$ (7,370)	$ 37,317	$ 57,954	$ (14,244)	$ 72,198

Noninterest Expense. Total noninterest expense for the second quarter of 2023 was $57.61 million, compared to $58.33 million for the same period of 2022. 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 was 44.74% for the second quarter of 2023 compared to 41.61% for the same quarter in 2022.

Salaries, commissions and employee benefits for the second quarter of 2023 totaled $31.77 million, compared to $33.15 million for the same period in 2022. The net decrease reflected lower profit sharing expenses of $1.34 million, a $645 thousand decrease in mortgage incentive compensation expenses and a $591 thousand decrease in medical expenses, offset by annual merit-based and other market-based pay increases that were effective March 1, 2023.

All other categories of noninterest expense for the second quarter of 2023 totaled $25.85 million, compared to $25.19 million in the same quarter a year ago. Noninterest expense, excluding salary related costs, for the three-months ended June 30, 2023 increased primarily due to increases in FDIC insurance premiums of $513 thousand due to the increased FDIC insurance base assessment rate effective January 1, 2023, compared to the three-months ended June 30, 2022.

Total noninterest expense for the first six months of 2023 was $114.87 million, a decrease of $2.69 million, or 2.29%, as compared to the same period in 2022. Our efficiency ratio was 44.84% for the first six months of 2023 compared to 42.86% for the same period in 2022.

Salaries, commissions and employee benefits for the first six months of 2023 totaled $63.23 million, compared to $67.29 million for the same period in 2022. The net decrease reflected lower profit sharing expenses of $2.91 million, a $1.71 million decrease in mortgage incentive compensation expenses and a $1.16 million decrease in medical expenses, offset by annual merit-based and other market-based pay increases that were effective March 1, 2023.

All other categories of noninterest expense for the first six months of 2023 totaled $51.64 million, compared to $50.27 million for the same period in 2022. Noninterest expense, excluding salary related costs, for the six-months ended June 30, 2023 increased primarily due to increases in FDIC insurance premiums of $1.30 million due to the increased FDIC insurance base assessment rate effective January 1, 2023.

Table 4 - Noninterest Expense (dollars in thousands):

	Three-Months Ended June 30,			Six-Months Ended June 30,		
	2023	Increase (Decrease)	2022	2023	Increase (Decrease)	2022
Salaries, commissions and incentives (excluding mortgage)	$ 24,030	$ 1,115	$ 22,915	$ 47,360	$ 1,651	$ 45,709
Mortgage salaries and incentives	2,212	(645)	2,857	4,109	(1,712)	5,821
Medical	1,905	(591)	2,496	4,224	(1,164)	5,388
Profit sharing	(30)	(1,337)	1,307	—	(2,905)	2,905
401(k) match expense	964	22	942	1,933	9	1,924
Payroll taxes	1,820	101	1,719	3,934	47	3,887
Stock based compensation	865	(46)	911	1,667	16	1,651
Total salaries and employee benefits	31,766	(1,381)	33,147	63,227	(4,058)	67,285
Net occupancy expense	3,423	131	3,292	6,853	336	6,517
Equipment expense	2,198	(148)	2,346	4,325	(278)	4,603
FDIC insurance premiums	1,417	513	904	3,071	1,298	1,773
Debit card expense	3,221	21	3,200	6,420	256	6,164
Professional and service fees	2,397	206	2,191	4,762	347	4,415
Printing, stationery and supplies	740	239	501	1,450	409	1,041
Operational and other losses	856	74	782	1,787	409	1,378
Software amortization and expense	2,519	(3)	2,522	4,830	(149)	4,979
Amortization of intangible assets	228	(92)	320	456	(184)	640
Other:						
Data processing fees	491	46	445	986	96	890
Postage	345	13	332	718	78	640
Advertising	889	150	739	1,482	43	1,439
Correspondent bank service charges	221	(57)	278	436	(96)	532
Telephone	794	40	754	1,624	105	1,519
Public relations and business development	900	85	815	1,782	174	1,608
Directors' fees	626	(3)	629	1,292	(57)	1,349
Audit and accounting fees	642	129	513	1,264	239	1,025
Legal fees and other related costs	369	109	260	611	(319)	930
Regulatory exam fees	310	(85)	395	621	(168)	789
Travel	472	11	461	917	143	774
Courier expense	315	1	314	593	14	579
Other real estate owned	11	9	2	11	9	2
Other miscellaneous expense	2,463	(728)	3,191	5,351	(1,336)	6,687
Total other	8,848	(280)	9,128	17,688	(1,075)	18,763
Total Noninterest Expense	$ 57,613	$ (720)	$ 58,333	$ 114,869	$ (2,689)	$ 117,558

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, 2023, total loans held-for-investment were $6.78 billion, an increase of $335.70 million, as compared to December 31, 2022. Total PPP loans outstanding were $141 thousand at June 30, 2023, which are included in the Company's commercial loan totals.

As compared to year-end 2022 balances, total real estate loans increased $244.41 million, total commercial loans increased $99.43 million, agricultural loans increased $5.09 million, and total consumer loans decreased $13.22 million. Loans averaged $6.68 billion for the second quarter of 2023, an increase of $962.47 million over the prior year second quarter average balances. Loans averaged $6.59 billion for the first six months of 2023, an increase of $987.50 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.

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,
	2023	2022	2022
Commercial:			
C&I *	$ 1,021,863	$ 839,928	$ 917,317
Municipal	215,977	200,577	221,090
Total Commercial	1,237,840	1,040,505	1,138,407
Agricultural	82,032	90,420	76,947
Real Estate:			
Construction & Development	915,221	928,644	959,426
Farm	335,644	250,028	306,322
Non-Owner Occupied CRE	811,347	636,432	732,089
Owner Occupied CRE	1,011,511	909,899	954,400
Residential	1,698,679	1,412,125	1,575,758
Total Real Estate	4,772,402	4,137,128	4,527,995
Consumer:			
Auto	534,603	468,147	550,635
Non-Auto	150,693	142,382	147,884
Total Consumer	685,296	610,529	698,519
Total	$ 6,777,570	$ 5,878,582	$ 6,441,868

* 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 $19.22 million, $26.45 million, and $11.97 million at June 30, 2023 and 2022, and December 31, 2022, respectively. At June 30, 2023 and 2022, and December 31, 2022, $1.13 million, $2.60 million and $1.47 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, 2023. The tables also presents the portion 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, 2023 (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	$ 441,274	$ 459,379	$ 102,774	$ 18,436	$ 1,021,863
Municipal	4,201	49,734	113,736	48,306	215,977
Total Commercial	445,475	509,113	216,510	66,742	1,237,840
Agricultural	62,348	17,963	1,721	—	82,032
Real Estate:					
Construction & Development	422,923	171,809	199,424	121,065	915,221
Farm	17,486	66,479	170,799	80,880	335,644
Non-Owner Occupied CRE	69,770	242,469	375,592	123,516	811,347
Owner Occupied CRE	35,593	258,705	472,892	244,321	1,011,511
Residential	115,636	146,352	744,750	691,941	1,698,679
Total Real Estate	661,408	885,814	1,963,457	1,261,723	4,772,402
Consumer:					
Auto	6,274	510,863	17,466	—	534,603
Non-Auto	29,572	96,508	18,843	5,770	150,693
Total Consumer	35,846	607,371	36,309	5,770	685,296
Total	$ 1,205,077	$ 2,020,261	$ 2,217,997	$ 1,334,235	$ 6,777,570
% of Total Loans	17.77%	29.81%	32.73%	19.69%	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	$ 86,664	$ 306,175	$ 13,219	$ —	$ 406,058
Municipal	3,523	48,698	81,872	7,276	141,369
Total Commercial	90,187	354,873	95,091	7,276	547,427
Agricultural	14,440	13,019	389	—	27,848
Real Estate:					
Construction & Development	166,822	126,991	48,651	6,040	348,504
Farm	3,942	22,254	104,369	1,018	131,583
Non-Owner Occupied CRE	18,906	154,388	70,855	248	244,397
Owner Occupied CRE	18,182	157,970	43,932	187	220,271
Residential	46,091	108,353	468,935	58,240	681,619
Total Real Estate	253,943	569,956	736,742	65,733	1,626,374
Consumer:					
Auto	6,274	510,863	17,466	—	534,603
Non-Auto	24,490	94,248	18,524	5,508	142,770
Total Consumer	30,764	605,111	35,990	5,508	677,373
Total	$ 389,334	$ 1,542,959	$ 868,212	$ 78,517	$ 2,879,022
% of Total Loans	5.73%	22.77%	12.81%	1.16%	42.47%

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	$ 354,610	$ 153,204	$ 89,555	$ 18,436	$ 615,805
Municipal	678	1,036	31,864	41,030	74,608
Total Commercial	355,288	154,240	121,419	59,466	690,413
Agricultural	47,908	4,944	1,332	—	54,184
Real Estate:					
Construction & Development	256,101	44,818	150,773	115,025	566,717
Farm	13,544	44,225	66,430	79,862	204,061
Non-Owner Occupied CRE	50,864	88,081	304,737	123,268	566,950
Owner Occupied CRE	17,411	100,735	428,960	244,134	791,240
Residential	69,545	37,999	275,815	633,701	1,017,060
Total Real Estate	407,465	315,858	1,226,715	1,195,990	3,146,028
Consumer:					
Auto	—	—	—	—	—
Non-Auto	5,082	2,260	319	262	7,923
Total Consumer	5,082	2,260	319	262	7,923
Total	$ 815,743	$ 477,302	$ 1,349,785	$ 1,255,718	$ 3,898,548
% of Total Loans	12.04 %	7.04 %	19.92 %	18.53 %	57.53 %

Of the $3.90 billion of variable interest rate loans shown above, loans totaling $1.5 billion mature or reprice over the next twelve months. Of this amount, approximately $1.4 billion will reprice immediately upon changes in the underlying index rate (primarily U.S. prime rate) with the remaining $134 million being subject to floors above or ceilings below the current index.

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 foreclosed assets were $29.25 million at June 30, 2023, as compared to $25.52 million at June 30, 2022 and $24.33 million at December 31, 2022. As a percent of loans held-for-investment and foreclosed assets, these assets were 0.43% at June 30, 2023, and June 30, 2022, respectively, and 0.38% at December 31, 2022. As a percent of total assets, these assets were 0.23% at June 30, 2023, as compared to 0.19% at June 30, 2022 and December 31, 2022, respectively. 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, 2023.

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

	June 30,		December 31,
	2023	2022	2022
Nonaccrual loans	$ 28,672	$ 25,495	$ 24,325
Loans still accruing and past due 90 days or more	552	22	—
Total nonperforming loans [(1)]	29,224	25,517	24,325
Foreclosed assets	25	—	—
Total nonperforming assets	$ 29,249	$ 25,517	$ 24,325
As a % of loans held-for-investment and foreclosed assets	0.43 %	0.43 %	0.38 %
As a % of total assets	0.23	0.19	0.19

(1) With the adoption of ASU 2022-02, effective January 1, 2023, TDR accounting has been eliminated.

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 $963 thousand for the year ended December 31, 2022. If interest on these loans had been recognized on a full accrual basis during the year ended December 31, 2022, such income would have been approximately $2.32 million. Such amounts for the 2023 and 2022 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 $6.52 million for the three-months ended June 30, 2023 is combined with the reversal of provision for unfunded commitments of $949 thousand and reported in the net aggregate of $5.57 million under the provision for credit losses in the consolidated statements of earnings for the three-months ended June 30, 2023. The provision for loan losses of $11.23 million for the six-months ended June 30, 2023 is combined with the reversal of provision for unfunded commitments of $2.88 million and reported in the net aggregate of $8.35 million under the provision for credit losses in the consolidated statements of earnings for the six-months ended June 30, 2023.

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.

As a percent of average loans, net loan charge-offs were 0.05% for the second quarter of 2023, as compared to net loan recoveries of 0.06% for the second quarter of 2022. As a percent of average loans, net loan charge-offs were 0.02% for the first six months of 2023, as compared to net loan recoveries of 0.02% for the first six months of 2022. The allowance for credit losses as a percent of loans held-for-investment was 1.28% as of June 30, 2023, as compared to 1.22% and 1.18% as of June 30, 2022 and December 31, 2022, 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,	
	2023	2022	2023	2022
Allowance for credit losses at period-end	$ 86,541	$ 71,932	$ 86,541	$ 71,932
Loans held-for-investment at period-end	6,777,570	5,878,582	6,777,570	5,878,582
Average loans for period	6,683,276	5,720,804	6,592,310	5,604,815
Net charge-offs (recoveries)/average loans (annualized)	0.05 %	(0.06)%	0.02 %	(0.02)%
Allowance for loan losses/period-end loans held-for-investment	1.28 %	1.22 %	1.28 %	1.22 %
Allowance for loan losses/nonaccrual loans, past due 90 days still accruing and restructured loans	296.13 %	281.90 %	296.13 %	281.90 %

Interest-Bearing Demand Deposits in Banks. The Company had interest-bearing deposits in banks of $23.84 million at June 30, 2023 compared to $222.90 million at June 30, 2022 and $37.39 million at December 31, 2022, respectively. At June 30, 2023, interest-bearing deposits in banks included $23.10 million maintained at the Federal Reserve Bank of Dallas and $743 thousand on deposit with the FHLB.

Available-for-Sale Securities. At June 30, 2023, securities with a fair value of $5.07 billion were classified as securities available-for-sale. As compared to December 31, 2022, the available-for-sale portfolio at June 30, 2023 reflected (i) an increase of $1.23 million in U.S. Treasury securities, (ii) an increase of $430 thousand in corporate bonds and other securities, (iii) a decrease of $205.65 million in obligations of states and political subdivisions, and (iv) a decrease of $204.11 million in mortgage-backed securities. Fluctuations in the available-for-sale securities portfolio balances were primarily driven by sales during the first half of 2023, somewhat offset by improvements in the gross unrealized holding losses due to rate changes. 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, 2023 and 2022, and December 31, 2022.

Table 8 - Maturities and Yields of Available-for-Sale Securities Held at June 30, 2023 (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	$ 149,231	1.98 %	$ 334,545	1.87 %	$ —	— %	$ —	— %	$ 483,776	1.91 %
Obligations of states and political subdivisions	120,942	4.25	210,731	3.12	1,037,972	2.46	323,319	2.65	1,692,964	2.71
Corporate bonds and other securities	3,914	3.56	70,980	2.83	27,300	1.74	—	—	102,194	2.56
Mortgage-backed securities	46,647	2.91	762,784	2.21	1,407,868	1.87	570,029	2.24	2,787,328	2.06
Total	$ 320,734	2.99 %	$ 1,379,040	2.30 %	$ 2,473,140	2.12 %	$ 893,348	2.39 %	$ 5,066,262	2.27 %

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

As of June 30, 2023, the investment portfolio had an overall tax equivalent yield of 2.27%, a weighted average life of 6.97 years and modified duration of 5.85 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $10.81 billion as of June 30, 2023, as compared to $11.12 billion as of June 30, 2022 and $11.01 billion as of December 31, 2022.

Table 9 provides a breakdown of average deposits and rates paid over the three and six month periods ended June 30, 2023 and 2022, respectively.

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

	Three-Months Ended June 30,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 3,704,143	—%	$ 4,064,207	—%
Interest-bearing deposits:				
Interest-bearing checking	3,277,300	1.16	3,690,920	0.22
Savings and money market accounts	2,955,374	1.63	2,911,318	0.10
Time deposits under $250,000	293,988	4.94	303,759	0.19
Time deposits of $250,000 or more	511,015	1.96	143,044	0.28
Total interest-bearing deposits	7,037,677	1.57%	7,049,041	0.17%
Total average deposits	$ 10,741,820		$ 11,113,248	
Total cost of deposits		1.03%		0.11%

	Six-Months Ended June 30,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 3,781,876	—%	$ 3,946,483	—%
Interest-bearing deposits:				
Interest-bearing checking	3,381,983	1.07	3,656,398	0.15
Savings and money market accounts	2,950,400	1.48	2,868,000	0.08
Time deposits under $250,000	266,960	4.27	305,926	0.20
Time deposits of $250,000 or more	459,636	1.84	143,643	0.28
Total interest-bearing deposits	7,058,979	1.41%	6,973,967	0.13%
Total average deposits	$ 10,840,855		$ 10,920,450	
Total cost of deposits		0.92%		0.08%

The estimated amount of uninsured and uncollateralized deposits including related accrued and unpaid interest is approximately $3.81 billion as of June 30, 2023.

Borrowings. Included in borrowings were federal funds purchased, securities sold under repurchase agreements, advances from the FHLB and other borrowings of $587.66 million, $768.36 million and $642.51 million at June 30, 2023 and 2022, and December 31, 2022, 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 $715.07 million and $730.48 million in the second quarters of 2023 and 2022, respectively. The weighted average interest rates paid on these borrowings were 3.09% and 0.13% for the second quarters of 2023 and 2022, respectively. The average balance of federal funds purchased, securities sold under repurchase agreements, advances from the FHLB and other borrowings were $670.35 million and $755.76 million for the six-months ended June 30, 2023 and 2022, respectively. The weighted average interest rates paid on these borrowings were 2.68% and 0.12% for the six-months ended June 30, 2023 and 2022, 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: (in basis points)	Percentage change in net interest income: June 30, 2023	June 30, 2022	December 31, 2022
+400	0.51%	7.34%	5.13%
+300	0.28%	5.80%	3.86%
+200	0.59%	4.36%	3.13%
+100	0.84%	2.63%	2.09%
-100	(1.84)%	(2.85)%	(2.66)%
-200	(3.88)%	(6.67)%	(5.47)%
-300	(4.27)%	(11.77)%	(8.54)%
-400	(4.00)%	(13.03)%	(10.31)%

The results for the net interest income simulations as of June 30, 2023 and 2022, and December 31, 2022 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 management committee oversees and monitors this risk.

The fair value of our investment securities classified as available-for-sale totaled $5.07 billion at June 30, 2023. During the six months ended June 30, 2023, the corresponding unrealized loss before taxes on the portfolio of $677.99 million at December 31, 2022, decreased to an unrealized loss before taxes of $621.09 million at June 30, 2023, 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 changes 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, 2023, the 5-year U.S. Treasury rate was 4.13% compared to 4.01% at December 31, 2022, representing a 12 basis point increase during the first six months of 2023. As of June 30, 2023, an increase of 100 basis points in the 5-year U.S. Treasury rate would result in an increase to unrealized losses by approximately $256 million before taxes, while a 100 basis point decrease in the same rate would result in a decrease to unrealized losses by approximately $218 million before taxes. We believe that we 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 $1.37 billion, or 10.66% of total assets at June 30, 2023, as compared to $1.33 billion, or 10.02% of total assets at June 30, 2022, and $1.27 billion, or 9.76% of total assets at December 31, 2022. Included in shareholders' equity at June 30, 2023, and 2022, and December 31, 2022 were $490.28 million, $400.51 million and $535.23 million, respectively, in unrealized losses 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 2023, total shareholders’ equity averaged $1.37 billion, or 10.63% of average assets, as compared to $1.41 billion, or 10.56% of average assets, during the same period in 2022. For the first six months of 2023, total shareholders’ equity averaged $1.34 billion, or 10.37% of average assets, as compared to $1.54 billion, or 11.60% of average assets, during the same period in 2022.

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. As of January 1, 2019, the capital conservation buffer Basel III was fully phased in. 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, 2023 and 2022, and December 31, 2022, we had a total risk-based capital ratio of 19.62%, 19.54% and 19.29%, a Tier 1 capital to risk-weighted assets ratio of 18.48%, 18.50% and 18.22%; a common equity Tier 1 to risk-weighted assets ratio of 18.48%, 18.50% and 18.22% and a Tier

1 leverage ratio of 11.81%, 10.65% and 10.96%, respectively. The regulatory capital ratios as of June 30, 2023 and 2022, and December 31, 2022 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, 2023:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,651,966	19.62 %	$ 884,219	10.50 %	$ 842,114	10.00 %
First Financial Bank, N.A	$ 1,489,982	17.73 %	$ 882,320	10.50 %	$ 840,304	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,555,976	18.48 %	$ 715,797	8.50 %	$ 505,268	6.00 %
First Financial Bank, N.A	$ 1,393,992	16.59 %	$ 714,259	8.50 %	$ 672,243	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,555,976	18.48 %	$ 589,480	7.00 %	$ —	N/A
First Financial Bank, N.A	$ 1,393,992	16.59 %	$ 588,213	7.00 %	$ 546,198	6.50 %
Leverage Ratio:						
Consolidated	$ 1,555,976	11.81 %	$ 336,845	4.00 %	$ —	N/A
First Financial Bank, N.A	$ 1,393,992	10.62 %	$ 336,122	4.00 %	$ 420,152	5.00 %

	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 December 31, 2022:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,586,888	19.29 %	$ 863,622	10.50 %	$ 822,497	10.00 %
First Financial Bank, N.A	$ 1,442,902	17.58 %	$ 861,860	10.50 %	$ 820,819	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,498,731	18.22 %	$ 699,122	8.50 %	$ 493,498	6.00 %
First Financial Bank, N.A	$ 1,354,745	16.50 %	$ 697,696	8.50 %	$ 656,655	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,498,731	18.22 %	$ 575,748	7.00 %	$ —	N/A
First Financial Bank, N.A	$ 1,354,745	16.50 %	$ 574,573	7.00 %	$ 533,532	6.50 %
Leverage Ratio:						
Consolidated	$ 1,498,731	10.96 %	$ 546,983	4.00 %	$ —	N/A
First Financial Bank, N.A	$ 1,354,745	9.95 %	$ 544,886	4.00 %	$ 681,107	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 on June 30, 2025 (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, 2023, 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 $2.52 billion at June 30, 2023, secured by portions of our loan portfolio and certain investment securities, and (ii) access to the Federal Reserve Bank of Dallas lending program, including the new Bank Term Funding Program, secured by portions of certain investment securities. At June 30, 2023, the Company did not have any balances under these lines.

The Company renewed its loan agreement, effective June 30, 2023, 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, 2025, interest is paid quarterly at *The Wall Street Journal* Prime Rate and the line of credit matures June 30, 2025. If a balance exists at June 30, 2025, 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, 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, 2023. There was no outstanding balance under the line of credit as of June 30, 2023.

In addition, we anticipate that future acquisitions of financial institutions, expansion of branch locations or offerings of new products could also place a demand on our cash resources. Available cash and cash equivalents at our parent company which totaled $129.89 million at June 30, 2023, investment securities which totaled $2.20 million at June 30, 2023 and mature over 7 to 8 years, available dividends from our subsidiaries which totaled $357.72 million at June 30, 2023, 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, 2023, 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 impact to the financial system due to the recent failures of several banks. Given the diversified 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, 2023, the Company's reserve for unfunded commitments totaled $9.45 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, 2023 (dollars in thousands):

	Total Notional Amounts Committed
Unfunded lines of credit	$ 1,173,293
Unfunded commitments to extend credit	810,717
Standby letters of credit	35,093
Total commercial commitments	$ 2,019,103

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. Total commercial commitments were $2.02 billion at June 30, 2023, compared to $1.90 billion at June 30, 2022, and $2.06 billion at December 31, 2022.

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, 2023, $357.72 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 $64.00 million and $7.50 million for the six-months ended June 30, 2023 and 2022, 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 48.31% and 39.23% of net earnings for the first six months of 2023 and 2022, 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 25, 2023, the Board of Directors declared a $0.18 per share cash dividend for the second quarter of 2023, a 5.88% increase over the dividend declared in the first quarter of 2023. The record date for this dividend will be June 15, 2023, payable on July 3, 2023.

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 and comply with the general requirements applicable to a Texas corporation. Generally, a Texas corporation may not pay a dividend to its shareholders if (i) after giving effect to the dividend, the corporation would be insolvent, or (ii) the amount of the dividend would exceed the surplus of the corporation. 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 — Interest Rate Risk" for disclosure regarding this market risk.

Item 4. Controls and Procedures.

As of June 30, 2023, 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, 2023.

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, 2022 and Part II, Item 1A of the Company's Quarterly Report on Form 10-Q for the quarter-ended March 31, 2023.

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

Not Applicable

Item 3. Defaults Upon Senior Securities.

Not Applicable

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

Not Applicable

Item 6. Exhibits.

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, 2023).
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	—	Promissory Note, dated June 30, 2023, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 7, 2023).
10.4	—	Amended and Restated Loan Agreement, dated June 30, 2023, by and between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.2 of the Registrant's Form 8-K filed July 7, 2023).
10.5	—	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).++
10.6	—	Form of Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed August 10, 2022).++
10.7	—	First Financial Bankshares, Inc. Supplemental Executive Retirement Plan, as amended and restated effective July 26, 2022 (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 29, 2022.)++
10.8	—	Confidential Separation and Release Agreement , dated January 9, 2023, by and between the Company and James R. Gordon (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed January 11, 2023).++
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, 2023

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

Date: August 2, 2023

By: /s/ Michelle S. Hickox
Michelle S. Hickox
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, 2023

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, Michelle S. Hickox, 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, 2023

By: /s/ Michelle S. Hickox
Michelle S. Hickox
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, 2023 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, 2023

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, 2023.

/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, 2023 of First Financial Bankshares, Inc. (the "Company").

I, Michelle S. Hickox, 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, 2023

By: /s/ Michelle S. Hickox
Michelle S. Hickox
Executive Vice President and Chief
Financial Officer, Secretary and Treasurer

Subscribed and sworn to before me this 2nd day of August, 2023.

/s/ Melissa Ann Fenton
Melissa Ann Fenton
Notary Public

My commission expires: October 11, 2024