Table of Contents

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

FORM 10-K

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

For the fiscal year ended December 31, 2023

or

☐ **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 **(State or other jurisdiction of incorporation or organization)**	**75-0944023** **(I.R.S. Employer Identification No.)**
400 Pine Street, Abilene, Texas **(Address of principal executive offices)**	**79601** **(Zip Code)**
Registrant's telephone number, including area code:	**(325) 627-7155**

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Table of Contents

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 and post 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 file", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2023, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates was $3.90 billion.

As of February 23, 2024, there were 142,751,867 shares of common stock outstanding.

Table of Contents

Documents Incorporated by Reference

Certain information required by Part III is incorporated by reference to the proxy statement for our 2024 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2023.

Table of Contents

FIRST FINANCIAL BANKSHARES, INC.
FORM 10-K
For the Year Ended December 31, 2023
INDEX

		Page
PART I		
ITEM 1.	Business	3
ITEM 1A.	Risk Factors	15
ITEM 1B.	Unresolved Staff Comments	28
ITEM 1C.	Cybersecurity	29
ITEM 2.	Properties	30
ITEM 3.	Legal Proceedings	30
ITEM 4.	Mine Safety Disclosures	30
PART II		
ITEM 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
ITEM 6.	[Reserved]	33
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	52
ITEM 8.	Financial Statements and Supplementary Data	52
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	54
ITEM 9A.	Controls and Procedures	54
ITEM 9B.	Other Information	56
ITEM 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	56
PART III		
ITEM 10.	Directors, Executive Officers and Corporate Governance	57
ITEM 11.	Executive Compensation	57
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	57
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	57
ITEM 14.	Principal Accountant Fees and Services	57
PART IV		
ITEM 15.	Exhibit and Financial Statement Schedules	58
ITEM 16.	Form 10-K Summary	60
SIGNATURES		61

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K 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-K, 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 listed in "Item 1A-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 a pandemic, epidemic, or highly contagious disease, including 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 a pandemic, epidemic, or highly contagious disease, including COVID;
- 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
- the rise of Artificial Intelligence as a commonly used resource;
- 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, the Israel-Palestine conflict and other world events, 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).

ITEM 1. BUSINESS

General

First Financial Bankshares, Inc., a Texas corporation (the "Company"), is a financial holding company registered under the Bank Holding Company Act of 1956, as amended, or BHCA. As such, we are supervised by the Federal Reserve Board, as well as several other bank regulators. We were formed as a bank holding company in 1956 under the original name F & M Operating Company, but our banking operations date back to 1890, when Farmers and Merchants National Bank opened for business in Abilene, Texas. As of December 31, 2023, our wholly-owned subsidiaries, all of which are headquartered in Abilene, Texas, were:

- First Financial Bank, N.A.;
- First Technology Services, Inc., a wholly-owned subsidiary of First Financial Bank, N.A.;
- FFB Investment Paris Fund, LLC, a wholly-owned subsidiary of First Financial Bank, N.A.;
- FFB Portfolio Management, Inc., a wholly-owned subsidiary of First Financial Bank, N.A.;
- First Financial Trust & Asset Management Company, N.A.; and
- First Financial Insurance Agency, Inc.

Through our subsidiaries, we conduct a full-service commercial banking business. Our banking centers are located primarily in Central, North Central, Southeast and West Texas. As of December 31, 2023, we had 79 financial centers across Texas, with ten locations in Abilene, five locations in Bryan/College Station, three locations in Weatherford, two locations in Cleburne, Conroe, San Angelo, Stephenville, and Granbury, and one location each in Acton, Albany, Aledo, Alvarado, Beaumont, Boyd, Bridgeport, Brock, Burleson, Cisco, Clyde, Cut and Shoot, Decatur, Eastland, El Campo, Fort Worth, Franklin, Fulshear, Glen Rose, Grapevine, Hereford, Huntsville, Keller, Kingwood, Lumberton, Magnolia, Mauriceville, Merkel, Midlothian, Mineral Wells, Montgomery, Moran, New Waverly, Newton, Odessa, Orange, Palacios, Port Arthur, Ranger, Rising Star, Roby, Southlake, Spring, Sweetwater, Tomball, Trent, Trophy Club, Vidor, Waxahachie, Willis and Willow Park. Additionally, we operate mortgage loan offices in Austin and Addison, as well as Trust offices in Abilene, Beaumont, Bryan/College Station, Fort Worth, Houston, Odessa, San Angelo, Stephenville and Sweetwater.

Even though we operate in a growing number of Texas markets, we continue to believe that decisions are best made at the local level. Although we consolidated our bank charters into one charter in 2012, we continue to regionally manage our operations with local advisory boards of directors, local regional presidents and local decision-making processes. We have consolidated substantially all of the non-customer facing operations, such as investment securities, accounting, check processing, credit administration, risk management, treasury management, marketing, customer contact center, technology, training and human resources, which improved our efficiency and allows the regions to concentrate on serving the banking needs of their local communities.

We have chosen to keep our Company focused on the State of Texas, one of the nation's largest, fastest-growing and most economically diverse states. With approximately 30.5 million residents as of December 31, 2022, Texas has more people than any other state except California. The population of Texas grew 16.94% from 2012-2022 according to the U.S. Census Bureau. Many of the communities in which we operate are also experiencing positive growth as shown below:

Population Growth 2012-2022 by City and County*

Bridgeport and Wise County	24.0%	Fort Worth and Tarrant County	14.5%
Bryan/College Station and Brazos County	20.8%	Granbury and Hood County	27.3%
Cleburne and Johnson County	27.5%	Stephenville and Erath County	11.4%
Conroe and Montgomery County	40.1%	Weatherford, Willow Park, Aledo and Parker County	38.8%
*Source: U. S. Census Bureau			

These economies include dynamic centers of higher education, agriculture, wind energy and natural resources, retail, military, technology, healthcare, tourism, retirement living, manufacturing and distribution.

We believe our community approach to doing business works best for us in small and mid-size markets, where we can play a prominent role in the economic, civic and cultural life of the community. Our goal is to serve these communities well and to experience growth as these markets continue to expand. In many instances, banking competition is less intense in smaller markets, making it easier for us to operate rationally and attract and retain high-caliber employees who prefer not only our community-bank concept but the high quality of life in smaller cities.

Over the years, we have grown in three ways: by growing organically, by opening new branch locations and by acquiring other banks. Since 1997, we have completed fourteen bank acquisitions and have increased our total assets from $1.57 billion to $13.11 billion as of December 31, 2023. Looking ahead, we intend to continue to grow organically by serving the needs of our customers and putting them first in all of our decisions. We continually look for better branch locations so we can provide more convenient service to our customers. We continue to evaluate opportunities to acquire high quality banks in the future.

When considering banks for acquisition, the subject bank generally needs to be well managed and profitable and align with our corporate culture. We have traditionally served rural and suburban communities and seek to enter growing communities consistent with our legacy markets. Generally we focus on non-metropolitan markets, either around Dallas/Fort Worth, Houston, San Antonio or Austin or along the Interstate 35, 45, 10 and 20 corridors in Texas as well as in East Texas and the Texas Hill Country area. Banks between $500 million and $3.0 billion in asset size fit our “sweet spot” for acquisition, but we would consider banks that are larger or that are in other areas of Texas if we believe they would be a cultural and financial fit for our Company.

Information on our financial condition and operating results appears in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Item 7 hereof.

First Financial Bankshares, Inc.

We provide management, technical resources and policy direction to our subsidiaries, which enable them to improve or expand their services while continuing their local activity and identity. Each of our subsidiaries operates under the day-to-day management of its own board of directors and officers. Our bank and subsidiaries have separate boards and the regions of the bank are guided by advisory boards of directors who are selected by the Company's board of directors.

In particular, we assist our subsidiaries with, among other things, decisions concerning major capital expenditures, insurance, finance and accounting, strategic planning, employee benefits, including retirement plans and group medical coverage, dividend policies, and appointment of officers and directors, including advisory directors, and their compensation. We also perform, through corporate staff groups or by outsourcing to third-parties, oversight of our subsidiaries. We provide advice and specialized services for our bank regions related to lending, investing, purchasing, advertising, public relations, and technology services.

We evaluate various potential financial institution acquisition opportunities and recommend approval to the board for potential locations for new branch offices by the bank. We anticipate that funding for any acquisitions or expansions would be provided from our existing cash balances, available dividends from our subsidiaries, utilization of available lines of credit, issuance of common stock to the acquired company’s shareholders and future debt or equity offerings.

Services Offered by Our Subsidiaries

Our subsidiary bank, First Financial Bank, N.A., is a separate legal entity that operates under the day-to-day management and oversight of its board of directors and officers. Our 12 banking regions, which operate under our subsidiary bank, each have separate regional advisory boards that make recommendations and provide assistance to regional management of the bank regions regarding the operations of their respective region. Each of our bank regions provides general commercial banking services, which include accepting and holding checking, savings and time deposits, making loans, offering automated teller machines (“ATMs”), drive-in and night deposit services, safe deposit facilities, remote deposit capture, internet banking, mobile banking, payroll cards, funds transfer, and performing other customary commercial banking services. In addition, we provide securities brokerage services through an arrangement with an unrelated third-party in our Abilene and San Angelo regions.

We also provide full-service trust and wealth management activities through our trust company, First Financial Trust & Asset Management Company, N.A. Our trust company has nine locations, which are all located in Texas in Abilene, Beaumont, Bryan/College Station, Fort Worth, Houston, Odessa, San Angelo, Stephenville and Sweetwater. Through our trust company, we offer personal trust services, which include wealth management, the administration of estates, oil and gas management, testamentary trusts, revocable and irrevocable trusts and agency accounts. We also administer all types of retirement and employee benefit accounts, which include 401(k) profit sharing plans and IRAs. The Company has been providing trust services since 1927.

Competition

Commercial banking in Texas is highly competitive, and because we hold less than 1% of the state’s deposits, we represent a smaller segment of the market share in Texas. To succeed in this industry, we believe that we must have the capability to compete effectively in the areas of interest rates paid or charged, scope of services offered, prices charged for such services, and personalized customer service delivered at the local level. Our bank regions compete in their respective service areas against highly competitive banks, thrifts, savings and loan associations,

small loan companies, credit unions, mortgage companies, insurance companies, Fintech, and brokerage firms, all of which are engaged in providing financial products and services and some of which are larger than us in terms of capital, resources and personnel.

Our business does not depend on any single customer or any few customers, and the loss of any one would not have a materially adverse effect upon our business. Although we have a broad base of customers that are not related to us, our customers also occasionally include our officers and directors, as well as other entities with which we are affiliated. Through our bank regions we may make loans to our officers and directors, and entities with which we are affiliated, in the ordinary course of business. We make these loans on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Loans to our directors, officers and their affiliates are also subject to numerous restrictions under federal banking laws, which we describe in greater detail below, under the heading "Supervision and Regulation – Loans to Directors, Executive Officers and Principal Shareholders."

Human Capital

We operate as a community bank offering a wide range of commercial banking and related services to consumers, small businesses, corporations, non-profits, governmental entities, and others. A cornerstone of our operating model is based on personal relationships with our customers. Therefore, our model is heavily dependent on our personnel to execute our strategy within each region supported by our lines of business and operational support areas within the Company. Our executive leadership is critical to the success of our Company as each executive participates in developing our corporate strategy, policy setting, and oversight of each of their respective operating areas. The executive officers have significant banking experience and/or tenure with the Company, including our Chairman, CEO and President who has over forty-seven years with the Company. Our regional operating philosophy is heavily dependent on our Regional CEOs/Presidents who drive the daily execution of our strategy, customer service, and local decision-making, across our twelve regions. On average, our fourteen Regional or Divisional CEOs and Presidents have approximately twenty-seven years of banking experience and twelve years of service with the Company.

On December 31, 2023, the Company employed approximately 1,500 employees. Approximately 1,400 were full-time and 100 were part-time. All employees are located in the State of Texas. Our management believes that our employee relations have been and will continue to be good. None of our employees are represented by collective bargaining agreements.

We seek to attract the best bankers in the markets we serve as well as key managers and associates to serve and build relationships with our customers. On a day-to-day basis, these associates execute on our "Excellence in Customer Service" culture, including our 21 Non-Negotiables of Customer Service, which were developed by management with the assistance of Horst Schulze, the founder of The Ritz Carlton Hotel Company and an independent consultant to the Company for the last five years. Initially, each new associate attends New Employee Orientation to gain an understanding of our culture, including our customer service approach, our organization, and our operating and other policies. From there, associates also receive specific training for their applicable area of service.

We then provide a number of internally developed training programs and encourage associates to attend selected external programs. We require certain areas (lending, trust, risk, operations) to obtain certifications for their current and future roles in the organization (for example, most lenders are required to obtain the Credit Risk Certification from the Risk Management Association). For potential future management we require this group to attend a graduate school of banking, TBA Leadership course and FFIN University, which is our year long internal course which teaches how to manage a high performing bank. The Company also provides educational assistance for employees to further their professional development. In fact, six of our current Regional CEO/Presidents started their careers with the Company and progressed to their current levels over time.

We embrace and promote a culture of diversity, equity, and inclusion to attract, recruit, retain, develop, and promote employees who represent the diverse communities we serve. Our employees bring their own unique backgrounds, beliefs, cultures, and experiences to our organization. By promoting and fostering a workforce that we believe is reflective of our customers and communities, we seek to better understand the financial needs of our prospects and customers and provide them with relevant financial service products.

We celebrate our diverse and inclusive workplace as it brings new ideas, perspectives, and ways to enhance our overall customer and employee experience. Of our Regional and Divisional CEO/Presidents, four are women. Additionally, 1,058, or 71%, of our employees are female and 651, or 44%, of our employees are minorities, veterans and/or self-identify as disabled.

The Company provides, in addition to competitive salaries, either at the Company's expense or through employee deductions, benefits to its associates to help protect their health and well-being, including athletic club membership, medical, dental, vision, employee assistance, short and long-term disability, life insurance, and paid time off (vacation, holidays and sick time). Additionally, through our 401(k) retirement benefits, and profit-sharing contributions (which also contains an employee stock ownership plan, or ESOP feature), the Company facilitates its associate's future financial well-being. These benefits when combined with incentive compensation programs, both cash and equity based, serve as rewards for performance but also as a retention vehicle for our employee base. The Company has strong relationships with its employee base leading to an average tenure of approximately six years with the Company (including its predecessor banks). During 2023 and 2022, the Company incurred expenses totaling approximately $19.19 million and $22.42 million, respectively, for these benefits.

Understanding and supporting our communities has been a critical part of our Company's success. We strive every day to improve the quality of life in every community that we serve. We support schools, cities, counties and churches with the latest in financial services, as well as our time and money. We provide leadership to our local nonprofits and churches by being on their boards, volunteering to raise money, as well as helping them provide services. In many cases, our employees chair their boards and give of their time freely. In addition to our continuous involvement, we perform an annual Company-wide day of service to help improve the communities in which we live and serve. In 2023, this amounted to approximately 7,400 hours of community service across our footprint.

Overall, the attraction, development and retention of our executives, regional presidents and associates are integral to the performance of our Company, which ultimately drives value to our shareholders in the form of dividends and price appreciation of our common stock. Accordingly, our Board of Directors participates in the oversight of our employment practices and policies, through the Compensation Committee. Our board sets the overall "tone at the top" and holds executive management accountable for embodying, maintaining, and communicating our culture to employees. Currently, our board is comprised of eleven members, including two females one of which is Hispanic, and one of which is an African-American male.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies, financial holding companies and banks. These laws (and the regulations promulgated thereunder) are primarily intended to protect depositors and the deposit insurance fund (the "DIF") of the Federal Deposit Insurance Corporation, (the "FDIC"). The following information describes particular laws and regulatory provisions relating to financial holding companies and banks. This discussion is qualified in its entirety by reference to the particular laws and regulatory provisions. A change in any of these laws or regulations may have a material effect on our business and the business of our subsidiaries. Political developments, including the change in administration of the United States federal government, have added additional uncertainty in the implementation, scope and timing of regulatory reforms.

Bank Holding Companies and Financial Holding Companies

Historically, the activities of bank holding companies were limited to the business of banking and activities closely related or incidental to banking. Bank holding companies were generally prohibited from acquiring control of any company that was not a bank and from engaging in any business other than the business of banking or managing and controlling banks. The Gramm-Leach-Bliley Act, which took effect on March 12, 2000, dismantled many Depression-era restrictions against affiliations between banking, securities and insurance firms by permitting bank holding companies to engage in a broader range of financial activities, so long as certain safeguards are observed. Specifically, bank holding companies may elect to become "financial holding companies" that may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental to a financial activity. Thus, with the enactment of the Gramm-Leach-Bliley Act, banks, security firms and insurance companies find it easier to acquire or affiliate with each other and cross-sell financial products. The Gramm-Leach-Bliley Act permits a single financial services organization to offer a more complete array of financial products and services than historically was permitted.

A financial holding company is essentially a bank holding company with significantly expanded powers. Under the Gramm-Leach-Bliley Act, in addition to traditional lending activities, the following activities are among those that are deemed "financial in nature" for financial holding companies: securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, activities which the Federal Reserve Board determines to be closely related to banking, and certain merchant banking activities.

We elected to become a financial holding company in September 2001. As a financial holding company, we have very broad discretion to affiliate with securities firms and insurance companies, provide merchant banking services, and engage in other activities that the Federal Reserve Board has deemed financial in nature. In order to continue as a financial holding company, our subsidiary bank must continue to be well-capitalized, well-managed and provide fair access to financial products and services. Depending on the types of financial activities that we may elect to engage in, under the Gramm-Leach-Bliley Act's functional regulation principles, we may become subject to supervision by additional government agencies. The election to be treated as a financial holding company increases our ability to offer financial products and services that historically we were either unable to provide or were only able to provide on a limited basis. As a result, we will face increased competition in the markets for any new financial products and services that we may offer. Likewise, an increased amount of consolidation among banks and securities firms or banks and insurance firms could result in a growing number of large financial institutions that could compete aggressively with us.

Mergers and Acquisitions

We must obtain approval from the banking regulators before we can acquire other financial institutions. We may not engage in certain acquisitions if we are undercapitalized. Furthermore, the BHCA provides that the Federal Reserve Board cannot approve any acquisition, merger

or consolidation that may substantially lessen competition in the banking industry, create a monopoly in any section of the country, or be a restraint of trade. However, the Federal Reserve Board may approve such a transaction if the convenience and needs of the community clearly outweigh any anti-competitive effects. Specifically, the Federal Reserve Board would consider, among other factors, the expected benefits to the public (greater convenience, increased competition, greater efficiency, etc.) against the risks of possible adverse effects (undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, etc.).

Under the BHCA, the Company must obtain the prior approval of the Federal Reserve Board, or acting under delegated authority, the Federal Reserve Bank of Dallas before (1) acquiring direct or indirect ownership or control of any class of voting securities of any bank or bank holding company if, after the acquisition, the Company would directly or indirectly own or control 5% or more of the class, (2) acquiring all or substantially all of the assets of another bank or bank holding company, or (3) merging or consolidating with another bank holding company.

The Change in Bank Control Act of 1978, as amended, or the CIBCA, and the related regulations of the Federal Reserve Board require any person or groups of persons acting in concert (except for companies required to make application under the BHCA), to file a written notice with the Federal Reserve Board before the person or group acquires control of the Company. The CIBCA defines "control" as the direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank. A rebuttable presumption of control arises under the CIBCA where a person or group controls 10% or more, but less than 25%, of a class of the voting stock of a company or insured bank which is a reporting company under the Securities Exchange Act of 1934, as amended, such as the Company, or such ownership interest is greater than the ownership interest held by any other person or group.

Banks

Federal and state laws and regulations that govern banks have the effect of, among other things, regulating the scope of business, investments, cash reserves, the purpose and nature of loans, the maximum interest rate chargeable on loans, the amount of dividends declared, and required capitalization ratios.

Banks organized as national banking associations under the National Bank Act are subject to regulation and examination by the Office of the Comptroller of the Currency, or OCC. As a result, the OCC now supervises, regulates and regularly examines the following subsidiaries:

- First Financial Bank, N.A.;
- First Financial Trust & Asset Management Company, N.A.; and
- First Technology Services, Inc. (a wholly-owned subsidiary of First Financial Bank, N.A.)
- FFB Investment Paris Fund, LLC (a wholly-owned subsidiary of First Financial Bank, N.A.)
- FFB Portfolio Management, Inc. (a wholly-owned subsidiary of First Financial Bank, N.A.)

The OCC's supervision and regulation of banks is primarily intended to protect the interests of depositors. The National Bank Act:

- requires each national banking association to maintain reserves against deposits;
- restricts the nature and amount of loans that may be made and the interest that may be charged; and
- restricts investments and other activities.

Deposit Insurance Coverage and Assessments

Our subsidiary bank is a member of the FDIC. Through the DIF, the FDIC provides deposit insurance protection that covers all deposit accounts in FDIC-insured depository institutions up to applicable limits (currently, $250 thousand per depositor).

Our subsidiary bank must pay deposit insurance assessments (or premiums) to the FDIC under a risk-based assessment system for this federal deposit insurance protection. FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (i.e., institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions assigned to lower risk classifications. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to bank regulators. In addition, the FDIC can impose special assessments to cover shortages in the DIF and has imposed special assessments in the past. In the fourth quarter of 2023, the FDIC imposed a $1.75 million special assessment on the Bank in response to the FDIC-insured financial institutions that failed in March 2023.

The Dodd-Frank Act required the FDIC to offset the effect of increasing the reserve ratio on insured depository institutions with total consolidated assets of less than $10 billion. As a result of our subsidiary bank exceeding $10 billion in assets as of December 31, 2020, our subsidiary bank is no longer eligible to utilize future credits, if any, to offset its FDIC assessment.

Under the Dodd-Frank Act, for institutions with $10 billion or more in assets, the FDIC uses a performance score and a loss severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, or FIRREA, an FDIC-insured depository institution can be held liable for any losses incurred by the FDIC in connection with (1) the "default" of one of its FDIC-insured subsidiaries or (2) any assistance provided by the FDIC to one of its FDIC-receivers, and "in danger of default" is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

The FDIC is also empowered to regulate interest rates paid by insured banks. Approval by the FDIC is also required before an insured bank retires any part of its common or preferred stock, or any capital notes or debentures.

Payment of Dividends

We are a legal entity separate and distinct from our banking and other subsidiaries. We receive most of our revenue from dividends paid to us by our bank and trust company subsidiaries. Described below are some of the laws and regulations that apply when either we or our subsidiaries pay or paid dividends.

The Federal Reserve Board, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends to the extent net income is sufficient to cover both cash dividends and a rate of earnings retention consistent with capital needs, asset quality and overall financial condition. Further, the Federal Reserve Board's policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. In addition, the Federal Reserve Board has indicated that each bank holding company should carefully review its dividend policy, and has discouraged payment ratios that are at maximum allowable levels, which is the maximum dividend amount that may be issued and allow the company to still maintain its target Tier 1 capital ratio, unless both asset quality and capital are very strong.

To pay dividends, our subsidiaries must maintain adequate capital above regulatory guidelines. Under federal law, our subsidiary bank cannot pay a dividend if, after paying the dividend, the bank would be "undercapitalized." Additionally, the maximum payout amount paid by our Company and subsidiary bank is restricted if regulatory capital ratios fall below capital conservation buffers. In addition, if the FDIC 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 FDIC may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The FDIC and the OCC have each indicated paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice.

National banks are required by federal law to obtain the prior approval of the OCC in order to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus, or (3) its regulatory capital ratios fall below capital conservation buffers. In addition, these banks may only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

Our subsidiaries paid aggregate dividends to us of $133.50 million in 2023 and $67.50 million in 2022. Under the dividend restrictions discussed above, as of December 31, 2023, our subsidiaries could have declared in the aggregate additional dividends of $387.33 million from retained net profits, without obtaining regulatory approvals.

Affiliate Transactions

The Federal Reserve Act, the Federal Deposit Insurance Act ("FDIA") and the rules adopted under these statutes restrict the extent to which we can borrow or otherwise obtain credit from, or engage in certain other transactions with, our subsidiaries. These laws regulate "covered transactions" between insured depository institutions and their subsidiaries, on the one hand, and their non-depository affiliates, on the other hand. The Dodd-Frank Act expanded the definition of affiliate to make any investment fund, including a mutual fund, for which a depository institution or its affiliates serve as an investment advisor an affiliate of the depository institution. "Covered transactions" include a loan or

extension of credit to a non-depository affiliate, a purchase of securities issued by such an affiliate, a purchase of assets from such an affiliate (unless otherwise exempted by the Federal Reserve Board), an acceptance of securities issued by such an affiliate as collateral for a loan, and an issuance of a guarantee, acceptance, or letter of credit for the benefit of such an affiliate. The Dodd-Frank Act extended the limitations to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. The "covered transactions" that an insured depository institution and its subsidiaries are permitted to engage in with their non-depository affiliates are limited to the following amounts: (1) in the case of any one such affiliate, the aggregate amount of "covered transactions" cannot exceed ten percent of the capital stock and the surplus of the insured depository institution; and (2) in the case of all affiliates, the aggregate amount of "covered transactions" cannot exceed twenty percent of the capital stock and surplus of the insured depository institution. In addition, extensions of credit that constitute "covered transactions" must be collateralized in prescribed amounts. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services. Finally, when we and our subsidiaries conduct transactions internally among us, we are required to do so at arm's length.

Loans to Directors, Executive Officers and Principal Shareholders

The authority of our subsidiary bank to extend credit to our directors, executive officers and principal shareholders, including their immediate family members, corporations and other entities that they control, is subject to substantial restrictions and requirements under Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder, as well as the Sarbanes-Oxley Act of 2002. These statutes and regulations impose specific limits on the amount of loans our subsidiary bank may make to directors and other insiders, and specified approval procedures must be followed in making loans that exceed certain amounts. In addition, all loans our subsidiary bank makes to directors and other insiders must satisfy the following requirements:

- the loans must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not affiliated with us or our subsidiary bank;
- the subsidiary bank must follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with us or our subsidiary bank; and
- the loans must not involve a greater than normal risk of non-payment or include other features not favorable to our subsidiary bank.

Furthermore, our subsidiary bank must periodically report all loans made to directors and other insiders to the bank regulators, and these loans are closely scrutinized by the regulators for compliance with Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O. Each loan to directors or other insiders must be pre-approved by the bank's board of directors with the interested director abstaining from voting.

Capital

We and our bank subsidiary are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board and the OCC, respectively. The current risk-based capital standards applicable to us and our bank subsidiary are based on the December 2010 final capital framework for strengthening international capital standards of the Basel Committee on Banking Supervision (the "Basel III Rules").

The Basel III Rules established three components of regulatory capital: (1) common equity tier 1 capital ("CET1"), (2) additional tier 1 capital, and (3) total capital. Tier 1 capital is the sum of CET1 and additional tier 1 capital instruments meeting certain revised requirements. Total capital is the sum of tier 1 capital and tier 2 capital elements. Under the Basel III Rules, for most banking organizations, the most common form of additional tier 1 capital is non-cumulative perpetual preferred stock, and the most common form of tier 2 capital is subordinated notes and a portion of the allocation for credit losses, in each case, subject to the Basel III Rules' specific requirements. As of December 31, 2023, we do not have any non-cumulative perpetual preferred stock or subordinated notes. CET1, tier 1 capital, and total capital serve as the numerators for three prescribed regulatory capital ratios. Risk-weighted assets, calculated using the standardized approach in the Basel III Rules for us and our subsidiary bank, provide the denominator for such ratios. There is also a leverage capital ratio that compares tier 1 capital to average total assets.

Pursuant to the Basel III Rules, the effects of certain accumulated other comprehensive income or loss ("AOCI") items are not excluded; however, "non-advanced approaches banking organizations," including us and our subsidiary bank, were permitted to make a one-time permanent election to continue to exclude these items. The Company made its one-time, permanent election to continue to exclude AOCI from capital in its filing with the Federal Reserve Board and OCC for the quarter ended March 31, 2015. If the Company would not have made this election, unrealized gains and losses would have been included in the calculation of its regulatory capital. The Basel III Rules also preclude certain hybrid securities, such as trust preferred securities issued prior to May 19, 2010, from inclusion in our tier 1 capital, subject to grandfathering in the case of companies, such as us, that had less than $15 billion in total consolidated assets as of December 31, 2009.

Under the Basel III Rules, the minimum capital ratios are:

- A minimum CET1 ratio to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" that is composed entirely of CET1 capital (resulting in a minimum ratio of CET1 to risk-weighted assets of 7.0%);
- A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%);
- A minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5%); and
- A minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

An institution that fails to meet the effective minimum ratios after taking into account the capital conservation buffer, as detailed above, will be subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffer amount.

The Basel III Rules prescribed a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to our bank subsidiary, the Basel III Rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the FDIA, as discussed below under “Prompt Corrective Action.”

As of December 31, 2023, we had a total risk-based capital ratio of 19.62%, a tier 1 capital to risk-weighted asset ratio of 18.50%, a CET1 to risk-weighted assets ratio of 18.50% and a leverage ratio of 12.06%. These regulatory capital ratios were calculated under the Basel III Rules.

Prompt Corrective Action.

A banking organization’s capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators’ powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators’ corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution’s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Under current regulations, our subsidiary bank was “well capitalized” as of December 31, 2023.

Our Support of Our Subsidiaries

Under Federal Reserve Board policy, we are expected to commit resources to act as a source of strength to support each of our subsidiaries. The Dodd-Frank Act codified this policy as a statutory requirement. This support may be required at times when, absent such requirement, we would not otherwise be required to provide it. In addition, any loans we make to our subsidiaries would be subordinate in right of payment to deposits and to other indebtedness of our subsidiaries. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and be subject to a priority of payment.

Under the FDIA, in the event of a loss suffered or anticipated by the FDIC (either as a result of the default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default) our other subsidiaries may be assessed for the FDIC’s loss.

Safe and Sound Banking Practices.

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board’s Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year,

is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1.0 million for each day the activity continues.

Interstate Banking and Branching

Effective June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 amended the Federal Deposit Insurance Act and certain other statutes to permit state and national banks with different home states to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank had passed legislation prior to May 31, 1997 expressly prohibiting interstate mergers. Under the Riegle-Neal Act amendments, once a state or national bank has established branches in a state, that bank may establish and acquire additional branches at any location in the state at which any bank involved in the interstate merger transaction could have established or acquired branches under applicable federal or state law. If a state opted out of interstate branching within the specified time period, no bank in any other state may establish a branch in the state which has opted out, whether through an acquisition or de novo.

However, under the Dodd-Frank Act, the national branching requirements have been relaxed and national banks and state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state.

The Federal Deposit Insurance Act, or FDIA, requires that the FDIC review (1) any merger or consolidation by or with an insured bank, or (2) any establishment of branches by an insured bank. Additionally, the Texas Department of Banking accepts applications for interstate merger and branching transactions, subject to certain limitations on ages of the banks to be acquired and the total amount of deposits within the state a bank or financial holding company may control. Since our primary service area is Texas, we do not expect that the ability to operate in other states will have any material impact on our growth strategy. We may, however, face increased competition from out-of-state banks that branch or make acquisitions in our primary markets in Texas.

Community Reinvestment Act of 1977

The Community Reinvestment Act of 1977, or CRA, subjects a bank to regulatory assessment to determine if the institution meets the credit needs of its entire community, including low-and moderate-income neighborhoods served by the bank, and to take that determination into account in its evaluation of any application made by such bank for, among other things, approval of the acquisition or establishment of a branch or other depository facility, an office relocation, a merger, or the acquisition of shares of capital stock of another financial institution. The regulatory authority prepares a written evaluation of an institution's record of meeting the credit needs of its entire community and assigns a rating. These ratings are "Outstanding," "Satisfactory," "Needs Improvement" and "Substantial Noncompliance." Institutions with ratings lower than "Satisfactory" may be restricted from engaging in the aforementioned activities. We believe our subsidiary bank meets the credit needs of the communities in which it operates. Our subsidiary bank received a "Satisfactory" rating in its most recent assessment of its performance under the CRA by the OCC.

Monitoring and Reporting Suspicious Activity

Under the Bank Secrecy Act, or BSA, we are required to monitor and report unusual or suspicious account activity that might signify money laundering, tax evasion or other criminal activities, as well as transactions involving the transfer or withdrawal of amounts in excess of prescribed limits. The BSA is sometimes referred to as an "anti-money laundering" law ("AML"). Several AML acts, including provisions in Title III of the USA PATRIOT Act of 2001, have been enacted up to the present to amend the BSA. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;

- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are also required to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

In addition, under the USA PATRIOT Act, the Secretary of the U.S. Department of the Treasury, or Treasury, has adopted rules addressing a number of related issues, including increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to violate the privacy provisions of the Gramm-Leach-Bliley Act that are discussed below. Finally, under the regulations of the Office of Foreign Asset Control, or OFAC, we are required to monitor and block transactions with certain "specially designated nationals" who OFAC has determined pose a risk to U.S. national security.

Incentive Compensation

In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, Section 956 of the Dodd-Frank Act required certain regulators (including the FDIC, Securities and Exchanges Commission ("SEC") and Federal Reserve Board) to adopt requirements or guidelines prohibiting excessive compensation. In June 2016, the Federal Reserve Board, jointly with five other federal regulators, published a proposed rule in response to Section 956 of the Dodd-Frank Act, which requires implementation of regulations or guidelines to: (1) prohibit incentive-based payment arrangements that encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss, and (2) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

The proposed rule identifies three categories of institutions that would be covered by these regulations based on average total consolidated assets, applying less prescriptive incentive-based compensation program requirements to the smallest covered institutions (Level 3) and progressively more rigorous requirements to the larger covered institutions (Level 1). Under the proposed rule, we would fall into the smallest category (Level 3), which applies to financial institutions with average total consolidated assets greater than $1.0 billion and less than $50 billion. The proposed rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate recordkeeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least $50 billion would also be subject to additional requirements applicable to such institutions' "senior executive officers" and "significant risk-takers." These additional requirements would not

be applicable to us because we currently have less than $50 billion in total consolidated assets. Comments on the proposed rule were due by July 22, 2016. As of the date of this document, the final rule has not yet been published by these regulators.

In addition, the Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Consumer Laws and Regulations

We are also subject to certain federal and state consumer laws and regulations that are designed to protect consumers in transactions with banks. While the following list is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, The Fair and Accurate Credit Transactions Act, the Real Estate Settlement Procedures Act and the Fair Housing Act, among others. These laws and regulations, among other things, prohibit discrimination on the basis of race, gender or other designated characteristics and mandate various disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. These and other laws also limit finance charges or other fees or charges earned in our activities. We must comply with the applicable provisions of these consumer protection laws and regulations. Violations of consumer protection laws and regulations can result in significant potential liability, including actual damages, restitution and injunctive relief from litigation brought by customers, state attorney generals, the Department of Justice and other plaintiffs, as well as enforcement actions by banking regulators and reputational harm.

Consumer Financial Protection Bureau

The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Given our subsidiary bank has exceeded $10 billion in assets, it is subject to regulation by the CFPB. The CFPB has authority to prevent unfair, deceptive or abusive acts or practices in connection with the offering of consumer financial products. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits the state attorney general to enforce compliance with both the state and federal laws and regulations.

Technology Risk Management and Consumer Privacy

State and federal banking regulators have issued various policy statements emphasizing the importance of technology risk management and supervision in evaluating the safety and soundness of depository institutions with respect to banks that contract with outside vendors to provide data processing and core banking functions. The use of technology-related products, services, delivery channels and processes exposes a bank to various risks, particularly operational, privacy, security, strategic, reputation and compliance risk. Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring and controlling risks associated with the use of technology.

Under Section 501 of the Gramm-Leach-Bliley Act, the federal banking agencies have established standards for financial institutions regarding the implementation of safeguards to ensure the security and confidentiality of consumer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a consumer. Among other matters, the rules require each bank to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information.

Under the Gramm-Leach-Bliley Act, a financial institution must also provide its customers with a notice of privacy policies and practices. Section 502 prohibits a financial institution from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the institution satisfies various notice and opt-out requirements and the customer has not elected to opt out of the disclosure. Under Section 504, the agencies are authorized to issue regulations as necessary to implement notice requirements and restrictions on a financial institution's ability

to disclose nonpublic personal information about customers to nonaffiliated third parties. Under the final rule the regulators adopted, all banks must develop initial and annual privacy notices which describe in general terms the bank's information sharing practices. Banks that share nonpublic personal information about customers with nonaffiliated third parties must also provide customers with an opt-out notice and a reasonable period of time for the customer to opt out of any such disclosure (with certain exceptions). Limitations are placed on the extent to which a bank can disclose an account number or access code for credit card, deposit or transaction accounts to any nonaffiliated third party for use in marketing.

Concentrated Commercial Real Estate Lending Regulations

The federal banking agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

UDAP and UDAAP

Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act, referred to as the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," referred to as UDAAP, which have been delegated to the CFPB for supervision. The CFPB has published its first Supervision and Examination Manual that addresses compliance with and the examination of UDAAP.

Monetary Policy

Banks are affected by the credit policies of monetary authorities, including the Federal Reserve Board, that affect the national supply of credit. The Federal Reserve Board regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future.

Enforcement Powers of Federal Banking Agencies

The Federal Reserve Board and other federal banking agencies and regulators have broad enforcement powers, including the power to terminate deposit insurance, issue cease-and-desist orders, impose substantial fines and other civil and criminal penalties and appoint a conservator or receiver. Our failure to comply with applicable laws, regulations and other regulatory pronouncements could subject us, as well as our officers and directors, to administrative sanctions and potentially substantial civil penalties.

Regulatory Reform and Legislation

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or

regulatory policies applicable to the Company or our subsidiaries could have a material effect on the Company's business, financial condition and results of operations.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, which was enacted in July 2010, effected a fundamental restructuring of federal banking regulation. In addition to those provisions discussed above, among the Dodd-Frank Act provisions that have affected us are the following:

- creation of a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms;
- elimination of the federal statutory prohibition against the payment of interest on business checking accounts;
- prohibition on state-chartered banks engaging in derivatives transactions unless the loans to one borrower of the state in which the bank is chartered takes into consideration credit exposure to derivative transactions. For this purpose, derivative transactions include any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodity securities, currencies, interest or other rates, indices or other assets;
- requirement that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at $0.21 per transaction and 5 basis points multiplied by the value of the transaction. The restrictions on interchange fees apply to banks that, together with their affiliates, have assets of $10 billion or more; however, on November 20, 2020, the federal bank regulatory agencies announced an interim final rule that provides temporary relief for certain community banking organizations had crossed the threshold as of December 31, 2020 if they had less than $10 billion in assets as of December 31, 2019. Under the interim final rule, these banks generally had until 2022 to either reduce their size to below $10 billion in assets, or to prepare for the regulatory and reporting standards under the Dodd Frank Act. The Company has continued to exceed $10 billion in assets and as such, the restrictions became effective July 1, 2022; and
- restrictions under the Volcker Rule of the Company's ability to engage in proprietary trading and to invest in, sponsor and engage in certain types of transactions with certain private funds. The Company initially had until July 15, 2015 to fully conform to the Volcker Rules restrictions. In 2018, banks smaller than $10 billion in assets were provided with an exception to the Volcker Rule. However, the Company is now subject to the Volcker Rule now that it has exceeded $10 billion in assets.

Several of the Dodd-Frank Act's provisions are still subject to the final rulemaking by federal banking agencies, and the implication of the Dodd-Frank Act for the Company's business will depend to a large extent on how such rules are adopted and implemented. The Company's management continues to review actively the provisions of the Dodd–Frank Act and assess its probable impact on its business, financial condition, and results of operations.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. You may obtain copies of our filings on the SEC website. Our website is https://www.ffin.com. You may also obtain copies of our annual, quarterly and special reports, proxy statements and certain other information filed with the SEC, as well as amendments thereto, free of charge from our website. These documents are posted to our web site after we have filed them with the SEC. Our corporate governance guidelines, including our code of conduct applicable to all our employees, officers and directors, as well as the charters of our audit, compensation, executive and nominating committees, are available at www.ffin.com. The foregoing information is also available in print to any shareholder who requests it. Except as explicitly provided, information on any web site is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results and other forward-looking statements that we make from time to time in our news releases, annual reports and other written communications, as well as oral forward-looking statements, and other statements made from time to time by our representatives.

Risks Related to Our Business

Interest Rate Risk

We are subject to interest rate risk.

Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income we earn as a result of interest paid to us on loans and investments and interest we pay to third-parties such as our depositors and those from which we borrow funds. Like most financial institutions, we are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, (iii) the average duration of our securities portfolio, and (iv) the slope of the overall yield curve and its impact on the value of the investment portfolio and reinvestment income. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and investments, our net interest income, and earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and investments fall more quickly than the interest rates paid on deposits and other borrowings.

The Federal Reserve Board increased rates 200 basis points through mid-2019 and as a response to the ongoing COVID pandemic decreased rates 75 basis points during the third and fourth quarters of 2019 and then an additional 150 basis points in the first quarter of 2020, resulting in a target rate range of zero to 25 basis points throughout the remainder of 2020 and 2021. The Federal Reserve Board 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, May, and July 2023, respectively, resulting in a target rate range of 5.25% to 5.50% at December 31, 2023. Today, there continues to be uncertainty regarding future interest rates. Increases in interest rates can have negative impacts on our business, including reducing our customers' desire to borrow money from us or adversely affecting their ability to repay their outstanding loans by increasing their debt obligations through the periodic reset of adjustable interest rate loans. If our borrowers' ability to pay their loans is impaired by increasing interest payment obligations, our level of non-performing assets would increase, producing an adverse effect on operating results. Asset values, especially commercial real estate as collateral, securities or other fixed rate earning assets, can decline significantly with relatively minor changes in interest rates. Conversely, decreases in interest rates can affect the amount of interest we earn on our loans and investment securities, which could have a material adverse effect on the Company's financial condition and results of operations. Although we have implemented strategies that we believe reduce the potential effects of adverse changes in interest rates on our results of operations, these strategies may not always be successful. Any of these events could adversely affect our results of operations, financial condition and liquidity.

Credit Risk

In our business, we must effectively manage our credit risk.

As a lender, we are exposed to the risk that our borrowers may not repay their loans according to the terms of these loans and the collateral securing the payment of these loans may be inadequately documented or may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs to dispose of the collateral. We may experience significant loan losses, which could have a material adverse effect on our operating results and financial condition. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the diversification by industry of our commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume, growth and composition of our loan portfolio, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers and the evaluation of our loan portfolio through our internal loan review process and other relevant factors.

We maintain an allowance for credit losses, which is an allowance established through a provision for credit losses charged to expense that represents management's best estimate of probable losses inherent in our loan portfolio. Additional credit losses will occur in the future and may occur at a rate greater than we have experienced to date. In determining the amount of the allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Material additions to the allowance could materially decrease our net income.

In addition, banking regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further charge-offs, based on judgments different than those of our management. Any increase in our allowance for credit losses or charge-offs as required by these regulatory agencies could have a material negative effect on our operating results and financial condition.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If

hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. To remediate these risks, often we will obtain a phase 1 and if deemed necessary, a phase 2 inspection report to evaluate potential environmental risks before making loans secured by real property and before considering foreclosing on these assets. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition and results of operations.

The value of real estate collateral may fluctuate significantly resulting in an under-collateralized loan portfolio.

The market value of real estate, particularly real estate held-for-investment ("HFI"), can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. This could have a material adverse effect on our provision for credit losses and our operating results and financial condition.

Liquidity Risk

We are subject to liquidity risk.

The Company requires liquidity to meet our deposit and other obligations as they come due. The Company's access to funding sources in amounts adequate to finance its activities or on reasonable terms could be impaired by factors that affect it specifically or the financial services industry or the general economy. Factors that could reduce its access to liquidity sources include a downturn in the Texas market, difficult credit markets, depreciation in investment security values, or adverse regulatory actions against the Company. The Company's access to deposits may also be affected by the liquidity needs of its depositors. In particular, a substantial majority of the Company's liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of its assets are loans, which cannot be called or sold in the same time frame. The Company may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of its depositors sought to withdraw their accounts, regardless of the reason.

On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down operations. On March 10, 2023, Silicon Valley Bank, Santa Clara, California, was closed by the California Department of Financial Protection and Innovation (the "DFPI"), on March 12, 2023, Signature Bank, New York, New York, was closed by the New York State Department of Financial Services and on May 1, 2023, First Republic Bank, San Francisco, California, was closed by the DFPI, and in each case the FDIC was appointed receiver for the failed institution. These banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions.

These events have led to a greater focus by institutions, investors and regulators on the on-balance sheet liquidity of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management.

If we are unable to adequately manage our liquidity, we may experience a material adverse effect on our financial condition and results of operations. We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest-earning assets. While we emphasize the generation of low-cost core deposits as a source of funding, there is strong competition for such deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk/return tradeoff. Accordingly, as a part of our liquidity management, we must use a number of funding sources in addition to deposits and repayments and maturities of loans and investments, which may include Federal Home Loan Bank of Dallas advances, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, pay our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, certain additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits.

Our financial flexibility would be severely constrained if we were unable to maintain our access to funding or if adequate financing were not available at acceptable interest rates. Further, if we were required to rely more heavily on more expensive funding sources to support liquidity, our revenues may not increase proportionately to cover our increased costs. In this case, our operating margins and profitability would be adversely affected. If alternative funding sources were no longer available to us, we may need to sell a portion of our investment and/or loan portfolio to raise funds, which, depending upon market conditions, could result in us realizing a loss on the sale of such assets. As of December 31, 2023, we had a net unrealized loss of $403.30 million on our available for-sale investment securities portfolio as a result of the rising interest rate environment. Our investment securities totaled $4.73 billion, or 36.11% of total assets, at December 31, 2023. The details of this portfolio are included in Note 2 to the consolidated financial statements.

Operational Risk

Our accounting estimates and risk management processes rely on analytical and forecasting models.

The processes we use to estimate our allowance for credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates depends upon the use of analytical and forecasting models, including various inputs and assumptions (collectively, the "models"). In addition, these models are used to calculate the fair value of our assets and liabilities when we acquire other financial institutions. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our current expected credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2023, we had $314.62 million of goodwill and other intangible assets. A significant decline in our financial condition, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations.

Breakdowns in our internal controls and procedures could have an adverse effect on us.

We believe our internal control system as currently documented and functioning is adequate to provide reasonable assurance over our internal controls. Nevertheless, because of the inherent limitation in administering a cost effective control system, misstatements due to error or fraud may occur and not be detected. Breakdowns in our internal controls and procedures could occur in the future, and any such breakdowns could have an adverse effect on us. See “Item 9A – Controls and Procedures” for additional information.

New lines of business or new products and services may subject the Company to additional risks.

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or products and services, the Company may invest significant time and resources. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. If we are unable to successfully manage these risks in the development and implementation of new lines of business or new products or services, it could have a material adverse effect on the Company’s business, financial condition and result of operations.

First Financial Bankshares, Inc. relies on dividends from its subsidiaries for most of its revenue.

First Financial Bankshares, Inc. is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company’s common stock to shareholders and interest and principal on First Financial Bankshares, Inc. debt (to the extent we have balances outstanding). Various federal and/or state laws and regulations limit the amount of dividends that our bank and trust subsidiaries may pay to First Financial Bankshares, Inc. In the event our subsidiaries are unable to pay dividends to First Financial Bankshares, Inc., the Company may not be able to service debt, if any,

or pay dividends on the Company's common stock. The inability to receive dividends from our subsidiaries could have a material adverse effect on the Company's business, financial condition, results of operations and liquidity.

Hurricanes, extended drought conditions, severe weather and natural disasters could significantly impact the Company's business.

Hurricanes, extended drought conditions, severe weather and natural disasters and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of the collateral securing our loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. The occurrence of any such events in the future could have a material adverse effect on the Company's business, which in turn, could have a material adverse effect on the Company's business, financial condition and result of operations.

We rely heavily on our management team, and the unexpected loss of key management or inability to recruit qualified personnel in the future may adversely impact our operations.

Our success to date has been strongly influenced by our ability to attract and retain senior management experienced in banking in the markets we serve. Our ability to retain executive officers and the current management teams will continue to be important to the successful implementation of our strategies. We do not have employment agreements with these key employees other than executive agreements in the event of a change of control and a confidential information, non-solicitation and non-competition agreement related to our stock options and restricted stock award, restricted stock unit and performance stock unit grants. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results. In addition, the scope and content of U.S. banking regulators policies on incentive compensation, could adversely affect our ability to hire, retain and motivate our key employees.

World events such as the Russia-Ukraine conflict, the Israel-Palestine conflict and other world events, including health related events, may adversely impact our business and our financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted.

The Russia-Ukraine conflict, the Israel-Palestine conflict and other world events, including health-related events, are creating extensive disruptions in the global economy and to the lives of individuals throughout the world. While the effects of COVID have reduced, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty, employment and labor markets and disrupted trade and supply chains. In addition, financial markets and global supply chains may be adversely affected by the current or anticipated impact of military conflict, including the current Russian invasion of Ukraine, the Israel-Palestine conflict, terrorism or other geopolitical events. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10-K could be exacerbated and such effects could have a material adverse impact on us in a number of ways related to credit, collateral, customer demand, funding, operations, interest rate risk, human capital, and self-insurance, as previously described.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues, including "hacking" and "identity theft." Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, damage our reputation and inhibit current and potential customers from our Internet banking services. Each year, we add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches including firewalls and penetration testing. We continue to investigate cost effective measures as well as insurance protection.

Furthermore, our customers could incorrectly blame the Company and terminate their accounts with the Company for a cyber-incident which occurred on their own system or to an unrelated third-party. In addition, a security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and possible financial liability.

Disruptions in our information technology systems or a compromise of security with respect to our systems could adversely affect our operating results by limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, or support our customer transactions.

We rely on our information technology systems to be able to monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, and support our online banking system. Any disruptions in these systems or the failure of these systems to operate as expected have in the past adversely affected, and could in the future adversely affect, our ability to access and use certain applications and could, depending on the nature and magnitude of the problem, adversely affect our operating results by limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, and service customers. Although such disruptions and failures have not been material to date, we cannot guarantee that they will not be material in the future. In addition, the security measures we employ to protect our systems have in the past not detected or prevented, and may in the future not detect or prevent, all attempts to hack our systems, denial-of-service attacks, viruses, malicious software (malware), employee error or malfeasance, phishing attacks, security breaches, disruptions during the process of upgrading or replacing computer software or hardware or integrating systems of acquired businesses or assets or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by the sites, networks, and systems that we otherwise maintain, which include cloud-based networks and data center storage.

We have, from time to time, experienced threats to and breaches of our data and systems, including malware and computer virus attacks. We are continuously developing and enhancing our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage, or unauthorized access. This continued development and enhancement requires us to expend significant resources. However, we may not anticipate or combat all types of future attacks until after they have been launched. If any of these breaches of security occur or are anticipated in the future, we could be required to expend additional capital and other resources, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Our response to attacks, and our investments in our technology and our controls, processes, and practices, may not be sufficient to shield us from significant losses or liability. Further, given the increasing sophistication of bad actors and complexity of the techniques used to obtain unauthorized access or disable systems, a breach or attack could potentially persist for an extended period of time before being detected. As a result, we may not be able to anticipate the attack or respond adequately or timely, and the extent of a particular incident, and the steps that we may need to take to investigate the incident, may not be immediately clear. It could take a significant amount of time before an investigation can be completed and full, reliable information about the incident becomes known. During an investigation, it is possible we may not necessarily know the extent of the harm or how to remediate it, which could further adversely impact us, and new regulations could result in us being required to disclose information about a material cybersecurity incident before it has been mitigated or resolved, or even fully investigated. We also face cybersecurity risks due to our reliance on internet technology and hybrid work arrangements, which could strain our technology resources or create additional opportunities for cybercriminals to exploit vulnerabilities.

In addition, because our systems contain information about individuals and businesses, our failure to appropriately maintain the security of the data we hold, whether as a result of our own error or the malfeasance or errors could lead to unauthorized release of confidential or otherwise protected information or corruption of data. Our failure to appropriately maintain the security of the data we hold could also violate applicable privacy, data security and other laws and subject us to lawsuits, fines, and other means of regulatory enforcement.

Any compromise or breach of our systems could result in adverse publicity, harm our reputation, lead to claims against us and affect our relationships with our customers and employees, any of which could have a material adverse effect on our business. Although we maintain insurance coverage for various cybersecurity risks, there can be no guarantee that all costs or losses incurred will be fully insured.

We are subject to claims and litigation pertaining to intellectual property.

We rely on technology companies to provide information technology products and services necessary to support our day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of our vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to us by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in litigation that could be expensive, time-consuming, disruptive to our operations, and distracting to management. If we are found to infringe on one or more patents or other intellectual property rights, we may be required to pay substantial damages or royalties to a third-party. In certain cases, we may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase our operating expenses. If legal matters related to intellectual property claims were resolved against us or settled, we could be required to make payments in amounts that could have a material adverse effect on our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we must rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of those customers, counterparties or other third-parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

We do business with other financial institutions that could experience financial difficulty.

We do business through the purchase and sale of federal funds, check clearing and through the purchase and sale of loan participations with other financial institutions. Because these financial institutions have many risks, as do we, we could be adversely affected should one of these financial institutions experience significant financial difficulties or fail to comply with our agreements with them.

We are subject to possible claims and litigation pertaining to fiduciary responsibility.

From time to time, customers could make claims and take legal actions pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal actions related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect our market perception of our products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our operations rely on certain external vendors.

We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted agreements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products or services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business and, in turn, our financial condition and results of operations. Security breaches at certain external vendors may expose our Company's or customers' data, which poses operational, compliance and reputation risks.

Certain of our investment advisory and wealth management contracts are subject to termination on short notice, and termination of a significant number of investment advisory contracts could have a material adverse impact on our revenue.

Certain of our investment advisory and wealth management clients can terminate, with little or no notice, their relationships with us, reduce their aggregate assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, inflation, changes in investment preferences of clients, changes in our reputation in the marketplace, change in management or control of clients, loss of key investment management personnel and financial market performance. We cannot be certain that our trust company subsidiary will be able to retain all of its clients. If its clients terminate their investment advisory and wealth management contracts, our trust company subsidiary, and consequently we, could lose a substantial portion of our revenues.

The trust wealth management fees we receive may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease our revenues and net earnings.

Our trust company subsidiary derives its revenues primarily from investment management fees based on assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, in either relative or absolute terms, market and economic conditions, including changes in oil and gas prices, and competition from investment management companies. Financial markets are affected by many factors, all of which are beyond our control, including general economic conditions, changes in oil and gas prices; securities market conditions; the level and volatility of interest rates and equity prices; competitive conditions; liquidity of global markets; international and regional political conditions; regulatory and legislative developments; monetary and fiscal policy; investor sentiment; availability and cost of capital; technological changes and events; outcome of legal proceedings; changes in currency values; inflation; credit ratings; and the size, volume and timing of transactions. A decline in the fair value of the assets under management, caused by a decline in general economic conditions, would decrease our wealth management fee income.

Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management clients. Poor investment performance could reduce our revenues and impair our growth in the following ways:

- existing clients may withdraw funds from our wealth management business in favor of better performing products;
- asset-based management fees could decline from a decrease in assets under management;
- our ability to attract funds from existing and new clients might diminish; and
- our wealth managers and investment advisors may depart to join a competitor or otherwise.

Even when market conditions are generally favorable, our investment performance may be adversely affected by the investment style of our wealth management and investment advisors and the particular investments that they make. To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our wealth management business will likely be reduced and our ability to attract new clients will likely be impaired. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings. In addition, as approximately 15% of trust fees came from management of oil and gas properties in 2023, a decline in the prices of oil and gas could lead to a loss of material amounts of our trust income.

Our reputation and business could be damaged by negative publicity.

Reputation risk, or the risk to our earnings and capital by negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to additional liquidity risk as well as adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, perception of our environmental, social and governance practices and disclosures, regulatory compliance or investigations, mergers and acquisitions, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Negative public opinion could also result from adverse news or publicity that impairs the reputation of the financial services industry. In addition, adverse publicity or negative information posted on social media, whether or not factually correct, may adversely impact our business prospects or financial results.

External and Market Related Risks

Our business faces unpredictable economic conditions, which could have an adverse effect on us.

General economic conditions impact the banking industry. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success depends somewhat on factors beyond our control, including:

- general economic conditions, including national and local real estate markets and the price of oil and gas, wind farm subsidies from the federal government and other commodity prices;
- the supply of and demand for investable funds;
- demand for loans and access to credit;
- interest rates; and
- federal, state and local laws affecting these matters.

Any substantial deterioration in any of the foregoing conditions could have a material adverse effect on our financial condition, results of operations and liquidity, which would likely have an adverse affect on the market price of our common stock.

Our business is concentrated in Texas and a downturn in the economy of Texas may adversely affect our business.

Our network of bank regions is concentrated in Texas, primarily in the Central, North Central, Southeast and Western regions of the state. Most of our customers and revenue are derived from these areas. These economies include dynamic centers of higher education, agriculture, energy and natural resources, retail, military, healthcare, tourism, retirement living, manufacturing and distribution. Because we generally do not derive revenue or customers from other parts of the state or nation, our business and operations are dependent on economic conditions in our Texas markets. Any significant decline in one or more segments of the local economies could adversely affect our business, revenue, operations and properties.

The volatility in oil and gas prices results in uncertainty about the Texas economy. While we consider our exposure to credits related to the oil and gas industry to not be significant, at approximately 2.79%, of total loans HFI as of December 31, 2023, should the price of oil and gas decline and/or remain at low prices for an extended period, the general economic conditions in our Texas markets could be negatively affected,

which could have a material adverse effect on our business, financial condition and results of operations. Additionally, the Company's trust revenues may be impacted by oil and gas prices which represented approximately 15% and 18% of total trust revenues in 2023 and 2022, respectively.

Our Company lends primarily to small to medium-sized businesses that may have fewer resources to weather a downturn in the economy, which could adversely impact the Company's operating results.

The Company makes loans to privately-owned businesses, many of which are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need additional capital to expand or compete and may experience more volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of small to medium-sized businesses often depends on the management talents and efforts of a small group of persons, and the death, disability or resignation of one or more of these persons could have adverse impact on the business and its ability to repay our loans. Economic downturns, a sustained decline in commodity prices and other events that could negatively impact the businesses could cause the Company to incur credit losses that could negatively affect the Company's results of operations and financial condition.

If we are unable to continue to originate residential real estate loans and sell them into the secondary market for a profit, our earnings could decrease.

We derive a portion of our noninterest income from the origination of residential real estate loans and the subsequent sale of such loans into the secondary market. If we are unable to continue to originate and sell residential real estate loans at historical or greater levels, our residential real estate loan volume would decrease, which could decrease our earnings. A rising interest rate environment, general economic conditions or other factors beyond our control could adversely affect our ability to originate residential real estate loans. We also are experiencing an increase in regulations and compliance requirements related to mortgage loan originations necessitating technology upgrades and other changes. If new regulations continue to increase and we are unable to make technology upgrades, our ability to originate mortgage loans will be reduced or eliminated. Additionally, we sell a large portion of our residential real estate loans to third-party investors, and rising interest rates could negatively affect our ability to generate suitable profits on the sale of such loans. If interest rates increase after we originate the loans, our ability to market those loans is impaired as the profitability on the loans decreases. These fluctuations can have an adverse effect on the revenue we generate from residential real estate loans and in certain instances, could result in a loss on the sale of the loans.

We originate the majority of our secondary market loans by issuing interest rate lock commitments ("IRLCs") to the customer based on prevailing rates in the market. We are exposed to changes in interest rates between the date of the IRLC and the closing of the loans. We hedge the price risk of the IRLCs based on various models and other factors using financial instruments which typically, but not always, correlate to the change in value to offset the risk. These hedges may not be equally correlated or effective and expose the Company to risk and loss of earnings.

Further, for the mortgage loans we sell in the secondary market, the mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first sixty to ninety days, or if documentation is determined not to be in compliance with regulations. While the Company's historic losses as a result of these indemnities have been insignificant, we could be required to repurchase the mortgage loans or reimburse the purchaser of our loans for losses incurred. Both of these situations could have an adverse effect on the profitability of our mortgage loan activities and negatively impact our net income.

We compete in an industry that continually experiences technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services and new Fintech companies. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for conveniences, as well as to create additional efficiencies in our operations. We may experience operational challenges in connection with the adoption of, or failure to adopt, new technology, such as artificial intelligence, which could result in unintended consequences or expenses as a result of the technology's limitations, our failure to use new technology effectively or at all, not fully realizing the anticipated benefits from such new technology, or the cost to implement or remedy any challenges associated with the adoption of new technology in a timely manner. Many of our larger competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

Difficult or changes in market conditions could adversely affect the financial services industry.

The financial markets have experienced volatility over the past several years. In some cases, the financial markets have produced downward pressure on stock prices and credit availability for certain companies without regard to those companies' underlying financial strength. If financial market volatility worsens, or there are disruptions in these financial markets, including disruptions to the United States banking systems, there can be no assurance that we will not experience an adverse effect on our ability to access capital and our business, financial condition and result of operations could be adversely impacted.

Inflationary pressures and rising prices may affect our results of operations and financial conditions.

Inflation rose in 2022 at levels not seen for over 40 years, and such inflationary pressures continued into 2023. Inflation could lead to increased costs to our customers, making it more difficult for them to repay their loans or other obligations increasing our credit risk. In general, the impact of inflation on the banking industry differs significantly from that of other industries in which a large portion of total resources are invested in fixed assets such as property, plant and equipment. Assets and liabilities of financial institutions are primarily all monetary in nature, and therefore are principally impacted by interest rates rather than changing prices. While the general level of inflation underlies most interest rates, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy.

Sustained higher interest rates by the Federal Reserve Board may be needed to tame persistent inflationary price pressures, which could depress asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations.

Our financial instruments expose us to certain market risks and may increase the volatility of earnings and AOCI.

We hold certain financial instruments measured at fair value. For those financial instruments measured at fair value, we are required to recognize the changes in the fair value of such instruments in earnings or accumulated other comprehensive income ("AOCI") each quarter. Therefore, any increases or decreases in the fair value of these financial instruments have a corresponding impact on reported earnings or AOCI. Fair value can be affected by a variety of factors, many of which are beyond our control, including our credit position, interest rate volatility, capital markets volatility, and other economic factors. Accordingly, we are subject to mark-to-market risk and the application of fair value accounting may cause our earnings and AOCI to be more volatile than would be suggested by our underlying performance.

We may need to raise additional capital and such funds may not be available when needed.

We may need to raise additional capital in the future to provide us with sufficient capital resources to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital and financial markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, other financial institution borrowings and borrowings from the discount window of the Federal Reserve Board. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of other financial institutions, or counterparties participating in the capital markets, may adversely affect our costs and our ability to raise capital. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition and results of operations.

Climate change, and related legislative and regulatory initiatives, have the potential to disrupt our business and adversely impact the operations and creditworthiness of our customers.

Climate change may lead to more frequent and more extreme weather events, such as prolonged droughts or flooding, hurricanes, wildfires and extreme seasonal weather, which could disrupt operations at one or more of our locations and our ability to provide financial products and services to our customers. Such events could also have a negative effect on the financial status and creditworthiness of our customers, which may decrease revenues and business activities from those customers and increase the credit risk associated with loans and other credit exposures to such customers. In addition, weather disasters, shifts in local climates and other disruptions related to climate change may adversely affect the value of real properties securing our loans, which could diminish the value of our loan portfolio. Such events may also cause reductions in regional and local economic activity that may have an adverse effect on our customers, which could limit our ability to raise and invest capital in these areas and communities, each of which could have a material effect on our financial conditions and results of operations.

Political and social attention to the issue of climate change has increased. The federal and state legislatures and regulatory agencies have proposed legislative and regulatory initiatives seeking to mitigate the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes. In addition, the federal banking agencies may address climate-related issues in their agendas in various ways, including by increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors, and encouraging investment by banks in

climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. We may incur compliance, operating, maintenance and remediation costs.

Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks.

Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance ("ESG") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environmental, health and safety, diversity, labor conditions and human risks. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

We compete with many larger financial institutions which have substantially greater financial resources than we have.

Competition among financial institutions in Texas is intense. We compete with other bank holding companies, state and national commercial banks, savings and loan associations, consumer financial companies, credit unions, securities brokers, insurance companies, mortgage banking companies, money market mutual funds, asset-based non-bank lenders and other non-bank financial institutions. Many of these competitors have substantially greater financial resources, larger lending limits, larger branch networks, enhanced technology and less regulatory oversight than we do, and are able to offer a broader range of products and services than we can. Failure to compete effectively for deposit, loan and other banking customers in our markets could cause us to lose market share, slow our growth rate and may have an adverse effect on our financial condition, results of operations and liquidity.

Compliance and Regulatory Risks

We may be subject to more stringent capital requirements which would adversely affect our net income and future growth.

The Federal Reserve Board adopted a final rule that implemented the Basel III Rule changes to the international regulatory capital framework and revised the U.S. risk-based and leverage capital requirements for U.S. banking organizations to strengthen identified areas of weakness in capital rules and to address relevant provisions of the Dodd-Frank Act.

The final rule established a stricter regulatory capital framework that requires banking organizations to hold more and higher-quality capital to act as a financial cushion to absorb losses and help banking organizations better withstand periods of financial stress. The final rule increased capital ratios for all banking organizations and introduced a “capital conservation buffer” which is in addition to each capital ratio. If a banking organization dips into its capital conservation buffer, it may be restricted in its ability to pay dividends and discretionary bonus payments to its executive officers. The final rule assigned a higher risk weight to loans that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also required unrealized gains and losses on certain available-for-sale ("AFS") securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. We exercised this opt-out right in our March 31, 2015 quarterly financial filing. The final rule also included changes in what constitutes regulatory capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock are required to be deducted from capital. The final rule became effective for us on January 1, 2015. As of December 31, 2023, we met all of these new requirements, including the full capital conservation buffer.

Although we currently cannot predict the specific impact and long-term effects that Basel III will have on our Company and the banking industry more generally, the Company may be required to maintain higher regulatory capital levels through the capital conservation buffer which could impact our operations, net income and ability to grow. Furthermore, the Company’s failure to comply with the minimum capital requirements could result in our regulators taking formal or informal actions against us which could restrict our future growth or operations. For example, climate change advocates might not be able to force a regulatory ban on lending to certain industries, but the regulators could increase risk weighting on oil and gas loans.

Legislative and regulatory actions taken now or in the future that impact the financial industry may materially adversely affect us by increasing our costs, adding complexity in doing business, impeding the efficiency of our internal business processes, negatively impacting the recoverability of certain of our recorded assets, requiring us to increase our regulatory capital, limiting our ability to pursue business opportunities, and otherwise resulting in a material adverse impact on our financial condition, results of operation, liquidity, or stock price.

Both the scope of the laws and regulations and the intensity of the supervision to which we are subject may increase in connection with legislative and regulatory developments to address perceived unfairness and abuses under current regulations. Regulatory enforcement and fines

have also increased across the banking and financial services sector. Compliance with these laws and regulations have resulted in and will continue to result in additional costs, which could be significant, and may have a material and adverse effect on our results of operations. In addition, if we do not appropriately comply with current or future legislation and regulations, especially those that apply to our consumer operations, which has been an area of heightened focus, we may be subject to fines, penalties or judgments, or material regulatory restrictions on our businesses, which could adversely affect operations and, in turn, financial results.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, OCC, the Department of Justice and other federal and state agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of direct and indirect negative consequence sanctions, including the required payment of damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions, or even the threat of such actions, could have a material adverse effect on the Company's business, financial condition or results of operations.

OFAC, the BSA and related FinCEN and FFIEC Guidelines and regulations could result in material implications.

Regulatory authorities routinely examine financial institutions for compliance with the USA PATRIOT ACT, OFAC, the BSA and related FinCEN and FFIEC Guidelines. Certain products we offer may expose us to enhanced risk in the event of noncompliance, including and not limited to providing our treasury management services to certain money transmitter and money services businesses. Failure to maintain and implement adequate programs as required by these obligations to combat terrorist financing, elder abuse, human trafficking, anti-money laundering and other suspicious activity and to fully comply with all of the relevant laws or regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and significant civil money penalties against institutions found to be violating these regulations.

Our business is subject to significant government regulation.

We operate in a highly-regulated environment and are subject to supervision or regulation by a number of governmental regulatory agencies, including the Federal Reserve Board, the OCC, the FDIC and the CFPB. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law.

We are subject to heightened regulatory requirements as our total assets exceed $10 billion.

Our total assets were approximately $13.11 billion as of December 31, 2023. The Dodd-Frank Act and its associated regulations impose various additional requirements on banks and bank holding companies with $10 billion or more in total assets, including a more frequent and enhanced regulatory examination regime. In addition, banks with $10 billion or more in total assets (including our bank) are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations, with the Federal Reserve Board maintaining supervision over some consumer related regulations. In light of evolving priorities among government and agency leaders, there is some uncertainty as to how the CFPB examination and regulatory authorities might impact our business in the near and medium terms.

Debit card interchange fee restrictions set forth in the Dodd-Frank Act, which is known as the Durbin Amendment, as implemented by regulations of the Federal Reserve Board, cap the maximum debit interchange fee that a debit card issuer with $10 billion or more in total assets may receive per transaction at the sum of $0.21 plus five basis points of the transaction. A debit card issuer that adopts certain fraud prevention procedures may charge an additional $0.01 per transaction. In July 2022, the Company became subject to the Durbin Amendment which reduced our interchange income per transaction in 2022 and going forward.

Federal income tax reform could have unforeseen effects on our financial condition and results of operations.

The recent changes in the political makeup of the Senate and House of Representatives in the U.S. Congress could result also in the reversal of some or all of the effects of the Tax Cuts and Jobs Act, which may have an adverse effect on our business, financial conditions and results of operations.

Our FDIC deposit insurance assessments could increase substantially resulting in higher operating costs.

We have historically paid the lowest premium rate available due to our sound financial position. Should the number of bank failures increase or the FDIC insurance fund become depleted in others ways, FDIC premiums could increase or additional special assessments could be

imposed. These increased premiums would have an adverse effect on our net income and results of operations. In the fourth quarter of 2023, the FDIC imposed a $1.75 million special assessment on the Bank in response to the FDIC-insured financial institutions that failed in March 2023.

Risks Related to Acquisition Activities

To continue our growth, we are affected by our ability to identify and acquire other financial institutions.

We intend to continue our current growth strategy, including opening new branches and acquiring other banks. The market for acquisitions remains highly competitive, and we may be unable to find satisfactory acquisition candidates in the future that fit our acquisition and growth strategy. To the extent that we are unable to find suitable acquisition candidates, an important component of our growth strategy may be lost. Additionally, our completed acquisitions, or any future acquisitions, may not produce the revenue, earnings or synergies that we anticipated.

We may not be able to complete future acquisitions, may not be successful in realizing the benefits of any acquisitions that are completed, or may choose not to pursue acquisition opportunities we might find beneficial.

A substantial part of our historical growth has been a result of acquisitions of other financial institutions, and we may, from time to time, evaluate and engage in the acquisition of other financial institutions. We must generally satisfy a number of conditions prior to completing any such transaction, including certain bank regulatory approvals. Bank regulators consider a number of factors with regard to all institutions involved in the transaction when determining whether to approve a proposed transaction, including, among others, condition of the Company, its ratings and compliance history, anti-money laundering and BSA compliance history, CRA evaluation results, fair lending history and the effect of the proposed transaction on the financial stability of the institutions involved and the market as a whole.

The process for obtaining required regulatory approvals has become substantially more difficult, time-consuming and unpredictable. We may fail to pursue, evaluate or complete strategic and competitively significant business opportunities as a result of our inability, or our perceived inability, to obtain required regulatory approvals in a timely manner or at all.

Assuming we are able to successfully complete one or more transactions, we may not be able to successfully integrate and realize the expected synergies from any completed transaction in a timely manner or at all. In particular, we may be charged by federal and state regulators with regulatory and compliance failures at an acquired business prior to the date of the acquisition, and these failures by the acquired company may have negative consequences for us, including the imposition of formal or informal enforcement actions. Completion and integration of any transaction may also divert management's attention from other matters, result in additional costs and expenses, or adversely affect our relationships with our customers and employees, any of which may adversely affect our business or results of operations. As a result, our financial condition may be affected, and we may become more susceptible to general economic conditions and competitive pressures.

Use of our common stock for future acquisitions or to raise capital may be dilutive to existing stockholders.

When we determine that appropriate strategic opportunities exist, we may acquire other financial institutions and related businesses, subject to applicable regulatory requirements. We may use our common stock for such acquisitions. We may also seek to raise capital through selling additional common stock, although we have not historically done so. It is possible that the issuance of additional common stock in such acquisition or capital transactions may be dilutive to the interests of our existing shareholders.

Risks Associated with our Common Stock

The trading volume in our common stock is less than other larger financial institutions.

Although the Company's common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other, larger financial services companies although such volume has increased in recent years. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause the Company's stock price to fall.

Our stock ownership has shifted to larger institutional shareholders.

Our ownership base has shifted over the past several years resulting in institutional investors and indexed funds holding approximately 56% of our shares as compared to shareholders located in our footprint and other retail individual investors. These institutional shareholders could decide to sell their holdings in our common stock and as such could result in lower market prices of our stock.

Certain banking laws may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it more difficult for a third-party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. These provisions effectively inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

We may not continue to pay dividends on our common stock in the future.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividends in the future. This could adversely affect the market price of our common stock. Also, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends.

The Company's stock price can be volatile.

Stock price volatility may make it more difficult for our shareholders to resell their common stock when they want and at prices they find attractive. The Company's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- new reports relating to trends, concerns and other issues in the financial services industry or Texas economy, including oil and gas and cattle prices;
- perceptions in the marketplace regarding the Company and/or its competitors;
- new technology used, or services offered, by competitors;
- governmental investigations of the Company or administrative actions imposed by bank regulatory agencies;
- significant acquisitions or business combinations involving the Company or its competitors; and
- changes in government regulations, including tax laws.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends could also cause the Company's stock price to decrease regardless of operational results.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this Report. As a result, if you acquire our common stock, you may lose some or all of your investment.

General Risk Factors

If we are unable to continue our historical levels of growth, we may not be able to maintain our historical earnings trends.

To achieve our past levels of growth, we have focused on both internal growth and acquisitions. We may not be able to sustain our historical rate of growth or may not be able to grow at all. Additionally, we may not be able to obtain the financing necessary to fund additional growth and may not be able to find suitable acquisition candidates. Various factors, such as economic conditions, competition and heightened regulatory scrutiny, may impede or prohibit the opening of new banking centers and the completion of acquisitions. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our internal growth. If we are not able to continue our historical levels of growth, we may not be able to maintain our historical earnings trends.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

The Company's Information Security Program ("Program") uses a variety of safeguards to protect the confidentiality, integrity, and availability of information. The Program is designed to identify, prevent, or mitigate the risks from cybersecurity threats. The Program leverages recognized security frameworks, such as National Institute of Standards and Technology (NIST) and Federal Financial Institutions Examination Council (FFEIC), to organize, improve, and assess the program and to better manage and reduce cybersecurity risk. The Program is assessed and updated annually and as needed.

The Program is integrated into the Company's enterprise risk management program. The Company regularly assesses the threats and vulnerabilities to its environment so it can update and maintain its systems and controls to effectively mitigate these risks. Layered security controls are designed to complement each other to protect customer information and transactions. The Company periodically engages third-party experts and consultants to conduct evaluations of our security controls, whether through penetration testing, audits, assessments, or consulting on best practices to address new challenges. Results are used to help drive priorities and initiatives to improve the Program. Additionally, as a regulated entity, bank regulators assess the quality of our information security program during their regular examinations of the Company and its compliance with federal regulations and requirements.

The Company's third-party risk management program is designed to oversee and identify the cybersecurity threats associated with the use of third-party service providers. While the optics into a third-party's operation are limited, the Company performs risk-based evaluations of third-party service providers. These evaluations including reviewing information including, but not limited to, security assessment questionnaires, security testing summaries, audit reports performed under the SSAE 18 Audit Standard, and information security policies.

We view security awareness as a continuous program. All Company employees receive cybersecurity and fraud training at required new employee orientation and subsequently receive information security tips via email each business day. Employees also receive monthly security awareness video training and are required to complete annual computer-based training. The Company also provides information security awareness training to business customers and individuals in our communities.

During the fiscal year of this Report, the Company has not identified risks from cybersecurity threats that individually or in the aggregate have materially affected or are reasonably anticipated to materially affect the organization. Nevertheless, the Company recognizes cybersecurity threats are ongoing and evolving, and we continue to remain vigilant.

Governance

The Company's system of internal controls also incorporates a protocol for the appropriate reporting and escalation of information and cyber security matters to management and the Board of Directors for resolution and, if necessary, disclosure of any material incidents. The Board of Directors is actively engaged in the oversight of the Company's continuous efforts to reinforce and enhance its operational resilience and receives education to enhance their oversight efforts accommodate for the ever-evolving information and cyber security threat landscape. The Chief Information Security Officer ("CISO") regularly updates these committees on the information and cyber security risks, threats, exposures, and mitigation measures. The Company's incident response process is periodically tested and includes cybersecurity scenarios.

The Program is included in the Company's enterprise risk management program. The CISO is responsible for developing and implementing our Program and reporting on cybersecurity matters to the Board. Our CISO has over 20 years of related experience, and others on our Corporate Information Security team have cybersecurity experience or certifications, such as the Certified Information Systems Security Professional certification. We view cybersecurity as a shared responsibility, and we periodically perform simulations and tabletop exercises at a management level and incorporate external resources and advisors as needed.

The Program is overseen by the Company's Risk Committee, First Technology Services Board of Directors, Technology Risk Committee, and Security Advisory Committee. Additionally, the First Financial Trust and Asset Management Board of Directors oversee the Program as it relates to the trust subsidiary. Operational committees that manage risks associated with cybersecurity are Change Control Committee and Patch Management Committee.

The Company's Board of Directors and subsidiary technology and trust companies' Boards of Directors monitor the Program including policies and practices. The Company's Risk Committee and technology company's Board of Directors oversees areas of operational risk such as information technology activities; risks associated with development, infrastructure, and cybersecurity; oversight of information security risk assessments, strategies, policies, and programs; and disaster recovery, business continuity, and incident response process. The CISO also provides periodic cybersecurity updates to the Audit Committee and the Audit Committee Chairman is member of the Risk Committee. The management-level Technology Risk Committee and Security Advisory Committee oversee management of the Program and related assessments. Operational committees that manage risks associated with cybersecurity are Change Control Committee and Patch Management Committee.

We face a number of cybersecurity risks in connection with our business. Although such risks have not materially affected us, including our business strategy, results of operations or financial condition, to date, we have, from time to time, experienced threats to and breaches of our data and systems, including malware and computer virus attacks. For more information about the cybersecurity risks we face, see the risk factor entitled "Disruptions in our information technology systems or a compromise of security with respect to our systems could adversely affect our operating results by limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, implement strategic initiatives or support our customer transactions" and "Our business may be adversely affected by security breaches at third-parties." in Item 1A- Risk Factors.

ITEM 2. PROPERTIES

Our principal office is located in the First Financial Bank Building at 400 Pine Street in downtown Abilene, Texas. We lease two spaces in buildings owned by First Financial Bank, N.A. totaling approximately 10,155 square feet. As of December 31, 2023, our subsidiaries collectively own 78 banking, trust and mortgage facilities, some of which are detached drive-ins, and also lease 12 banking facilities and 12 ATM locations. Our management considers all our existing locations to be well-suited for conducting the business of banking. We are in the process of constructing a new branch location in our existing market in Bryan, Texas.

ITEM 3. 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 our other direct and indirect subsidiaries, or any of their properties, are currently subject. Other than regular, routine examinations by state and federal banking authorities, there are no material proceedings pending or known to be contemplated by any governmental authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, par value $0.01 per share, is traded on the Nasdaq Global Select Market under the trading symbol "FFIN".

Record Holders

As of February 1, 2024, we had 874 registered shareholders of record with our stock transfer agent.

Dividends

See "Item 8—Financial Statements and Supplementary Data—Quarterly Results of Operations" for the frequency and amount of cash dividends paid by us. Also, see "Item 1 – Business – Supervision and Regulation – Payment of Dividends" and "Item 7 – Management's Discussion and Analysis of the Financial Condition and Results of Operations – Capital and Liquidity – Dividends" for restrictions on our present or future ability to pay dividends, particularly those restrictions arising under federal and state banking laws.

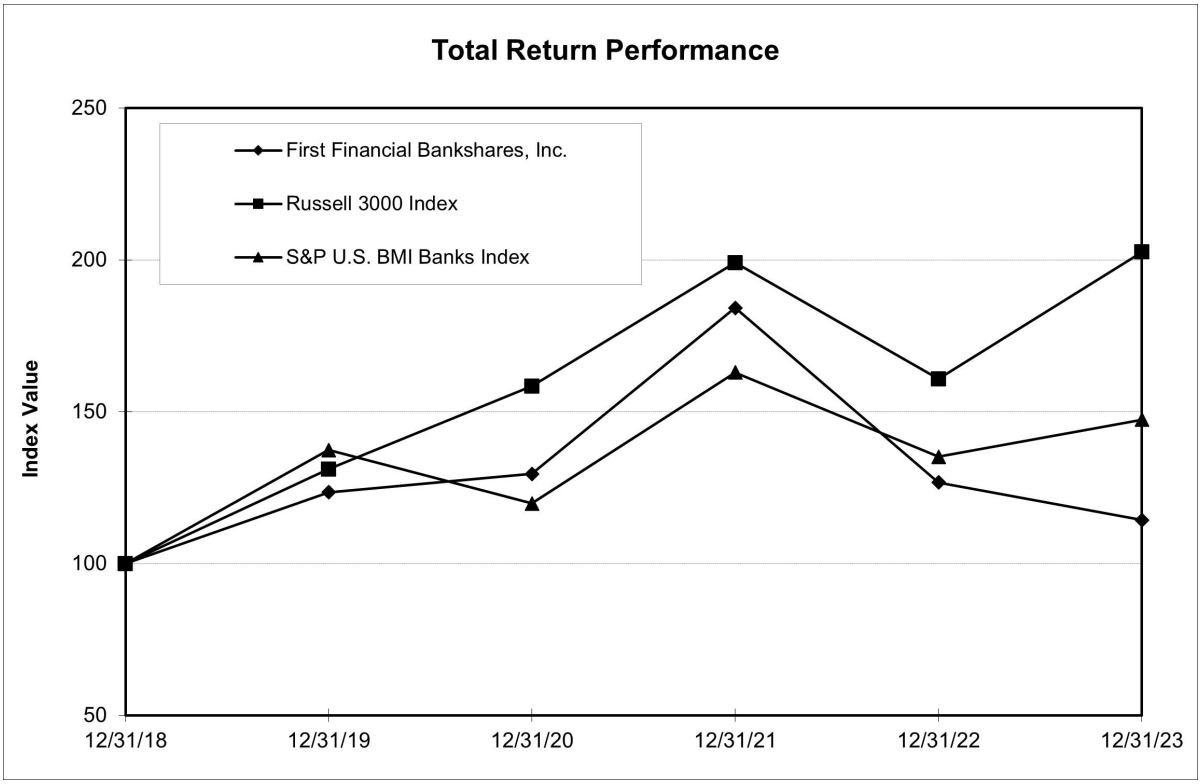
Equity Compensation Plans

See "Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

PERFORMANCE GRAPH

The following performance graph compares cumulative total shareholder returns for our common stock, the Russell 3000 Index, and the S&P U.S. BMI Banks Index, which is a banking index prepared by S&P Global Market Intelligence and is comprised of all U.S. domiciled banks, for a five-year period (December 31, 2018 to December 31, 2023). The performance graph assumes $100 invested in our common stock at its closing price on December 31, 2018, and in each of the Russell 3000 Index and the S&P U.S. BMI Banks Index on the same date. The performance graph also assumes the reinvestment of all dividends. The dates on the performance graph represent the last trading day of each year indicated. The amounts noted on the performance graph have been adjusted to give effect to all stock splits and stock dividends.

First Financial Bankshares, Inc



	Period Ending					
Index	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**
First Financial Bankshares, Inc.	100.00	123.48	129.50	184.19	126.70	114.29
Russell 3000 Index	100.00	131.02	158.39	199.03	160.80	202.54
S&P U.S. BMI Banks Index	100.00	137.36	119.83	162.92	135.13	147.41

Source: S&P Global Market Intelligence
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ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to those listed in "Item 1A – Risk Factors" and in the "Cautionary Statement Regarding Forward-Looking Statements" notice on page 1.

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 the major elements of our consolidated balance sheets as of December 31, 2023 and 2022, and consolidated statements of earnings for the years 2021 through 2023 should be read in conjunction with our consolidated financial statements, accompanying notes, and selected financial data presented elsewhere in this 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 (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

We deem our most critical accounting policies to be (1) our allowance for credit losses and our provision for credit losses and (2) our valuation of financial instruments. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period. A discussion of (1) our allowance for credit losses and our provision for credit losses and (2) our valuation of financial instruments is included in Notes 1 and 10, respectively, to our Consolidated Financial Statements.

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 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. Under the prior authorization, 244,559 shares were repurchased and retired (all during the months of June and July 2022) at an average price of $38.61 per share. Under the current authorization, the Company has repurchased and retired 101,337 shares (all during September 2023) at an average price of $26.99 per share.

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 generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not have a significant impact on our financial statements.

ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." ASU 2021-01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also

amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2021-01 did not have a significant impact on our financial statements.

ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. ASU 2022-02 will also require that an entity disclosure current-period gross charge-offs by year of origination for financial receivables and net investment leases within scope of ASC Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost. ASU 2022-02 will become effected for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, though early adoption is permitted. The adoption of ASU 2022-02 is not expected to have a significant impact on our financial statements.

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.

ASU 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." ASU 2023-02 is intended to improve the accounting and disclosures for investments in tax credit structures. ASU 2023-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. Previously, this method was only available for qualifying tax equity investments in low-income housing tax credit structures. ASU 2023-02 has been early adopted by the Company as it relates to the qualifying investments that are generating New Market Tax Credits. The adoption of ASU 2023-02 did not have a significant impact on our financial statements.

ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." ASU 2023-09 requires entities to disclose more detailed information in their reconciliation of their statutory tax rate to their effective tax rate. Public business entities (PBEs) are required to provide this incremental detail in a numerical, tabular format. The ASU also requires entities to disclose more detailed information about income taxes paid, including by jurisdiction; pretax income (or loss) from continuing operations; and income tax expense (or benefit). PBEs will be required to adopt the new requirements in annual reporting periods beginning after December 15, 2024, and interim periods beginning after December 15, 2025.The adoption of ASU 2023-09 is not expected to have a significant impact on our financial statements.

Selected Financial Data

The selected financial data presented below as of and for the years ended December 31, 2023, 2022, 2021, 2020, and 2019, have been derived from our audited consolidated financial statements. The data set forth below may not be fully comparable from period to period due to an acquisition in 2020 and changes in accounting, including the allowance for credit losses in 2020 (see Notes 1 and 3 to the Notes to Consolidated Financial Statements for further information). The results of operations presented below are not necessarily indicative of the results of operations that may be achieved in the future.

	Year Ended December 31,				
	2023	2022	2021	2020	2019
	(dollars in thousands, except per share data)				
Summary Income Statement Information:					
Interest income	$ 528,070	$ 432,854	$ 376,405	$ 364,128	$ 319,192
Interest expense	144,261	31,440	6,042	14,243	30,102
Net interest income	383,809	401,414	370,363	349,885	289,090
Provision for credit losses	10,631	17,427	(1,139)	19,517	2,965
Noninterest income	108,003	131,665	142,176	139,935	108,428
Noninterest expense	237,882	234,778	241,708	227,938	196,521
Earnings before income taxes	243,299	280,874	271,970	242,365	198,032
Income tax expense	44,322	46,399	44,408	40,331	33,220
Net earnings	$ 198,977	$ 234,475	$ 227,562	$ 202,034	$ 164,812
Per Share Data:					
Earnings per share, basic	$ 1.39	$ 1.64	$ 1.60	$ 1.42	$ 1.22
Earnings per share, diluted	1.39	1.64	1.59	1.42	1.21
Cash dividends declared	0.71	0.66	0.58	0.51	0.47
Book value at period-end	10.50	8.87	12.34	11.80	9.03
Earnings performance ratios:					
Return on average assets	1.55 %	1.76 %	1.89 %	1.98 %	2.08 %
Return on average equity	14.99	16.72	13.31	12.93	14.37
Dividend payout ratio	50.96	40.18	36.30	35.88	38.31
Summary Balance Sheet Data (Period-end):					
Securities	$ 4,732,762	$ 5,474,359	$ 6,573,179	$ 4,393,029	$ 3,413,317
Loans, held-for-investment	7,148,791	6,441,868	5,388,972	5,171,033	4,194,969
Total assets	13,105,594	12,974,066	13,102,461	10,904,500	8,262,227
Deposits	11,138,300	11,005,507	10,566,488	8,675,817	6,603,806
Total liabilities	11,606,694	11,708,329	11,343,237	9,226,310	7,035,030
Total shareholders' equity	1,498,900	1,265,737	1,759,224	1,678,190	1,227,197
Asset quality ratios:					
Allowance for credit losses/period-end loans held-for-investment	1.24 %	1.18 %	1.18 %	1.29 %	1.25 %
Nonperforming assets/period-end loans held-for-investment plus foreclosed assets	0.49	0.38	0.63	0.83	0.61
Net charge offs (recoveries)/average loans	0.03	(0.01)	0.02	0.06	0.04
Capital ratios:					
Average shareholders' equity/average assets	10.32 %	10.55 %	14.20 %	15.32 %	14.44 %
Leverage ratio (1)	12.06	10.96	11.13	11.86	12.60
Tier 1 risk-based capital (2)	18.50	18.22	19.35	20.79	20.06
Common equity tier 1 capital (3)	18.50	18.22	19.35	20.79	20.06
Total risk-based capital (4)	19.62	19.29	20.34	22.03	21.13

(1) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets by fourth quarter average assets less intangible assets.

(2) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets by risk-adjusted assets.

(3) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets by risk-adjusted assets.

(4) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets plus allowance for loan losses to the extent allowed under regulatory guidelines by risk-adjusted assets.

Results of Operations

Performance Summary. Net earnings for 2023 were $198.98 million compared to net earnings of $234.48 million for 2022. Included in earnings for the year ended December 31, 2023, when compared to the year ended December 31, 2022, were (i) a decrease of $17.61 million in net interest income, (ii) a decrease in debit card revenues of $8.56 million, (iii) a decrease in mortgage revenues of $7.15 million, (iv) a $9.26 million decline in gains on sales of securities, and (v) an increase of $4.04 million in FDIC insurance premiums, which includes a $1.75 million special assessment. Offsetting these reductions to earnings were (i) a decline of $6.80 million in the provision for credit losses and (ii) a decline of $5.30 million in incentive and profit sharing expenses.

Net earnings for 2022 were $234.48 million compared to $227.56 million for 2021. The increase in net earnings for 2022 over 2021 was primarily attributable to the overall growth in net interest income from the growth in earning assets. Net earnings in 2022 also include a provision for credit losses of $17.43 million compared to a net reversal of provision for credit losses of $1.14 million in 2021. The increased provision for credit losses in 2022 over 2021 was driven by strong organic loan growth, increases in unfunded commitments and a slight decline in the projected economic forecast metrics post pandemic highs.

On a diluted net earnings per share basis, net earnings were $1.39 for 2023, as compared to $1.64 for 2022 and $1.59 for 2021. The return on average assets was 1.55% for 2023, as compared to 1.76% for 2022 and 1.89% for 2021. The return on average equity was 14.99% for 2023, as compared to 16.72% for 2022 and to 13.31% for 2021.

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

Tax-equivalent net interest income was $395.36 million in 2023, as compared to $416.84 million in 2022, and $385.05 million in 2021. Average earning assets were $12.00 billion in 2023, as compared to $12.46 billion in 2022 and $11.34 billion in 2021. The decrease in tax-equivalent net interest income in 2023 compared to 2022 was largely attributable to the increases in the rates paid on deposits and borrowings and a change in the mix of interest earning assets. The decrease of $461.72 million in average earning assets in 2023 when compared to 2022 was primarily a result of a decrease in taxable securities of $531.39 million and tax-exempt securities of $689.37 million offset by an increase in loans of $860.76 million when compared to 2022. The increase in tax-equivalent net interest income in 2022 compared to 2021 was largely attributable to increases in interest earning assets. The increase of $1.13 billion in average earning assets in 2022 when compared to 2021 was primarily a result of increases in taxable securities of $1.13 billion and loans of $582.26 million offset by a decrease in short-term investments of $372.77 million and tax-exempt securities of $216.64 million when compared to 2021. Average interest-bearing liabilities were $7.84 billion in 2023, as compared to $7.76 billion in 2022 and $6.78 billion in 2021. The yield on earning assets increased 90 basis points in 2023 when compared to 2022 while the rate paid on interest-bearing liabilities increased 143 basis points. The yield on earning assets increased 15 basis points in 2022 when compared to 2021 while the rate paid on interest-bearing liabilities increased 32 basis points.

The table below allocates the change in tax-equivalent net interest income between the amount of change attributable to volume and to rate.

Changes in Interest Income and Interest Expense (in thousands):

	2023 Compared to 2022			2022 Compared to 2021		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ (1,698)	$ 4,014	$ 2,316	$ (458)	$ 3,415	$ 2,957
Taxable investment securities	(10,401)	11,402	1,001	18,527	13,007	31,534
Tax-exempt investment securities (1)	(20,544)	(1,784)	(22,328)	(6,080)	3,970	(2,110)
Loans (1) (2)	43,232	67,123	110,355	29,729	(4,928)	24,801
Interest income	10,589	80,755	91,344	41,718	15,464	57,182
Interest-bearing deposits	877	97,707	98,584	670	19,872	20,542
Repurchase agreements	(324)	14,401	14,077	85	1,650	1,735
Borrowings	(1,142)	1,301	159	53	3,069	3,122
Interest expense	(589)	113,409	112,820	808	24,591	25,399
Net interest income	$ 11,178	$ (32,654)	$ (21,476)	$ 40,910	$ (9,127)	$ 31,783

(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 for 2023 was 3.29% which was a decrease of five basis points from 2022. The net interest margin in 2022 was 3.34%, a decrease of six basis points from 2021. We experienced downward pressure on our net interest margin the majority of 2023 compared to 2022 primarily due to (i) the effects of the Federal Reserve Board'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 leading up to the first quarter of 2022, and (ii) the shift in the mix of interest-earning assets and interest-bearing deposits. The Federal Reserve Board 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, May, and July 2023, respectively, resulting in a target rate range of 5.25% to 5.50% at December 31, 2023.

Loan rates on variable loans have increased as the majority of such loans are indexed to the applicable prime rate (8.50% at December 31, 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 43).

During 2022, we increased rates on each of the primary depository products in response to the increasing federal funds rate. Additionally, we have approximately $985 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 $1.46 billion and $1.48 billion for the years ended December 31, 2023 and 2022, respectively, with an average rate paid of 3.13% and 1.01%, for the respective years then ended.

The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in the table below for the years 2021 through 2023.

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

	2023			2022			2021		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Short-term investments (1)	$ 118,008	$ 6,012	5.09 %	$ 219,721	$ 3,696	1.68 %	$ 592,494	$ 739	0.12 %
Taxable investment securities (2)	3,500,839	79,925	2.28	4,032,228	78,924	1.96	2,898,924	47,390	1.63
Tax-exempt investment securities (2)(3)	1,597,204	45,815	2.87	2,286,578	68,143	2.98	2,503,220	70,253	2.81
Loans (3)(4)	6,784,352	407,870	6.01	5,923,594	297,515	5.02	5,341,332	272,714	5.11
Total earning assets	12,000,403	$ 539,622	4.50 %	12,462,121	$ 448,278	3.60 %	11,335,970	$ 391,096	3.45 %
Cash and due from banks	231,046			231,718			209,384		
Bank premises and equipment, net	152,477			150,561			145,504		
Other assets	245,550			195,664			97,952		
Goodwill and other intangible assets, net	315,067			316,115			317,527		
Allowance for credit losses	(83,281)			(69,508)			(64,082)		
Total assets	$ 12,861,262			$ 13,286,671			$ 12,042,255		
Liabilities and Shareholders' Equity									
Interest-bearing deposits	$ 7,188,171	$ 124,830	1.74 %	$ 6,955,783	$ 26,246	0.38 %	$ 6,224,621	$ 5,704	0.09 %
Repurchase Agreements	568,205	16,139	2.84	674,226	2,062	0.31	535,066	327	0.06
Borrowings	81,262	3,292	4.05	127,865	3,133	2.45	21,544	11	0.05
Total interest-bearing liabilities	7,837,638	$ 144,261	1.84 %	7,757,874	$ 31,441	0.41 %	6,781,231	$ 6,042	0.09 %
Noninterest-bearing deposits	3,632,559			4,063,740			3,449,313		
Other liabilities	63,238			62,953			102,279		
Total liabilities	11,533,435			11,884,567			10,332,823		
Shareholders' equity	1,327,827			1,402,104			1,709,432		
Total liabilities and shareholders' equity	$ 12,861,262			$ 13,286,671			$ 12,042,255		
Net interest income		$ 395,361			$ 416,837			$ 385,054	
Rate Analysis:									
Interest income/earning assets			4.50 %			3.60 %			3.45 %
Interest expense/earning assets			(1.21)			(0.26)			(0.05)
Net interest margin			3.29 %			3.34 %			3.40 %

(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 AFS securities.
(3) Includes tax-equivalent yield adjustment of approximately $11.55 million, $15.42 million and $14.69 million for the years ended December 31, 2023, 2022 and 2021, respectively, using an effective tax rate of 21%.
(4) Includes nonaccrual loans.
(5) Calculations for 2023 and 2022 have been adjusted to remove the effect of TEFRA allowance

Noninterest Income. Noninterest income for 2023 was $108.00 million compared to $131.67 million in 2022. Changes in certain categories of noninterest income included (1) a decline in gains on sales of AFS securities of $9.26 million, (2) a decrease in debit card fees of $8.56 million, and (3) a decrease in gain on sale and fees of mortgage loans of $7.15 million when compared to 2022. Available for sale securities totaling $411.13 million with an average book yield of 2.91% were sold during 2023. The proceeds from the sales of these securities are being used to fund organic loan growth that is yielding approximately 8%, resulting in an anticipated earn back period of less than 18 months. The decrease in debit card fees was due to the impact of becoming subject to regulations imposed by the Federal Reserve Board that limits debit card interchange revenue which became effective for the Company as of July 1, 2022, and is consistent with our previously disclosed expectations. Mortgage income declined due to lower overall origination volumes and declining margins on loan sales as a result of the increases in mortgage interest rates during the year.

Noninterest income for 2022 was $131.67 million, a decrease of $10.51 million, or 7.39%, as compared to 2021. Changes in certain categories of noninterest income included (1) an increase in trust fees of $3.85 million, (2) an increase in service charges on deposit accounts of $3.38 million, (3) an increase in the net gain on sale of AFS securities of $1.33 million, offset by (4) a decrease in gain on sale and fees of mortgage loans of $14.21 million, and (5) a decrease in debit card fees of $5.63 million. The increase in trust fees resulted from an increase in assets under management over the prior year and an increase in oil and gas production fees driven by increasing oil and gas prices. The fair value of our trust assets managed, which are not reflected in our consolidated balance sheets, totaled $8.75 billion at December 31, 2022. Oil and gas production fees increased related trust fees by $2.77 million in 2022 over 2021. The increase in service charges on deposits was driven by more than 10,500 net new accounts opened in 2022 and growth in treasury management services. Mortgage income declined due to lower overall origination volumes and declining margins on loan sales as a result of the increase in interest rates. The decrease in debit card fees was due to the impact of becoming subject to regulations imposed by the Federal Reserve Board that limits debit card interchange revenue which became effective for the Company as of July 1, 2022, and is consistent with our previously disclosed expectation.

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, as amended, the Company became subject to the limitation effective July 1, 2022, which reduced debit card fees during 2023 compared to 2022, as discussed above.

Noninterest Income (in thousands):

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Trust fees	$ 40,456	$ 461	$ 39,995	$ 3,850	$ 36,145
Service charges on deposit accounts	25,378	838	24,540	3,384	21,156
Debit card fees	21,721	(8,559)	30,280	(5,625)	35,905
Credit card fees	2,645	60	2,585	212	2,373
Gain on sale and fees of mortgage loans	11,890	(7,145)	19,035	(14,210)	33,245
Net gain on sale of available-for-sale securities	(7,119)	(9,263)	2,144	1,329	815
Net gain on sale of foreclosed assets	46	(1,405)	1,451	1,261	190
Net gain on sale of assets	1,525	1,005	520	310	210
Interest on loan recoveries	2,055	(785)	2,840	(1,199)	4,039
Other:					
Check printing fees	110	(21)	131	(81)	212
Safe deposit rental fees	803	(32)	835	(32)	867
Credit life and debt protection fees	605	(414)	1,019	(74)	1,093
Brokerage commissions	1,511	73	1,438	46	1,392
Wire transfer fees	1,646	(8)	1,654	230	1,424
Miscellaneous income	4,731	1,533	3,198	88	3,110
Total other	9,406	1,131	8,275	177	8,098
Total Noninterest Income	$ 108,003	$ (23,662)	$ 131,665	$ (10,511)	$ 142,176

Noninterest Expense. Total noninterest expense for 2023 amounted to $237.88 million, an increase of $3.10 million, or 1.32%, as compared to 2022. Total noninterest expense for 2022 was $234.78 million, a decrease of $6.93 million, or 2.87%, as compared to 2021. An important measure in determining whether a financial institution effectively manages noninterest expenses is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Lower ratios indicate better efficiency since more income is generated with a lower noninterest expense total. Our efficiency ratio for 2023 was 47.26%, as compared to 42.80% for 2022 and 45.84% for 2021.

Salaries and employee benefits for 2023 totaled $131.92 million, a decrease of $2.22 million, or 1.65%, as compared to 2022. The net decrease reflected a decrease of $2.86 million in profit sharing expenses and lower mortgage compensation expenses of $2.40 million offset by annual merit-based and other market-based pay increases that were effective March 1, 2023.

All other categories of noninterest expense for 2023 totaled $105.97 million, an increase of $5.32 million, or 5.29%, as compared to 2022. Included in noninterest expense during 2023, excluding salary and employee benefit related costs, were increases in FDIC insurance premiums of $4.04 million primarily due to the recognition of $1.75 million related to the special assessment in the fourth quarter of 2023.

Salaries and employee benefits for 2022 totaled $134.13 million, a decrease of $7.91 million, or 5.57%, as compared to 2021. The change reflected a decrease of $5.90 million in profit sharing expenses and lower mortgage compensation expenses of $4.94 million offset by annual merit-based and other market-based pay increases that were effective March 1, 2022.

All other categories of noninterest expense for 2022 totaled $100.65 million, an increase of $979 thousand, or 0.98%, as compared to 2021. Included in noninterest expense during 2022, excluding salary and employee benefit related costs, during 2022 were decreases of $1.16 million in software amortization and expense offset by increases in FDIC insurance premiums of $851 thousand due to the increase in the average assets with tangible equity and loan related fees within other miscellaneous expense of $745 thousand due to the increase in the loan portfolio during 2022.

Noninterest Expense (in thousands):

	2023	Increase (Decrease)	2022	Increase (Decrease)	2021
Salaries, commissions and incentives (excluding mortgage)	$ 97,155	$ 3,264	$ 93,891	$ 1,867	$ 92,024
Mortgage salaries and incentives	8,295	(2,395)	10,690	(4,942)	15,632
Medical	10,475	(710)	11,185	142	11,043
Profit sharing	1,373	(2,860)	4,233	(5,901)	10,134
401(k) match expense	3,750	75	3,675	85	3,590
Payroll taxes	7,278	146	7,132	158	6,974
Stock based compensation	3,589	262	3,327	682	2,645
Total salaries and employee benefits	131,915	(2,218)	134,133	(7,909)	142,042
Net occupancy expense	13,766	459	13,307	298	13,009
Equipment expense	8,545	(507)	9,052	(121)	9,173
FDIC assessment fees	7,749	4,038	3,711	581	3,130
Debit card expense	12,933	702	12,231	274	11,957
Professional and service fees	9,810	1,040	8,770	(564)	9,334
Printing, stationery and supplies	2,454	340	2,114	204	1,910
Operational and other losses	3,842	613	3,229	(64)	3,293
Software amortization and expense	10,288	325	9,963	(1,157)	11,120
Amortization of intangible assets	912	(333)	1,245	(368)	1,613
Other:					
Data processing fees	2,051	284	1,767	(15)	1,782
Postage	1,449	115	1,334	(205)	1,539
Advertising	2,779	(48)	2,827	(198)	3,025
Correspondent bank service charges	830	(191)	1,021	20	1,001
Telephone	3,340	273	3,067	(560)	3,627
Public relations and business development	3,252	(303)	3,555	212	3,343
Directors' fees	2,546	10	2,536	162	2,374
Audit and accounting fees	2,241	441	1,800	41	1,759
Legal fees and other related costs	1,535	(335)	1,870	(381)	2,251
Regulatory exam fees	1,272	(314)	1,586	163	1,423
Travel	1,858	218	1,640	222	1,418
Courier expense	1,218	22	1,196	248	948
Other real estate owned	90	87	3	(46)	49
Other miscellaneous expense	11,207	(1,614)	12,821	2,233	10,588
Total other	35,668	(1,355)	37,023	1,896	35,127
Total Noninterest Expense	$ 237,882	$ 3,104	$ 234,778	$ (6,930)	$ 241,708

Income Taxes. Income tax expense was $44.32 million for 2023, as compared to $46.40 million for 2022 and $44.41 million for 2021. Our effective tax rates on pretax income were 18.22%, 16.52% and 16.33%, respectively, for the years 2023, 2022 and 2021. The effective tax rates differ from the statutory federal tax rate of 21.0% largely 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 distribution under our deferred compensation plan and vesting of equity awards, and New Market Tax Credit ("NMTC") benefits.

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 December 31, 2023, total loans HFI were $7.15 billion, an increase of $706.92 million as compared to December 31, 2022.

As compared to year-end 2022 balances, total commercial loans increased $241.25 million, agricultural loans increased $7.94 million, total real estate loans increased $479.96 million, and total consumer loans decreased $22.23 million. Loans averaged $6.78 billion during 2023, an increase of $860 million over 2022 average balances.

In conjunction with the adoption of ASC 326, the Company expanded its four loan portfolio segments used under the legacy disclosure requirements into the following ten portfolio segments. 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. This additional segmentation allows for a more precise pooling of loans with similar credit risk characteristics and credit monitor procedures for the Company's calculation of its allowance for credit losses.

The table below outlines the composition of the Company's HFI loans by portfolio segment. For all periods prior to December 31, 2020, management has elected to maintain its previously disclosed loan portfolio segments.

Composition of Loans Held-For-Investment (in thousands):

	December 31,				
	2023	2022	2021	2020	2019
Commercial:					
C&I	$ 1,164,811	$ 917,317	$ 837,075	$ 1,131,382	$ N/A
Municipal	214,850	221,090	177,905	181,325	N/A
Total Commercial	1,379,661	1,138,407	1,014,980	1,312,707	856,326
Agricultural	84,890	76,947	98,089	94,864	103,640
Real Estate:					
Construction & Development	963,158	959,426	749,793	553,959	N/A
Farm	344,954	306,322	217,220	152,237	N/A
Non-Owner Occupied CRE	827,969	732,089	623,434	617,686	N/A
Owner Occupied CRE	1,037,281	954,400	821,653	746,974	N/A
Residential	1,834,593	1,575,758	1,334,419	1,248,409	N/A
Total Real Estate	5,007,955	4,527,995	3,746,519	3,319,265	2,823,372
Consumer:					
Auto	521,859	550,635	405,416	353,595	N/A
Non-Auto	154,426	147,884	123,968	90,602	N/A
Total Consumer	676,285	698,519	529,384	444,197	411,631
Total	$ 7,148,791	$ 6,441,868	$ 5,388,972	$ 5,171,033	$ 4,194,969

Loans HFS, consisting of secondary market mortgage loans, totaled $14.25 million and $11.97 million at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, $3.18 million and $1.47 million are valued at the lower of cost or fair value, and the remaining amount is valued under the fair value option.

The Company has certain lending policies and procedures in place that are designed to maximize loan growth with an acceptable level of risk. Management reviews and approves these policies and procedures on an annual basis and makes changes as appropriate with input from our Board of Directors. Management receives and reviews monthly reports related to loan originations, quality, concentrations, delinquencies, nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geographic location.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. These agricultural loans are based primarily on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location within Texas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

Consumer loan underwriting utilizes methodical credit standards and analysis to supplement the Company's underwriting policies and procedures. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company's risk.

Maturity Distribution and Interest Sensitivity of Loans at December 31, 2023 (in thousands):

The following tables summarize maturity information of our loan portfolio as of December 31, 2023. The table 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.

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	$ 486,266	$ 550,273	$ 103,625	$ 24,647	$ 1,164,811
Municipal	5,637	44,443	110,999	53,771	214,850
Total Commercial	491,903	594,716	214,624	78,418	1,379,661
Agricultural	64,993	18,280	1,617	—	84,890
Real Estate:					
Construction & Development	397,118	199,262	230,838	135,940	963,158
Farm	19,651	68,288	173,533	83,482	344,954
Non-Owner Occupied CRE	100,973	233,174	362,955	130,867	827,969
Owner Occupied CRE	50,058	273,714	479,315	234,194	1,037,281
Residential	134,536	117,832	770,377	811,848	1,834,593
Total Real Estate	702,336	892,270	2,017,018	1,396,331	5,007,955
Consumer:					
Auto	6,735	504,045	11,079	—	521,859
Non-Auto	32,014	94,186	22,123	6,103	154,426
Total Consumer	38,749	598,231	33,202	6,103	676,285
Total	$ 1,297,981	$ 2,103,497	$ 2,266,461	$ 1,480,852	$ 7,148,791
% of Total Loans	18.16%	29.42%	31.70%	20.72%	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	$ 79,004	$ 324,154	$ 11,946	$ —	$ 415,104
Municipal	3,963	43,559	80,079	8,392	135,993
Total Commercial	82,967	367,713	92,025	8,392	551,097
Agricultural	9,103	12,859	333	—	22,295
Real Estate:					
Construction & Development	154,911	162,150	49,815	10,336	377,212
Farm	8,602	24,316	105,438	1,008	139,364
Non-Owner Occupied CRE	34,751	148,624	69,235	246	252,856
Owner Occupied CRE	27,602	160,146	40,152	170	228,070
Residential	57,001	96,629	484,586	102,155	740,371
Total Real Estate	282,867	591,865	749,226	113,915	1,737,873
Consumer:					
Auto	6,708	504,045	11,079	—	521,832
Non-Auto	27,835	92,441	21,813	3,272	145,361
Total Consumer	34,543	596,486	32,892	3,272	667,193
Total	$ 409,480	$ 1,568,923	$ 874,476	$ 125,579	$ 2,978,458
% of Total Loans	5.73 %	21.94 %	12.23 %	1.76 %	41.66 %

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	$ 407,262	$ 226,119	$ 91,679	$ 24,647	$ 749,707
Municipal	1,674	884	30,920	45,379	78,857
Total Commercial	408,936	227,003	122,599	70,026	828,564
Agricultural	55,890	5,421	1,284	—	62,595
Real Estate:					
Construction & Development	242,207	37,112	181,023	125,604	585,946
Farm	11,049	43,972	68,095	82,474	205,590
Non-Owner Occupied CRE	66,222	84,550	293,720	130,621	575,113
Owner Occupied CRE	22,456	113,568	439,163	234,024	809,211
Residential	77,535	21,203	285,791	709,693	1,094,222
Total Real Estate	419,469	300,405	1,267,792	1,282,416	3,270,082
Consumer:					
Auto	27	—	—	—	27
Non-Auto	4,179	1,745	310	2,831	9,065
Total Consumer	4,206	1,745	310	2,831	9,092
Total	$ 888,501	$ 534,574	$ 1,391,985	$ 1,355,273	$ 4,170,333
% of Total Loans	12.43 %	7.48 %	19.47 %	18.96 %	58.34 %

Of the $4.17 billion of the variable interest rate loans shown above, loans totaling $1.66 billion mature or reprice over the next twelve months. Of this amount, approximately $1.37 billion will reprice immediately upon changes in the underlying index rate (primarily U.S. prime rate) with the remaining $287 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 restructured loans plus foreclosed assets were $35.10 million at December 31, 2023, as compared to $24.33 million at December 31, 2022 and $34.16 million at December 31, 2021. As a percent of loans HFI and foreclosed assets, these assets were 0.49% at December 31, 2023, as compared to 0.38% at December 31, 2022 and 0.63% at December 31, 2021. As a percent of total assets, these assets were 0.27% at December 31, 2023, as compared to 0.19% at December 31, 2022 and 0.26% at December 31, 2021. We believe the level of these assets to be manageable and are not aware of any material classified credits not properly disclosed as nonperforming at December 31, 2023.

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

	At December 31,				
	2023	2022	2021	2020	2019
Nonaccrual loans	$ 33,609	$ 24,325	$ 31,673	$ 42,643	$ 24,608
Loans still accruing and past due 90 days or more	1,004	—	8	113	153
Nonperforming loans [1]	34,613	24,325	31,681	42,756	24,761
Foreclosed assets	483	—	2,477	142	1,009
Total nonperforming assets	$ 35,096	$ 24,325	$ 34,158	$ 42,898	$ 25,770
As a % of loans held-for-investment and foreclosed assets	0.49 %	0.38 %	0.63 %	0.83 %	0.61 %
As a % of total assets	0.27	0.19	0.26	0.39	0.31

(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 as of December 31, 2023 of approximately $913 thousand during the year ended December 31, 2023. If interest on these loans had been recognized on a full accrual basis during the year ended December 31, 2023, such income would have approximated $3.22 million.

Included in our loan portfolio are certain other loans not included in the table above that are deemed to be potential problem loans. Potential problem loans are those loans that are currently performing, but for which known information about trends, uncertainties or possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present repayment terms, possibly resulting in the transfer of such loans to nonperforming status. These potential problem loans totaled $5.46 million as of December 31, 2023.

See Note 3 to the Consolidated Financial Statements for more information on these assets.

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. The provision for credit losses was $10.63 million in 2023, a provision of $17.43 million in 2022, as compared to a reversal of provision of $1.14 million in 2021. The Company's provision for credit losses during 2023 was driven by strong organic loan growth offset by a decrease in construction and development unfunded commitments. The increase in the Company's provision for credit losses during 2022 was driven by strong organic loan growth, increases in unfunded commitments and a slight decline in the projected economic forecast metrics. The net reversal of the Company's provision for credit losses in 2021 reflected improvement in the economic outlook for our markets across Texas and overall improvements in asset quality offset by loan growth.

As a percent of average loans, net loan charge-offs were 0.03% during 2023, net recoveries of 0.01% during 2022, and net loan charge-offs of 0.02% during 2021. The allowance for credit losses as a percent of loans HFI was 1.24% as of December 31, 2023, as compared to 1.18% as of December 31, 2022, and 1.18% as of December 31, 2021. Included in the following tables are further analysis of our allowance for credit losses.

Although we believe we use the best information available to make credit loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A downturn in the economy or lower employment could result in increased levels of nonaccrual, past due 90 days or more and still accruing, foreclosed assets, charge-offs, increased provision for credit losses and reductions in income. Additionally, as an integral part of their examination process, bank regulatory agencies periodically review the adequacy of our allowance for credit losses. The banking agencies could require additions to our allowance for credit losses based on their judgment of information available to them at the time of their examinations of our bank subsidiary.

Table of Contents

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

	2023	2022	2021	2020	2019
Balance at January 1,	$ 75,834	$ 63,465	$ 66,534	$ 52,499	$ 51,202
Impact of adopting ASC 326	—	—	—	(619)	—
Initial allowance on acquired TB&T PCD loans	—	—	—	1,678	—
Charge-offs:					
Commercial:					
C&I	(1,816)	(589)	(1,600)	(2,516)	N/A
Municipal	—	—	—	—	N/A
Total Commercial	(1,816)	(589)	(1,600)	(2,516)	(1,545)
Agricultural	(9)	(9)	(2,683)	(372)	(319)
Real estate:					
Construction & Development	—	(100)	—	—	N/A
Farm	—	—	—	—	N/A
Non-Owner Occupied CRE	—	—	(6)	(563)	N/A
Owner Occupied CRE	(10)	(537)	(231)	(567)	N/A
Residential real estate	(258)	(186)	(93)	(373)	N/A
Total real estate	(268)	(823)	(330)	(1,503)	(1,335)
Consumer:					
Auto	(1,006)	(596)	(610)	(548)	N/A
Non-Auto	(600)	(435)	(285)	(375)	N/A
Total Consumer	(1,606)	(1,031)	(895)	(923)	(927)
Total charge-offs	(3,699)	(2,452)	(5,508)	(5,314)	(4,126)
Recoveries:					
Commercial:					
C&I	267	953	2,150	1,315	N/A
Municipal	—	—	—	—	N/A
Total Commercial	267	953	2,150	1,315	1,364
Agricultural	286	155	36	31	158
Real estate:					
Construction & Development	106	—	1	—	N/A
Farm	—	—	110	157	N/A
Non-Owner Occupied CRE	71	852	702	131	N/A
Owner Occupied CRE	227	699	821	17	N/A
Residential real estate	24	114	96	151	N/A
Total Real Estate	428	1,665	1,730	456	404
Consumer:					
Auto	398	293	401	269	N/A
Non-Auto	170	215	211	171	N/A
Total Consumer	568	508	612	440	532
Total recoveries	1,549	3,281	4,528	2,242	2,458
Net recoveries (charge-offs)	(2,150)	829	(980)	(3,072)	(1,668)
Provision for credit losses (excluding provision for unfunded commitment)	15,050	11,540	(2,089)	16,048	2,965
Balance at December 31,	$ 88,734	$ 75,834	$ 63,465	$ 66,534	$ 52,499
Loans, held-for-investment at year-end	$ 7,148,791	$ 6,441,868	$ 5,388,972	$ 5,171,033	$ 4,194,969
Average loans	6,784,352	5,923,594	5,341,332	5,152,531	4,074,667
Net (recoveries) charge-offs/average loans	0.03%	(0.01)%	0.02%	0.06%	0.04%
Allowance for credit losses/year-end loans held-for-investment	1.24%	1.18%	1.18%	1.29%	1.25%
Allowance for credit losses/nonaccrual, past due 90 days still accruing and restructured loans	256.36	311.75	200.33	155.61	212.02

Allocation of Allowance for Credit Losses (in thousands):

	At December 31,				
	2023	2022	2021	2020	2019
	Allocation Amount	Allocation Amount	Allocation Amount	Allocation Amount	Allocation Amount
Commercial:					
C&I	$ 15,698	$ 16,129	$ 12,280	$ 13,609	$ N/A
Municipal	195	1,026	348	1,552	N/A
Total Commercial	15,893	17,155	12,628	15,161	12,122
Agricultural	1,281	1,041	1,597	1,255	1,206
Real estate:					
Construction & Development	28,553	26,443	17,627	13,512	N/A
Farm	2,914	1,957	663	1,876	N/A
Non-Owner Occupied CRE	13,425	9,075	10,722	8,391	N/A
Owner Occupied CRE	13,813	9,928	10,828	12,347	N/A
Residential real estate	11,654	9,075	8,133	12,601	N/A
Total Real Estate	70,359	56,478	47,973	48,727	33,974
Consumer:					
Auto	810	845	896	1,020	N/A
Non-Auto	391	315	371	371	N/A
Total Consumer	1,201	1,160	1,267	1,391	5,197
Total	$ 88,734	$ 75,834	$ 63,465	$ 66,534	$ 52,499

Percent of Loans in Each Category of Total Loans:

	At December 31,				
	2023	2022	2021	2020	2019
Commercial:					
C&I	16.29%	14.24%	15.53%	21.88%	N/A%
Municipal	3.01	3.43	3.30	3.51	N/A
Total Commercial	19.30%	17.67	18.83	25.39	20.41
Agricultural	1.19	1.19	1.83	1.83	2.47
Real estate:					
Construction & Development	13.47	14.89	13.91	10.71	N/A
Farm	4.83	4.76	4.03	2.94	N/A
Non-Owner Occupied CRE	11.58	11.36	11.57	11.95	N/A
Owner Occupied CRE	14.51	14.82	15.25	14.45	N/A
Residential real estate	25.66	24.46	24.76	24.14	N/A
Total Real Estate	70.05	70.29	69.52	64.19	67.31
Consumer:					
Auto	7.30	8.55	7.52	6.84	N/A
Non-Auto	2.16	2.30	2.30	1.75	N/A
Total Consumer	9.46	10.85	9.82	8.59	9.81
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Interest-Bearing Demand Deposits in Banks. The Company had interest-bearing demand deposits in banks of $255.24 million at December 31, 2023 and $37.39 million at December 31, 2022, respectively. At December 31, 2023, our interest-bearing deposits in banks included $248.24 million maintained at the Federal Reserve Bank of Dallas and $7.00 million on deposit with the Federal Home Loan Bank of Dallas (FHLB). The average balance of interest-bearing deposits in banks was $115.79 million, $217.53 million and $590.84 million in 2023, 2022 and 2021, respectively. The average yield on interest-bearing deposits in banks was 5.09%, 1.67% and 0.12% in 2023, 2022 and 2021, respectively.

Available-for-Sale Securities. At December 31, 2023, securities with a fair value of $4.73 billion were classified as securities AFS. There were no securities classified as held-to-maturity at December 31, 2023 and 2022. As compared to December 31, 2022, the AFS portfolio at December 31, 2023, reflected (1) a decrease of $315 thousand in U.S. Treasury securities; (2) a decrease of $401.45 million in obligations of states and political subdivisions; (3) an increase of $3.19 million in corporate bonds and other securities; and (4) a decrease of $343.02 million in mortgage-backed securities. As compared to December 31, 2021, the AFS portfolio at December 31, 2022, reflected (1) an increase of $355.71 million in U.S. Treasury securities; (2) a decrease of $854.86 million in obligations of states and political subdivisions; (3) an increase of $33.47 million in corporate bonds and other securities; and (4) a decrease of $633.13 million in mortgage-backed securities. Securities-AFS included an unrealized loss fair value adjustment of $510.92 million and $677.99 million at December 31, 2023 and 2022, respectively, and an unrealized gain fair value adjustments of $125.67 million at December 31, 2021. 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 for additional disclosures relating to the maturities and fair values of the investment portfolio at December 31, 2023 and 2022.

Maturities and Yields of Available-for-Sale Held at December 31, 2023 (in thousands, except percentages):

	Maturing									
	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	$ 213,660	2.03 %	$ 268,574	1.78 %	$ —	— %	$ —	— %	$ 482,234	1.90 %
Obligations of states and political subdivisions	51,697	3.46	204,966	3.06	1,181,109	2.46	59,385	3.20	1,497,157	2.60
Corporate bonds and other securities	4,483	3.89	77,448	2.75	23,024	1.76	—	—	104,955	2.58
Mortgage-backed securities	85,962	2.69	757,418	2.16	1,251,749	1.90	553,287	2.24	2,648,416	2.07
Total	$ 355,802	2.42 %	$ 1,308,406	2.26 %	$ 2,455,882	2.17 %	$ 612,672	2.33 %	$ 4,732,762	2.23 %

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 21%. Yields on AFS 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 December 31, 2023, the investment portfolio had an overall tax equivalent yield of 2.23%, a weighted average life of 6.07 years and modified duration of 5.30 years. At December 31, 2022, the investment portfolio had an overall tax equivalent yield of 2.31%, a weighted average life of 7.76 years and modified duration of 6.33 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $11.14 billion as of December 31, 2023, as compared to $11.01 billion as of December 31, 2022 and $10.57 billion as of December 31, 2021. The table below provides a breakdown of average deposits and rates paid over the past three years and the remaining maturity of time deposits of $250,000 or more:

Composition of Average Deposits and Remaining Maturity of Time Deposits of $250,000 or More (in thousands, except percentages):

	2023		2022		2021	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 3,632,559	—%	$ 4,063,740	—%	$ 3,449,313	—%
Interest-bearing deposits						
Interest-bearing checking	3,321,139	1.36	3,623,301	0.42	3,068,952	0.07
Savings and money market accounts	3,018,102	1.74	2,893,012	0.32	2,682,266	0.07
Time deposits under $250,000	312,046	5.26	303,531	0.34	318,886	0.28
Time deposits of $250,000 or more	536,884	2.00	135,939	0.47	154,517	0.47
Total interest-bearing deposits	7,188,171	1.74 %	6,955,783	0.38 %	6,224,621	0.09 %
Total average deposits	$ 10,820,730		$ 11,019,523		$ 9,673,934	
Total cost of deposits		1.15 %		0.24 %		0.06 %

The table below outlines the maturity of time deposits of $250,000 or more (in thousands):

	As of December 31, 2023
Three months or less	$ 164,746
Over three through six months	52,165
Over six through twelve months	127,718
Over twelve months	25,876
Total time deposits of $250,000 or more	$ 370,505

The estimated amount of uninsured and uncollateralized deposits including related interest accrued and unpaid is approximately $5.38 billion as of December 31, 2023.

Borrowings. Included in borrowings were federal funds purchased, securities sold under repurchase agreements, advances from the FHLB and other borrowings of $404.08 million, $642.51 million and $671.15 million at December 31, 2023, 2022 and 2021, respectively. Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which we pledge certain securities that have a fair value equal to at least the amount of the short-term borrowing. The average balances of securities sold under repurchase agreements were $568.21 million, $674.23 million and $535.07 million in 2023, 2022 and 2021, respectively. The average rates paid on securities sold under repurchase agreements were 2.84%, 0.31% and 0.06% for the years ended December 31, 2023, 2022 and 2021, respectively. The average balances of federal funds purchased and advances from the FHLB were $81.26 million, $127.87 million, and $21.54 million in 2023, 2022 and 2021, respectively. The average rates paid on federal funds purchased and advances from the FHLB were 4.05%, 2.45% and 0.05% for the years ended December 31, 2023, 2022 and 2021, respectively. The weighted average interest rate on federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was 3.27%, 1.96% and 0.06% at December 31, 2023, 2022 and 2021, respectively. The highest amount of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB at any month-end during 2023, 2022 and 2021 was $822.98 million, $1.04 billion and $674.88 million, 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: December 31, 2023	2022
+400	7.17 %	5.13 %
+300	5.36 %	3.86 %
+200	3.87 %	3.13 %
+100	2.11 %	2.09 %
-100	(2.72)%	(2.66)%
-200	(5.54)%	(5.47)%
-300	(8.70)%	(8.54)%
-400	(9.65)%	(10.31)%

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

The fair value of our investment securities classified as available-for-sale totaled $4.73 billion at December 31, 2023. During the year ended December 31, 2023, the corresponding unrealized loss before taxes on the portfolio of $677.99 million at December 31, 2022, changed to an unrealized loss before taxes of $510.92 million at December 31, 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 sales of securities and 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 December 31, 2023, the 5-year U.S. Treasury rate was 3.84% compared to 4.01% at December 31, 2022, representing a 17 basis point decrease during the year. As of December 31, 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 $225 million before taxes, while a 100 basis point decrease in the same rate would result in a decrease to unrealized losses by approximately $198 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 $1.50 billion, or 11.44% of total assets at December 31, 2023, as compared to $1.27 billion, or 9.76% of total assets at December 31, 2022. Included in shareholders’ equity were $403.30 million and $535.23 million at December 31, 2023 and 2022, respectively, in unrealized losses on investment securities AFS, net of related income taxes. Unrealized gains and losses on investment securities AFS are excluded from and do not impact regulatory capital. During 2023, total shareholders’ equity averaged $1.33 billion, or 10.32% of average assets, as compared to $1.40 billion, or 10.55% of average assets during 2022.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and 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 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the amount of the buffer will result in restrictions on the Company’s ability to make capital distributions, including divided payments and stock repurchase, and to pay discretionary bonuses to executive officers.

As of December 31, 2023 and 2022, we had a total risk-based capital ratio of 19.62% and 19.29%, a Tier 1 capital to risk-weighted assets ratio of 18.50% and 18.22%, a common equity Tier 1 capital to risk-weighted ratio of 18.50% and 18.22% and a Tier 1 leverage ratio of 12.06% and 10.96%, respectively. The regulatory capital ratios as of December 31, 2023 and 2022 were calculated under Basel III Rules.

Our subsidiary bank made the election to continue to exclude accumulated other comprehensive income from capital in connection with its March 31, 2015 quarterly financial filing and, in effect, to retain the accumulated other comprehensive income 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, which amounted to $404.08 million at December 31, 2023, 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 December 31, 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 $1.86 billion at December 31, 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 Bank Term Funding Program, secured by portions of certain investment securities. At December 31, 2023, there was $813 million used on the FHLB line advance for undisbursed commitments (letters of credit) used to secure public funds.

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. See Note 8 - Line of Credit in the accompanying notes to consolidated financial statements regarding further information on this line of credit.

In addition, we anticipate that any future acquisition of financial institutions, expansion of branch locations or offering of new products could also place a demand on our cash resources. Available cash and cash equivalents at the Company, which totaled $143.32 million at December 31, 2023, investment securities which totaled $2.20 million at December 31, 2023 with maturities over 6 to 7 years, available dividends from our subsidiaries which totaled $387.33 million at December 31, 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.

The Company continuously monitors the Company's liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of the Company's short-term and long-term cash requirements. The Company manages the Company's liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of the Company's shareholders. The Company also monitors its liquidity requirements in light of interest rate trends, changes in the economy, and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

In the ordinary course of business we have entered into contractual obligations and have made other commitments to make future payments. Refer to the accompanying notes to consolidated financial statements for the expected timing of such payments as of December 31, 2023. These payments related to time deposits with stated maturity dates (Note 7 - Deposits and Borrowings) and operating leases (Note 11 - Commitments and Contingencies). In addition, we have construction contracts with remaining future minimum contractual obligations of approximately $624 thousand in 2024.

Off-Balance Sheet/Reserve for Unfunded Commitments. We are a party to financial instruments with off-balance sheet (“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 the consolidated balance sheets. At December 31, 2023, the Company’s reserve for unfunded commitments totaled $7.90 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.

See further disclosure of the unfunded lines of credit, unfunded commitments to extend credit and standby letters of credit (Note 12 - Financial Instruments with Off-Balance-Sheet Risk). Future notional amounts committed are $466.25 million in less than one year, $868.47 million in more than one year but less than three years and $588.37 million thereafter.

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.

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 December 31, 2023, $387.33 million was available for the payment of intercompany dividends by our subsidiaries without the prior approval of regulatory agencies. Our subsidiaries paid aggregate dividends to us of $133.50 million in 2023 and $67.50 million in 2022.

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 50.96%, 40.18% and 36.30% of net earnings, respectively, in 2023, 2022 and 2021. Given our current capital position, projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy.

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

To pay dividends, we and our subsidiary bank must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve Board, 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 Board, 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management considers interest rate risk to be a significant market risk for the Company. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Risk" for disclosure regarding this market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and the report of our independent registered public accounting firm begin on page F-1.

Quarterly Results of Operations (in thousands, except per share and common stock data):

The following tables set forth certain unaudited historical quarterly financial data for each of the eight consecutive quarters in the fiscal years of 2023 and 2022. This information is derived from unaudited consolidated financial statements that include, in our opinion, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation when read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

	2023			
	4th	3rd	2nd	1st
	(dollars in thousands, except per share amounts)			
Summary Income Statement Information:				
Interest income	142,207	135,351	129,005	121,508
Interest expense	44,699	41,202	33,139	25,222
Net interest income	97,508	94,149	95,866	96,286
Provision for credit losses	-	2,276	5,573	2,781
Net interest income after provision for credit losses	97,508	91,873	90,293	93,505
Noninterest income	21,979	28,070	29,947	28,007
Noninterest expense	63,474	59,539	57,613	57,256
Earnings before income taxes	56,013	60,404	62,627	64,256
Income tax expense	10,031	10,848	11,754	11,688
Net earnings	45,982	49,556	50,873	52,568
Per Share Data:				
Earnings per share, basic	$ 0.32	$ 0.35	$ 0.36	$ 0.37
Earnings per share, diluted	0.32	0.35	0.36	0.37
Cash dividends declared	0.18	0.18	0.18	0.17
Book value at period-end	10.50	8.69	9.58	9.62
Common stock sales price:				
High	$ 31.58	$ 33.06	$ 32.26	$ 38.24
Low	22.84	23.86	25.01	27.55
Close	30.30	25.12	28.49	31.90

	2022			
	4th	3rd	2nd	1st
	(dollars in thousands, except per share amounts)			
Summary Income Statement Information:				
Interest income	$ 121,137	$ 112,728	$ 101,981	$ 97,009
Interest expense	17,100	9,572	3,199	1,570
Net interest income	104,037	103,156	98,782	95,439
Provision for credit losses	4,075	3,221	5,350	4,782
Net interest income after provision for credit losses	99,962	99,935	93,432	90,657
Noninterest income	28,393	30,609	35,669	34,850
Net gain on securities transactions	131	334	1,648	31
Noninterest expense	57,778	59,442	58,333	59,225
Earnings before income taxes	70,708	71,436	72,416	66,313
Income tax expense	12,040	12,095	11,922	10,341
Net earnings	$ 58,668	$ 59,341	$ 60,494	$ 55,972
Per Share Data:				
Earnings per share, basic	$ 0.41	$ 0.42	$ 0.42	$ 0.39
Earnings per share, diluted	0.41	0.41	0.42	0.39
Cash dividends declared	0.17	0.17	0.17	0.15
Book value at period-end	8.87	7.94	9.32	10.43
Common stock sales price:				
High	$ 46.08	$ 47.26	$ 45.02	$ 53.62
Low	32.53	38.72	37.47	44.09
Close	34.40	41.83	39.27	44.12

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 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 December 31, 2023.

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of First Financial Bankshares, Inc. and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. First Financial Bankshares, Inc. and subsidiaries' internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

First Financial Bankshares, Inc. and subsidiaries' management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, it used the criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO) in *Internal Control – Integrated Framework*. Based on our assessment we believe that, as of December 31, 2023, the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, is effective based on those criteria.

Ernst & Young LLP, Fort Worth, Texas, (U.S. PCAOB Auditor Firm I.D.: 42), the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2023. The report, which expresses an opinion on the effectiveness of our internal control over financial reporting as of December 31, 2023, is included below.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of First Financial Bankshares, Inc.

Opinion on Internal Control over Financial Reporting

We have audited First Financial Bankshares, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, First Financial Bankshares, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of earnings, comprehensive earnings (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023 and the related notes and our report dated February 23, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Fort Worth, Texas

February 23, 2024

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference from our proxy statement for our 2024 Annual Meeting of Shareholders which will be filed with the SEC not later than 120 days after December 31, 2023.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our proxy statement for our 2024 Annual Meeting of Shareholders which will be filed with the SEC not later than 120 days after December 31, 2023.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 related to security ownership of certain beneficial owners and management is hereby incorporated by reference from our proxy statement for our 2024 Annual Meeting of Shareholders. The following chart gives aggregate information under our equity compensation plans as of December 31, 2023. Additional information regarding stock-based compensation plans is presented in Note 17 – Stock Based Compensation in the notes to consolidated financial statements.

	Number of Shares To be Issued Upon Exercise or Vesting of Outstanding Awards		Weighted Average Exercise Price of Outstanding Awards		Number of Shares Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Far Left Column)
Equity compensation plans approved by security holders	1,781,710	(1)	$ 30.45	(2)	1,580,195
Equity compensation plans not approved by security holders	—		—		—
Total	1,781,710		$ 30.45		1,580,195

(1) Includes 1,552,249 shares related to stock options, 25,190 shares related to non-vested restricted stock, 53,817 shares related to restricted stock units and 150,454 shares related to performance stock units (assuming attainment of the maximum payout rate as set forth by the performance criteria).

(2) Excludes outstanding restricted stock and stock units which are exercised for no consideration.

The remainder of the information required by Item 12 is incorporated by reference from our proxy statement for our 2024 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from our proxy statement for our 2024 Annual Meeting of Shareholders which will be filed with the SEC not later than 120 days after December 31, 2023.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from our proxy statement for our 2024 Annual Meeting of Shareholders which will be filed with the SEC not later than 120 days after December 31, 2023.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2023 and 2022	F-3
Consolidated Statements of Earnings for the years ended December 31, 2023, 2022 and 2021	F-4
Consolidated Statements of Comprehensive Earnings for the years ended December 31, 2023, 2022 and 2021	F-5
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2023, 2022 and 2021	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2023, 2022 and 2021	F-7
Notes to Consolidated Financial Statements	F-8

(2) Financial Statement Schedules:

These schedules have been omitted because they are not required, are not applicable or have been included in our consolidated financial statements.

(3) Exhibits:

The following exhibits are included or incorporated by reference in this Annual Report on Form 10-K:

2.1	—	Agreement and Plan of Reorganization, dated September 19, 2019, by and among First Financial Bankshares, Inc., Brazos Merger Sub, Inc., and TB&T Bancshares, Inc. (schedules have been omitted pursuant to item 601(b)(2) of Regulation S-K) (incorporated by reference from Exhibit 2.1 to the Registrant's Form 8-K filed September 20, 2019).
3.1	—	Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 of the Registrant's Form 10-Q filed July 30, 2019).
3.2	—	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 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*
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 (incorporated by reference from Exhibit 10.1 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	—	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).++
21.1	—	Subsidiaries of Registrant.*
23.1	—	Consent of Ernst & Young LLP.*
24.1	—	Power of Attorney (included on signature page of this Form 10-K).*
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 with Embedded Linkbase Documents.*
104	—	The cover page for the Company's Annual Report on Form 10-K for the year ended December 31, 2023, has been formatted in Inline XBRL and contained in Exhibit 101

* 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 on arrangement.

ITEM 16. FORM 10-K SUMMARY

The Registrant has not selected the option to provide the summary information in this Item 16.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 23, 2024

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

The undersigned directors and officers of First Financial Bankshares, Inc. hereby constitute and appoint Michelle S. Hickox, with full power to act and with full power of substitution and resubstitution, our true and lawful attorney-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission and hereby ratify and confirm all that such attorney-in-fact or his substitute shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ F. Scott Dueser F. Scott Dueser	Chairman of the Board, Director, President, and Chief Executive Officer (Principal Executive Officer)	February 23, 2024
/s/ Michelle S. Hickox Michelle S. Hickox	Executive Vice President and Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 23, 2024
/s/ April K. Anthony April K. Anthony	Director	February 23, 2024
/s/ Vianei Lopez Braun Vianei Lopez Braun	Director	February 23, 2024
/s/ David L. Copeland David L. Copeland	Director	February 23, 2024
/s/ Michael B. Denny Michael B. Denny	Director	February 23, 2024
/s/ Murray H. Edwards Murray H. Edwards	Director	February 23, 2024
/s/ Eli Jones, Ph.D. Eli Jones, Ph.D.	Director	February 23, 2024
/s/ I. Tim Lancaster I. Tim Lancaster	Director	February 23, 2024
/s/ Kade L. Matthews Kade L. Matthews	Director	February 23, 2024
/s/ Robert C. Nickles Robert C. Nickles	Director	February 23, 2024
/s/ Johnny E. Trotter Johnny E. Trotter	Director	February 23, 2024

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of First Financial Bankshares, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Financial Bankshares, Inc. and subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of earnings, comprehensive earnings (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 23, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses

Description of the Matter	As of December 31, 2023, the Company's loan portfolio totaled $7.1 billion and the related allowance for credit losses (ACL) was $88.7 million. The Company calculates their allowance for credit losses in accordance with ASU 2016-13, Financial Instruments – Credit Losses, utilizing a forward-looking expected loss model (the "Current Expected Credit Losses (CECL)" model) to estimate credit losses over the remaining expected life of the Company's loan portfolio. As discussed in Notes 1 and 3 of the consolidated financial statements, the ACL is an amount which represents management's best estimate of expected credit losses over the contractual life of the Company's loan portfolio as of the balance sheet date. The ACL includes credit loss estimates for loans evaluated using common risk characteristics such as financial asset type, collateral type, and industry of the borrower. Historical losses are correlated to economic variables that are determined to be the most relevant indicators of expected losses. Those economic variables are forecasted over the reasonable and supportable forecast period to determine the current expected credit losses. Qualitative adjustments are then made to account for factors that management does not believe are captured within the CECL quantitative models. Management applies judgment in estimating the ACL and, in particular, identifying and quantifying qualitative adjustments included within the ACL.

Auditing management's estimate of the allowance for credit losses involved a high degree of subjectivity due to the complexity of the models and the qualitative adjustments included in the estimate. Management's identification and measurement of the qualitative adjustments is highly judgmental and could have a significant impact on the allowance for credit losses.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Company's process for estimating the allowance for credit losses, including the models used and the qualitative adjustments made to establish the ACL. We evaluated the design and tested the operating effectiveness of the controls over the model methodology, including the qualitative adjustment methodology, the validation and monitoring procedures performed over the models, the identification and the measurement of the qualitative adjustments, the reliability and accuracy of data used to estimate the qualitative adjustments, and management's review and approval of the qualitative adjustments.

To test the models, with the support of specialists, we evaluated the model methodology and design, as well as performed procedures over the Company's correlation of the relevant economic variables to historical losses. On a sample basis, we independently tested the key inputs used in the models by agreeing to internal and external sources. Additionally, on a sample basis, we performed an independent recalculation of the models' output. To test the qualitative adjustments, we evaluated the identification and measurement of the adjustments, including the basis for concluding the adjustments were reasonable. On a sample basis, we independently tested the completeness and accuracy of data used by the Company to estimate the qualitative adjustments by agreeing underlying data to relevant sources and with the support of specialists, recalculated the qualitative adjustments.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Fort Worth, Texas

February 23, 2024

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollars in thousands, except share and per share amounts)

	2023	2022
ASSETS		
CASH AND DUE FROM BANKS	$ 281,354	$ 293,286
INTEREST-BEARING DEMAND DEPOSITS IN BANKS	255,237	37,392
Total cash and cash equivalents	536,591	330,678
SECURITIES AVAILABLE-FOR-SALE, at fair value (amortized cost of these securities was $5,243,681 and $6,152,348 as of December 31, 2023 and 2022, respectively)	4,732,762	5,474,359
LOANS:		
Held-for-investment, excluding PPP Loans	7,148,682	6,441,699
PPP Loans	109	169
Total loans held-for-investment	7,148,791	6,441,868
Less – allowance for credit losses	(88,734)	(75,834)
Net loans held-for-investment	7,060,057	6,366,034
Held-for-sale ($11,077 and $10,497 at fair value as of December 31, 2023 and 2022, respectively)	14,253	11,965
BANK PREMISES AND EQUIPMENT, net	151,788	152,973
INTANGIBLE ASSETS, net	314,622	315,534
OTHER ASSETS	295,521	322,523
Total assets	$ 13,105,594	$ 12,974,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
NONINTEREST-BEARING DEPOSITS	$ 3,435,586	$ 4,061,788
INTEREST-BEARING DEPOSITS	7,702,714	6,943,719
Total deposits	11,138,300	11,005,507
DIVIDENDS PAYABLE	25,712	24,278
REPURCHASE AGREEMENTS	381,928	618,829
BORROWINGS	22,153	23,678
OTHER LIABILITIES	38,601	36,037
Total liabilities	11,606,694	11,708,329
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
COMMON STOCK—$0.01 par value; authorized 200,000,000 shares; 142,716,939 and 142,657,871 shares issued at December 31, 2023 and 2022, respectively	1,427	1,427
CAPITAL SURPLUS	681,246	677,593
RETAINED EARNINGS	1,219,525	1,121,945
TREASURY STOCK (shares at cost: 930,152 and 929,210 at December 31, 2023 and 2022, respectively)	(11,855)	(11,035)
DEFERRED COMPENSATION	11,855	11,035
ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS), net	(403,298)	(535,228)
Total shareholders' equity	1,498,900	1,265,737
Total liabilities and shareholders' equity	$ 13,105,594	$ 12,974,066

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statement of Earnings
December 31, 2023, 2022 and 2021
(Dollars in thousands, except share and per share amounts)

	2023	2022	2021
INTEREST INCOME:			
Interest and fees on loans	$ 405,939	$ 296,114	$ 271,638
Interest on investment securities:			
Taxable	79,925	78,924	47,390
Exempt from federal income tax	36,194	54,121	56,638
Interest on federal funds sold and interest-bearing deposits in banks	6,012	3,695	739
Total interest income	528,070	432,854	376,405
INTEREST EXPENSE:			
Interest on deposits	124,830	26,246	5,705
Interest on borrowings	19,431	5,194	337
Total interest expense	144,261	31,440	6,042
Net interest income	383,809	401,414	370,363
PROVISION FOR CREDIT LOSSES	10,631	17,427	(1,139)
Net interest income after provisions for credit losses	373,178	383,987	371,502
NONINTEREST INCOME:			
Trust fees	40,456	39,995	36,145
Service charges on deposit accounts	25,378	24,540	21,156
Debit card fees	21,721	30,280	35,905
Credit card fees	2,645	2,585	2,373
Gain on sale and fees on mortgage loans	11,890	19,035	33,245
Net gain (loss) on sale of available-for-sale securities	(7,119)	2,144	815
Net gain on sale of foreclosed assets	46	1,451	190
Net gain on sale of assets	1,525	520	210
Interest on loan recoveries	2,055	2,840	4,039
Other	9,406	8,275	8,098
Total noninterest income	108,003	131,665	142,176
NONINTEREST EXPENSE:			
Salaries, commissions and employee benefits	131,915	134,133	142,042
Net occupancy expense	13,766	13,307	13,009
Equipment expense	8,545	9,052	9,173
FDIC insurance premiums	7,749	3,711	3,130
Debit card expense	12,933	12,231	11,957
Professional and service fees	9,810	8,770	9,334
Printing, stationery and supplies	2,454	2,114	1,910
Operational and other losses	3,842	3,229	3,293
Software amortization and expense	10,288	9,963	11,120
Amortization of intangible assets	912	1,245	1,613
Other	35,668	37,023	35,127
Total noninterest expense	237,882	234,778	241,708
EARNINGS BEFORE INCOME TAXES	243,299	280,874	271,970
INCOME TAX EXPENSE	44,322	46,399	44,408
NET EARNINGS	$ 198,977	$ 234,475	$ 227,562
NET EARNINGS PER SHARE, BASIC	$ 1.39	$ 1.64	$ 1.60
NET EARNINGS PER SHARE, DILUTED	$ 1.39	$ 1.64	$ 1.59
DIVIDENDS PER SHARE	$ 0.71	$ 0.66	$ 0.58

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Earnings (Loss)
Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands)

	2023	2022	2021
NET EARNINGS	$ 198,977	$ 234,475	$ 227,562
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	159,881	(800,997)	(89,238)
Reclassification adjustment for realized gains (loss) on investment securities included in net earnings, before income taxes	7,119	(2,144)	(815)
Total other items of comprehensive earnings (losses)	167,000	(803,141)	(90,053)
Income tax benefit (expense) related to:			
Change in unrealized gain (loss) on investment securities available-for-sale	(33,575)	168,210	18,740
Reclassification adjustment for realized gains (loss) on investment securities included in net earnings	(1,495)	450	171
Total income tax benefit (expense)	(35,070)	168,660	18,911
COMPREHENSIVE EARNINGS (LOSS)	$ 330,907	$ (400,006)	$ 118,598

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Total Comprehensive Earnings	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	(Loss), net	Equity
BALANCE, December 31, 2020	142,161,834	$ 1,422	$ 669,644	$ 836,729	(938,591)	$ (9,126)	$ 9,126	$ 170,395	$ 1,678,190
Net earnings	—	—	—	227,562	—	—	—	—	227,562
Stock option exercises/stock unit conversions/restricted stock activity	370,282	3	3,982	—	—	—	—	—	3,985
Cash dividends declared, $0.58 per share	—	—	—	(82,616)	—	—	—	—	(82,616)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes	—	—	—	—	—	—	—	(71,142)	(71,142)
Shares purchased in connection with directors' deferred compensation plan, net	—	—	—	—	1,694	(964)	964	—	—
Stock-based compensation expense	—	—	3,245	—	—	—	—	—	3,245
BALANCE, 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	—	—	—	234,475	—	—	—	—	234,475
Stock option exercises/stock unit conversions/restricted stock activity	370,314	4	6,211	—	—	—	—	—	6,215
Cash dividends declared, $0.66 per share	—	—	—	(94,205)	—	—	—	—	(94,205)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes	—	—	—	—	—	—	—	(634,481)	(634,481)
Shares purchased in connection with directors' deferred compensation plan, net	—	—	—	—	7,687	(945)	945	—	—
Stock-based compensation expense	—	—	3,958	—	—	—	—	—	3,958
Shares repurchased and retired under stock repurchase authorization	(244,559)	(2)	(9,447)	—	—	—	—	—	(9,449)
BALANCE, 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	—	—	—	198,977	—	—	—	—	198,977
Stock option exercises/stock unit conversions/restricted stock activity	160,405	1	2,131	—	—	—	—	—	2,132
Cash dividends declared, $0.71 per share	—	—	—	(101,397)	—	—	—	—	(101,397)
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes	—	—	—	—	—	—	—	131,930	131,930
Shares purchased in connection with directors' deferred compensation plan, net	—	—	—	—	(942)	(820)	820	—	—
Stock-based compensation expense	—	—	4,256	—	—	—	—	—	4,256
Shares repurchased and retired under stock repurchase authorization	(101,337)	(1)	(2,734)	—	—	—	—	—	(2,735)
BALANCE, December 31, 2023	142,716,939	$ 1,427	$ 681,246	$ 1,219,525	(930,152)	$ (11,855)	$ 11,855	$ (403,298)	$ 1,498,900

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands)

	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 198,977	$ 234,475	$ 227,562
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	12,578	12,762	13,061
Provision for credit losses	10,631	17,427	(1,139)
Securities premium amortization, net	52,343	70,788	68,308
Discount accretion on purchased loans	—	(1,492)	(2,362)
Gain (loss) on sale of securities and other assets, net	5,548	(4,115)	(1,217)
Stock-based compensation	4,256	3,958	3,245
Net tax benefit from stock-based compensation	319	336	428
Deferred federal income tax (expense) benefit	(359)	(4,205)	3,531
Change in loans held-for-sale	(2,239)	25,194	44,098
Change in other assets	(3,895)	(1,281)	(11,317)
Change in other liabilities	6,663	(29,577)	10,953
Total adjustments	85,845	89,795	127,589
Net cash provided by operating activities	284,822	324,270	355,151
CASH FLOWS FROM INVESTING ACTIVITIES:			
Activity in available-for-sale securities and other investments:			
Sales	411,134	479,273	10,631
Maturities	4,443,813	4,132,928	8,495,614
Purchases	(4,005,743)	(4,385,683)	(10,887,727)
Net increase in loans held-for-investment	(708,432)	(1,049,925)	(211,786)
Purchases of bank premises and equipment	(17,251)	(15,784)	(19,205)
Proceeds from sale of bank premises and equipment and other assets	3,771	1,186	823
Net cash provided by (used in) investing activities	127,292	(838,005)	(2,611,650)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in noninterest-bearing deposits	(626,202)	281,558	797,533
Net increase in interest-bearing deposits	758,995	157,461	1,093,138
Net increase (decrease) in repurchase agreements and borrowings	(238,426)	(28,645)	241,059
Common stock transactions:			
Proceeds from stock option exercises/stock unit conversions/restricted stock activity	2,133	6,215	3,985
Dividends paid	(99,965)	(91,315)	(79,712)
Repurchases of stock	(2,736)	(9,449)	—
Net cash provided by (used in) financing activities	(206,201)	315,825	2,056,003
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	205,913	(197,910)	(200,496)
CASH AND CASH EQUIVALENTS, beginning of year	330,678	528,588	729,084
CASH AND CASH EQUIVALENTS, end of year	$ 536,591	$ 330,678	$ 528,588
SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:			
Interest paid	135,167	30,540	6,198
Federal income taxes paid	46,677	45,430	39,528
Schedule of noncash investing and financing activities:			
Assets acquired through foreclosure	499	—	2,711

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

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 December 31, 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., FFB 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 Bankshares and its subsidiaries, all of which are wholly-owned. All 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 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. Under the prior authorization, 244,559 shares were repurchased and retired (all during the months of June and July 2022) at an average price of $38.61 per share. Under the current authorization, the Company has repurchased and retired 101,337 shares (all during September 2023) at an average price of $26.99 per share.

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 years ended December 31, 2023 or 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 market place 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 December 31, 2023 and 2022, no allowance for credit losses on 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 December 31, 2023 and 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 troubled-debt restructurings is presented in Note 3.

Acquired Loans

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

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

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

basis. For PCD loans, an initial allowance for credit losses 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 based on the risk perceived in concentrations of the loan portfolio, changes in economic conditions, early delinquencies, and factors related to credit administrations, including, among others, underwriting standards, loan-to-value ratios, and borrowers' risk rating; 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 C&I, Municipal, Agricultural, Construction and Development, Farm, Non-Owner Occupied and Owner Occupied 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 management's estimate of expected credit losses based upon the estimated level of risk within the risk factor. The various risk factors 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 December 31, 2023 and 2022, the Company's reserve for unfunded commitments totaled $7,903,000 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. 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 ACL. Any subsequent reduction in value is recognized by a charge to income. Operating and holding expenses of such properties, net of related income, and gains and losses on their disposition are included in net gain (loss) on sale of foreclosed assets as incurred.

Bank Premises and Equipment

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

Business Combinations, Goodwill and Other Intangible Assets

The Company accounts for all business combinations under the purchase method of accounting. Tangible and intangible assets and liabilities of the acquired entity are recorded at fair value. Intangible assets with finite useful lives represent the future benefit associated with the acquisition of the core deposits and are amortized over seven years, utilizing a method that approximates the expected attrition of the deposits. Goodwill with an indefinite life is not amortized, but rather tested annually for impairment as of June 30 each year and totaled $313,481,000 at both December 31, 2023 and 2022, respectively. There was no impairment recorded for the years ended December 31, 2023, 2022 and 2021.

The carrying amount of goodwill arising from acquisitions that qualify as an asset purchase for federal income tax purposes was $8,826,000 and $11,233,000 at December 31, 2023 and 2022, respectively, and is deductible for federal income tax purposes.

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.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

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 Income (Loss)

Unrealized net losses on the Company's available-for-sale securities, net of applicable income taxes, totaled $403,298,000 and $535,228,000 at December 31, 2023 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. See note 9 for more information on deferred income taxes.

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 three, 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 three-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 of the Company's common stock and for restricted grants, the fair value of the grant is also measured 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 are ultimately expected to vest, reduced for forfeitures based on grant-date fair value. See Note 17 for further information.

Advertising Costs

Advertising costs are expensed as incurred.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

Per Share Data

Net earnings per share ("EPS") are computed by dividing net earnings by the weighted average number of common stock shares outstanding during the period. The Company calculates diluted EPS assuming all outstanding stock options to purchase common shares and unvested restricted stock shares 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 determined by application of the treasury stock method, whereby the proceeds from the exercised options and unearned compensation for restricted stock are assumed to be used to purchase common shares at the average market price during the respective year. Anti-dilutive shares for the years ended December 31, 2023 and 2022 were 473,000 and 1,261,000, respectively, and were excluded from the computation of EPS. There were no such anti-dilutive stock options for the year ended December 31, 2021. The following table reconciles the computation of basic EPS to diluted EPS:

For the Year Ended December 31, 2023:	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
Net earnings per share, basic	$ 198,977	142,688,585	$ 1.39
Effect of stock options and stock grants	—	250,392	—
Net earnings per share, diluted	$ 198,977	142,938,977	$ 1.39
For the Year Ended December 31, 2022:			
Net earnings per share, basic	$ 234,475	142,596,252	$ 1.64
Effect of stock options and stock grants	—	611,647	—
Net earnings per share, diluted	$ 234,475	143,207,899	$ 1.64
For the Year Ended December 31, 2021:			
Net earnings per share, basic	$ 227,562	142,291,939	$ 1.60
Effect of stock options and stock grants	—	842,281	(0.01)
Net earnings per share, diluted	$ 227,562	143,134,220	$ 1.59

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 generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not have a significant impact on our financial statements.

ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." ASU 2021-01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of 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 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.

ASU 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." ASU 2023-02 is intended to improve the accounting and disclosures for investments in tax credit structures. ASU 2023-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. Previously, this method was only available for qualifying tax equity investments in low-income housing tax credit structures. ASU 2023-02 has been early adopted by the Company as it relates to the qualifying investments that are generating New Market Tax Credits. The adoption of ASU 2023-02 did not have a significant impact on our financial statements.

ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." ASU 2023-09 requires entities to disclose more detailed information in their reconciliation of their statutory tax rate to their effective tax rate. Public business entities (PBEs) are required to provide this incremental detail in a numerical, tabular format. The ASU also requires entities to disclose more detailed information about income taxes paid, including by jurisdiction; pretax income (or loss) from continuing operations; and income tax expense (or benefit). PBEs will be required to adopt the new requirements in annual reporting periods beginning after December 15, 2024, and interim periods beginning after December 15, 2025.The adoption of ASU 2023-09 is not expected to have a significant impact on our financial statements.

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):

	December 31, 2023			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 496,975	$ 4	$ (14,745)	$ 482,234
Obligations of state and political subdivisions	1,621,405	934	(125,182)	1,497,157
Residential mortgage-backed securities	2,716,968	7	(352,883)	2,364,092
Commercial mortgage-backed securities	295,663	—	(11,339)	284,324
Corporate bonds and other	112,670	—	(7,715)	104,955
Total securities available-for-sale	$ 5,243,681	$ 945	$ (511,864)	$ 4,732,762

	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 state 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 for the years ended December 31, 2023 and 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 December 31, 2023, 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 December 31, 2023, by contractual maturity, are shown below (in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 360,853	$ 355,802
Due after one year through five years	1,399,375	1,308,406
Due after five years through ten years	2,751,006	2,455,882
Due after ten years	732,447	612,672
Total	$ 5,243,681	$ 4,732,762

The following tables disclose, as of December 31, 2023 and 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 (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2023	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Securities	$ 3,477	$ 7	$ 477,306	$ 14,738	$ 480,783	$ 14,745
Obligations of state and political subdivisions	11,855	34	1,427,975	125,148	1,439,830	125,182
Residential mortgage-backed securities	1,631	1	2,361,089	352,882	2,362,720	352,883
Commercial mortgage-backed securities	—	—	284,324	11,339	284,324	11,339
Corporate bonds and other	—	—	104,955	7,715	104,955	7,715
Total	$ 16,963	$ 42	$ 4,655,649	$ 511,822	$ 4,672,612	$ 511,864

	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 state 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 780 at December 31, 2023. Any unrealized losses in the U.S. treasuries and government agencies, state and municipal, mortgage-backed and asset-backed investment securities at December 31, 2023 are due to changes in interest rates and not credit-related events. As such, no allowance for credit losses is required at December 31, 2023. Unrealized losses on investment securities are expected to recover over time as these securities approach maturity. Based on evaluations of impaired securities as of December 31, 2023, the Company does not intend to sell any impaired available for sale securities before fair value recovers to the current amortized cost, and it is more-likely-than-not that the Company will not be required to sell impaired securities before fair value recovers, which may be maturity. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies. At December 31, 2023 and 2022, 66.15% and 71.86%, respectively, of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 56.16% and 54.77%, respectively, were guaranteed by the Texas Permanent School Fund.

Securities, carried at approximately $2,964,467,000 and $4,070,454,000 on December 31, 2023 and 2022, respectively, were pledged as collateral for public or trust fund deposits, repurchase agreements, borrowings and for other purposes required or permitted by law.

During 2023, 2022 and 2021, sales of investment securities that were classified as available-for-sale totaled $411,134,000, $479,273,000 and $10,631,000. Gross realized gains from 2023, 2022 and 2021 securities sales and calls were $1,699,000, $6,618,000 and $815,000, respectively. Gross realized losses from 2023 and 2022 securities sales and calls were $8,818,000 and $4,474,000, respectively. There were no gross realized losses from security sales and calls during 2021.

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

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES:

For the year ended December 31, 2023, the tables to follow 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):

	December 31,	
	2023	2022
Commercial:		
C&I *	$ 1,164,811	$ 917,317
Municipal	214,850	221,090
Total Commercial	1,379,661	1,138,407
Agricultural	84,890	76,947
Real Estate:		
Construction & Development	963,158	959,426
Farm	344,954	306,322
Non-Owner Occupied CRE	827,969	732,089
Owner Occupied CRE	1,037,281	954,400
Residential	1,834,593	1,575,758
Total Real Estate	5,007,955	4,527,995
Consumer:		
Auto	521,859	550,635
Non-Auto	154,426	147,884
Total Consumer	676,285	698,519
Total Loans	7,148,791	6,441,868
Less: Allowance for credit losses	(88,734)	(75,834)
Loans, net	$ 7,060,057	$ 6,366,034

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

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

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas ("FHLB") to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At December 31, 2023, this available line of credit was $1,858,173,000. At December 31, 2023, there was $813,000,000 used on the line advance for undisbursed commitments (letters of credit) used to secure public funds. At December 31, 2023, $4,980,020,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

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

	December 31,	
	2023	2022
Nonaccrual loans	$ 33,609	$ 24,325
Loans still accruing and past due 90 days or more	1,004	—
Total nonperforming loans [1]	$ 34,613	$ 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 $35,096,000 and $24,325,000 in nonaccrual, past due 90 days or more and still accruing, and foreclosed assets at December 31, 2023 and 2022, respectively. Nonaccrual loans totaled $33,609,000 and $24,325,000 at December 31, 2023 and 2022, respectively, and consisted of the following (in thousands):

	December 31,	
	2023	2022
Commercial:		
C&I	$ 4,132	$ 5,057
Municipal	—	—
Total Commercial	4,132	5,057
Agricultural	155	324
Real Estate:		
Construction & Development	1,444	1,567
Farm	4,804	85
Non-Owner Occupied CRE	8,022	2,321
Owner Occupied CRE	6,822	7,092
Residential	7,649	7,419
Total Real Estate	28,741	18,484
Consumer:		
Auto	464	429
Non-Auto	117	31
Total Consumer	581	460
Total	$ 33,609	$ 24,325

The Company recognized interest income on nonaccrual loans prior to being recognized as nonaccrual of approximately $1,714,000, $1,607,000 and $2,122,000 during the years ended December 31, 2023, 2022 and 2021, respectively.

No significant additional funds are committed to be advanced in connection with nonaccrual loans as of December 31, 2023.

Summary information on the allowance for credit losses for the year ended December 31, 2023 and 2022, are outlined by portfolio segment in the following tables (in thousands):

Year-ended December 31, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 16,129	$ 1,026	$ 1,041	$ 26,443	$ 1,957
Provision for loan losses	1,118	(831)	(37)	2,004	957
Recoveries	267	—	286	106	—
Charge-offs	(1,816)	—	(9)	—	—
Ending balance	$ 15,698	$ 195	$ 1,281	$ 28,553	$ 2,914

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

Year-ended December 31, 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	4,279	3,668	2,813	573	506	15,050
Recoveries	71	227	24	398	170	1,549
Charge-offs	—	(10)	(258)	(1,006)	(600)	(3,699)
Ending balance	$ 13,425	$ 13,813	$ 11,654	$ 810	$ 391	$ 88,734

Year-ended December 31, 2022	C&I	Municipal	Agricultural	Construction & Development	Farm
Beginning balance	$ 12,280	$ 348	$ 1,597	$ 17,627	$ 663
Provision for loan losses	3,485	678	(702)	8,916	1,294
Recoveries	953	—	155	—	—
Charge-offs	(589)	—	(9)	(100)	—
Ending balance	$ 16,129	$ 1,026	$ 1,041	$ 26,443	$ 1,957

Year-ended December 31, 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	(2,499)	(1,062)	1,014	252	164	11,540
Recoveries	852	699	114	293	215	3,281
Charge-offs	—	(537)	(186)	(596)	(435)	(2,452)
Ending balance	$ 9,075	$ 9,928	$ 9,075	$ 845	$ 315	$ 75,834

Additionally, the Company records a reserve for unfunded commitments in other liabilities which totaled $7,903,000 and $12,323,000 at December 31, 2023 and 2022, respectively. The $15,050,000 provision for loan losses in 2023 above is combined with the reversal of provision for unfunded commitments of $4,419,000 and reported in the aggregate under the provision for credit losses in the statement of earnings for the year ended December 31, 2023. The provision for loan losses above of $11,540,000 in 2022 is combined with the provision for unfunded commitments of $5,887,000 and reported in the aggregate under the provision for credit losses in the statement of earnings for the year ended December 31, 2022.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

The Company's loans that are individually evaluated for credit losses (both collateral and non-collateral dependent) and their related allowances as of December 31, 2023 and December 31, 2022, are summarized in the following table by loan segment (in thousands):

December 31, 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	$ 1,322	$ 2,810	$ 18,633	$ 22,765	$ 1,363	$ 4,495	$ 5,858
Municipal	—	—	733	733	—	—	—
Total Commercial	1,322	2,810	19,366	23,498	1,363	4,495	5,858
Agricultural	57	98	1,304	1,459	50	700	750
Real Estate:							
Construction & Development	758	686	22,545	23,989	148	2,253	2,401
Farm	—	4,804	1,362	6,166	937	57	994
Non-Owner Occupied CRE	1,919	6,103	29,117	37,139	700	2,984	3,684
Owner Occupied CRE	4,661	2,161	35,746	42,568	232	1,431	1,663
Residential	3,909	3,740	30,257	37,906	360	1,799	2,159
Total Real Estate	11,247	17,494	119,027	147,768	2,377	8,524	10,901
Consumer:							
Auto	—	464	2,125	2,589	1	3	4
Non-Auto	—	117	782	899	—	60	60
Total Consumer	—	581	2,907	3,488	1	63	64
Total	$ 12,626	$ 20,983	$ 142,604	$ 176,213	$ 3,791	$ 13,782	$ 17,573

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

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	2,268	28,583	35,983	229	1,215	1,444
Total Real Estate	12,134	6,330	100,186	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	$ 12,056	$ 126,392	$ 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 December 31, 2023 and December 31, 2022, are summarized in the following table by loan segment (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2023	C&I	Municipal	Agricultural	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 5,858	$ —	$ 750	$ 2,401	$ 994
Loans collectively evaluated for credit losses	9,840	195	531	26,152	1,920
Total	$ 15,698	$ 195	$ 1,281	$ 28,553	$ 2,914

December 31, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 3,684	$ 1,663	$ 2,159	$ 4	$ 60	$ 17,573
Loans collectively evaluated for credit losses	9,741	12,150	9,495	806	331	71,161
Total	$ 13,425	$ 13,813	$ 11,654	$ 810	$ 391	$ 88,734

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

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

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 December 31, 2023 and December 31, 2022, related to the balance in the allowance for credit losses follows below (in thousands).

December 31, 2023	C&I	Municipal	Agriculture	Construction & Development	Farm
Loans individually evaluated for credit losses	$ 22,765	$ 733	$ 1,459	$ 23,989	$ 6,166
Loans collectively evaluated for credit losses	1,142,046	214,117	83,431	939,169	338,788
Total	$ 1,164,811	$ 214,850	$ 84,890	$ 963,158	$ 344,954

December 31, 2023 (continued)	Non-Owner Occupied CRE	Owner Occupied CRE	Residential	Auto	Non-Auto	Total
Loans individually evaluated for credit losses	$ 37,139	$ 42,568	$ 37,906	$ 2,589	$ 899	$ 176,213
Loans collectively evaluated for credit losses	790,830	994,713	1,796,687	519,270	153,527	6,972,578
Total	$ 827,969	$ 1,037,281	$ 1,834,593	$ 521,859	$ 154,426	$ 7,148,791

December 31, 2022	C&I	Municipal	Agriculture	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 on-going monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are felt to be inherent in each credit as of each reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's

position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

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

The following tables summarize the Company's internal ratings of its loans held-for-investment, including the year of origination, by portfolio segments, at December 31, 2023 (in millions):

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
C&I								
Risk rating:								
Pass	$ 720	$ 276	$ 73	$ 36	$ 14	$ 23	$ —	$ 1,142
Special mention	1	1	—	—	1	—	—	3
Substandard	12	2	2	1	1	2	—	20
Doubtful	—	—	—	—	—	—	—	—
Total	$ 733	$ 279	$ 75	$ 37	$ 16	$ 25	$ —	$ 1,165
Year-to-Date Gross Charge-Offs	$ —	$ —	$ 1	$ —	$ —	$ —	$ —	$ 1

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Municipal								
Risk rating:								
Pass	$ 25	$ 83	$ 15	$ 10	$ 1	$ 80	$ —	$ 214
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	1	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 25	$ 83	$ 16	$ 10	$ 1	$ 80	$ —	$ 215
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Agricultural								
Risk rating:								
Pass	$ 63	$ 15	$ 4	$ 1	$ 1	$ —	$ —	$ 84
Special mention	—	—	—	—	—	—	—	—
Substandard	1	—	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 64	$ 15	$ 4	$ 1	$ 1	$ —	$ —	$ 85
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Construction & Development								
Risk rating:								
Pass	$ 515	$ 311	$ 78	$ 20	$ 9	$ 6	$ —	$ 939
Special mention	8	2	—	—	—	—	—	10
Substandard	9	4	1	—	—	—	—	14
Doubtful	—	—	—	—	—	—	—	—
Total	$ 532	$ 317	$ 79	$ 20	$ 9	$ 6	$ —	$ 963
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Farm								
Risk rating:								
Pass	$ 101	$ 111	$ 73	$ 24	$ 8	$ 22	$ —	$ 339
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	5	—	1	—	6
Doubtful	—	—	—	—	—	—	—	—
Total	$ 101	$ 111	$ 73	$ 29	$ 8	$ 23	$ —	$ 345
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Non-Owner Occupied CRE								
Risk rating:								
Pass	$ 167	$ 232	$ 172	$ 106	$ 41	$ 73	$ —	$ 791
Special mention	—	5	1	—	—	2	—	8
Substandard	2	1	2	7	13	4	—	29
Doubtful	—	—	—	—	—	—	—	—
Total	$ 169	$ 238	$ 175	$ 113	$ 54	$ 79	$ —	$ 828
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Owner Occupied CRE								
Risk rating:								
Pass	$ 154	$ 305	$ 217	$ 114	$ 62	$ 142	$ —	$ 994
Special mention	1	1	4	—	1	1	—	8
Substandard	3	6	4	—	7	15	—	35
Doubtful	—	—	—	—	—	—	—	—
Total	$ 158	$ 312	$ 225	$ 114	$ 70	$ 158	$ —	$ 1,037
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Residential								
Risk rating:								
Pass	$ 477	$ 415	$ 313	$ 158	$ 67	$ 229	$ 138	$ 1,797
Special mention	1	2	2	2	—	3	1	11
Substandard	4	4	3	3	3	7	3	27
Doubtful	—	—	—	—	—	—	—	—
Total	$ 482	$ 421	$ 318	$ 163	$ 70	$ 239	$ 142	$ 1,835
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Auto								
Risk rating:								
Pass	$ 195	$ 212	$ 74	$ 26	$ 10	$ 2	$ —	$ 519
Special mention	—	—	—	—	—	—	—	—
Substandard	—	1	1	1	—	—	—	3
Doubtful	—	—	—	—	—	—	—	—
Total	$ 195	$ 213	$ 75	$ 27	$ 10	$ 2	$ —	$ 522
Year-to-Date Gross Charge-Offs	$ —	$ 1	$ —	$ —	$ —	$ —	$ —	$ 1

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Non-Auto								
Risk rating:								
Pass	$ 71	$ 47	$ 22	$ 4	$ 1	$ 1	$ 7	$ 153
Special mention	—	—	—	—	—	—	—	—
Substandard	1	—	—	—	—	—	—	1
Doubtful	—	—	—	—	—	—	—	—
Total	$ 72	$ 47	$ 22	$ 4	$ 1	$ 1	$ 7	$ 154
Year-to-Date Gross Charge-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amort Cost Basis	Total
Total Loans								
Risk rating:								
Pass	$ 2,488	$ 2,007	$ 1,041	$ 499	$ 214	$ 578	$ 145	$ 6,972
Special mention	11	11	7	2	2	6	1	40
Substandard	32	18	14	17	24	29	3	137
Doubtful	—	—	—	—	—	—	—	—
Total	$ 2,531	$ 2,036	$ 1,062	$ 518	$ 240	$ 613	$ 149	$ 7,149
Year-to-Date Gross Charge-Offs	$ —	$ 1	$ 1	$ —	$ —	$ —	$ —	$ 2

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

The following tables summarize the Company's internal ratings of its loans held-for-investment, including the year of origination by portfolio segments, at December 31, 2022 (in millions):

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amort 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 Amort 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 Amort 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 Amort 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

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amort 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 Amort 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 Amort 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 Amort 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

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

December 31,	2022	2021	2020	2019	2018	Prior	Revolving Loans Amort 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 Amort 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 Amort 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 December 31, 2023 and 2022, the Company's past due loans are as follows (in thousands):

December 31, 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	$ 8,789	$ 1,624	$ 1,700	$ 12,113	$ 1,152,698	$ 1,164,811	$ 141
Municipal	102	—	—	102	214,748	214,850	—
Total Commercial	8,891	1,624	1,700	12,215	1,367,446	1,379,661	141
Agricultural	850	246	4	1,100	83,790	84,890	—
Real Estate:							
Construction & Development	8,887	2,115	1,856	12,858	950,300	963,158	863
Farm	1,024	195	—	1,219	343,735	344,954	—
Non-Owner Occupied CRE	3,565	—	—	3,565	824,404	827,969	—
Owner Occupied CRE	2,818	240	1,823	4,881	1,032,400	1,037,281	—
Residential	12,293	828	2,816	15,937	1,818,656	1,834,593	—
Total Real Estate	28,587	3,378	6,495	38,460	4,969,495	5,007,955	863
Consumer:							
Auto	1,482	251	24	1,757	520,102	521,859	—
Non-Auto	341	51	—	392	154,034	154,426	—
Total Consumer	1,823	302	24	2,149	674,136	676,285	—
Total	$ 40,151	$ 5,550	$ 8,223	$ 53,924	$ 7,094,867	$ 7,148,791	$ 1,004

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 year ended December 31, 2023, loan modifications made to borrowers experiencing financial difficulty was insignificant.

An analysis of the changes in loans to officers, directors, principal shareholders, or associates of such persons for the year ended December 31, 2023 (determined as of each respective year-end) follows (in thousands):

	Beginning Balance	Additional Loans	Payments	Ending Balance
Year Ended December 31, 2023	$ 107,767	$ 104,519	$ 140,242	$ 72,044

In the opinion of management, those loans are on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons.

4. LOANS HELD-FOR-SALE:

Loans held-for-sale totaled $14,253,000 and $11,965,000 at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, $3,176,000 and $1,468,000, respectively, are valued at the lower of cost or fair value, and the remaining amount are valued under the fair value option. The change to the fair value option for loans held-for-sale was effective at June 30, 2018 and was done in conjunction with the Company's move to mandatory delivery in the secondary market and the purchase of forward mortgage-backed securities to manage the changes in fair value (see Note 5 for additional information).

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 10). 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 of these 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.

5. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company enters into 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 10), 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 10). 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, which changes in fair value recorded through earnings in the statement of earnings.

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

December 31, 2023:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 28,956	$ 427	$ —
Forward mortgage-backed securities trades	35,000	—	288

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	—

6. BANK PREMISES AND EQUIPMENT:

The following is a summary of bank premises and equipment (in thousands):

	Useful Life	December 31, 2023	December 31, 2022
Land	—	$ 39,481	$ 38,703
Buildings	20 to 40 years	167,450	164,371
Furniture and equipment	3 to 10 years	62,644	62,715
Leasehold improvements	Lesser of lease term or 5 to 15 years	2,936	2,949
		272,511	268,738
Less: accumulated depreciation and amortization		(120,723)	(115,765)
Total bank premises and equipment		$ 151,788	$ 152,973

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 amounted to $10,842,000, $10,818,000 and $10,504,000, respectively, and is included in the captions net occupancy expense and equipment expense in the accompanying consolidated statements of earnings.

The Company is lessor for portions of its banking premises. Total rental income for all leases included in net occupancy expense is approximately $2,742,000, $2,665,000 and $2,622,000, for the years ended December 31, 2023, 2022 and 2021, respectively.

7. DEPOSITS AND BORROWINGS:

Time deposits of $250,000 or more totaled approximately $370,505,000 and $194,536,000 at December 31, 2023 and 2022, respectively.

At December 31, 2023, the scheduled maturities of time deposits (in thousands) were, as follows:

Year ending December 31,	
2024	864,669
2025	32,103
2026	14,165
2027	8,803
2028	19,240
Thereafter	—
	$938,980

Deposits received from related parties at December 31, 2023 and 2022 totaled $101,973,000 and $198,096,000, respectively.

Borrowings at December 31, 2023 and 2022 consisted of the following (in thousands):

	December 31,	
	2023	2022
Securities sold under agreements with customers to repurchase	$ 381,928	$ 618,829
Federal funds purchased	1,100	2,625
Other borrowings	21,053	21,053
Total	$ 404,081	$ 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 weighted average interest rate on federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was 3.27% and 1.96% at December 31, 2023 and 2022, respectively.

During 2021, the Company invested in qualifying Community Development Entities ("CDE") under the federal New Market Tax Credits ("NMTC") program. See Note 9 for further discussion of our activity and related balances on the consolidated balance sheets, including the $21,053,000 in other borrowings shown above.

8. LINE OF CREDIT:

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. Prior to June 30, 2025, interest will be 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 December 31, 2023. There was no outstanding balance under the line of credit as of December 31, 2023 or 2022.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

9. INCOME TAXES:

The Company files a consolidated federal income tax return. Income tax expense is comprised of the following (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Current federal income tax	$ 44,335	$ 50,429	$ 40,527
Current state income tax	346	175	350
Deferred federal income tax expense (benefit)	(359)	(4,205)	3,531
Income tax expense	$ 44,322	$ 46,399	$ 44,408

Income tax expense, as a percentage of pretax earnings, differs from the statutory federal income tax rate as follows:

	As a Percent of Pretax Earnings		
	2023	2022	2021
Statutory federal income tax rate	21.0%	21.0%	21.0%
Reductions in tax rate resulting from interest income exempt from federal income tax	(3.8)	(4.4)	(4.7)
Other	1.0	(0.1)	0.0
Effective income tax rate	18.2%	16.5%	16.3%

The approximate effects of each type of difference that gave rise to the Company's deferred tax assets and liabilities at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Tax basis of loans in excess of financial statement basis	$ 21,546	$ 19,474
Recognized for financial reporting purposes but not yet for tax purposes - deferred compensation	3,525	3,303
Net unrealized loss on investment securities available-for-sale	107,206	142,276
Other deferred tax assets	727	1,038
Total deferred tax assets	$ 133,004	$ 166,091
Deferred tax liabilities:		
Financial statement basis of fixed assets in excess of tax basis	$ 7,164	$ 6,019
Intangible asset amortization deductible for tax purposes, but not for financial reporting purposes	14,207	13,866
Recognized for financial reporting purposes but not yet for tax purposes - accretion on investment securities	718	644
Other deferred tax liabilities	115	51
Total deferred tax liabilities	$ 22,204	$ 20,580
Net deferred tax asset (liability)	$ 110,800	$ 145,511

At December 31, 2023 and 2022, management believes that it is more likely than not that all of the deferred tax assets shown above will be realized and therefore no valuation allowance was recorded.

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 $615,000 and $131,000 at December 31, 2023 and 2022, respectively, which is included in other assets.

New Market Tax Credits - 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 the 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 to qualifying eligible projects over a seven year period. The Company's equity investments in the CDEs is amortized using the proportional amortization method and related tax credits are allocated to the Company. At December 31, 2023 and 2022, the consolidated balance sheet of the Company included an $18,000,000 loan to the investee in loans and the $21,053,000 leveraged loan from the investee in other borrowings (see Note 7). At December 31, 2023 and 2022, the consolidated balance sheet of the Company included CDE investments in other assets of $25,738,000 and $26,825,000, respectively.

Current authoritative accounting guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Current authoritative accounting guidance also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. The Company concluded the tax benefits of positions taken and expected to be taken on its tax returns should be recognized in the financial statements under this guidance. The Company files income tax returns in the U.S. federal jurisdiction and state margin tax returns in the state of Texas. We are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2019 or Texas state tax examinations by tax authorities for years before 2020. As of December 31, 2023 and 2022, the Company believes that there are no uncertain tax positions.

10. FAIR VALUE DISCLOSURES:

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

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

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

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

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

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

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

There were no transfers between Level 2 and Level 3 during the years ended December 31, 2023, 2022 and 2021.

The following table summarizes the Company's available-for-sale securities, loans held-for-sale, and derivatives which are measured at fair value on a recurring basis as of December 31, 2023 and 2022 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

December 31, 2023	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 482,234	$ —	$ —	$ 482,234
Obligations of state and political subdivisions	—	1,497,157	—	1,497,157
Corporate bonds	—	100,471	—	100,471
Residential mortgage-backed securities	—	2,364,092	—	2,364,092
Commercial mortgage-backed securities	—	284,324	—	284,324
Other securities	4,484	—	—	4,484
Total	$ 486,718	$ 4,246,044	$ —	$ 4,732,762
Loans held-for-sale	$ —	$ 11,077	$ —	$ 11,077
IRLCs	$ —	$ 427	$ —	$ 427
Forward mortgage-backed securities traded	$ —	$ (288)	$ —	$ (288)

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

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 traded	$ —	$ 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 (in thousands):

	December 31,	
	2023	2022
Unpaid principal balance on loans held-for-sale	$ 10,757	$ 10,226
Net unrealized gains on loans held-for-sale	320	271
Loans held-for-sale at fair value	$ 11,077	$ 10,497

The following table summarizes the Company's gains on sale and fees of mortgage loans for the years ended December 31, 2023, 2022 and 2021 (in thousands):

	Years ended December 31,		
	2023	2022	2021
Realized gain on sale and fees on mortgage loans*	$ 12,116	$ 20,357	$ 37,091
Change in fair value on loans held-for-sale and IRLCs	147	(1,554)	(5,259)
Change in forward mortgage-backed securities trades	(373)	232	1,413
Total gain on sale of mortgage loans	$ 11,890	$ 19,035	$ 33,245

* This includes gain 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 December 31, 2023 or 2022. No significant credit losses were recognized on mortgage loans held-for-sale for the years ended December 31, 2023, 2022 and 2021.

Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include other real estate owned, goodwill and other intangible assets and other non-financial long-lived assets. Non-financial assets measured at fair value on a nonrecurring basis during the years ended December 31, 2023 and 2022 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 years ended December 31, 2023 and 2022.

At December 31, 2023, other real estate owned totaled $483,000. At 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 at December 31, 2023 and 2022, were as follows (in thousands):

	2023		2022		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 281,354	$ 281,354	$ 293,286	$ 293,286	Level 1
Interest-bearing demand deposits in banks	255,237	255,237	37,392	37,392	Level 1
Available-for-sale securities	4,732,762	4,732,762	5,474,359	5,474,359	Levels 1 and 2
Loans held-for-investment, net of allowance for credit losses	7,060,057	7,036,722	6,366,034	6,372,859	Level 3
Loans held-for-sale	14,253	14,378	11,965	11,965	Level 2
Accrued interest receivable	58,544	58,544	58,162	58,162	Level 2
Deposits with stated maturities	938,980	938,534	524,666	518,811	Level 2
Deposits with no stated maturities	10,199,320	10,199,320	10,480,841	10,480,841	Level 1
Repurchase Agreements	381,928	381,928	618,829	618,829	Level 2
Borrowings	22,153	22,153	23,678	23,678	Level 2
Accrued interest payable	10,215	10,215	1,121	1,121	Level 2
IRLCs	427	427	400	400	Level 2
Forward mortgage-backed securities trades	(288)	(288)	85	85	Level 2

11. COMMITMENTS AND CONTINGENCIES:

The Company is engaged in legal actions arising from the normal course of business. In management's opinion, the Company has adequate legal defenses with respect to these actions, and as of December 31, 2023 the resolution of these matters is not expected to have material adverse effects upon the results of operations or financial condition of the Company.

The Company leases a portion of its bank premises and equipment under operating leases. At December 31, 2023, future minimum lease commitments were: 2024 - $605,000, 2025 - $438,000, 2026 - $117,000, 2027 - $63,000 and 2028 - $23,000 and none thereafter.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

We are a party to financial instruments with off-balance-sheet 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 the consolidated balance sheets. At December 31, 2023 and 2022, the Company's reserve for unfunded commitments totaled $7,903,000 and $12,323,000, respectively, 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. Commitments as of December 31, 2023 and 2022, are shown below (dollars in thousands):

	December 31,	
	2023	2022
Financial instruments whose contract amounts represent credit risk:		
Unfunded lines of credit	$ 1,129,645	$ 1,103,286
Unfunded commitments to extend credit	758,351	916,287
Standby letters of credit	35,093	43,698
Total commitments	$ 1,923,089	$ 2,063,271

The above table also does not include balances related to the Company's IRLCs and forward mortgage-backed security trades.

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.

We believe we have no other off-balance sheet 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.

13. CONCENTRATION OF CREDIT RISK:

The Company grants commercial, retail, agriculture and residential real estate loans to customers primarily in North Central, Southeastern and West Texas. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to honor their commitments is dependent upon each local economic sector. In addition, the Company holds mortgage related securities which are guaranteed by GNMA, FNMA or FHLMC or are collateralized by loans backed by these agencies.

14. EMPLOYEE BENEFIT PLANS:

The Company also provides a 401(k) plan and profit sharing plan, a qualified defined contribution plan, which covers substantially all full-time employees. The 401(k) feature allows employees to contribute a percentage of their base annual salary with a corresponding

employer match. The profit sharing feature includes an employee stock ownership feature ("ESOP"). Employees are fully vested to the extent of their contributions and become fully vested in the Company's profit sharing contributions over a six-year vesting period.

The Company matches a maximum of 4% on employee deferrals of 5% of their employee compensation. Total expense for this match in 2023, 2022 and 2021 was $3,750,000, $3,675,000 and $3,590,000, respectively, and is included in salaries and employee benefits in the statements of earnings.

Costs related to the Company's profit sharing plan totaled approximately $1,373,000, $4,233,000 and $10,134,000 in 2023, 2022 and 2021, respectively, and are included in salaries and employee benefits in the accompanying consolidated statements of earnings. As of December 31, 2023 and 2022, the profit sharing plan's ESOP assets included First Financial Bankshares, Inc. common stock of 2,061,918 and 2,148,460 shares valued at approximately $62,476,000 and $73,907,000, respectively.

The Company has a non-qualified "excess benefit" plan where executives, whose Company contributions to the profit sharing plan and employer match under the 401(k) feature are curtailed due to Internal Revenue Service limitations, received contributions from the Company equal to the amount under qualified plans as if there had been no Internal Revenue Service limitations. This plan used the same contribution formula and vesting requirements as the 401(k) and profit sharing plan. This "Make Whole Plan" was frozen to new participants and contributions effective December 31, 2018. As of December 31, 2023 and 2022, the Make Whole Plan held 117,447 and 114,177 shares, respectively, in trust for the Company's executives. There were no contributions to this plan during the years ended December 31, 2023, 2022 and 2021.

The Company adopted a Supplemental Executive Retirement Plan ("SERP"), effective January 1, 2019, which was amended effective January 1, 2022. The SERP benefits certain key senior executives of the Company who are selected by the Board to participate. The SERP is intended to provide a benefit from the Company upon retirement, death, disability or voluntary or involuntary termination of services (other than "for cause"). Under the SERP, the Company may, but is not required to, make discretionary contributions to the executive's accounts from time to time. The contributions may be fully vested or subject to vesting conditions imposed by the Board of Directors with respect to the contributions; provided, however, that all unvested amounts credited to an executive's account will become fully vested upon the executive's death or disability or upon the occurrence of a change of control (as defined in the SERP). Company contributions to the SERP on behalf of an executive are credited with earnings and losses based on the executive's investment elections. The investment options under the SERP are currently the same as those offered under the Company's profit sharing plan, except that Company stock is not an available investment option under the SERP. An executive's vested account is payable to the participant following his or her termination in a single lump sum or installments, as elected by the participant. The SERP as amended allows selected participants to defer base and incentive compensation as well as the receipt of shares from vested restricted and performance stock units into the plan. At December 31, 2023 and 2022, other assets on the consolidated balance sheet include $3,518,000 and $2,172,000 of SERP balances, respectively. The Company made contributions totaling $198,000, $445,000 and $1,163,000 to the SERP for the years ended December 31, 2023, 2022 and 2021, subsequent to the respective year ends, for certain executive officers.

The Company has a directors' deferred compensation plan whereby the directors may elect to defer up to 100% of their directors' fees. All deferred compensation is invested in the Company's common stock held in a rabbi trust wherein the funds are used to purchase Company common shares on the open market. The stock is held in nominee name of the trustee, and the principal and earnings of the trust are held separate and apart from other funds of the Company and are used exclusively for the uses and purposes of the deferred compensation agreement. The accounts of the trust have been consolidated in the financial statements of the Company. As of December 31, 2023 and 2022, the rabbi trust held 930,152 and 929,210 shares, respectively, in trust for the Company's directors and are reflected as treasury shares on the consolidated financial statements.

The Company has acquired life insurance policies on certain current and former executives and directors of acquired entities. At December 31, 2023 and 2022, other assets on the consolidated balance sheet include $34,136,000 and $33,241,000 and reported cash value income (net of related insurance premium expenses) of $891,000, $836,000 and $814,000 in 2023, 2022 and 2021, respectively.

15. DIVIDENDS FROM SUBSIDIARIES:

At December 31, 2023, $387,325,000 was available for the declaration of dividends by the Company's subsidiaries without the prior approval of regulatory agencies.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

16. REGULATORY MATTERS:

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

As of January 1, 2019, a 2.5% 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 December 31, 2023 and 2022, we had a total risk-based capital ratio of 19.62% and 19.29%, a Tier 1 capital to risk-weighted assets ratio of 18.50% and 18.22%; a common equity Tier 1 capital to risk-weighted assets ratio of 18.50% and 18.22%, and a Tier 1 leverage ratio of 12.06% and 10.96%, respectively. The regulatory capital ratios as of December 31, 2023 and 2022 were calculated under Basel III rules.

As of December 31, 2023 and 2022, 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 Fully Phased-In*		Required to be Considered Well-Capitalized	
As of December 31, 2023:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 1,697,999	19.62%	$ 908,870	10.50%	$ 865,590	10.00%
First Financial Bank, N.A	$ 1,518,365	17.59%	$ 906,541	10.50%	$ 863,372	10.00%
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,601,361	18.50%	$ 735,752	8.50%	$ 519,354	6.00%
First Financial Bank, N.A	$ 1,421,727	16.47%	$ 733,866	8.50%	$ 690,698	8.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	$ 1,601,361	18.50%	$ 605,913	7.00%	—	N/A
First Financial Bank, N.A	$ 1,421,727	16.47%	$ 604,361	7.00%	$ 561,192	6.50%
Leverage Ratio:						
Consolidated	$ 1,601,361	12.06%	$ 346,236	4.00%	—	N/A
First Financial Bank, N.A	$ 1,421,727	10.75%	$ 345,349	4.00%	$ 431,686	5.00%

	Actual		Minimum Capital Required-Basel III Fully Phased-In*		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.

In connection with the First Financial Trust & Asset Management Company, N.A.’s (the “Trust Company”) application to obtain our trust charter, the Trust Company is required to maintain tangible net assets of $2,000,000 at all times. As of December 31, 2023, our Trust Company had tangible net assets totaling $56,731,000.

Our subsidiary bank may be required at times to maintain reserve balances with the Federal Reserve Bank. At December 31, 2023 and 2022, there was no subsidiary bank’s reserve balance required, respectively.

17. 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 December 31, 2023, the Company had 1,580,195 shares of stock available for issuance under the 2021 Plan. The 2021 Plan supersedes all prior stock option and restricted stock plans with shares previously reserved for issuance under such plans cancelled.

Restricted Stock Units

Under the 2021 Plan, the Company grants restricted stock units under compensation agreements for the benefit of employees, executive officers and directors. Restricted stock unit grants are subject to time-based vesting. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the service conditions set forth in the grant agreements. The following table summarizes information about the changes in restricted stock units for the years ended December 31, 2023, 2022 and 2021, respectively.

	For the year ended December 31, 2023		For the year ended December 31, 2022		For the year ended December 31, 2021	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	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	33,294	29.53	24,833	47.19	22,597	48.91
Vesting	(14,553)	48.00	(7,425)	48.91	—	—
Forfeited/expired	(4,581)	41.09	(348)	48.91	—	—
Balance at end of period	53,817	$ 37.04	39,657	$ 47.83	22,597	$ 48.91

Performance Stock Units

Also under the 2021 Plan, the Company awards performance-based restricted stock units ("PSUs") to executive officers and other officers and employees. Under the terms of the award, the number of units that will vest and convert to shares of common stock will be based on the extent to which the Company achieves specific performance criteria during the fixed three-year performance period. The number of shares issued upon vesting will range from 0% to 200% of the PSUs granted. The PSUs vest at the end of a three-year period based 50% on each 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 probable outcome of the performance condition, adjusted for 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 years ended December 31, 2023, 2022 and 2021, respectively.

	For the year ended December 31, 2023		For the year ended December 31, 2022		For the year ended December 31, 2021	
	Performance-Based Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	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	33,294	29.53	24,833	47.19	22,597	48.91
Vesting	—	—	—	—	—	—
Forfeited/expired	(5,149)	41.95	(348)	48.91	—	—
Balance at end of period	75,227	$ 40.24	47,082	$ 48.00	22,597	$ 48.91

At December 31, 2023, the vesting period for the PSUs that were granted in 2021 had been satisfied. These shares will not be reflected in the shares vested until the outcome of the peer performance condition is determined and the vesting is settled in the first quarter of 2024.

Restricted Stock Awards

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

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

	For the year ended December 31, 2023		For the year ended December 31, 2022		For the year ended December 31, 2021	
	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value	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	95,888	$ 29.89
Grants	25,190	27.79	15,425	40.89	12,110	49.58
Vesting	(23,708)	36.40	(37,010)	37.61	(60,011)	29.25
Forfeited/expired	(1,105)	29.70	(200)	29.70	(1,389)	32.76
Balance at end of period	25,190	$ 27.79	24,813	$ 36.21	46,598	$ 35.75

The total fair value of restricted stock vested was $1,082,000, $1,861,000 and $2,947,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

The Company recorded restricted stock unit, performance-based restricted stock unit and restricted stock award expense for employees of $1,826,000, $1,887,000 and $1,329,000, respectively, for the years ended December 31, 2023, 2022 and 2021. The Company recorded director expense related to these restricted stock grants of $667,000, $631,000 and $600,000 for the years ended December 31, 2023, 2022, and 2021, respectively.

As of December 31, 2023 and 2022, there were $3,258,000 and $3,422,000, respectively, of total unrecognized compensation cost related to consolidated unvested restricted stock units, performance-based restricted stock units and restricted stock awards, which is expected to be recognized over a weighted-average period of 1.19 years and 1.13 years, respectively. At December 31, 2023 and 2022, there was $124,000 and $74,000, respectively, accrued in other liabilities related to dividends declared to be paid upon vesting.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

Stock Option Plan

Prior to 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 year ended December 31, 2023 is presented in the table and narrative below:

	Shares	Weighted-Average Ex. Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding, beginning of year	1,490,413	$ 29.99		
Granted	253,228	29.53		
Exercised	(125,593)	17.76		
Cancelled	(65,799)	40.79		
Outstanding, end of year	1,552,249	30.45	5.81	$ 6,814
Exercisable at end of year	895,121	$ 25.34	4.04	$ 6,550

The options outstanding at December 31, 2023 had exercise prices ranging between $16.95 and $48.91. Stock options have been adjusted retroactively for the effects of stock dividends and splits.

The following table summarizes information concerning outstanding and vested stock options as of December 31, 2023:

Exercise Price	Number Outstanding	Remaining Contracted Life (Years)	Number Vested
$ 16.95	214,981	1.8	214,981
$ 21.18	392,477	3.4	392,477
$ 29.70	293,760	5.5	167,340
$ 34.55	10,200	6.1	3,900
$ 48.91	180,764	7.6	72,841
$ 47.19	215,043	8.6	43,582
$ 29.53	245,024	9.6	—

The fair value of the options granted during 2023 were estimated using the Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 4.39%; expected dividend yield of 2.44%; expected life of 5.81 years; and expected volatility of 30.58%. The fair value of the options granted during 2022 were estimated using the Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 2.92%; expected dividend yield of 1.44%; expected life of 6.02 years; and expected volatility of 28.72%. The fair value of options granted during 2021 were estimated using the Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 0.76%; expected dividend yield of 1.23%; expected life of 6.42 years; and expected volatility of 30.11%.

The weighted-average grant-date fair value of options granted during 2023, 2022 and 2021 was $8.41, $13.30 and $12.99, respectively. The total intrinsic value of options exercised during the years ended December 31, 2023, 2022 and 2021, was $1,585,000, $9,131,000 and $9,486,000, respectively. The Company recorded stock option expense totaling $1,763,000, $1,440,000 and $1,316,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

As of December 31, 2023, there was $5,215,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.56

years. The total fair value of shares vested during the years ended December 31, 2023, 2022 and 2021 was $2,121,000, $1,750,000 and $1,648,000.

18. CONDENSED FINANCIAL INFORMATION—PARENT COMPANY:

Condensed Balance Sheets -
December 31, 2023 and 2022

ASSETS	2023	2022
Cash in subsidiary bank (1)	$ 92,905	$ 50,204
Cash in unaffiliated banks (1)	2	2
Interest-bearing deposits in subsidiary bank (1)	50,412	69,053
Total cash and cash equivalents	143,319	119,259
Securities available-for-sale, at fair value	2,200	2,235
Investment in and advances to subsidiaries, at equity (1)	1,376,986	1,171,095
Intangible assets	723	723
Other assets	7,044	5,355
Total assets	$ 1,530,272	$ 1,298,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total liabilities	$ 31,372	$ 32,930
Shareholders' equity:		
Common stock	1,427	1,427
Capital surplus	681,246	677,593
Retained earnings	1,219,525	1,121,945
Treasury stock	(11,855)	(11,035)
Deferred compensation	11,855	11,035
Accumulated other comprehensive earnings	(403,298)	(535,228)
Total shareholders' equity	1,498,900	1,265,737
Total liabilities and shareholders' equity	$ 1,530,272	$ 1,298,667

(1) Eliminates in consolidation.

Condensed Statements of Earnings -
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
Income:			
Cash dividends from subsidiaries (1)	$ 133,500	$ 67,500	$ 96,500
Excess of earnings over dividends of subsidiaries (1)	72,444	174,741	140,441
Other	1,783	62	279
Total income	207,727	242,303	237,220
Expenses:			
Salaries and employee benefits	6,129	6,541	7,374
Other operating expenses	4,521	4,106	5,262
Total expense	10,650	10,647	12,636
Earnings before income taxes	197,077	231,656	224,584
Income tax benefit	1,900	2,819	2,978
Net earnings	$ 198,977	$ 234,475	$ 227,562

(1) Eliminates in consolidation.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2023, 2022 and 2021

Condensed Statements of Cash Flows -
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
Cash flows from operating activities:			
Net earnings	$ 198,977	$ 234,475	$ 227,562
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Excess of earnings over dividends of subsidiaries	(72,444)	(174,741)	(140,441)
Depreciation and amortization, net	116	188	189
Decrease (increase) in other assets	698	645	(693)
Increase (decrease) in other liabilities	(2,721)	933	2,997
Other	2	—	(4)
Net cash provided by operating activities	124,628	61,500	89,610
Cash flows from investing activities:			
Purchases of bank premises and equipment and software	—	(385)	(106)
Net cash provided by (used in) investing activities	—	(385)	(106)
Cash flows from financing activities:			
Proceeds from stock option exercises	2,132	6,545	5,905
Cash dividends paid	(99,965)	(91,315)	(79,712)
Repurchase of stock	(2,735)	(9,449)	—
Net cash used in financing activities	(100,568)	(94,219)	(73,807)
Net increase in cash and cash equivalents	24,060	(33,104)	15,697
Cash and cash equivalents, beginning of year	119,259	152,363	136,666
Cash and cash equivalents, end of year	$ 143,319	$ 119,259	$ 152,363

Exhibit 4.2

DESCRIPTION OF REGISTRANT'S SECURITIES

As of December 31, 2023, First Financial Bankshares, Inc. (the "Company," "we," or "our") had one class of securities, our common stock, par value $0.01 per share ("common stock"), registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

DESCRIPTION OF COMMON STOCK

General

We are incorporated in the State of Texas. The rights of our shareholders are generally governed by Texas law and our Amended and Restated Certificate of Formation (the "certificate of formation") and our Amended and Restated Bylaws, as amended (the "bylaws"). The terms of our common stock are therefore subject to Texas law, including the Texas Business Organizations Code (the "TBOC"), the common and constitutional law of Texas and federal law governing bank holding companies.

The following description of our common stock is a summary and is subject to, and is qualified in its entirety by reference to, the provisions of our certificate of formation and our bylaws. For more detailed information about the rights of our common stock, you should refer to our certificate of formation and bylaws and the applicable provisions of Texas law, including the TBOC, for additional information.

Authorized Capital Stock

We are authorized to issue 200,000,000 shares of common stock, par value $0.01 per share. All outstanding shares of our common stock are fully paid and non-assessable.

Voting Rights

Holders of our common stock are entitled to one vote per share in the election of directors and on all other matters submitted to a vote at a meeting of shareholders. No shareholder has the right of cumulative voting.

If a quorum exists, action on any matter, including the election of directors, shall be approved by the affirmative vote of a majority of the votes cast, unless our certificate of formation, bylaws or the TBOC require a greater number of affirmative votes. In the event that the number of director nominees exceeds the number of directors to be elected, the directors (not exceeding the authorized number of directors as fixed by the board of directors in accordance with our certificate of formation or bylaws) shall be elected by a plurality of the voting power of the shares entitled to vote who are present, in person or by proxy, at any such meeting and entitled to vote on the election of directors. Our bylaws provided that a majority of the votes cast means that the number of shares voted "for" a proposal, including the election of directors, must exceed the number of shares voted "against," or "withheld" for, that proposal, and an abstention shall not constitute a vote cast.

No Preemptive or Similar Rights

Our common stock has no preemptive or conversion rights and is not entitled to the benefits of any redemption or sinking fund provision.

Dividend Rights

Holders of our common stock are entitled to dividends when, as and if declared by our board of directors out of funds legally available for dividends.

Liquidation Rights

In the event of our liquidation, the holders of our common stock will be entitled to share ratably in any distribution of our assets after payment of all debts and other liabilities.

Certain Business Combination Restrictions

We are subject to the affiliated business combinations provisions of Chapter 21, Subchapter M of the TBOC (Sections 21.601 through 21.610), which provide that a Texas corporation may not engage in certain business combinations, including mergers, consolidations and asset sales, with a person, or an affiliate or associate of such person, who is an "affiliated shareholder" (generally defined as the holder of 20% or more of the corporation's voting shares) for a period of three years from the date such person became an affiliated shareholder unless: (1) the business combination or purchase or acquisition of shares made by the affiliated shareholder was approved by the board of directors of the corporation before the affiliated shareholder became an affiliated shareholder; or (2) the business combination was approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares of the corporation not beneficially owned by the affiliated shareholder, at a meeting of shareholders called for that purpose (and not by written consent), not less than six months after the affiliated shareholder became an affiliated shareholder.

Certain Provisions of Our Certificate of Formation and Bylaws

Advance Notice for Shareholder Proposals and Director Nominations

Our bylaws contain provisions requiring that advance notice be delivered to the Company of any business to be brought by a shareholder before an annual meeting of shareholders and provide for certain procedures to be followed by shareholders in nominating candidates for election as directors. Generally, the advance notice provisions require that shareholder proposals be provided to us between 90 and 120 days prior to the first anniversary of the preceding year's annual meeting and director nominations be provided to us between 120 and 150 days prior to the first anniversary of the preceding year's annual meeting in order to be properly brought before a shareholder meeting. The notice must set forth specific information regarding the shareholder submitting the proposal or nomination and the proposal or director nominee, as described in our bylaws, and must otherwise comply with the terms of our bylaws. These requirements are in addition to those set forth in the regulations adopted by the SEC under the Exchange Act.

Special Meetings of Shareholders

Our bylaws provide that special meetings of our shareholders may be called for any purpose or purposes by (a) the Chairman of our board of directors joined by at least three members of the board of directors, or (b) a majority of our board of directors, and shall be called by the Chairman of the board of directors or Secretary at the request in writing of shareholders owning not less than twenty percent (20%) of our issued and outstanding shares entitled to vote at such meeting. Such request for a special meeting shall state the purpose or purposes of the proposed meeting, which purpose or purposes shall be stated in the notice of the meeting. Business transacted at any special meeting of shareholders shall be limited to the purposes stated in the notice. At a special meeting requested by our shareholders, only the Company and the shareholders who participated in the written meeting request may propose any item for consideration or nominate directors for election at such meeting.

Potential Anti-Takeover Effect

Certain provisions of our certificate of formation and bylaws could make the acquisition of control of our company and/or the removal of our existing management more difficult, including those that provide as follows:

- cumulative voting in the election of our board of directors, which would otherwise allow less than a majority of shareholders to elect director candidates, is expressly denied under our certificate of formation and bylaws;

- our bylaws limit the ability of shareholders to call a special meeting except in compliance with the procedures described above, which require shareholders owning not less than twenty percent (20%) of our issued and outstanding shares entitled to vote at such meeting to request a special meeting;

- subject to certain limitations set forth in our bylaws, our board of directors fixes the size of the board of directors, may create new directorships and may appoint new directors to serve in such newly-created positions until the next election of one or more directors by our shareholders;

- our bylaws may be altered, amended or repealed and new bylaws may be adopted by our board of directors, subject to repeal or change by action of the shareholders, at any meeting of the board of directors at which a quorum is present, provided notice of the proposed alteration, amendment, or repeal is contained in the notice of the meeting, unless (a) our certificate of formation or the TBOC wholly or partly reserves the power exclusively to our shareholders; or (b) in amending, repealing, or adopting a bylaw, the shareholders expressly provide that the board of directors may not amend, repeal, or readopt that bylaw; and

- we have advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors.

These provisions are expected to discourage coercive takeover practices and inadequate takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of the Company to first negotiate with our board of directors. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us and that these benefits outweigh the disadvantages of discouraging the proposals. Negotiating with the proponent could result in an improvement of the terms of the proposal.

Stock Exchange Listing

Our common stock is traded on the Nasdaq Global Select Market under the symbol “FFIN”.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company at 1 State Street, 30th Floor, New York, NY 10004-1561.

Exhibit 21.1

SUBSIDIARIES OF REGISTRANT

Names of Subsidiary	Place of Organization	Percentage of Voting Securities Owned
First Technology Services, Inc. Abilene, Texas	Texas	100%
First Financial Trust & Asset Management Company, N.A.* Abilene, Texas	Texas	100%
First Financial Bank, N.A* Abilene, Texas	Texas	100%
First Financial Insurance Agency, Inc. Abilene, Texas	Texas	100%
FFB Investment Paris Fund, LLC Abilene, Texas	Texas	100%
FFB Portfolio Management, Inc. Abilene, Texas	Texas	100%

* National charter.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-190247) pertaining to the 2012 Incentive Stock Option Plan of First Financial Bankshares, Inc.;

(2) Registration Statement (Form S-8 No. 333-205406) pertaining to the 2015 Restricted Stock Plan of First Financial Bankshares, Inc; and

(3) Registration Statement (Form S-8 No. 333-255569) pertaining to the 2021 Omnibus Stock and Incentive Plan of First Financial Bankshares, Inc;

of our reports dated February 23, 2024, with respect to the consolidated financial statements of First Financial Bankshares, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of First Financial Bankshares, Inc. and subsidiaries included in this Annual Report (Form 10-K) of First Financial Bankshares, Inc. for the year ended December 31, 2023.

/s/ Ernst & Young LLP

Fort Worth, Texas

February 23, 2024

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-K of First Financial Bankshares, Inc.;

2. Based on my knowledge, this 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 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers 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: February 23, 2024

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-K of First Financial Bankshares, Inc.;

2. Based on my knowledge, this 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 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers 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: February 23, 2024

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 annual report on Form 10-K (the "Form 10-K") for the year ended December 31, 2023 of First Financial Bankshares, Inc. (the "Issuer").

I, F. Scott Dueser, the Chairman of the Board, President and Chief Executive Officer of the Issuer certify, to the best of my knowledge, that:

1. the Form 10-K fully complies with the requirements of Section 13(a) or 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-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: February 23, 2024

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

Subscribed and sworn to before me this 23rd day of February, 2024.

/s/ Melissa A. 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 annual report on Form 10-K (the "Form 10-K") for the year ended December 31, 2023 of First Financial Bankshares, Inc. (the "Issuer").

I, Michelle S. Hickox, the Executive Vice President and Chief Financial Officer, Secretary and Treasurer of the Issuer certify, to the best of my knowledge, that:

1. the Form 10-K fully complies with the requirements of Section 13(a) or 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-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: February 23, 2024

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 23rd day of February, 2024.

/s/ Melissa A. Fenton
Notary Public
My commission expires: October 11, 2024