

First
Bank ★ Texas

STRATEGIC PLAN

2024-2028

Submitted to THE BOARD OF DIRECTORS for approval

STRATEGIC PLAN

MISSION STATEMENT

This bank was established during 1880 to serve the financial needs of (1) community, (2) business, (3) farms and ranches and (4) existing customers on a profitable basis. We have now been successfully serving the citizens of the big country and DFW area for more than 140 years.

The primary mission of this bank is to maximize the net earnings of the bank over the long-term, while serving our customers in a fair/competitive manner.

The Bank's most important asset is its customer base. The Bank's products are designed to meet the needs of the customer; our hours are arranged to meet the needs of the customer and employees are hired to meet the needs of our customers. High quality customer service is the primary focus of each employee, and it is only through the accomplishment of this mission that FBT can reach its profitability goals.

The next most important asset of our bank is our employees. Without dedicated and responsible employees, it would be impossible for the bank to be a responsible citizen to the community or to render high quality customer service. Therefore, another mission of this bank is to be a responsible employer. All bank employees must be treated with dignity and respect and all employees will be given equal opportunity along with a fair wage without respect to race, color, sex, age, or physical handicaps.

Strategic Planning is the process of setting plans and goals for the future based on the present and past without the knowledge of the obstacles that will be encountered during the planning period; therefore, the plan is not policy, and the plan cannot be followed in every situation. The process allows management to objectively review past performance and set in motion a plan for future development with the flexibility to change during the planning period and adjust to internal and external influences and conditions.

The process includes a review of the Bank's past income/expense, net income, asset growth, asset mix, capital, asset quality, personnel, and management along with all other major areas of the Bank. Management uses the Bank's past performance along with current conditions and future objectives to develop this plan. Management recognizes that the financial conditions during and following COVID are an anomaly that has been managed to address fluctuations in deposits and loan balances related to government programs that flooded the market 2020 through 2022 which are stabilizing in 2023 moving forward to a more normalized business environment. Management recognizes that borrowers' interest costs have increased due to Federal Reserve Bank rate increases to levels higher than borrowers have experienced in the last 20 years. The Bank has experienced a very strong net interest margin that provides flexibility to absorb higher deposit costs in a higher rate environment if necessary. Management addresses the major functions of the Bank in the most simplistic form as follows.

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Asset Growth During the past several years, organic growth has been steady. The Bank anticipates a 5-10% increase in assets in 2024 with year over year growth of 5-10% through 2028. Growth is expected to come from growth in the community and servicing our existing customers without a specific industry sector to be targeted.

Loan demand has improved and is expected to continue to be steady with anticipated growth of 10% in 2024.

Recently, FBT's return on assets (ROA) has been lower than our traditional levels, however, we are focused on structural enhancements in our operations to maximize revenue while controlling expenses as we prepare for future growth. With process improvements and technology acquisitions designed to improve efficiency and capacity, ROA should return to more traditional levels of 1.25 and higher in the years ahead.

Earnings Performance Management has set an aggressive goal of ROA at 1.25% for 2024. Loan demand remains stable, and our net interest margin remains at the top of our peer group. The Bank's loan loss reserve remains at 1.20 to 1.25 of total loans in third quarter 2023 (per OCC calculation).

Asset/Liability Mix Every stable bank finds a mix that will work well for that institution. The Bank has a mix that allows it to meet the demands on loans with pricing opportunities that should not have a significant negative effect on earnings should rates continue to change. Should the asset/liability mix shift in the future, the bank has readily available sources of funding to meet both short-term and long-term needs. The bank has the ability to generate advances with the Federal Home Loan Bank, execute brokered deposit transactions, pull on our lines with our correspondent banks, sell loan participations, or sell available-for-sale securities. Lastly, the Federal Reserve Bank's Bank Term Funding Program is also available if needed. The bank maintains a strong net interest margin and has the capability of raising deposit rates and maintaining profitability.

Capital Adequacy FBT continues to maintain a strong capital position. Earnings over the next 5 years are projected to be sufficient to meet obligations and continue to maintain a 9.5% Tier 1 leverage ratio. The Bank will continue to build capital through earnings to support future growth and opportunities, and no other capital sources should be needed to reach our goals. The Bank will maintain a Tier 1 leverage capital ratio minimum as required of a well-capitalized bank and in compliance with the OCC's ICMR. The Board has indicated that they may suspend dividends to achieve a 10% leverage ratio to position the Bank for opportunities that may arise. The 10% leverage ratio is not based on the risk profile of the Bank.

Stress Testing The Bank's Board of Directors supports specific approaches to mitigate potential risks and will continue aggressive stress testing using minor, moderate, and severe scenarios. By carefully identifying specific asset groups and potential adverse factors that may occur, stress testing provides a key analytical approach. Stress testing should ascertain whether capital adequately covers potential future losses. Through formal stress testing processes, management will have analytical support to assist in the creation of contingency plans which will protect capital, should the assumptions evaluated occur.

The Board recognizes that models may be prone to fundamental errors and that the use of stress testing financial models requires considerable judgment and expertise in application. Reliance on erroneous price or exposure estimates or overly broad interpretations of model results can result in serious implications on bank profitability, capital levels, and reputation. However, understanding and monitoring "model risk" can limit

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loss exposure. The Board recognizes the need for model validation on a regular basis to increase reliability and promote improvements.

A capital stress test shall be performed quarterly, at least annually and will include minor, moderate, and severe testing scenarios. If the potential impact increases and projects the leverage ratio falling below the regulatory minimum in a *minor/moderate/severe* scenario, the board will address the appropriateness of capital levels and potentially increase capital using the sources outlined in the Capital plan.

Concentration Risk Management: Further, with the continued emphasis at the board level, and at the OCC with respect to managing concentrations, the board reviews monthly and adjusts limits on C&D, subcategories of C&D, and CRE as appropriate. The Board has set a 200% limit for C&D and a 400% limit for non-owner occupied CRE. Quarterly market analysis provides trends in the level and direction of risk to be used in setting concentration limits.

Product Line and Market Development The bank's on-line banking services continue to improve and are being used by many of our customers. FBT will continue to develop new products as needed to compete in the marketplace and continue to improve existing products to maximize solid growth in assets, earnings, and capital. The Bank's geographic boundaries and competition should not require the bank to change its philosophy significantly during the next 1-5 years. The Bank will always be sensitive to changes in the economy or competition that may create an opportunity for new markets; however, the bank will always stress safety and quality. Safety will not be sacrificed for growth.

The bank will continue to research and evaluate the products required to satisfy existing customers while attracting new customers. In the process, the information technology providers will be engaged to ensure that the systems are in place to effectively deliver the desired products.

Asset Quality Management has in the past and will continue to monitor asset quality through an external loan review process performed by a third-party provider outside the company. Problem loans are identified promptly so corrective action can be taken before the loan deteriorates further. Investment securities will be monitored closely to ensure only high-grade investments are made by the Bank.

Personnel and Training FBT has qualified people who are encouraged to seek continuing education and, they are provided training on an ongoing basis to ensure competency to serve in the position in which they are now assigned and cross-trained to provide maximum coverage with fewest numbers.

The Bank has established an officer succession plan as outlined in Addendum A of this plan in addition to the Board of Directors naming the successor for the President annually.

Budgeting/Planning The Bank operates under a formal budget that is prepared annually and approved by the Board. The budget is a version of a zero-based budget where each income and expense account are at zero and the budgeting process estimates annually all income/expense items. The budgeting process requires input from each area of the Bank with the cooperation of each department supervisor. The budget is reviewed for approval and compiled by management for final approval by the Board of Directors. This budget process requires a well-planned program be established to budget for the current year and determine income/expense items that may occur in subsequent years.

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Policies The bank operates under several policies and plans to manage the Bank more successfully on a day to day, month to month, and year to year basis. All policies are reviewed at least annually and approved by the Board of Directors. Each employee has access to a copy of all policies. Management is charged with the responsibility of monitoring compliance and submitting policy changes. The Bank continues to change policies as needed to further improve the overall Bank quality.

Information Technology Information technology will be used to deliver products and services to bank customers in compliance with Board adopted policies and procedures. The IT infrastructure will provide support to the business operations of the Bank. IT will be incorporated into the policies and procedures, audit, training, and budgeting processes of the Bank, and adequate resources will be committed for staff, training, and third-party vendors. BankonIT will be our information technology vendor who manages day-to-day IT concerns, security, and employee requests.

SWOT

Management has evaluated the Bank's strengths, weaknesses, opportunities, and threats and through that process is positioned to capitalize on its strengths, recognize its weaknesses, capitalize on its opportunities, and withstand threats. At least annually, senior management will perform a SWOT analysis. SWOT specifics and top strategic issues are as follows.

Strengths

- Net interest margin.
- Repeat business from existing customers.
- Customer service generates referrals.
- Philanthropy sets the bank apart in the communities we serve.
- Independence allows prompt decisions, and attention to customers' and prospects' needs.
- Focus on continuous improvement to achieve excellence.
- Loans available for sale.

Weaknesses

- Coachable talent challenges in some areas of the bank.
- Leadership needs development.
- Functional rather than strategic thinking.
- Sales process is new to the culture.
- Employee engagement is not across the organization.
- Products need to be expanded to meet customers' and prospects' needs.
- Task and process management needs efficiency improvement.
- Limited bench strength in areas of the bank, needs talent development.
- Need project managers.
- Reliance on real estate lending and large relationships.

Opportunities

- Expansion of the sales (not salesy) process.
- Develop career paths.

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Team sales calls with account managers.
Developing markets – products, locations, and business sectors.
Fee income
Client base growth
Acquisitions
Efficiency improvement.
Staffing redeployment, reduction through attrition.
Capitalize on culture differences with big banks to attract new customers.

Threats

Regulatory and compliance changes.
Rate environment.
Inflation.
Disruptors like Zelle, Apple, and other Fin Techs.
Cyber and reputation risk related to a cyber incident.
Liquidity, deposit pressures.

Top 5 strategic issues.

1. Talent development to improve bench strength, grow leaders. How do we attract, develop, and retain staff to elevate critical thinking given our current needs?
2. Efficiencies. How do we maximize technology and work flows to enhance efficiency to do more with less given our manual, duplicative processes?
3. Diversification of customers and products. How do we mitigate risk by attracting customers in industries that allow diversity given our current concentrations in loan and deposit customers?
4. Sales process, team selling. How do we implement “That’s My Bank!” to ensure we are following a structured process given we do not currently have process structure in all areas of the bank?
5. Regulatory and compliance. How do we stay ahead of emerging hot buttons from regulators to avoid discussions, exam or audit findings given the fluid environment?

The top strategic issue is talent development.

The indicators of success for our 5-year performance goals are as follows.

1. Improved diversification of products and customers.
2. NIM at 5.25%
3. Efficiency at 56%
4. ROA of 1.80
5. Asset growth 10% year over year.
6. Loan Growth 10 year over year, 85% loan to deposit.
7. Deposit Growth 12% year over year.
8. Assets per employee at \$6.5 million.
9. Appointments are set for 30% of Top 100 prospects.
10. Close 25% of Top 100 prospects.
11. Cross sales of 5 on all new relationships.
12. Maintain required capital levels.

In summary, the strategic plan for the Bank is to continue to grow at a steady rate and continue to serve the communities in which we are located. Assets and capital should continue to grow during 2024 and the 5-

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year period. Emphasis will remain on asset quality and training of employees while serving our communities.

It may be detrimental to the Bank to form a 1-to-5-year plan and follow it without deviation; however, we plan to remain flexible enough to take advantage of every opportunity to improve our overall operation.

Should opportunities arise to further expand our services, make acquisitions etc., we plan to be positioned and prepared to take advantage of those opportunities while maintaining a solid capital base, qualified people, strong earnings, and quality assets. Economic conditions, competition, financial environment, and regulatory change all have an impact on our bank; therefore, we reserve the right to change our gameplan as the rules change. We intend, first and foremost, to continue to have a financial institution that serves the community with a strong capital position, good earnings, and quality assets.

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