Risk Factors Comparison 2024-02-20 to 2023-02-21 Form: 10-K

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An investment in the Company' s common stock involves risks. The following is a description of the material risks and uncertainties that the Company believes affect its business and an investment in the common stock. Additional risks and uncertainties that the Company is unaware of, or that it currently deems immaterial, also may become important factors that affect the Company and its business. If any of the risks described in this Annual Report on Form 10- K were to occur, the Company' s financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of the common stock could decline significantly and you could lose all or part of your investment. Summarized below are the most significant risks and uncertainties that we believe could adversely affect our business, financial condition or results of operations. Following this summary, we discuss each risk in greater detail under each risk' s respective headings, organized by Risks Related to the Company' s Business and Risks Related to an Investment in the Company' s Common Stock. You should read both the summary and the detailed descriptions of each risk before investing in the Company' s securities. RISKS RELATED TO THE COMPANY' S BUSINESS Strategic Risk • The Company may not be able to continue to grow. • The Company may not be able to continue its acquisition strategy. • The Company must effectively manage risk associated with its acquisition strategy. • The Company has a geographic concentration in Texas and Colorado. Operational Risk • Workforce disruption may inhibit the Company' s ability to attract and retain talent. • The Company must effectively manage the need for technological change. • The Company may experience system failure or cybersecurity breaches. • The Company is reliant on third party service providers. • The Company may be subject to data processing failures, control failures and fraud. • New lines of business or new products and services subject the Company to additional risks. • The Company' s accounting estimates and risk management programs rely on analytical and forecasting models. • The Company is subject to counterparty risk. • The value of the Company' s goodwill could become impaired. Credit Risk • The Company must manage credit risk. • The Company has a significant concentration in commercial real estate loans. • The Company has exposure to credit risk related to the energy industry. • The Company' s Allowance for Credit Losses may be insufficient. • The Company' s mortgage business subjects the Company to additional risk. Interest Rate Risk • The Company must manage interest rate risk. • The replacement of LIBOR may subject the Company to additional risk. • The Company could experience losses on its investment securities in volatile rate environments. Legal, Regulatory and Compliance Risk • The Company is subject to legal and regulatory risk. • The Company operates in a highly regulated environment and, as a result, is subject to extensive regulation and supervision. • The Company must devote significant resources to compliance. • The Company is subject to continuous examination. • The Company may be required to pay significantly higher FDIC deposit insurance assessments in the future. • The Company faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. • There are substantial regulatory limitations on changes of control of bank holding companies. Liquidity and Capital Risk • The Company is subject to liquidity risk. • The Company must maintain adequate capital. • The Federal Reserve may require the Company to commit capital resources to support the Bank. Other Risks Affecting Our Business • Volatile market conditions and macro economic trends ~~, including the impact of the COVID- 19 pandemic, could adversely affect the Company~~ . • The Company operates in a competitive environment. • The Company is reliant on deposits as a significant source of funding. • The Company may be adversely impacted by natural disasters, health pandemics, and other local and worldwide events beyond the Company' s control. • The Company is subject to growing risk from changing environmental conditions. • Reputational risk is heightened by emerging environmental, social and governance concerns. • Monetary policies and regulations of the Federal Reserve could adversely affect the Company' s business, financial condition and results of operations. RISKS RELATED TO AN INVESTMENT IN THE COMPANY' S COMMON STOCK • The Company' s stock price can be volatile. • The Company is dependent upon the Bank for cash flow, and the Bank' s ability to make cash distributions is restricted. • The Company' s dividend policy may change without notice, and the Company' s future ability to pay dividends is subject to restrictions. • The Company' s largest shareholder and board of directors have historically, and currently, exert a controlling influence on the Company. • The Company' s corporate organizational documents and the provisions of Texas law make it more difficult or prevent an attempted acquisition of the Company that you may favor. • Other debt and equity instruments have priority over the Company' s common stock. • An investment in the Company' s common stock is not an insured deposit. To achieve its past levels of growth, the Company has focused on both internal growth and acquisitions. The Company may not be able to sustain its historical rate of growth or may not be able to grow at all. More specifically, the Company may not be able to grow earning assets, specifically loans, and the Company may not be able to find suitable acquisition candidates. Various factors, such as economic conditions and competition, may impede or prohibit loan growth and the completion of acquisitions. **As** ~~Further~~ **further** ~~, as~~ discussed ~~above~~ **below** , the Company may be unable to attract and retain new talent, which could adversely affect its internal growth. If the Company is not able to continue its historical levels of growth, it may not be able to maintain its historical earnings trends. If the Company does not manage the Company' s growth effectively, the Company' s business, financial condition, results of operations and future prospects could be negatively affected, and the Company may not be able to continue to implement the Company' s business strategy and successfully conduct the Company' s operations. The Company has been pursuing a growth strategy that includes the acquisition of other financial institutions in target markets. The Company has completed several acquisitions since 2010, with its last acquisition completed on January 1, 2019 of Guaranty Bancorp. The Company intends to continue its acquisition strategy. Such an acquisition strategy, involves significant risks, including the following: • finding suitable markets for expansion; •

finding suitable candidates for acquisition; • attracting funding to support additional growth; • maintaining asset quality; • attracting and retaining qualified management; and • maintaining adequate regulatory capital. Accordingly, the Company may be unable to find suitable acquisition candidates in the future that fit its acquisition and growth strategy. In addition, the Company' s previous acquisitions may make it more difficult for investors to evaluate historical trends in the Company' s financial results and operating performance, as the impact of such acquisitions make it more difficult to identify organic trends that would be reflected absent such acquisitions. If the Company is unable to continue to grow through acquisitions, the Company' s business, financial condition, results of operation and future prospects could be negatively impacted. Acquisitions of financial institutions also involve operational risks and uncertainties, and acquired companies may have unknown or contingent liabilities with no available manner of recourse, exposure to unexpected asset quality problems, key employee and customer retention problems and other problems that could negatively affect the Company' s organization. The Company may not be able to complete future acquisitions or, if completed, the Company may not be able to successfully integrate the operations, management, products and services of the entities that the Company acquires and eliminate redundancies. Acquisition activities and the integration process may also require significant time and attention from the Company' s management that they would otherwise direct toward servicing existing business and developing new business. Further, the integration process could result in the loss of key employees, disruption of the combined entity' s ongoing business, or inconsistencies in standards, controls, procedures and policies that adversely affect the Company' s ability to maintain relationships with customers or employees or to achieve the anticipated benefits of the transaction. Failure to successfully integrate the entities the Company acquires into the Company' s existing operations may increase the Company' s operating costs significantly and adversely affect the Company' s business and earnings. Acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of the Company' s tangible book value and net income per common share may occur in connection with any future transaction. The Company conducts its operations almost exclusively in Texas and Colorado. This geographic concentration imposes risks from lack of geographic diversification. The economic conditions in Texas and Colorado affect the Company' s business, financial condition, results of operations, and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of the Company' s loans and loan servicing portfolio. Moreover, if the population or income growth in the Company' s market areas is slower than projected, income levels, deposits and housing starts could be adversely affected and could result in a reduction of the Company' s expansion, growth and profitability. Any regional or local economic downturn that affects Texas or Colorado, or existing or prospective borrowers or property values in such areas, may affect the Company and the Company' s profitability more significantly and more adversely than the Company' s competitors whose operations are less geographically concentrated. The Company' s business and growth strategies depend significantly on the Company' s ability to recruit and retain management and employees with expertise, experience and business relationships within the Company' s market areas. The Company' s ability to attract and retain key management and employees is dependent upon its compensation, incentive and benefits programs, its response to emerging workplace trends and practices, such as the current demand for flexible work schedules and remote work options that have arisen from the **COVID- 19** pandemic, its reputation for rewarding and promoting qualified employees, and its implementation of diversity and inclusion initiatives. The ~~hyper~~ competitive nature of the current labor market could increase the Company' s noninterest expense, as well as cause significant difficulty and delay in replacing departed management and employees with qualified candidates, who are experienced in the specialized aspects of the Company' s business or who have ties to the communities within the Company' s market areas. The unexpected loss of any of the Company' s key personnel could, therefore, have an adverse impact on the Company' s productivity and growth. This in turn makes the Company' s success dependent upon the strength of its recruitment efforts, as well as its succession plans and procedures. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology- driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Company' s future success will depend in part upon the Company' s ability to address the needs of the Company' s customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in the Company' s operations as it continues to grow and expand the Company' s market area. The Company may experience operational challenges as it implements these new technology enhancements or products, which could result in the Company not fully realizing the anticipated benefits from such new technology or require the Company to incur significant costs to remedy any such challenges in a timely manner. The Company is highly dependent on its computer systems and network infrastructure to conduct its operations, including the secure processing, storage and transmission of vital and sensitive data, exposing the Company to potential cyber incidents resulting from deliberate attacks or unintentional events. As a financial institution, the Company processes, stores and transmits a significant amount of personal customer information. The Company also maintains important internal data such as personally identifiable information about employees and customers, and information relating to the Company' s operations. The Company relies on third- party service providers for significant portions of its computer systems, network infrastructure and information security, and failure or misconduct by any of those third parties or their systems could have a material adverse effect on the Company. The secure maintenance and transmission of confidential information, as well as execution of transactions over the Company' s computer systems, are essential to protect the Company and its customers against fraud and cybersecurity breaches and for the Company to maintain customer confidence. The computer systems and network infrastructure the Company uses could fail or be subject to unforeseen problems **or a material cybersecurity incident** . The Company' s operations are dependent upon its ability to protect its computer systems and network against damage from physical theft, fire, power loss, telecommunications failure **,** or a similar catastrophic event, as well as from cybersecurity breaches, cyberattacks, ransomware attacks, viruses, worms, and other unauthorized or hostile acts which are becoming increasingly diverse and sophisticated. Any action, damage or failure that causes or results in breakdowns, disruptions, or unauthorized activities in the Company' s computer systems or network infrastructure, including customer relationship management, general ledger, deposit, loan or other systems, could disrupt the Company' s ability to properly operate its business, damage the Company' s reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, investigations or fines, violate privacy or other applicable laws or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company. External or internal actors could obtain unauthorized access to the Company' s computer systems or network infrastructure or information stored in and transmitted through the Company' s computer systems and network infrastructure, which may result in the theft or unauthorized use of personal information, which could cause significant liability to the Company and may cause existing and potential customers to refrain from doing business with the Company. **These factors are compounded by the continued trend to leverage cloud computing and support hybrid remote work strategies. The financial services industry has faced a notable increase in both the sophistication and frequency of cyberattacks leveraging phishing, exploitable vulnerabilities, and third- party service providers.** The pervasiveness of cybersecurity incidents ~~in general~~ and the risks of cybersecurity breaches are complex and continue to evolve ~~as technology and reliance on these systems continue to evolve. Cybersecurity concerns are also further heightened by Russia' s invasion of the Ukraine~~ . In addition, advances in computer capabilities **, such as artificial intelligence,** and the increased sophistication of **threat actors** ~~fraudsters and hackers~~ could result in a compromise or breach of the systems the Company and the Company' s third- party service providers use to encrypt and protect customer data and transactions. A failure or compromise of such security measures could have a material adverse effect on the Company' s **business,** financial condition and results of operations. **See Item 1C. Cybersecurity for further discussion of risk management and governance related to cybersecurity..** As of February ~~21~~ **20** , ~~2023~~ **2024** , the Company has not discovered any material cybersecurity incidents **that have adversely affected our business, financial condition or results of operations. However, the Company can give no assurance that it will not have a material cybersecurity incident in the future** . The Company depends on a number of relationships with third- party service providers. Specifically, the Company receives core systems processing, essential web hosting and other Internet systems, cloud technologies, deposit processing, mobile banking and other processing services from third- party service providers. If these third- party service providers experience difficulties, interruptions, or terminate their services, and the Company is unable to replace them with other comparable service providers, particularly on a timely basis, the Company' s operations could be interrupted. If an interruption were to continue for a significant period of time, the Company' s business, financial condition and results of operations could be adversely affected, perhaps materially. Even if the Company is able to replace third party service providers, it may be at a higher cost to the Company, which could adversely affect the Company' s business, financial condition and results of operations. Employee errors and employee and customer fraud or misconduct could subject the Company to financial losses or regulatory sanctions and seriously harm the Company' s reputation. Misconduct by the Company' s employees could include hiding unauthorized activities from the Company, improper or unauthorized activities on behalf of the Company' s customers, or improper use of, or unauthorized access to confidential information. Customers are also subject to financial crimes, including fraud, wire fraud, and cyber- crimes, which could adversely impact their ability to pay loans or result in a fraudulent removal of funds from their deposit accounts or other unauthorized activities. It is not always possible to prevent employee errors and misconduct, or fraudulent and other criminal schemes impacting customers, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Employee errors could also subject the Company to financial claims for negligence. The Company maintains a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors, cybersecurity breaches, and employee, customer, or third party fraud. However, if the Company' s internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on the Company' s business, financial condition and results of operations. In addition, the Company relies heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans the Company will originate, as well as the terms of those loans. If any of the information upon which the Company relies is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or the Company may fund a loan that the Company would not have funded or on terms the Company would not have extended. Whether a misrepresentation is made by the applicant or another third party, the Company generally bears the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the monetary losses that the Company may suffer. From time to time, the Company may implement or may acquire 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 new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and / or new products or services may not be achieved and price and profitability targets may not prove feasible. 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. Furthermore, any new line of business and / or new product or service could have a significant impact on the effectiveness of the Company' s system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company' s business, financial condition and results of operations. The Company' s accounting estimate and risk management programs rely on analytical and forecasting models. The Company utilizes analytical and forecasting models across various areas of the Company' s operations to manage risk. Many of these models rely upon certain assumptions, which, if inaccurate or inadequate, could impact the Company in materials ways. In addition, the models themselves may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. By way of example, the Company uses forecasting and analytical models to estimate its expected credit losses and to measure the fair value of financial instruments. It also uses models to estimate the effects of changing interest rates and other market measures on the Company' s financial condition and results of operations. If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models the Company uses for determining its expected credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge- offs. If the models the Company uses 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 the Company could realize upon sale or settlement of such financial instruments. Any such failure in the Company' s analytical or forecasting models could have a material adverse effect on the Company' s business, financial condition and results of operations. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional customers. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or customer. In addition, the Company' s credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company. Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets that the Company acquired in connection with the purchase of another financial institution. The Company reviews goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired. Significant and sustained decline in the Company' s stock price and material adverse changes in economic conditions may result in taking future write downs related to the impairment of goodwill. The Company determines impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in the Company' s results of operations in the periods in which they become known. As of December 31, ~~2022~~ **2023** , the Company had approximately $ 1. ~~1~~ **0** billion of goodwill and other intangible assets. While the Company has not recorded any such impairment charges since the Company initially recorded the goodwill, there can be no assurance that the Company' s future evaluations of goodwill will not result in findings of impairment and related write- downs, which may have a material adverse effect on the Company' s financial condition and results of operations. Making any loan involves risk, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. The Company' s credit risk approval and monitoring procedures may fail to identify or reduce these credit risks, and they cannot completely eliminate all credit risks related to the Company' s loan portfolio. The Company faces a variety of risk related to its types of loans. Adverse developments affecting commercial real estate values in the Company' s market areas could increase the credit risk associated with commercial real estate loans, impair the value of the property pledged as collateral for these loans, and affect the Company' s ability to sell the collateral upon foreclosure without a loss. **For** ~~Further, due to the larger average size of~~ commercial real estate loans **that are larger than average** , the Company faces risk that losses incurred on a small number of commercial real estate loans could have a material adverse effect on the Company' s financial condition and results of operations. The Company' s commercial real estate and commercial loans also have the risk that repayment is subject to the ongoing business operations of the borrower. Commercial loans are often secured by personal property, such as inventory, and intangible property, such as accounts receivable, which if the business is unsuccessful, typically have values insufficient to satisfy the loan without a loss. If the overall economic climate in the United States, generally, or the Company' s market areas in Texas and Colorado, specifically, experience material disruption, the Company' s borrowers may experience difficulties in repaying their loans, the collateral the Company holds may decrease in value or become illiquid, and the level of nonperforming loans, charge- offs and delinquencies could rise and require additional provisions for credit losses, which would cause the Company' s net income and return on equity to decrease. As of December 31, ~~2022~~ **2023** , approximately ~~80~~ **79** . ~~1~~ **7** % of the Company' s loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral, excluding agricultural loans secured by real estate. As a result, adverse developments affecting real estate values in the Company' s market areas could increase the credit risk associated with the Company' s real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of the Company' s markets could increase the credit risk associated with the Company' s loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in the Company' s market areas could significantly impair the value of property pledged as collateral on loans and affect the Company' s ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans ~~. Such declines and losses would have a material adverse impact on the Company' s business, results of operations and growth prospects. If real estate values decline, it is also more likely that the Company would be required to increase the Company' s allowance for credit losses, which could adversely affect the Company' s financial condition, results of operations and cash flows~~ . In addition, the COVID- 19 pandemic has increased demand for remote work opportunities and continues to cause supply chain disruption, which could have a particularly adverse impact on the Company' s ~~office and retail portfolios. As of December 31, 2022, office and retail loans collectively accounted for 49. 1 % of the Company'~~

~~s~~ commercial real estate portfolio. **Such declines and losses would have a material adverse impact on** ~~The Company's retail portfolio, which alone accounted for 29. 4 % of~~ the Company ~~'~~ **'** s ~~commercial~~ **business, results of operations and growth prospects. If** real estate ~~portfolio may~~ **values decline, it is** also ~~decline in~~ **more likely that the Company would be required to increase the Company' s allowance for** credit ~~quality in the event~~ **losses, which could adversely affect** ~~there~~ -- **the** ~~are reductions in consumer disposable income from workforce reductions~~ **Company' s financial condition, results of operations and cash flows. Refer to Loan Portfolio within Management' s Discussion and Analysis for more information** . As of December 31, ~~2022~~ **2023** , approximately 4. ~~2~~ **4** % of the Company' s loans held for investment portfolio (excluding mortgage warehouse loans) was ~~composed~~ **comprised** of loans made to companies engaged in oil production and oilfield services. ~~The~~ **A** significant decline in oil prices **could** ~~during 2020~~ adversely ~~effected~~ -- **effect** some of these borrowers' ability to repay these loans and **may** ~~impaired~~ -- **impair** the value of collateral securing some of these loans. While ~~oil prices have since recovered and~~ the Company' s energy portfolio remains well managed, the decline and volatility in oil prices could have an impact on other segments of the economy generally, including real estate, and particularly for the Texas and Colorado economies. The Houston market economy specifically could be adversely affected given its high concentration of energy related businesses. The Company' s asset quality and results of operations could be adversely impacted by the direct and indirect effects of current and future conditions in the energy industry **and geopolitical conflicts** . The Company' s energy portfolio is also more susceptible to operational and environmental related disruption, such as on the job injuries, oil spills, explosions, severe weather, and heightened pressure to implement environmental, social and governance driven initiatives, and particularly initiatives that align with the Biden Administration' s goals to reduce greenhouse gas emissions. The Company ~~maintains~~ **evaluates the adequacy of** allowances for credit losses on loans, securities and off- balance sheet credit exposures. The Company has implemented controls and procedures to measure and estimate the lifetime expected credit loss at the time a financial asset is initially added to the balance sheet and periodically thereafter. The Company' s amount of each allowance account represents management' s best estimate of current expected credit losses on such financial instruments at each balance sheet date using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. The actual amount of credit losses is affected by changes in economic, operating and other conditions within the Company' s markets, as well as changes in the financial condition, cash flows, and operations of the Company' s borrowers, all of which are beyond the Company' s control, and such losses may exceed current estimates. As a result, the determination of the appropriate level of allowance for credit losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates related to current and expected future credit risks and trends, all of which may undergo material changes. The Company' s current expected credit losses (CECL) model has increased the complexity, and associated risk, of the analysis and processes relying on management judgment, which could negatively impact the Company' s financial condition and results of operations. ~~As of December 31, 2022, the Company' s allowance for credit~~ **Credit** ~~losses on loans as a percentage of total loans held for investment (excluding mortgage warehouse purchase loans) was 1. 09 % and as a percentage of total nonperforming loans was 371. 14 %. Additional credit~~ losses will likely occur in the future and may occur at a rate greater than the Company has previously experienced. The Company may be required to take additional provisions for credit losses in the future to further supplement the allowance for credit losses, either due to management' s decision to do so or requirements by the Company' s banking regulators. In addition, bank regulatory agencies will periodically review the Company' s allowance for credit losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Based on their judgments or interpretations, which may be different than management' s, regulators may require the Company to change classifications or grades of loans or recognize further loan charge- offs. If the assessment of credit losses is inaccurate, or if economic and market conditions materially deteriorate as a result of occurrences ~~like the continuation of the COVID- 19 pandemic~~ , ~~other~~ **such as, natural disasters,** global pandemics ~~, natural disasters~~ , or if anticipated climate change regulations impact the Company' s CECL model, then the Company may need to increase or decrease its allowance for credits losses, which, in turn, will increase or decrease the Company' s reported income, and introduce additional volatility into its reported earnings, and possibly capital. See also Item 7. Management' s Discussion and Analysis of Financial Condition- Allowance for Credit Losses for additional discussion of financial impact of the allowance for credit losses. The Company originates and sells residential mortgage loans through the Bank' s mortgage division and purchases and sells residential mortgages through its mortgage warehouse business ~~. As of December 31, 2022, mortgage warehouse purchase loans totaled $ 312. 1 million, or 2. 2 % of total loans held for investment~~ . Mortgage lending and mortgage warehouse purchase lending include credit risk associated with commercial bank lending. This line of business is also subject to market volatility, changes in interest rates, volume volatility and changing appetite of investors for certain mortgage products. Through its mortgage warehouse business, the Company provides guidance lines of credit to mortgage companies that originate and sell residential mortgages. As part of this process, the Bank funds and purchases the mortgage at closing, the mortgage company sells the mortgage to an institutional buyer, and the proceeds from that sale are the primary source of repurchase of the mortgage from the Bank. This process exposes the Bank to market and interest rate risk in the event that the mortgage is not sold. The Bank is also subject to risk of fraud by mortgage company employees and customers. While the Company has insurance against fraud in the mortgage process, fraud loss in excess of insurance limits or which is not covered by insurance could have an adverse effect on the Company' s business, financial condition and results of operation. The Company has entered into loan purchase commitments and forward sales commitments to mitigate the interest rate risk related to mortgage origination activities. While the Company believes that its hedging strategies will be successful in mitigating exposure to interest rate risk associated with the origination and purchase of mortgage loans, no hedging strategy can completely mitigate risk. Poorly designed strategies, improperly executed transactions, or inaccurate assumptions regarding future interest rates or market conditions could have a material adverse effect on the Company' s financial condition and results of operations. Mortgage lending and mortgage warehouse purchase lending is subject to counterparty risk. The Company is from time to time required to hold or repurchase mortgage loans or reimburse investors as a result of breaches in contractual representations and warranties under the agreements pursuant to which it purchases and sells mortgage loans. While agreements with the originators and sellers of mortgage loans provide legal recourse that may allow the Company to recover some or all of losses, these companies are frequently not financially capable of paying large amounts of damages and as a result the Company can offer no assurance that it will not suffer loss as a result of these arrangements. The Company may incur other costs and losses as a result of actual or alleged violations of regulations related to the origination and purchase of residential mortgage loans. The origination of residential mortgage loans is governed by a variety of federal and state laws and regulations, which are frequently changing. The Company sells residential mortgage loans that it has purchased or that it originated to various parties, including Ginnie Mae and GSEs such as Fannie Mae or Freddie Mac and other financial institutions that purchase mortgage loans for investment or private label securitization. These types of costs and losses arising from the Company' s mortgage business would negatively impact the Company' s business, financial condition and results of operation. The majority of the Company' s banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, the Company' s earnings are significantly dependent on the Company' s net interest income, the principal component of the Company' s earnings, which is the difference between interest earned by the Company from the Company' s interest- earning assets, such as loans and investment securities, and interest paid by the Company on the Company' s interest- bearing liabilities, such as deposits and borrowings. The Company expects that it will periodically experience " gaps " in the interest rate sensitivities of the Company' s assets and liabilities, meaning that either its interest- bearing liabilities will be more sensitive to changes in market interest rates than the Company' s interest- earning assets, or vice versa. In either event, if market interest rates should move contrary to the Company' s position, this " gap " will negatively impact the Company' s earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short- term interest rates increase more than long- term interest rates or when long- term interest rates decrease more than short- term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets. Interest rate increases often result in larger payment requirements for the Company' s borrowers, which increase the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on the Company' s results of operations and cash flows. Further, when the Company places a loan on nonaccrual status, the Company reverses any accrued but unpaid interest receivable, which decreases interest income. At the same time, the Company continues to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. Rising interest rates in prior periods have increased interest expense, which in turn has adversely affected net interest income, and may do so in the future if the Federal Reserve raises rates. In a rising interest rate environment, competition for cost- effective deposits increases, making it more costly to fund loan growth. In addition, a rising rate environment could cause mortgage and mortgage warehouse lending volumes to substantially decline. Any rapid and unexpected volatility in interest rates creates uncertainty and potential for unexpected material adverse effects. The Company actively monitors and manages the balances of maturing and repricing assets and liabilities to reduce the adverse impact of changes in interest rates, but there can be no assurances that the Company can avoid all material adverse effects that such interest rate changes may have on the Company' s net interest margin and overall financial condition. ~~Because~~ **On March 5, 2021,** the United Kingdom ~~'~~ **'** s Financial Conduct Authority ~~and~~ **(** the ~~administrator of~~ **" FCA "), which regulates** LIBOR **,** announced that ~~it will~~ **(i) 24 LIBOR settings would** cease ~~publication of U. S.~~ **to exist immediately after December 31, 2021 (all seven euro LIBOR settings; all seven Swiss franc LIBOR settings; the Spot Next, 1- week, 2- month, and 12- month Japanese yen LIBOR settings; the overnight, 1- week, 2- month, and 12- month sterling LIBOR settings; and the 1- week and 2- month US** dollar ~~London Interbank Offered Rate~~ **LIBOR settings); and** (~~"~~ **ii) the 1- month, 3- month, 6- month and 12- month US** LIBOR ~~")~~ settings ~~by~~ **would cease to exist after** June 30, 2023 ~~, and because U~~ . ~~S. regulator~~ **In response to this, the federal banking agencies issued** guidance ~~strongly~~ **on November 30, 2020** ~~encouraged~~ **encouraging banks** ~~banking organizations~~ to ~~cease~~ **(i) stop** using ~~U. S. dollar~~ LIBOR ~~as a reference rate~~ in new **financial** contracts ~~by~~ no later than December 31, 2021 **; and (ii) either use a rate other than LIBOR or include clear language defining the alternative rate that will be applicable after LIBOR' s discontinuation. As a result of the preceding** , the Company discontinued offering LIBOR- based products on October 31, 2021. The Company also required all LIBOR- based loans and renewals entered into on or prior to October 31, 2021 to close and fund by no later than December 31, 2021. As of November 1, 2021, the Company ~~now~~ negotiates loans and loan renewals that would have been tied to LIBOR using the Wall Street Journal' s U. S. Prime Rate (" WSJ Prime") ~~, which is the base rate on corporate loans posted by at least 70 % of the 10 largest U. S. banks,~~ or CME Term Secured Overnight Financing Rates (" SOFR ~~"~~ **"**) ~~, which are administered by CME Group Benchmark Administration Limited and provide an indication of the forward- looking measurement of overnight SOFR, based on market expectations implied from derivatives markets~~ . ~~For swap~~ **While not anticipated, the** ~~transactions~~ - **transition to** ~~, the Company follows ISDA 2020~~ LIBOR ~~Fallback Protocol published on October 23, 2020 and uses Fallback Rate (SOFR). As of December 31, 2022, approximately $ 471. 2 million of the Company' s outstanding loans, and, in addition, certain derivative contracts, borrowings and other financial instruments have attributes associated with the LIBOR transition. The transition to LIBOR has resulted in and could continue to result in added costs and employee efforts and~~ could present additional risk, including, but not limited to, litigation and reputational risks ~~if the Company is unable to successfully renegotiate rates or~~ if challenges are made to LIBOR fallback language within existing contracts. In addition, there continues to be uncertainty as to the ultimate effects of the LIBOR transition, including variations in the replacement benchmark rate designated and accepted by financial institutions **. The**

elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could also have an adverse impact on the market for or value of any LIBOR- linked securities, loan, swaps, and other financial obligations or extension of credit held by or due to us or on our overall financial condition or results of operations . These variations also inject potential for greater competition with financial institutions whose LIBOR replacement rates and procedures may be more favorable or flexible than those adopted by the Company. ~~Further, since CME Term SOFR and WSJ Prime are calculated differently, payments under contracts referencing the new rates will differ from those referencing LIBOR, which may lead to increased volatility as compared to LIBOR.~~ The transition has also required changes to the Company' s risk and pricing models, valuation tools, product design and hedging strategies. Failures to adequately manage the transition process also poses greater operational and reputational risks that could create material adverse effects on the Company' s business, financial condition and results of operations. **Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations. Any failure to adequately manage this transition process with our customers could also adversely impact out reputation. We continue to monitor and evaluate the related risks.** While the Company attempts to invest a significant percentage of its assets in loans ~~(the Company' s loan to deposit ratio was 92. 0 % as of December 31, 2022)~~ , the Company invests a percentage of its total assets ~~(approximately 10. 4 % as of December 31, 2022)~~ in investment securities as part of its overall liquidity strategy ~~. As of December 31, 2022, the fair value of the Company' s available for sale securities portfolio was approximately $ 1. 7 billion and the amortized cost of held to maturity securities was $ 207. 1 million~~ . Factors beyond the Company' s control can significantly influence the fair value of securities in its portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed- rate securities are generally subject to decreases in market value when market interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause an ~~other- than- temporary~~ impairment in future periods and result in realized losses. The process for determining ~~whether~~ impairment ~~is other- than- temporary~~ usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting market interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, the Company may recognize realized and / or unrealized losses in future periods, which could have an adverse effect on the Company' s financial condition and results of operations. The Company, like all financial institutions, has been and may in the future become involved in legal and regulatory proceedings. Litigation arises in a variety of contexts, including lending and deposit operations, intellectual property claims related to the technology used in business operations, employment practices, operating activities, ~~fiduciary responsibilities,~~ and other general business matters. The Company considers most of these proceedings to be in the normal course of business or typical for the industry. However, it is inherently difficult to assess the outcome of these matters. Any material legal or regulatory proceeding could impose substantial cost and cause management to divert its attention from the Company' s business and operations. Any adverse determination in a legal or regulatory proceeding could have a material adverse effect on the Company' s business, financial condition and results of operations. See Item 3. Legal Proceedings ~~for a description of a legal proceeding which could have a material adverse effect on the Company' s financial condition~~ . The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not the Company' s shareholders. These regulations affect the Company' s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Any change in applicable regulations or federal or state legislation could have a substantial impact on the Company, the Bank and their respective operations. The Dodd- Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Additional legislation and regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could significantly affect the Company' s powers, authority and operations, or the powers, authority and operations of the Bank in substantial and unpredictable ways. The Dodd- Frank Act created the Consumer Financial Protection Bureau, or the CFPB, with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule- making authority, including the authority to prohibit unfair, deceptive, and abusive acts and practices. These rules may result in increased regulatory compliance costs and subject the Company to increased potential liabilities related to its consumer banking business and residential mortgage lending activities. ~~Regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of this regulatory discretion and power could have a negative impact on the Company. Failure to comply with laws, regulations or policies could also result in sanctions by regulatory agencies, civil money penalties and / or reputation damage, which could have a material adverse effect on the Company' s business, financial condition and results of operations. One of the Bank' s primary, regulators, the FDIC focused on two areas in 2022 which included: 1) addressing financial risks posed by climate change; and 2) review of the bank merger process.~~ Policies and regulations that may flow from the **regulators** ~~FDIC' s focus on these areas~~ could materially impact the Company' s business, credit assessments, financial condition and **/ or operations. Regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of this regulatory discretion and power could have a negative impact on the Company. Failure to comply with laws, regulations or policies could also result in sanctions by regulatory agencies, civil money penalties and / or reputation damage, which could have a material adverse effect on the Company' s business, financial**

condition and results of operations. Various federal banking laws and regulations, including rules adopted by the Federal Reserve Board pursuant to the requirements of the Dodd- Frank Act, impose certain heightened requirements on and greater supervision of banks and bank holding companies that maintain total consolidated assets of at least $ 10 billion, like the Company. The imposition of these regulatory requirements and increased supervision has and will continue to require commitment of additional financial resources to maintain regulatory compliance, which has increased the Company' s ~~non-interest~~ **noninterest** expense, and has and will continue to otherwise have an impact on the Company' s financial condition and results of operations. For example, the Company is subject to the Durbin Amendment to the Dodd- Frank Act regarding limits on debit card interchange fees. The Durbin Amendment gives the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of $ 10 billion or more and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of $ 0. 21 and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs. Accordingly, deposit insurance assessments and expenses related to regulatory compliance may increase, while any decrease in the amount of interchange fees that the Company receives would reduce the Company' s revenue. **Further, on October 11, 2023, the FDIC issued a proposed rule and guidelines that would require all FDIC- supervised insured depository institutions with consolidated assets of over $ 10 billion to adopt corporate governance and risk management standards that are comparable to those expected of banking organizations with $ 100 billion or more in total consolidated assets. The proposed guidelines set forth requirements, expectations, and obligations of the board of directors (including composition, duties, and committees), Board and management responsibility regarding risk management and audits, and expectations with respect to identifying and addressing violations of law or regulations. If the proposed rule is adopted and implemented, this could result in substantial added expense to comply with the recordkeeping, reporting, and disclosure requirements. The comment period for the proposed rule and guidelines expired on February 9, 2024.** Texas and federal banking agencies periodically conduct examinations of the Company' s business, including compliance with laws and regulations. If, as a result of an examination, a Texas or federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Company' s operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin " unsafe or unsound " practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the Company' s capital, to restrict the Company' s growth, to assess civil monetary penalties against the Company, the Company' s officers or directors, to remove officers and directors and / or, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Company' s deposit insurance. If the Company becomes subject to such regulatory actions, the Company could be materially and adversely affected. Previous economic conditions and the Dodd- Frank Act caused the FDIC to increase deposit insurance assessments and may result in increased assessments in the future. **In November 2023** ~~On February 7, 2011~~ , the FDIC ~~approved~~ **issued** a final rule **to implement a special assessment to recover losses to the DIF incurred as a result of recent bank failures and the FDIC' s use of the systemic risk exception to cover certain deposits** that ~~amended~~ **were otherwise uninsured. The special assessment was based on estimated uninsured deposits as of December 31, 2022 (excluding the first $ 5. 0 billion) over eight quarterly assessment periods, beginning in the first quarter of 2024. Under the final rule, the estimated loss pursuant to the systemic risk determination will be periodically adjusted, and the FDIC has retained the ability to cease collection early, extend the special assessment collection period and impose a final shortfall special assessment on a one-time basis. Further, it is possible that further increases in deposit insurance are adopted by the FDIC Board. According to the FDIC' s published materials in November 2023,** ~~the~~ **there were 43 institutions on the FDIC' s Problem Bank List as of the second quarter of 2023. The extent to which economic or other factors cause the FDIC Board to increase deposit insurance assessments and the impact any such increased assessments will have on our future deposit insurance expense is currently uncertain. An increase or change in the assessment rates imposed on the Bank could materially and adversely affect the Company. Refer to Item 1. Business-** Deposit Insurance **Assessments** ~~Fund restoration plan~~ and ~~implemented certain provisions of the Dodd~~ **Item 7. Management' s Discussion and Analysis** - **FDIC** ~~Frank Act. Effective April 1, 2011, the~~ assessment ~~base is determined using average consolidated total assets minus average tangible equity rather than the previous assessment base of adjusted domestic deposits. The final rule also provides the FDIC' s board with the flexibility to adopt actual rates that are higher or~~ **for further discussion** ~~lower than the total base assessment rates adopted on February 7, 2011 without notice~~ and ~~comment, if certain conditions are met. An increase in~~ the **impact to** ~~assessment rates could materially and adversely affect~~ the Company. The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti- money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U. S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If the Company' s policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that the Company has already acquired or may acquire in the future are deficient, the Company would be subject to liability, including fines and regulatory actions such as restrictions on the Company' s ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of the Company' s business plan (including the Company' s acquisition plans), which would negatively impact the Company' s business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company. With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be " acting in concert " from, directly or indirectly, acquiring more than 10 % (5 % if the acquirer is a bank holding company) of any class of the Company' s voting stock or obtaining the ability to control in any manner the election of a majority of the Company' s directors or otherwise direct the management or policies of the Company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any such purchase of shares of the Company' s common stock. These provisions effectively inhibit certain mergers or other business combinations, which, in turn, could adversely affect the market price of the Company' s common stock. Liquidity is essential to the Company' s business. The Company relies on its ability to generate deposits and effectively manage the repayment and maturity schedules of the Company' s loans and investment securities, respectively, to ensure that the Company has adequate liquidity to fund the Company' s operations. An inability to raise funds through deposits, borrowings, the sale of the Company' s investment securities, Federal Home Loan Bank advances, the sale of loans, and other sources could have a substantial negative effect on the Company' s liquidity. The Company' s most important source of funds consists of deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk / return tradeoff. If customers move money out of bank deposits and into other investments **or other financial institutions** , the Company would lose a relatively low- cost source of funds, increasing the Company' s funding costs and reducing the Company' s net interest income and net income. Other primary sources of funds consist of cash flows from operations, investment maturities and sales of investment securities, and proceeds from the issuance and sale of the Company' s equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank. The Company also may borrow funds from third- party lenders, such as other financial institutions. The Company' s access to funding sources in amounts adequate to finance or capitalize the Company' s activities, or on terms that are acceptable to the Company, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry **. Unrealized losses on our available for sale securities portfolio have increased as interest rates have increased. Unrealized losses related to available for sale securities reduce tangible common equity but do not impact regulatory capital ratios. While we do not currently expect to sell securities for liquidity purposes, our access to liquidity sources could be impacted by unrealized losses if securities are sold at a loss. Additionally, unrealized losses could negatively impact market and / or customer perceptions which could lead to a reputational harm of the Company and / or deposit withdrawal, particularly among uninsured depositors** . Any decline in available funding could adversely impact the Company' s ability to originate loans, invest in securities, meet the Company' s expenses, pay dividends to the Company' s shareholders, or to fulfill obligations such as repaying the Company' s borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on the Company' s liquidity, business, financial condition and results of operations. The Company faces significant capital and other regulatory requirements as a financial institution. The Company may need to raise additional capital in the future to provide the Company with sufficient capital resources and liquidity to meet the Company' s commitments and business needs, which could include the possibility of financing acquisitions. In addition, the Company, on a consolidated basis, and the Bank, on a stand- alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. The Company faces significant capital and other regulatory requirements as a financial institution. The Company' s ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on the Company' s financial condition and performance. In the future, the Company may not be able to raise additional capital if needed or on terms acceptable to the Company. If the Company fails to maintain capital to meet regulatory requirements, the Company' s financial condition, liquidity and results of operations would be materially and adversely affected. The Federal Reserve, which examines the Company and the Bank, requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the " source of strength " doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd- Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, the Company could be required to provide financial assistance to the Bank if it experiences financial distress. A capital injection may be required at times when the Company does not have the resources to provide it, and therefore the Company may be required to borrow the funds. In the event of a bank holding company' s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company' s general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company' s cash flows, financial condition, results of operations and prospects. The Company is operating in a dynamic and challenging economic environment, including uncertain global, national and local market conditions. In particular, Texas and Colorado based financial institutions are affected by volatility in the energy markets and the potential impact of that volatility on real estate and other markets. The Company is also subject to uncertain interest rate conditions. These volatile economic conditions could adversely affect borrowers and their businesses as well as the value of collateral (particularly real estate collateral) securing loans, which could adversely affect the Company' s business, financial condition and results of operation. ~~Furthermore, the COVID- 19 Pandemic has created increased market volatility and impacted the Company' s business, financial condition and operations in a number of ways. While COVID- 19 has not materially impacted the Company, there is no assurance regarding the future related to the continuing impact it may have on national, state, and local economies, which may result in credit and operating losses.~~ The Company conducts its operations almost exclusively in Texas and Colorado. Many of the Company' s competitors offer the same, or a wider variety of, banking services within the Company' s market areas. These competitors include banks with nationwide operations, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out- of- state financial intermediaries have opened production offices, or otherwise solicit deposits, in the Company' s market areas. Furthermore, many of the Company' s larger competitors have substantially greater resources to invest in technological improvement, resulting in additional or superior product offerings not offered by the Company. Also, the rise of " FinTech" and popular derivations arising from the" FinTech" boom, such as cryptocurrency, have created both competitive and operational challenges. The Company' s ability to successfully compete will depend on a number of factors, including its ability to maintain long- term customer relationships and customer satisfaction with the Company' s products and services, the scope, relevance and pricing of the products and services the Company offers, industry and general economic trends, and the Company' s ability to invest in and effectively implement new technology, procedures and methodology that promote the security of financial transactions in a digital world. If the Company' s operations are unable to keep pace with customers' evolving financial needs and demands, then the Company may be unable to continue to grow its loan and deposit portfolios, or may be required to increase the rates the Company pays on deposits or lower the rates it offers on loans, which could reduce the Company' s profitability. The Company relies on customer deposits as a significant source of funding. Competition among U. S. banks for customer deposits is intense, and may increase the cost of deposits or prevent new deposits, and may otherwise negatively affect the Company' s ability to grow its deposit base. The Company' s deposit accounts may decrease in the future, and any such decrease could have an adverse impact on the Company' s sources of funding, which impact could be material. Any changes the Company makes to the rates offered on its deposit products to remain competitive with other financial institutions may adversely affect the Company' s profitability and liquidity. The demand for the deposit products the Company offers may also be reduced due to a variety of factors, such as digital banking technology, demographic patterns, **stability of other financial institutions,** changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. In addition, a portion of the Company' s deposits are brokered deposits and FDIC uninsured deposits. The levels of these types of deposits that the Company holds may be more volatile during changing economic conditions. **Refer to Item 7** ~~As of December 31, 2022, approximately $ 528~~ . **Management'** ~~9 million, or 3. 5 %, of the Company'~~ s **Discussion and Analysis of Financial Condition and Results of Operations,** ~~deposits~~ **Deposits for more information** ~~consisted of brokered deposits~~ . Natural disasters, health pandemics, severe weather events, including those prominent in Texas and Colorado and those prominent in the geographic areas of vendors and business partners, together with worldwide hostilities ~~, such as Russia' s invasion of the Ukraine~~ , terrorist attacks, and other external events could have a significant impact on the Company' s ability to conduct business. These events could also affect the stability of the Company' s deposit base, borrowers' ability to repay loans, impair collateral, result in a loss of revenue or an increase in expenses. Although the Company has established disaster recovery and business continuity procedures and plans, the occurrence of any such event may adversely affect the Company' s business, which in turn could have a material adverse effect on the Company' s financial condition and results of operations. Hurricanes, tornadoes, wildfires, earthquakes and other natural disasters and severe weather events have caused, and in the future may cause, widespread property damage and significantly and negatively affect the local economies in which the Company operates. The effect of catastrophic weather events if they were to occur, could have a materially adverse impact on the Company' s financial condition, results of operations and business, as well as potentially increase the Company' s exposure to credit losses and liquidity risks. The Company is subject to growing risk from changing environmental conditions. Among the risks associated with " climate change " are more frequent severe weather events. As discussed in the previous factors, severe weather events subject the Company to significant risks and more frequent severe weather events magnify those risks. Governmental policy actions to address climate change, such as efforts to reduce reliance on fossil fuels and green energy initiatives, could have a significant impact on the Texas and Colorado economies, in particular. While the Texas and Colorado economies are more diversified than in the past and energy companies are working to adapt to climate change initiatives, the oil and gas industry has had, and continues to have, a significant impact on the overall Texas and Colorado economies. Further, banking regulators are beginning to consider the risk presented by climate change on the financial system and may pass new regulations, such as climate related stress testing, to address this risk. The potential losses and costs associated with climate change related risks could have a material adverse effect upon the Company' s business, financial condition and results of operation. In addition, given that a significant portion of the Company' s loan portfolio is secured by real property, the Company has sensitivity to other environmental risks. During the ordinary course of business, the Company 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, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property' s value or limit the Company' s 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 the Company' s exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews 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 the Company' s financial condition and results of operations. While reputational risk has always been inherent in the financial services sector, the emergence of the concept of environmental, social and governance (ESG) initiatives has heightened reputational risk for many industries, and particularly for publicly traded entities, like the Company. Pressure to conform operations and practices around ESG factors could have pervasive impact on the Company' s lending practices, branching strategy, product and service offerings, corporate governance, mergers and acquisition strategy, and disclosures. The lack of formalized requirements framing how entities should implement ESG and to what degree creates uncertainty that could have materially adverse effects on the Company' s business, financial condition and operations. In addition to being affected by general economic conditions, the Company' s earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U. S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The Company cannot predict the effects of such policies upon the Company' s business, financial condition and results of operations. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you 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; • perceptions in the marketplace regarding the Company and / or its competitors; • new technology used, or services offered, by competitors; • significant acquisitions or business combinations involving the Company or its competitors; • the public float and trading volumes for the Company' s common stock; • changes in government regulations, including tax laws; and • volatility in economic conditions, including changes in interest rates, significant local or global events, disruption in energy markets and changes in the global economy. In addition, although the Company' s common stock is listed for trading on the Nasdaq Global Select Market, the trading volume of the Company' s common stock is less than that of other, larger financial institutions. Given the lower trading volume, significant sales of Company common stock, or the expectation of such sales, could cause the stock price to fall. The Company' s primary tangible asset is the Bank. As such, the Company depends upon the Bank for cash distributions (through dividends on the Bank' s stock) that the Company uses to pay the Company' s operating expenses, satisfy the Company' s obligations (including the Company' s senior indebtedness, subordinated debentures, and junior subordinated indebtedness issued in connection with trust preferred securities), and to pay dividends on the Company' s common stock. There are numerous laws and banking regulations that limit the Bank' s ability to pay dividends to the Company. If the Bank is unable to pay dividends to the Company, the Company will not be able to satisfy the Company' s obligations or pay dividends on the Company' s common stock. Federal and state statutes and regulations restrict the Bank' s ability to make cash distributions to the Company. These statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. Further, state and federal banking authorities have the ability to restrict the payment of dividends by supervisory action. The Company may change its dividend policy at any time without notice to the Company' s shareholders. Holders of the Company' s common stock are entitled to receive only such dividends as the Company' s board of directors may declare out of funds legally available for such payments. Any declaration and payment of dividends on common stock will depend upon the Company' s earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, the Company' s ability to service any equity or debt obligations senior to the common stock and other factors deemed relevant by its board of directors. Furthermore, consistent with the Company' s strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, the Company has made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends, if any, paid to the Company' s common shareholders. The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy in relation to the organization' s overall asset quality, level of current and prospective earnings and level, composition and quality of capital. The guidance provides that the Company inform and consult with the Federal Reserve prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to the Company' s capital structure, including interest on senior debt, subordinated debt and the subordinated debentures underlying the Company' s trust preferred securities. If required payments on the Company' s outstanding senior debt, subordinated debt and junior subordinated debentures, held by its unconsolidated subsidiary trusts, are not made or are suspended, the Company would be prohibited from paying dividends on its common stock. Collectively, as of February ~~17~~ **16** , ~~2023~~ **2024** , Messrs. Vincent Viola and David Brooks owned 11. 5 % of the Company' s outstanding common stock on a fully diluted basis. Vincent Viola, the largest shareholder of the Company, currently owns 9. 9 % of the Company' s outstanding common stock, and David Brooks, the Company' s Chairman of the Board and Chief Executive Officer, currently owns 1. 6 % of the Company' s common stock, each calculated on a fully diluted basis. Further, as of the date hereof, the Company' s other directors and executive officers currently own collectively approximately 1. ~~7~~ **8** % of the Company' s outstanding common stock. These individuals have historically, and currently, exert controlling influence in the Company' s management and policies. In addition, Michael Viola, a director of the Company, is the son of Vincent Viola. Further, David Brooks, the Company' s Chairman and Chief Executive Officer, has a 36 year history of ownership and operation of the Bank with Vincent Viola; and he has a joint investment with ~~Mr~~ **Vincent** . Viola outside of the Company. Given these close relationships, even though he does not serve on the Company' s board, **Vincent** ~~Mr.~~ Viola has and will continue to have an influence over the direction and operation of the Company. The

Company' s corporate organizational documents and the provisions of Texas law make more difficult or prevent an attempted acquisition of the Company that you may favor. The Company' s certificate of formation and bylaws contain various provisions that could have an anti- takeover effect and may delay, discourage or prevent an attempted acquisition or change in control of the Company. These provisions include the following: • staggered terms ~~for~~ **of** directors **until shareholder approved declassification of the board is complete at the 2025 annual meeting of shareholders** ; • a provision that directors cannot be removed except for cause; • a provision that any special meeting of the Company' s shareholders may be called only by a majority of the Company' s board of directors, the Chairman or a holder or group of holders of at least 20 % of the Company' s shares entitled to vote at such special meeting; and • a provision establishing certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered only at an annual or special meeting of shareholders. The Company' s certificate of formation provides for noncumulative voting for directors and authorizes the board of directors to issue shares of its preferred stock without shareholder approval and upon such terms as the board of directors may determine. The issuance of the Company' s preferred stock, while providing desirable flexibility in connection with possible acquisitions, financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a controlling interest in the Company. In addition, certain provisions of Texas law, including a requirement that two- thirds of the shares outstanding must approve major corporate actions, such as an amendment to the Company' s certificate of formation or the approval of a merger, and a provision which restricts certain business combinations between a Texas corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control of the Company. Also, the Company' s certificate of formation prohibits shareholder action by written consent. In the event of any winding up and termination of the Company, the Company common stock would rank below all claims of the holders of the Company' s debt and any preferred stock then outstanding. ~~The Company has a senior, revolving credit facility under which the Company may borrow up to $ 100 million. As of December 31, 2022, the Company had no draws upon this credit facility and has no borrowings as of February 21, 2023. Further, as of December 31, 2022, the Company had outstanding • $ 270 million of aggregate principal amount of subordinated indebtedness; and • $ 57. 3 million of subordinated debentures issued in connection with trust preferred securities~~ Upon the winding up and termination of the Company, holders of the Company' s common stock will not be entitled to receive any payment or other distribution of assets until after all of the Company' s obligations to the Company' s debt holders have been satisfied and holders of the Company' s senior debt, subordinated debt, and junior subordinated debentures issued in connection with trust preferred securities have received any payments and other distributions due to them. In addition, the Company is required to pay interest on the Company' s senior debt, subordinated debt and subordinated debentures and junior subordinated debentures issued in connection with the Company' s trust preferred securities before the Company pays any dividends on the Company' s common stock. Furthermore, the Company' s board of directors may also, in its sole discretion, designate and issue one or more series of preferred stock from the Company' s authorized and unissued preferred stock, which may have preferences with respect to common stock in dissolution, dividends, liquidation or otherwise. An investment in the Company' s common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in the Company' s common stock is inherently risky for the reasons described in this report and shareholders who acquire the Company' s common stock could lose some or all of their investment.