

Risk Factors Comparison 2025-02-11 to 2024-02-13 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

The Company is subject to risk. The following discussion, along with management's discussion and analysis and the financial statements and footnotes, sets forth the most significant risks and uncertainties that management believes could adversely affect the business, financial condition or results of operations. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also have a material adverse effect on the business, financial condition or results of operations. There is no assurance that this discussion covers all potential risks that the Company faces. The occurrence of the described risks could cause results to differ materially from those described in its forward-looking statements included elsewhere in this report or in other filings with the SEC, and could have a material adverse impact on the business, financial condition or results of operations.

Summary of Risk Factors The following is a summary of the most significant risks and uncertainties that management believes could adversely affect the business, financial condition or results of operations. In addition to the following summary, you should consider the other information set forth in this "Risk Factors" section and the other information contained in this report before investing in the Company's securities.

Credit Risks • The Company must effectively manage its credit risks. • A significant portion of the Company's assets consists of commercial loans, which may involve a higher degree of credit risk. • The Company is subject to risks arising from conditions in the real estate market, as a significant portion of its loans are secured by commercial and residential real estate. • Future profitability depends, to a significant extent, upon commercial business customers. • The Company's business is concentrated in Texas and exposure to the Texas economy, including the energy industry, could adversely affect its performance. • The Company must effectively manage its counterparty risk. • The Company must maintain an appropriate allowance for credit losses. • Changes in accounting standards could materially affect how the Company reports its financial results.

Liquidity Risks • The Company must effectively manage its liquidity risk. • The Company's growth plans are dependent on the availability of capital and funding. • The Company is dependent on funds obtained from borrowing or capital transactions or from the Bank to fund its obligations.

Market Risks • The Company must effectively manage its interest rate ~~risks~~ **risk**. • The Company must effectively manage market risk associated primarily with sales and trading activities. • **Rising Changes in** interest rates **affect have decreased** the value of the Company's securities portfolio, and the Company may realize losses if it were to sell such securities **at a time when interest rates are higher than the yield on the Company's securities portfolio**. • ~~The Company must be effective in developing and executing new lines of business and new products and services while managing associated risks.~~ • **The Company must be effective in developing and executing new lines of business and new products and services while managing associated risks, including the ability to use technology to provide products and services that will satisfy customer demands.** • **The Company may pursue bank and non-bank acquisition opportunities as they arise. However, even if the Company identifies attractive acquisition opportunities, it may not be able to complete such acquisitions on favorable terms or realize the anticipated benefits from such acquisitions.**

Operational Risks • **The Company must continue to attract, retain and develop development key personnel and use of AI presents risks and challenges that may adversely impact the Company's business.** • The Company, its vendors and customers must effectively manage information systems and cyber risk and threats which may result in disruptions, failures or breaches in security. • A successful cyber attack affecting the Company could cause significant harm to the Company and its clients and customers. • The Company's operations rely extensively on a broad range of external vendors. • ~~The Company must continue to attract, retain and develop~~ **development key personnel** and use of AI presents risks and challenges that may adversely impact the Company's business. • The Company's accounting estimates and risk management processes rely on management judgment, which may prove inadequate, wrong or be adversely impacted by inaccurate or mistakes in assumptions or models. • The risk management strategies and processes may not be effective and the Company's controls and procedures, including disclosure controls and procedures and internal control over financial reporting, may fail or be circumvented. • The business is susceptible to fraud and conduct risk. • **Legal, Regulatory and Compliance Risks** • The Company is subject to extensive government regulation and supervision and interpretations thereof. • The Company must maintain adequate regulatory capital to support its business objectives and strategy. • The Company is subject to claims and litigation in the ordinary course of its business, including claims that may not be covered by insurance. • ~~Any regulatory examination scrutiny or new regulatory requirements arising from the recent events in the banking industry could increase the Company's expenses and affect the Company's operations.~~ • **Other Risks Affecting the Business** • The business faces unpredictable economic and business conditions. • The soundness of other financial institutions could adversely affect the business. • ~~Recent negative~~ **Negative** developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system. • The Company is subject to environmental liability risk associated with lending activities. • Severe weather, earthquakes, other natural disasters, **climate change**, pandemics, acts of war or terrorism and other external and geopolitical events could significantly impact the business. • ~~Climate change and related legislative and regulatory initiatives including interpretations thereof have the potential to disrupt the business and result in operational changes and expenditures that could significantly impact the business and the operations and creditworthiness of the Company's clients.~~ • Negative public opinion could damage the Company's reputation and adversely affect its earnings. • ~~Environmental, social and governance ("ESG") risks could adversely affect the Company's reputation and shareholder, employee, client and third-party relationships and may negatively affect the Company's stock price.~~ • **Risks Relating to Company Securities** • The Company's stock price can be volatile. • The holders of the Company's

indebtedness and preferred stock have rights that are senior to those of its common stockholders. • Federal legislation and regulations impose restrictions on the ownership of the Company's common stock. • Anti- takeover provisions of the Company's certificate of incorporation, bylaws and Delaware law may make it more difficult for holders to receive a change in control premium. Risk Factors Associated with the Business The Company must effectively manage its credit risks. The risk of non- payment of loans is inherent in commercial banking, which may result from many factors, including: • Adverse changes in local, U. S. and global economic and industry conditions, and other geopolitical events; • Declines in the value of collateral, including asset values that are directly or indirectly related to external factors such as commodity prices, real estate values, interest rates or geopolitical risks; • Concentrations of credit associated with specific loan categories, industries or collateral types; and • Exposures to individual borrowers and to groups of entities that may be affiliated on some basis that individually and / or collectively represent a larger percentage of the Company's total loans or capital than might be considered common at other banks of similar size. The Company relies heavily on information provided by third parties when originating and monitoring loans. If this information is intentionally or negligently misrepresented and the Company does not detect such misrepresentations, the credit risk associated with the transaction may be increased. Although the Company attempts to manage its credit risk by carefully monitoring the concentration of its loans within specific loan categories and industries and through prudent loan approval and monitoring practices in all categories of lending, the Company cannot assure that its approval and monitoring procedures will reduce these lending risks. The Company's significant number of large credit relationships (above \$ 20 million) could exacerbate credit problems precipitated by a regional or national economic downturn. Competitive pressures could erode underwriting standards, leading to a decline in general credit quality and increases in credit defaults and non-performing asset levels. If the Company's credit portfolio management routines, policies and procedures are not able to adequately adapt to changes in economic, competitive or other conditions that affect customers and the quality of the loan portfolio, the Company may incur increased losses that could adversely affect its financial results and lead to increased regulatory scrutiny, restrictions on its lending activity or financial penalties. A significant portion of the Company's assets consists of commercial loans, which may involve a higher degree of credit risk. The Company generally invests a greater proportion of its assets in commercial loans to business customers than other banking institutions of its size, and its business plan calls for continued efforts to increase its assets invested in these loans. Commercial loans may involve a higher degree of credit risk than other types of loans due, in part, to their larger average size, the effects of changing economic conditions on the businesses of the Company's commercial loan customers, the dependence of borrowers and counterparties on operating cash flow to service debt and the Company's reliance upon collateral which may not be readily marketable. Due to the greater proportion of these commercial loans in its portfolio and because the balances of these loans are, on average, larger than other categories of loans, losses incurred on a relatively small number of commercial loans could have a materially adverse impact on results of operations and financial condition. The Company is subject to risks arising from conditions in the real estate market, as a significant portion of its loans are secured by commercial and residential real estate. The Company's real estate lending activities and its exposure to fluctuations in real estate collateral values are significant and may increase as its assets increase. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located, in response to factors such as economic downturns, changes in the economic health of industries heavily concentrated in a particular area and in response to changes in market interest rates, which influence capitalization rates used to value revenue- generating commercial real estate. If the value of real estate serving as collateral for loans declines materially, a significant part of the loan portfolio could become under- collateralized and losses incurred upon borrower defaults would increase. Conditions in certain segments of the real estate industry, including homebuilding, lot development and mortgage lending, may have an effect on the values of real estate pledged as collateral for loans. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of borrowers who are dependent on the sale or refinancing of property to repay their loans. Changes in the economic health of certain industries can have a significant impact on other sectors or industries which are directly or indirectly associated with those industries and may impact the value of real estate in areas where such industries are concentrated. Future profitability depends, to a significant extent, upon commercial business customers. The Company's future profitability depends, to a significant extent, upon revenue it receives from commercial business customers, and their ability to continue to meet their loan obligations. Adverse economic conditions or other factors affecting this market segment, and the Company's failure to timely identify and react to unexpected economic downturns, may have a greater adverse effect than other financial institutions that have a more diversified customer base. Additionally, the Company's inability to grow its commercial business customer base in a highly competitive market could affect its future growth and profitability. The Company's business is concentrated in Texas and exposure to the Texas economy, including the energy industry, could adversely affect its performance. Although more than 50 % of the Company's loan exposure is outside of Texas and more than 50 % of its deposits are sourced outside of Texas, the Texas concentration remains significant compared to peer banks. A majority of the loans held for investment, excluding mortgage finance loans and other national lines of business, are to businesses with headquarters or operations in Texas. As a result, the Company's financial condition and results of operations may be strongly affected by any prolonged period of economic recession or other adverse business, economic or regulatory conditions affecting Texas businesses and financial institutions. Furthermore, while the Texas economy is increasingly more diversified, the energy sector **and related industries** continues to play an important role in the overall Texas economy. ~~Furthermore, energy production and related industries~~ represent a significant part of the economies in some of the primary markets in which the Company operates. The Company's portfolio of energy loans consists primarily of producing reserve- based loans to exploration and production companies, with a smaller portion of loan balances attributable to royalty owners, midstream operators, saltwater disposal and other service companies whose businesses primarily relate to production, not exploration and development, of oil and gas. These businesses are significantly affected by volatility in oil and natural gas prices, reserve depletion curves, material declines in the

level of drilling and production activity in Texas and in other areas of the United States and material fluctuations in investor interest in oil and gas exploration and production investments. There is no assurance that the Company will not be materially adversely impacted by the direct and indirect effects of current and future economic conditions in Texas. The Company must effectively manage its counterparty risk. Financial services institutions are interrelated as a result of trading, clearing, counterparty and 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 financial market participants. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be increased when the collateral securing its loans cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of its credit or derivative exposure. Any such losses could have a material adverse effect on the business, financial condition, results of operations or profitability. The Company must maintain an appropriate allowance for credit losses. Management's experience in the banking industry indicates that some portion of the Company's loans will become delinquent, and some may only be partially repaid or may never be repaid at all. The Company maintains an allowance for credit losses on loans, which is a reserve established through a provision for credit losses charged to expense each quarter, that is consistent with management's assessment of the collectability of the loan portfolio in light of the amount of loans committed and outstanding and current and future economic conditions and market trends. When specific loan losses are identified, the amount of the expected loss is removed, or charged off, from the allowance. Management's methodology for establishing the appropriateness of the allowance for credit losses on loans depends on subjective application of risk grades as indicators of each borrower's ability to repay specific loans, together with an assessment of how actual or projected changes in competitor underwriting practices, competition for borrowers and depositors and other conditions in markets are likely to impact improvement or deterioration in the collectability of loans as compared to historical experience. The Company has a substantially larger percentage of commercial, real estate and other categories of business loans relative to total assets than most other banks in the market and individual loans are generally larger as a percentage of the Company's total earning assets than other banks. As a result, the Company's business model may make it more vulnerable to changes in the underlying business credit quality than other entities with which the Company competes. The failure to maintain above-peer credit quality metrics could have a material adverse impact on growth and profitability. ~~Historically, the Company has sought to take action prior to economic downturns by slowing growth rates and decreasing the risk level of its assets by, among other things, allowing runoff of loans that the Company believes may not perform well during a weakening or declining economic environment.~~ If management's assessment of inherent risk and losses in the loan portfolio is inaccurate, or geopolitical, economic and market conditions or borrowers' financial performance experience material unanticipated changes, the allowance may become inadequate, requiring larger provisions for loan losses that can materially decrease the Company's earnings or profitability. Federal regulators periodically review the Company's allowance for credit losses and based on their judgments or interpretations, which may be different than management's, may require the Company to change classifications or grades of loans, increase the allowance for credit losses or recognize further loan charge-offs. Any increase in the allowance for credit losses or in the amount of loan charge-offs required by the Company's methodology or regulatory agencies could have a negative effect on results of operations and financial condition. Changes in accounting standards could materially affect how the Company reports its financial results. The Financial Accounting Standards Board and the SEC may change the financial accounting and reporting standards, or the interpretation of those standards, that govern the preparation of the Company's external financial statements from time to time. The impact of these changes or the application thereof on the Company's financial condition and operations can be difficult to predict. ~~For example, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326) on January 1, 2020 which replaced the incurred loss methodology for determining the provision for credit losses and allowance for credit losses with the CECL model. Implementation of CECL requires that management determines periodic estimates of lifetime expected future credit losses on loans in the provision for credit losses in the period when the loans are booked. The adoption of CECL resulted in an increase to the allowance for credit losses by \$9.1 million. The impact of CECL in future periods will be significantly influenced by the composition, characteristics and quality of the loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Should these factors materially change, the Company may be required to increase or decrease the allowance for credit losses, decreasing or increasing reported income, and introducing additional volatility into reported earnings.~~ The company must effectively manage its liquidity risk. The Company requires liquidity in the form of available funds to meet deposit, debt and other obligations as they come due, borrower requests to draw on committed credit facilities including unexpected demands for cash payments. While neither the Company nor the Bank is subject to Basel III liquidity regulations, the adequacy of its liquidity is a matter of regulatory interest given the significant portion of the balance sheet represented by loans as opposed to securities and other more marketable investments. The Company's principal source of funding consists of customer deposits, supplemented by its short-term and long-term borrowings, including federal funds purchased and Federal Home Loan Bank ("FHLB") borrowings. Recently proposed changes to the FHLB system could adversely impact the Company's access to FHLB borrowings or increase the cost of such borrowings. The Company also relies on the availability of the mortgage secondary market provided by Ginnie Mae and the government sponsored entities ("GSEs") to support the liquidity of its residential mortgage assets. A substantial majority of the Company's liabilities consist of demand, savings, checking and money market deposits, which are payable on demand or upon relatively short notice. By comparison, a substantial portion of the assets are loans, most of which, excluding mortgage finance loans, cannot be collected or sold in so short a time frame, creating the potential for an imbalance in the availability of liquid assets to satisfy depositors and loan funding requirements. An inability to raise funds through deposits, borrowings, the sale of securities and loans and other sources, or an inability to access the capital markets, could have a substantial negative effect on the Company's liquidity. Furthermore, such funding sources even if available could become more expensive, which could negatively impact the

Company's profitability and net interest margin. The Company actively manages its available sources of funds to meet expected or anticipated needs under normal and financially stressed conditions, but there is no assurance that the Company will be able to make new loans, meet ongoing funding commitments to borrowers, or replace maturing deposits and advances as necessary under all possible circumstances. The Company's ability to obtain funding, including on attractive terms, could be impaired by factors beyond its control, such as disruptions in financial markets, negative expectations regarding the financial services industry generally or in the markets or negative perceptions of the Company, including credit ratings. The Company sources a significant volume of its non-interest bearing deposits from its commercial clients, creating concentrations of deposits that may carry a greater risk of unexpected material withdrawals. These customers are more likely to actively monitor the Company's financial condition and results of operations and could withdraw their deposits quickly upon the occurrence of a material adverse development affecting the Company or its businesses or based on market rumors regarding the Company or other regional banks. In response to this risk, the Company has increased its liquidity and developed techniques for monitoring and planning for changes in liquidity and capital, but there is no assurance that the Company will maintain or have access to sufficient funding and capital to fully mitigate its liquidity risk. One potential source of liquidity for the Company are brokered deposits arranged by brokers acting as intermediaries, typically larger money-center financial institutions. The Company receives these deposits from certain of its customers in connection with its delivery of other financial services to them or their customers. The deposits are subject to regulatory classification as brokered deposits ~~even though the Company considers these to be relationship deposits and they are not subject to the typical risks or market pricing associated with conventional brokered deposits. However, which~~ brokered deposits are generally considered to be more sensitive to interest rates, with a higher withdrawal than other deposits if the rates offered are not competitive with rates offered by the Bank's competitors. Furthermore, banks with higher levels of brokered deposits may be viewed as having higher liquidity risks, which may lead to further deposit outflow. If the Bank does not maintain regulatory capital above the level required to be well capitalized the Bank would be required to obtain FDIC consent for it to continue to accept, renew or roll over most deposits classified as brokered deposits, and there can be no assurance that the FDIC would consent under any circumstances. The Bank could also be required to suspend or eliminate deposit gathering from any source classified as brokered deposits. The FDIC can change the definition of brokered deposits or extend the classification to deposits not currently classified as brokered deposits ~~and the FDIC has~~ **proposed rules that would reclassify certain deposits as brokered deposits**. These non-traditional deposits are subject to greater operational and reputational risk of unexpected withdrawal than traditional demand and time deposits, particularly those provided by consumers. ~~A significant decrease in balances of brokered deposits could have a material adverse effect on the Bank's and the Company's financial condition, results of operations or profitability. See Management's Discussion and Analysis of Financial Condition and Results of Operations below for further discussion of liquidity.~~ The Company's growth plans are dependent on the availability of capital and funding. The Company's historical ability to raise capital through the sale of capital stock and debt securities may be affected by economic and market conditions or regulatory changes that are beyond its control. Adverse changes in its operating performance or financial condition could make raising additional capital difficult or more expensive or limit access to customary sources of funding, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank of Dallas ("Reserve Bank") or the FHLB. Unexpected changes in requirements for capital resulting from regulatory actions could require the Company to raise capital at a time, and at a price, that might be unfavorable, or could require that the Company forego continuing growth or reduce its then current loan portfolio. The Company cannot offer assurance that capital and funding will be available to it in the future, in needed amounts, upon acceptable terms or at all. The Company's efforts to raise capital could require the issuance of securities at times and with maturities, conditions and rates that are disadvantageous, and which could have a dilutive impact on its then or current stockholders. Factors that could adversely affect the Company's ability to raise additional capital or necessary funding include conditions in the capital markets, its financial performance, its credit ratings, regulatory actions and general economic conditions. Increases in cost of capital, including dilution and increased interest or dividend requirements, could have a direct adverse impact on the Company's operating performance and its ability to achieve its growth objectives. The Company's mortgage finance business has experienced, and will likely continue to experience, highly variable usage of the Company's funding capacity resulting from seasonal demands for credit, ~~surges~~ **changes** in consumer demand driven by changes in interest rates, **housing affordability and supply** and month-end "spikes" of residential mortgage closings. These spikes could also result in the Company and the Bank having capital ratios that are below internally targeted levels or even levels that could cause the Bank to not be well capitalized and could affect liquidity levels. At the same time, managing this risk by declining to respond fully to the needs of customers could severely impact the business. The Company has historically responded to these variable funding demands by, among other things, increasing the extent of participations sold in its mortgage loan interests, as needed, and by maintaining a substantial borrowing relationship with the FHLB. Its mortgage finance customers have also provided significant ~~low-cost~~ deposit balances associated with the borrower escrow accounts created at the time certain mortgage loans are funded, which have benefited liquidity and net interest margin. In response to competitive pressures, the Company sometimes finds it necessary to pay interest on some of these accounts, as regulations allow or require and this trend may continue, which can affect its costs of funds. Individual escrow account balances also experience significant variability monthly as principal and interest payments, including ad valorem taxes and insurance premiums, are paid periodically. While the short average holding period of its mortgage interests of approximately 20 days will allow the Company, if necessitated by a funding shortfall, to rapidly decrease the size of the portfolio and its associated capital and funding requirements, any such action might significantly damage the business and important mortgage finance relationships. The Company is dependent on funds obtained from borrowing or capital transactions or from the Bank to fund its obligations. The Company is a financial holding company engaged in the business of managing, controlling and operating the Bank. The Company conducts no material business or other activity at the parent company level other than activities incidental to holding equity and debt investments in

the Bank. As a result, the Company relies on the proceeds of capital transactions, borrowings under its revolving line of credit and payments of interest and principal on loans made to the Bank to pay its operating expenses, to satisfy its obligations to debt holders and to pay dividends on its preferred stock. The profitability of the Bank is subject to fluctuation based upon, among other things, the cost and availability of funds, changes in interest rates and economic conditions in general. The Bank's ability to pay dividends to the Company is subject to regulatory limitations that can, under certain adverse circumstances, prohibit the payment of dividends to it. The Company's right to participate in any distribution from the liquidation or sale of the Bank's assets is subject to the prior claims of the Bank's creditors. If the Company is unable to access funds from capital transactions, borrowing under its revolving line of credit or dividends or interest on loan payments from the Bank, the Company may be unable to satisfy its obligations to creditors or debtholders or pay dividends on its preferred stock. The Company must effectively manage its interest rate risk. The Company's profitability is dependent to a large extent on its net interest income, which is the difference between the interest income paid on its loans and investments and the interest the Company pays to third parties such as its depositors, lenders and debtholders. **Periods of volatile interest rates may have a material effect on the Company's earnings.** Changes in interest rates can impact profits and the fair values of certain assets and liabilities. Models that the Company uses to forecast and plan for the impact of rising and falling interest rates may be incorrect or fail to consider the impact of competition and other conditions affecting loans and deposits. ~~Periods of volatile interest rates may have a material effect on the Company's earnings.~~ Throughout 2023, the Federal Reserve has increased the target Federal Funds rate at a steady pace, reaching its current range of 5.25% to 5.50% at the July 2023 meeting. At the most recent meeting in November 2023, the Federal Reserve voted to maintain this target range. Increases in interest rates and economic conditions affecting consumer demand for housing can have a material impact on the volume of mortgage originations and refinancings, adversely affecting the profitability of the mortgage finance business. Interest rate risk can also result from mismatches between the dollar amounts of repricing or maturing assets and liabilities and from mismatches in the timing and rates at which the assets and liabilities reprice. 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 assurance that the Company will be able to avoid material adverse effects on net interest margin in all market conditions. Rising interest rates in prior periods have increased interest expense, with a commensurate positive effect on net interest income; however, interest rates have begun but may not be expected to decrease following three cuts to the Federal Funds do so in future periods. In a rising rate by environment, competition for cost-effective deposits increases, making it more costly for the Federal Reserve in 2024 Company to fund loan growth. Rapid and unexpected volatility in interest rates creates additional uncertainty and potential for adverse financial effects. There can be no assurance that the Company will not be materially adversely affected by future changes in interest rates. The company must effectively manage market risk associated primarily with sales and trading activities. In addition to interest rate risk, the Company is exposed to other forms of market risk, principally related to trading activities which conducted to support customer transactions or to provide customers with liquidity. The Company has typically minimized seeks to manage the market and liquidity risks of its customer-related positions with similar offsetting positions that eliminate or reduce market risk to fall within acceptable tolerances broker-dealers. The Company uses VaR as a primary risk measure to aggregate, monitor and limit risks at the portfolio level across all trading activities. VaR is calculated based on one year historical moves in key market risk factors relevant to the financial asset and any associated portfolio and it estimates potential loss on current portfolio subject positions at 95th percentile confidence interval. Rising Changes in interest rates affect have decreased the value of the Company's securities portfolio, and the Company may realize losses if it were to sell such securities at a time when interest rates are higher than the yield on the Company's securities portfolio. As a result of inflationary pressures and the resulting rapid increases in interest rates in prior periods over the last two years, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U. S., including the Company's, resulting in unrealized losses embedded in U. S. banks' securities portfolios. If the Company were to sell such securities with embedded unrealized losses, as the Company did in the third quarter of 2024, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board..... results of operations and financial condition. The Company competes with many banks and other traditional, non- traditional, brick and mortar and online financial service providers. Competition among providers of financial services in markets, in Texas, regionally and nationally, is intense. The Company competes with other financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage banking companies, money market mutual funds, asset-based non-bank lenders, government sponsored or subsidized lenders, financial technology companies and other financial services providers. Many of these competitors have substantially greater financial resources, lending limits and technological resources and larger branch networks than the Company does and are able to offer a broader range of products and services than the Company can, including systems and services that could more effectively protect customers from cyber threats. Many competitors offer lower interest rates and more liberal loan terms that appeal to borrowers but adversely affect net interest margin and assurance of repayment. The Company is increasingly faced with competition in many of its products and services by non-bank providers who may have competitive advantages of size, access to potential customers and fewer regulatory requirements. Failure to compete effectively for deposit, loan and other banking customers in any of the lines of business could cause the Company to lose market share, slow or reverse growth rate or suffer adverse effects on financial condition, results of operations or profitability. See the discussion above at in Item 1. Business – Competition for additional discussion of the Company's competition. The Company must effectively execute its business strategy in order to continue asset and earnings growth. The Company's core strategy is to

develop its business principally through organic growth by offering a differentiated banking experience to companies in high-value business segments. Its prospects for continued growth must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies. In order to execute the Company's business strategy successfully, the Company must, among other things:

- continue to identify and expand into suitable markets and lines of business, in Texas, regionally and nationally;
- develop new products and services and execute the full range of products and services more efficiently and effectively;
- attract and retain qualified front-line personnel in each of the targeted market segments to build customer base;
- respond to market opportunities promptly and nimbly while balancing the demands of risk management and compliance with regulatory requirements;
- expand loan portfolio in an intensely competitive environment while maintaining credit quality;
- attract sufficient deposits and capital to fund expected and anticipated loan growth and satisfy regulatory requirements;
- compete effectively for investment banking and broker-dealer customers;
- control expenses; and
- acquire and maintain sufficient qualified staffing and information technology and operational resources to support growth and compliance with regulatory requirements.

Failure to effectively execute the business strategy could have a material adverse effect on the business, future prospects, financial condition, results of operations or profitability lines of business and markets including managers in operational areas, compliance and other support areas to build and maintain the infrastructure and controls required to support continuing growth. Competition for the best people in the industry can be intense, and there is no assurance that the Company will continue to attract or retain talent or develop personnel. Factors that affect its ability to attract, develop and retain key employees include compensation and benefits programs, profitability, ability to establish appropriate succession plans for key talent, reputation for rewarding and promoting qualified employees and market competition for employees with certain skills, including information systems development and . The Company, its vendors and customers must effectively manage information systems and cyber risk and threats which may result in disruptions, failures or breaches in security. The Company, its vendors and customers all rely heavily on communications and information systems to conduct their respective businesses, store sensitive data and work effectively together. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The Company's ability to compete successfully depends in part upon its ability to use technology to provide products and services that will satisfy customer demands. Many of the Company's larger competitors invest substantially greater resources in technological capabilities than the Company does. The Company may not be able to effectively protect, develop and manage mission critical systems and IT infrastructure to support strategic business initiatives, which could impair its ability to achieve financial, operational, compliance and strategic objectives and negatively affect the business, results of operations, financial condition or profitability. Communications and information systems and those of the Company's vendors and customers remain vulnerable to unexpected disruptions, failures and cyber-attacks. Any disruptions, failures or breaches in security of these systems could result in significant disruption to the Company's operations. Information security breaches and cyber-security-related incidents include, but are not limited to, attempts to access information, theft of information, credentials or other intellectual property, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, data breaches resulting in misuse, loss or destruction of data (including confidential customer and employee information), ransomware attacks, account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties or may result from accidental technological failure. The risk, frequency and intensity of such attacks is escalating, including as a result of remote working arrangements, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication of these threats. Material failures or interruptions of these systems could impair the Company's ability to serve customers and to operate the business and could damage the Company's reputation, result in a loss of business, subject the Company or the Bank to additional regulatory scrutiny or enforcement or exposure to civil litigation, criminal penalties or financial liability. While the Company has developed extensive recovery plans, the Company cannot assure that those plans will be effective to prevent adverse effects resulting from system failures. The use of the Company's cloud technologies is also critical to the operation of systems, and its reliance on cloud technologies is growing. Service disruptions in cloud technologies may lead to delays in accessing, or the loss of, data that is important to the businesses and may hinder clients' access to products and services. The Company collects and stores sensitive data, including personally identifiable information of its customers and employees and in the ordinary course of business must allow certain vendors access to that data. Breaches of the systems or vendors' or customers' systems, thefts of data and other breaches and criminal activity may result in significant costs to respond or remediate losses if the Company or its vendors are at fault, damage to the Company's customer relationships, regulatory scrutiny and enforcement and loss of future business opportunities due to reputational damage. Even the most well-protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber-attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are rapidly and constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected for a period of time or at all. Accordingly, the Company may be unable to anticipate or be prepared for these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for the Company to entirely mitigate this risk. Breaches can be perpetrated by unknown third parties, but could also be facilitated by employees either inadvertently or by consciously attempting to create disruption or certain acts of fraud. The Company's customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, bank account information or other personal information or to introduce viruses or other malware through "Trojan horse" programs to the Company's information systems, the information systems of merchants or third-party service providers and / or customers' computers. Although the Company, with the help of third-party service providers, will continue to implement information security technology solutions and establish operational procedures to protect sensitive data, there can be no assurance that these measures will be effective. The

Company advises, or alerts and provides some guidance to customers and evaluates and imposes security requirements on vendors regarding protection of their respective information systems, but there is no assurance that these actions will have the intended positive effects or will be effective to prevent losses or attacks. Successful cyber- attacks on the Company, vendors or customers may affect the Company's reputation, and failure to meet customer expectations could have a material impact on the Company's ability to attract and retain deposits as a primary source of funding. A security breach or other significant disruption of information systems or those related to customers, merchants and third- party vendors, including as a result of cyber- attacks, could (i) disrupt the proper functioning of networks and systems and therefore the operations and / or those of certain customers; (ii) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information; (iii) result in a violation of applicable privacy, data breach and other laws, subjecting the Company to additional regulatory scrutiny and exposure to civil litigation, criminal penalties, governmental fines or financial liability; (iv) require significant management attention and resources to respond, remediate or remedy the damages that result; or (v) harm the reputation or cause a decrease in the number of customers that choose to do business with the Company. The occurrence of any of the foregoing could have a material adverse effect on the business, financial condition, results of operations or profitability. A successful cyber attack affecting the Company could cause significant harm to the Company and its clients and customers. The Company and similar financial institutions are subject to continuous threats from cyber attacks on its computer systems, software, networks and other technology from various actors, including groups acting on behalf of hostile countries, cyber- criminals, "hacktivists" (i. e., individuals or groups that use technology to promote a political agenda or social change) and others. These cyber attacks can take many forms, including attempts to introduce computer viruses or malicious code, which are commonly referred to as "malware," into the Company's systems. These attacks are often designed to: obtain unauthorized access to confidential information belonging to the Company or its clients, customers, counterparties or employees, manipulate data, destroy data or systems with the aim of rendering services unavailable, disrupt, sabotage or degrade service on the Company's systems, steal money, or extort money through the use of so- called "ransomware." The Company has experienced security breaches and cyber attacks in the past, and it is inevitable that additional breaches and attacks will occur in the future. While such breaches and attacks have not materially impacted the Company to date, future security breaches and cyber attacks could result in serious and harmful consequences for the Company or its clients and customers. A principal reason that the Company cannot provide absolute security against cyber attacks is that it may not always be possible to anticipate, detect or recognize threats to the Company's systems, or to implement effective preventive measures against all breaches because: the techniques used in cyber attacks evolve frequently and are increasingly sophisticated, and therefore may not be recognized until launched, cyber attacks can originate from a wide variety of sources, including the Company's own employees, cyber- criminals, hacktivists, groups linked to terrorist organizations or hostile countries, or third parties whose objective is to disrupt the operations of financial institutions more generally, the Company does not have control over the cybersecurity of the systems of the large number of clients, customers, counterparties and third- party service providers with which it does business, and it is possible that a third party, after establishing a foothold on an internal network without being detected, might obtain access to other networks and systems. The risk of a security breach due to a cyber attack could increase in the future due to factors such as: the Company's ongoing expansion of its mobile and digital banking and other internet- based product offerings and its internal use of internet- based products and applications and the increased use of remote access to facilitate remote arrangements for employees, vendors and other third parties. In addition, a third party could misappropriate confidential information obtained by intercepting signals or communications from mobile devices used by the Company's employees. A successful penetration or circumvention of the security of the Company's systems or the systems of a vendor, governmental body or another market participant could cause serious negative consequences, including: significant disruption of the Company's operations and those of its clients, customers and counterparties, including losing access to operational systems, misappropriation of confidential information of the Company or that of its clients, customers, counterparties, employees or regulators, disruption of or damage to the Company's systems and those of its clients, customers and counterparties, the inability, or extended delays in the ability, to fully recover and restore data that has been stolen, manipulated or destroyed, or the inability to prevent systems from processing fraudulent transactions, allegations or violations by the Company of applicable privacy and other laws, financial loss to the Company or to its clients, customers, counterparties or employees, loss of confidence in the Company's cybersecurity and business resiliency measures, dissatisfaction among the Company's clients, customers or counterparties, significant exposure to litigation and regulatory fines, penalties or other sanctions, and harm to the Company's reputation. The extent of a particular cyber attack and the steps that the Company may need to take to investigate the attack may not be immediately clear, and it may take a significant amount of time before such an investigation or determination, judicial or otherwise, can be completed. While such an investigation is ongoing, the Company may not necessarily know the full extent of the harm caused by the cyber attack, and that damage may continue to spread. These factors may inhibit the Company's ability to provide rapid, full and reliable information about the cyber attack to its clients, customers, counterparties and regulators, and the public. Furthermore, it may not be clear how best to contain and remediate the harm caused by the cyber attack, and certain errors or actions could be repeated or compounded before they are discovered and remediated. Any or all of these factors could further increase the costs and consequences of a cyber attack. The Company's operations rely extensively on a broad range of external vendors. The Company relies on a large number of vendors to provide products and services necessary to maintain the day- to- day operations, particularly in the areas of operations, treasury management systems, information technology and security. This reliance exposes the Company to the risk that these vendors will not perform as required by agreements including risks resulting from disruptions in communications with vendors, cyber- attacks and security breaches at vendors, failure of a vendor to provide services for other reasons and poor performance of services. An external vendor's failure to perform in any of these areas could be disruptive to the business and operations, which could have a material adverse impact on the business, financial condition, results of operations or profitability, including causing

reputational damage. External vendors who must have access to the Company's information systems in order to provide their services have been identified as significant sources of information technology security risk and are monitored. While the Company has implemented an active program of oversight to address this risk, there can be no assurance that the Company will not experience material security breaches associated with vendors or other third parties. The **development** ~~Company must continue to attract, retain and~~ **use of AI presents risks and challenges that may adversely impact the Company's business. The Company or its third- party (or fourth party) vendors, clients or counterparties may develop key personnel or incorporate AI technology in certain business processes, services, or products . The development and use of AI presents a number of risks and challenges to the Company's business. The legal and regulatory environment relating to AI is uncertain and rapidly evolving, both in the U. S. and internationally, and includes regulatory schemes targeted specifically at AI as well as provisions in intellectual property, privacy, consumer protection, employment, and other laws applicable to the use of AI. The- These evolving laws and regulations could require changes in the Company's success depends implementation of AI technology and increase the Company's compliance costs and the risk of non- compliance. AI models, particularly generative AI models, may produce output or take action that is incorrect, that reflects biases included in the data on which they are trained, that results in the release of private, confidential, or proprietary information, that infringes on the intellectual property rights of others, or that is otherwise harmful. In addition, the complexity of many AI models makes it difficult to a significant understand why they are generating particular outputs. This limited transparency increases the challenges associated with assessing the proper operation of AI models, understanding and monitoring the capabilities of the AI models, reducing erroneous output, eliminating bias, and complying with regulations that require documentation or explanation of the basis on which decisions are made. Further, the Company may rely on AI models developed by third parties, and, to that extent upon, would be dependent in part on the manner in which those third parties develop and train their models, including risks arising from the inclusion of any unauthorized material in the training data for their models and the effectiveness of the steps these third parties have taken to limit the risks associated with the output of their models, matters over which the Company may have limited visibility. Any of these risks could expose the Company to liability or adverse legal or regulatory consequences and harm the Company's reputation and the public perception of its business or the effectiveness ability to attract, develop and retain experienced personnel in each of its lines of business and markets including managers..... skills, including information systems development and security measures . The cost of employee compensation is a significant portion of operating expenses and can materially impact results of operations or profitability, especially during periods of wage inflation. The unanticipated loss of the services of key personnel could have an adverse effect on the business. The Company's accounting estimates and risk management processes rely on management judgment, which may prove inadequate, wrong or be adversely impacted by inaccurate or mistakes in assumptions or models. The processes the Company's uses to estimate expected credit losses for purposes of establishing the allowance for credit losses and to measure the fair value of financial instruments, certain liquidity and capital planning tools, including the processes the Company uses to estimate the effects of changing interest rates and other market measures on its financial condition and results of operations, all depend upon management's judgment. Management's judgment and the data relied upon by management may be based on assumptions that prove to be inaccurate, particularly in times of market stress or other unforeseen circumstances. Additionally, CECL requires the application of greater management judgment that is supported by new models and more data elements, including macroeconomic forecasts, than the previous allowance standard. The Company's adoption of the CECL model has increased the complexity, and associated risk, of the analysis and processes relying on management judgment, which could negatively impact the financial condition, results of operations or profitability of the Company. The risk management strategies and processes may not be effective and the Company's controls and procedures, including disclosure controls and procedures and internal control over financial reporting, may fail or be circumvented. The Company continues to invest in the development of risk management techniques, strategies, assessment methods and related controls and monitoring approaches on an ongoing basis. However, these risk management strategies and processes may not be fully effective in mitigating the risk exposure in all economic market environments or against all types of risk. Any failures in risk management strategies and processes to accurately identify, quantify and monitor risk exposure could limit the ability to effectively manage risks. Management regularly reviews and updates internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. In particular, any failure to maintain or develop effective internal control over financial reporting and disclosure controls and procedures and or any difficulties encountered in their implementation or improvement could cause the Company to fail to meet its reporting obligations and may result in a restatement of its financial statements for prior periods. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in the Company's reported financial and other information, including if the Company were to report a material weakness, which would likely have a negative effect on the trading price of the Company's common stock. If the Company has a material weakness in its internal control over financial reporting, the Company may not detect errors on a timely basis and its financial statements may be materially misstated. If the Company is unable to maintain effective internal controls over financial reporting and disclosure controls, the Company could become subject to investigations by **Nasdaq the NASDAQ**, the SEC or other regulatory authorities or shareholder litigation, which could require additional management attention and which could adversely affect the Company's business, financial condition and results of operations. Any system of controls, however well designed and operated, is based in part on certain assumptions and management judgment and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the business, financial condition, results of operations or profitability. The business is susceptible to fraud and conduct risk. The Company's business exposes it to fraud risk from loan and deposit customers, the parties they do business with, as**

well as from employees, contractors and vendors. The Company relies on financial and other data from new and existing customers which could turn out to be fraudulent when accepting such customers, executing their financial transactions and making and purchasing loans and other financial assets. In times of increased economic stress the Company is at increased risk of fraud losses. The Company believes it has underwriting and operational controls in place to prevent or detect such fraud, but cannot provide assurance that these controls will be effective in detecting fraud or that the Company will not experience fraud losses or incur costs or other damage related to such fraud, at levels that adversely affect financial results or reputation. The Company's lending customers may also experience fraud in their businesses which could adversely affect their ability to repay their loans or make use of services. The Company's and its customers' exposure to fraud may increase the Company's financial risk and reputation risk as it may result in unexpected loan losses that exceed those that have been provided for in the allowance for credit losses. In addition, the Company is subject to risk from the conduct of its employees, including the negative impact that can result from employee misconduct or failure by employees to conduct themselves in accordance with the Company's policies. All of which could damage the Company's reputation and result in loss of customers or other financial loss or expose the Company to increased regulatory or other risk. The Company is subject to extensive government regulation and supervision and interpretations thereof. The Company, as a bank holding company and financial holding company, and the Bank, as a Texas state- chartered bank, are subject to extensive federal and state regulation and supervision and the potential for regulatory enforcement actions, which impact the business on a daily basis. TCBI Securities, Inc., the Bank's wholly owned non-bank subsidiary, is also subject to the jurisdiction of several regulatory bodies, including the SEC, FINRA, MSRB and state securities regulators. These regulations affect lending practices, permissible products and services and their terms and conditions, customer relationships, capital structure, investment practices, accounting, financial reporting, operations and ability to grow, among other things. These regulations also impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of customers. See the discussion above at Business- Regulation and Supervision for additional discussion of the extensive regulation and supervision the Company and the Bank are subject to. The level of regulatory scrutiny that the Company and the Bank are subject to may fluctuate over time, based on numerous factors. In addition, Congress, state legislatures, and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company and the Bank in substantial and unpredictable ways. Material changes in regulation and requirements imposed on financial institutions, such as the Dodd- Frank Act, Basel III Capital Rules, European Union's General Data Protection Regulations and California Consumer Privacy Act result in additional costs, impose more stringent capital, liquidity and leverage requirements, limit the types of financial services and products the Company may offer and increase the ability of non-bank financial services providers to offer competing financial services and products, among other things. Such changes could result in new regulatory obligations which could prove difficult, expensive or competitively impractical to comply with if not equally imposed upon non- bank financial services providers with whom the Company competes. The Company is subject to a continuous program and routine of examinations by regulators concerning, among other things, lending practices, reserve methodology, compliance with changing regulations and interpretations, BSA / AMLA compliance, interest rate management, liquidity, capital and operational risk, enterprise risk management, regulatory and financial accounting practices and policies and related matters, which can divert management's time and attention from focusing on the business. The Company devotes a significant amount of management time and expense to enhancing the infrastructure to support its compliance obligations, which can pose significant regulatory enforcement, financial and reputational risks if not appropriately addressed. The Regulatory Relief Act passed on May 22, 2018, has provided a limited degree of regulatory relief for institutions of the Company's size. Uncertainty regarding how regulators will evaluate or require capital and liquidity planning going forward remains a risk. The Company continues to increase its capital and liquidity and expand regulatory compliance staffing and systems in order to address evolving regulatory requirements. There is no assurance that financial performance in future years will not be similarly burdened. The Company expends substantial effort and incurs costs to maintain and improve its systems, controls, accounting, operations, information security, compliance, audit effectiveness, analytical capabilities, staffing and training in order to satisfy regulatory requirements or recommendations. The Company cannot offer assurance that these efforts will be accepted by regulators as satisfying the applicable legal and regulatory requirements. Failure to comply with relevant laws, regulations, recommendations or policies could result in sanctions by regulatory agencies, civil money penalties and / or reputation damage, which could have a material adverse effect on the business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. The Company must maintain adequate regulatory capital to support its business objectives and strategy. Under regulatory capital adequacy guidelines and other regulatory requirements, the Company must satisfy capital requirements based upon quantitative measures of assets, liabilities and certain off- balance sheet items. Satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from management's and that are subject to being determined retroactively for prior periods. Additionally, regulators can make subjective assessments about the adequacy of capital levels, even if the Company's and the Bank's reported capital exceeds the " well capitalized " requirements. The Company's ability to maintain its status as a financial holding company and to continue to operate the Bank as it has in recent periods is dependent upon a number of factors, including the Bank qualifying as " well capitalized " and " well managed " under applicable prompt corrective action regulations and upon the Company qualifying on an ongoing basis as " well capitalized " and " well managed " under applicable Federal Reserve regulations. Failure to meet regulatory capital standards could have a material adverse effect on the business, including damaging the confidence of customers, adversely impacting the Company's and the Bank's reputation and competitive position and retention of key personnel. Any of these developments could limit access to: • brokered deposits; • FRB discount window; • advances from the FHLB; • capital markets transactions; and • development of new

financial services. Failure to meet regulatory capital standards may also result in higher FDIC assessments. If the Company or the Bank falls below guidelines for being deemed “adequately capitalized” the FDIC or Federal Reserve could impose restrictions on banking activities and a broad range of regulatory requirements in order to effect “prompt corrective action.” The capital requirements applicable to the Company and the Bank are in a process of continuous evaluation and revision in connection with actions of the Basel Committee and regulators. The Company cannot predict the final form, or the effects, of these regulations on the business, but among the possible effects are requirements that the Company slow the rate of growth or obtain additional capital which could reduce earnings or dilute existing stockholders. The Company is subject to claims and litigation in the ordinary course of its business, including claims that may not be covered by insurance. Customers and other parties the Company engage with may, on a regular basis, assert claims and take legal action against the Company and the Company regularly takes legal action to collect unpaid borrowers’ obligations, realize on collateral and assert rights in commercial and other contexts. These actions frequently result in counter claims against the Company. Litigation arises in a variety of contexts, including lending activities, employment practices, commercial agreements, fiduciary responsibility related to wealth management services, intellectual property rights and other general business and banking matters. Claims and legal actions may result in significant legal costs to defend or assert rights and may result in reputational damage that adversely affects existing and future customer relationships. If claims and legal actions are not resolved in a favorable manner, the Company may suffer significant financial liability or adverse effects on its reputation, which could have a material adverse effect on the business, financial condition, results of operations or profitability. See Legal Proceedings below for additional disclosures regarding legal proceedings. The Company purchases insurance coverage to mitigate a wide range of risks. There is no assurance that insurance will be adequate to protect the Company against material losses in excess of coverage limits or that insurers will perform their obligations under policies without attempting to limit or exclude coverage. The Company could be required to pursue legal actions against insurers to obtain payment of amounts owed, and there is no assurance that such actions, if pursued, would be successful. ~~Any regulatory examination scrutiny or new regulatory requirements arising from the recent events in the banking industry could increase the Company’s expenses and affect the Company’s operations. The Company also anticipates increased regulatory scrutiny—in the course of routine examinations and otherwise—and new regulations directed towards banks of similar size to the Bank, designed to address the recent negative developments in the banking industry, all of which may increase the Company’s costs of doing business and reduce its profitability. Among other things, there may be an increased focus by both regulators and investors on the on-balance sheet liquidity of and funding sources for financial institutions, the composition of their deposits and the level of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. As primarily a commercial bank, the Bank has a high degree of uninsured deposits compared to larger national banks or smaller community banks with a stronger focus on retail deposits. As a result, the Bank could face increased scrutiny or be viewed as higher risk by regulators and the investor community.~~ The business faces unpredictable economic and business conditions. The business is directly impacted by general economic, business and political conditions in Texas, the United States and internationally. The credit quality of the loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which the Company and its customers conduct their respective businesses. The Company’s financial condition can be affected by other factors that are beyond its control, including: • geopolitical, national, regional and local economic conditions; • the value of the U. S. Dollar in relation to the currencies of other advanced and emerging market countries; • the performance of both domestic and international equity and debt markets and valuation of securities traded on recognized domestic and international exchanges; • general economic consequences of international conditions and the impact of those conditions on the U. S. and global economies; • legislative and regulatory changes impacting the banking industry; • impact of the 2024 presidential and congressional elections and other political conditions; • the financial health of customers and economic conditions affecting them and the value of collateral, including effects from the ~~COVID-19 pandemic and other pandemics and the~~ continued price volatility of oil and gas and other commodities; • the incidence of fraud, illegal payments, security breaches and other illegal acts among or impacting the Company, its customers and third parties; • structural changes in the markets for origination, sale and servicing of residential mortgages; • changes in governmental economic and regulatory policies, including the extent and timing of intervention in credit markets by the Federal Reserve or withdrawal from that intervention, generally including changes attributable to presidential and congressional elections; • acts or threats of war, including the ongoing war in Ukraine and the Israeli Palestinian conflict; • changes in the availability of liquidity at a systemic level; and • material inflation or deflation. Substantial deterioration in any of the foregoing conditions can have a material adverse effect on prospects and results of operations and financial condition. Declining or adverse economic conditions and adverse changes in investor, consumer and business sentiment generally result in reduced business activity, which may decrease the demand for products and services. Recently, inflation has been at a higher level than experienced in many decades, which has increased costs and impacted operations for the Company and many of its customers. There is no assurance that the Company will be able to return to historical rate of growth or profitability. The Company’s customer base is primarily commercial in nature, and the Company does not have a significant retail branch network or retail consumer deposit base. In periods of economic downturn, business and commercial deposits may be more volatile than traditional retail consumer deposits. As a result, the financial condition and results of operations could be adversely affected to a greater degree by these uncertainties than competitors having a larger retail customer base. Additionally, the Company’s investment banking revenue is directly related to general economic conditions and corresponding financial market activity. When the outlook for such economic conditions is uncertain or negative, financial market activity generally tends to decrease, which can be expected to reduce the Company’s investment banking revenues and prospects for new business. The soundness of other financial institutions could adversely affect the business. 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 the Company routinely executes transactions with counterparties in the

financial services industry, including broker-dealers, commercial banks, investment banks and other institutional clients. Many of these transactions expose the Company to credit risk in the event of default of a counterparty or client. 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 loan or derivative exposure due. There can be no assurance that any such losses would not materially and adversely affect results of operations or profitability. **Recent negative Negative** developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system. **Any future** **The closures of Silicon Valley Bank bank and Signature Bank failures like those experienced in March-2023 or and First Republic Bank in May 2023, and concerns about similar future events, have may negatively impact customer confidence in the safety and soundness of regional banks and may** ~~generated~~ **generate** significant market volatility among publicly traded bank holding companies and, in particular, regional banks like the Company. ~~These market developments have negatively impacted customer confidence in the safety and soundness of regional banks.~~ As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC ~~took~~ **historically have taken** action to ensure that depositors of ~~these~~ failed banks had access to their deposits, including uninsured deposit accounts, ~~there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the banking system more broadly.~~ ~~Furthermore,~~ there is no guarantee that regional bank failures or bank runs ~~similar to the ones that occurred in 2023~~ will not occur in the future and, if they were to occur, they may have a material and adverse impact on customer and investor confidence in regional banks negatively impacting the Company's liquidity, capital, results of operations and stock price. The Company is subject to environmental liability risk associated with lending activities. A significant portion of the loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. There is a risk that hazardous or toxic substances could be found on these properties, and that the Company may be liable for remediation costs, including personal injury and property damage. Environmental laws may require incurring substantial expenses and may materially reduce the affected property's value by limiting the ability to use or sell it. Although the Company has policies and procedures requiring 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 financial condition, results of operations and profitability. Future laws or regulations or more stringent interpretations or enforcement policies with respect to existing laws and regulations may increase the Company's exposure to environmental liability. Severe weather, earthquakes, other natural disasters, **climate change**, pandemics, acts of war or terrorism and other external and geopolitical events could significantly impact the business. Severe weather, earthquakes, other natural disasters, pandemics, **climate change (such as the COVID-19 pandemic)**, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of its deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, ~~and/or~~ **cause us to incur additional expenses or disrupt the Company's operations**. In recent years, hurricanes have caused extensive flooding and destruction along the coastal areas of Texas and in other areas in the U. S., including communities where the Company conducts business. **Climate change has the potential to increase to frequency and severity of these severe weather events in the future**. Although management has established disaster recovery policies and procedures, the occurrence of any such events could have a material adverse effect on the business, financial condition, results of operations or profitability. ~~Furthermore,~~ **Climate change and related** legislative and regulatory initiatives ~~including interpretations thereof~~ **related to climate change** have the potential to disrupt the business and result in operational changes and expenditures that could significantly impact the business and the operations and creditworthiness of the Company's clients. ~~Climate change has caused severe and abnormal weather patterns and events that could disrupt operations at one or more of the Company's locations, which may disrupt its ability to provide financial products and services to clients. Climate change could also have a negative effect~~ **increase the compliance burden** on the financial status and creditworthiness of clients, which may decrease revenues and business activities from those clients, increase the credit risk associated with loans and other credit exposures to such clients. The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. The U. S. government has rejoined the Paris Climate Agreement, the most recent international climate change accord, while the U. S. Congress, state legislatures and federal and state regulatory agencies are likely to continue to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes. In 2022, the federal banking agencies proposed guidance for large banking organizations (defined as those having more than \$100 billion in total assets) to address climate-related issues through risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors, and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. Each of the above-described initiatives, including other similar initiatives and increasing supervisory expectations, may require the Company to expend significant capital and incur compliance, operating, maintenance and remediation costs. Given the lack of empirical data on the credit and other financial risks posed by climate change, it is impossible to predict how climate change may impact the financial condition and operations; however, as a banking organization, the physical effects of climate change may present certain unique risks. For example, weather disasters, shifts in

local climates and other disruptions related to climate change may adversely affect the value of real properties securing loans, which could diminish the value of the loan portfolio. Such events may also cause reductions in regional and local economic activity that may have an adverse effect on customers, which could limit the Company's ability to raise and invest capital in these areas and communities, each of which could have a material adverse effect on the financial condition, results of operations or profitability. Negative public opinion could damage the Company's reputation and adversely affect its earnings. Reputational risk, or the risk to earnings and capital from negative public opinion, is inherent in the business. Negative public opinion can result from the actual or perceived manner in which the Company conducts its business activities; management of actual or potential conflicts of interest and ethical issues; and protection of confidential client information; and public scrutiny related to environmental, social and governance issues. The Company's brand and reputation may also be harmed by actions taken by third parties that it contracts with to provide services to the extent such parties fail to meet their contractual, legal and regulatory obligations or act in a manner that is harmful to clients. If the Company fails to supervise these relationships effectively, it could also be subject to regulatory enforcement, including fines and penalties. Negative public opinion can adversely affect the Company's ability to keep and attract clients and can expose it to litigation and regulatory action. The Company takes steps to minimize reputation risk, but its efforts may not be sufficient. ESG risks could adversely affect the Company's reputation and shareholder, employee, client, and third party relationships and may negatively affect the Company's stock price. The Company faces increasing public scrutiny related to ESG activities and if the Company fails to act responsibly in a number of areas, such as DEI, environmental stewardship, including with respect to climate change, human capital management, support for our local communities, corporate governance, and transparency, or fails to consider ESG factors in our business operations, the Company's brand and reputation may be damaged. Furthermore, as a result of the Company's diverse base of clients and business partners, the Company may face potential negative publicity based on the identity of its clients or business partners and the public's (or certain segments of the public's) view of those entities. Such publicity may arise from traditional media sources or from social media and may increase rapidly in size and scope. If the Company's client or business partner relationships were to become intertwined in such negative publicity, the Company's ability to attract and retain clients, business partners, and employees may be negatively impacted, and the Company's stock price may also be negatively impacted. Additionally, the Company faces pressure to not do business in certain industries that are viewed as harmful to the environment or are otherwise negatively perceived, which could impact our growth. Additionally, investors and shareholder advocates are placing ever increasing emphasis on how corporations address ESG issues in their business strategy when making investment decisions and when developing their investment theses and proxy recommendations. The Company may incur meaningful costs with respect to its ESG efforts and if such efforts are negatively perceived, its reputation and stock price may suffer. The Company's stock price can be volatile. Stock price volatility may make it more difficult to resell or buy common stock. The stock price can fluctuate significantly in response to a variety of factors including, among other things: • actual or anticipated variations in quarterly and annual results of operations; • changes in recommendations by securities analysts; • changes in composition and perceptions of the investors who own the Company's stock and other securities; • changes in ratings from national rating agencies on publicly or privately-owned debt securities and deposits in the Bank; • operating and stock price performance of other companies that investors deem comparable to the Company; • news reports relating to trends, concerns and other issues in the financial services industry, including regulatory actions against other financial institutions; • actual or expected economic conditions that are perceived to affect the Company such as changes in commodity prices, real estate values or interest rates; • perceptions in the marketplace regarding the Company or its competitors; • new technology used, or services offered, by competitors; • significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or competitors; • changes in government regulations and interpretation of those regulations, changes in practices requested or required by regulators and changes in regulatory enforcement focus; • impacts and disruptions resulting from the COVID-19 pandemic, variants or other pandemics; • environmental or ESG-related concerns or ratings; and • geopolitical conditions such as acts or threats of terrorism or military conflicts. General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company's stock price to decrease regardless of operating results. Additionally, the trading volume in the Company's common stock is less than that of other larger financial services companies. Given the lower trading volume of the common stock, significant sales of the common stock, or the expectation of these sales, could increase the volatility of the Company's stock price and cause the stock price to fall. The holders of the Company's indebtedness and preferred stock have rights that are senior to those of its common stockholders. As of December 31, 2023-2024, the Company had \$ 375. 0 million in outstanding subordinated notes issued by the holding company, \$ 175. 0 million in outstanding subordinated notes issued by the Bank, and \$ 113. 4 million in outstanding junior subordinated notes that are held by statutory trusts which issued trust preferred securities to investors. Payments of the principal and interest on trust preferred securities are conditionally guaranteed to the extent not paid by each trust, provided the trust has funds available for such obligations. The Company's subordinated notes and junior subordinated notes are senior to the shares of preferred stock and common stock in right of payment of dividends and other distributions. The Company must be current on interest and principal payments on its indebtedness before any dividends can be paid on its preferred stock or its common stock. In the event of bankruptcy, dissolution or liquidation, the holders of the Company's indebtedness must be satisfied before any distributions can be made to preferred or common stockholders. If certain conditions are met, the Company has the right to defer interest payments on the junior subordinated debentures (and the related trust preferred securities) at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period, during which time no dividends may be paid to holders of preferred stock or common stock. Because the Bank's subordinated notes are obligations of the Bank, they would, in liquidation of the Bank or sale of its assets, receive payment before any amounts would be payable to holders of the Company's common stock, preferred stock or subordinated notes. At December 31,

~~2023~~ 2024, the Company had issued and outstanding 300,000 shares of 5.75% fixed rate non-cumulative perpetual preferred stock, Series B, with a liquidation preference of \$1,000 per share (the "Series B Preferred Stock") and 12 million depositary shares, each representing 1/40th interest in a share of the Series B preferred stock. The preferred stock is senior to the shares of common stock in right of payment of dividends and other distributions. The Company must be current on dividends payable to holders of preferred stock before any dividends can be paid on the common stock. In the event of the Company's bankruptcy, dissolution or liquidation, the holders of preferred stock must be satisfied before any distributions can be made to common stockholders. Federal legislation and regulations impose restriction on the ownership of the Company's common stock. The ability of a third party to acquire the Company is limited under applicable U. S. banking laws and regulations. The BHCA requires any bank holding company (as defined therein) to obtain the approval of the Federal Reserve prior to acquiring, directly or indirectly, 5% or more of the Company's outstanding common stock. Any "company" (as defined in the BHCA) other than a bank holding company would be required to obtain Federal Reserve approval before acquiring "control" of the Company. "Control" generally means (i) the ownership or control of 25% or more of a class of voting securities, (ii) the ability to elect a majority of the directors or (iii) the ability otherwise to exercise a controlling influence over management and policies. A holder of 25% or more of outstanding voting common stock, other than an individual, is subject to regulation and supervision as a bank holding company under the BHCA. In addition, under the CIBC Act and the Federal Reserve's regulations thereunder, any person, either individually or acting through or in concert with one or more persons, is required to provide notice to the Federal Reserve prior to acquiring, directly or indirectly, 10% or more of the Company's outstanding voting common stock. Anti-takeover provisions of the Company's certificate of incorporation, bylaws and Delaware law may make it more difficult for holders to receive a change in control premium. Certain provisions of the Company's certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many stockholders as beneficial to their interests. These provisions include advance notice for nominations of directors and stockholders' proposals, and authority to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by the Company's board of directors. In addition, as a Delaware corporation, the Company is subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation's outstanding voting stock, from engaging in a business combination with the Company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.