



2022 ANNUAL REPORT



PRESIDENT'S LETTER

2022 was a year that pushed our boundaries and challenged our core values. It made us look closely at everything it takes to succeed. But our leadership is made up of experienced bankers who know that long-term success requires diligence, patience, and discipline.

We are talented. Our people are the best in the business. We are passionate about serving our clients and helping our communities – all led by a veteran management team with an average of 35+ years of banking experience.

We are well positioned. With branches strategically placed in Houston, Fort Worth, and Dallas, Veritex is where the businesses are and where the greatest potential for growth is. **We are strong!** Veritex Bank is a proven growth franchise. We are consistently ranked as one of the fastest-growing banks in Texas, and year after year we deliver exceptional shareholder returns.

Stress-factors like the war in Europe and the slow recovery of the supply chain, combined with high inflation, high interest rates, and liquidity drying up in the banking system can make it challenging to do business. But, thanks to the overall strength of the Texas economy combined with the caliber of businesses that Veritex serves, we are all overcoming these challenges, finding opportunities, and succeeding.

Veritex Bank ended 2022 with \$12.2 Billion in assets with a \$1.52 Billion market cap – a far cry from our 2011 assets of \$132 Million. This past year we expanded existing relationships and have continued to add new ones. We generated 34% growth in loans, 24% growth in deposits, and completed an oversubscribed common stock offering. We have remained laser focused on credit discipline, lending in portfolios that align with our core deposit priorities, and continually delivering exceptional customer service.

As in all businesses, keeping up to date with the changes in technology is critical. We are always looking to enhance our bank's technological capabilities – both behind the scenes, making our staff more efficient, as well as client

facing, making our customers' lives easier. But I am convinced, now more than ever, that the most important asset Veritex has are its people!

We added depth to our bank's leadership with the addition of key positions in both customer relationship roles as well as our back-office and operational departments. We also doubled the size of our Small Business (SBA) Lending department to accommodate the growing demand for SBA loans. We know that small businesses are the economic anchor of our communities, and we want Veritex Bank to be a leader in small business and community banking. Texas is home to 3 million small businesses, ranking second in the U.S. Of those, 1.25 million are women owned. Veritex Bank is active within the women-owned business community in all our markets. Our *Women in Business* program provides education, resources, and outreach, connecting female executives and business owners through Veritex Bank networking events.

I am so proud to be a part of this great company. Veritex Bank remains strong, focused, and passionate about serving our customers and communities. As always, I remain dedicated and committed to our shareholders, our employees, and our clients. I am honored and humbled to serve the entire Veritex Community Bank community.

Thank you for your continued support and loyalty.

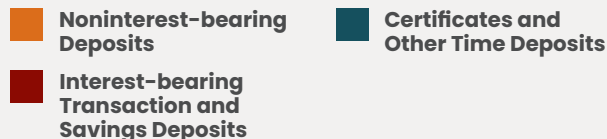
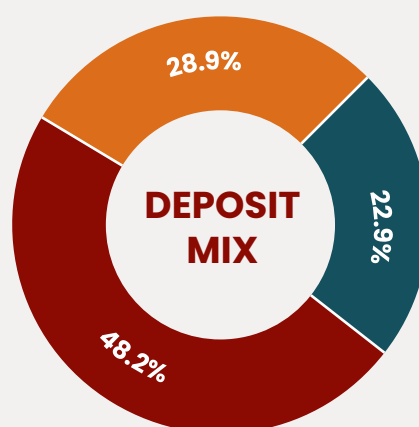
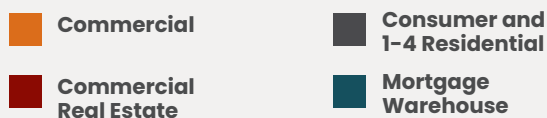
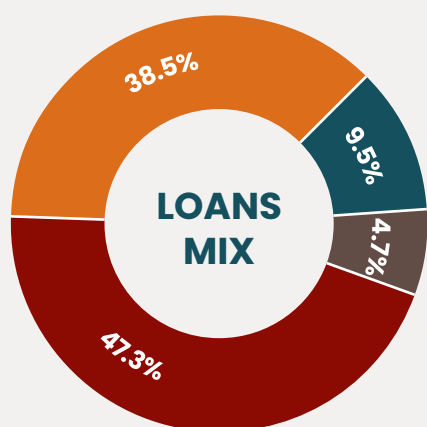
C. Malcolm Holland III, CEO & President

Veritex Holdings, Inc. and Veritex Community Bank

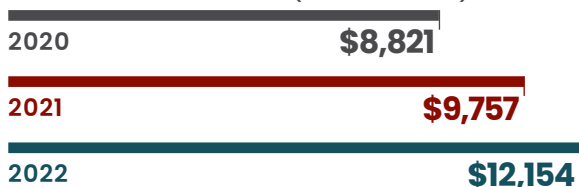
2022 FINANCIAL HIGHLIGHTS

Summary Financial Results (\$ in millions except for per share amounts)

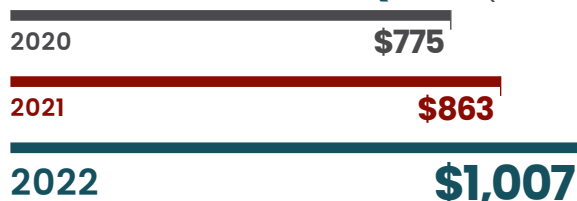
	2022	2021	2020
Net Interest Income	\$ 364.7	\$ 280.8	\$ 265.8
Provision for Credit Losses	27.8	4.8	65.6
Noninterest Income	52.8	58.4	47.3
Noninterest Expense	203.1	167.7	159.4
Income Tax Expense	40.3	36.7	14.2
Net Income	\$ 146.3	\$ 139.6	\$ 73.9



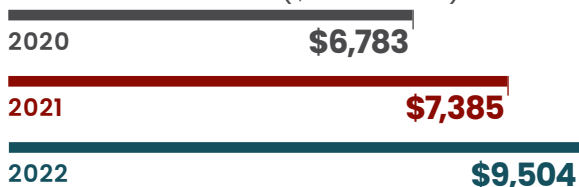
TOTAL ASSETS (\$ in millions)



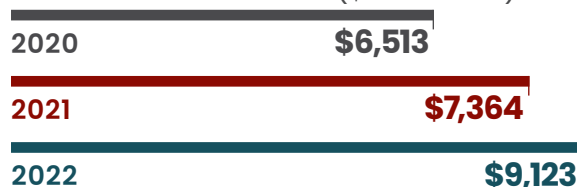
TOTAL TANGIBLE EQUITY (\$ in millions)



TOTAL LOANS (\$ in millions)



TOTAL DEPOSITS (\$ in millions)



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report to Section 13 OR 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2022
OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to
Commission File No. 001-36682

Veritex Holdings, Inc.

(Exact name of registrant as specified in its charter)

Texas	27-0973566
<small>(State or other jurisdiction of incorporation or organization)</small>	<small>(I.R.S. Employer Identification No.)</small>
8214 Westchester Drive, Suite 800	75225
Dallas, Texas	Zip Code
(Address of principal executive offices)	

(972) 349 6200

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01	VBTX	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the Nasdaq Global Market on June 30, 2022 was approximately \$1,536,132,000.

At February 27, 2023, we had outstanding 54,157,129 shares of common stock, par value \$0.01 per share.

Documents Incorporated By Reference:

Portions of the registrant's Definitive Proxy Statement relating to the 2023 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2022.

VERITEX HOLDINGS, INC.
Annual Report on Form 10-K
December 31, 2022

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PART I

ITEM 1. BUSINESS

Our Company

Except where the context otherwise requires or where otherwise indicated, references in this Annual Report on Form 10-K to “we,” “us,” “our,” “our company,” the “Company” or “Veritex” refer to Veritex Holdings, Inc. and its subsidiaries, including Veritex Community Bank. The word “Holdco” refers to Veritex Holdings, Inc. The words “the Bank” refers to Veritex Community Bank.

Veritex is a Texas state banking organization, with corporate offices in Dallas, Texas. The Bank provides a full range of banking services, including commercial and retail lending and checking and savings deposit products, to individual and corporate customers. The Texas Department of Banking (the “TDB”) and the Board of Governors of the Federal Reserve System (the “Federal Reserve”) are the primary regulators of the Company and the Bank, and both regulatory agencies perform periodic examinations to ensure regulatory compliance. Our current primary market includes the broader Dallas-Fort Worth metroplex and the Houston metropolitan area. As we continue to grow, we may expand to other metropolitan banking markets in Texas.

Our business is conducted through one reportable segment, community banking, which generates the majority of our revenues from interest income on loans, customer service and loan fees, gains on sale of government guaranteed loans and mortgage loans and interest income from securities. We incur interest expense on deposits and other borrowed funds and noninterest expense, such as salaries, employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and expense of our liabilities through net interest margin. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, and interest-bearing and noninterest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and, specifically, in the Dallas-Fort Worth metroplex and Houston metropolitan area, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target market and throughout the state of Texas.

Our primary customers are small and medium-sized businesses, generally with annual revenues of under \$30 million, and professionals. We believe that these businesses and professionals highly value the local decision-making and relationship-driven, quality service we provide and our deep, long-term understanding of Texas community banking. As a result of consolidation, we believe that few locally-based publicly traded banks are dedicated to providing this level of service to small and medium-sized businesses and professionals. Our management team’s long-standing presence and experience in Texas gives us unique insight into local market opportunities and the needs of our customers. This enables us to respond quickly to customers, provide high quality personal service and develop comprehensive, long-term banking relationships by providing products and services tailored to meet the individual needs of our customers. This focus and approach enhances our ability to continue to grow organically, successfully recruit and retain talented bankers and strategically source potential acquisitions in our target markets.

Our History and Growth

Since commencing banking operations in 2010, we have experienced significant growth through our strategy of pursuing organic growth and strategic acquisitions. Since inception, we have completed seven whole-bank acquisitions that increased our market presence within the Dallas-Fort Worth metroplex and the Houston metropolitan area. We completed an initial public offering of our common stock in October 2014 and are one of the ten largest banks headquartered in Texas.

Our management team is led by our Chairman of the Board of Directors, Chief Executive Officer and President, C. Malcolm Holland, III, who has overseen and managed our organic growth and acquisition activity since we commenced banking operations.

The following table summarizes the seven transactions that we have completed since our inception through December 31, 2022, where we acquired 100% of the interest of a bank:

Bank Acquired	Date Completed	Number of Branches	Locations
Green Bank ("Green") through Green Bancorp, Inc.	January 2019	21	Houston and Dallas
Liberty Bank through Liberty Bancshares, Inc.	December 2017	5	Fort Worth
Sovereign Bank through Sovereign Bancshares, Inc. ("Sovereign")	August 2017	9	Dallas, Fort Worth, Houston and Austin ¹
Independent Bank of Texas through IBT Bancorp, Inc.	July 2015	2	Dallas
Bank of Las Colinas	October 2011	1	Dallas
Fidelity Bank through Fidelity Resources Company	March 2011	3	Dallas
Professional Bank, N.A. through Professional Capital, Inc.	September 2010	3	Dallas

¹ Subsequent to the Company's acquisition of Sovereign, the Company sold Sovereign's Austin, Texas branch location.

During the year ended December 31, 2021, the Company purchased a 49% interest in Thrive Mortgage, LLC ("Thrive") which is accounted for as an equity method investment. See Note 1 of the Notes to the Consolidated Financials for further discussion of our interest in Thrive.

During the year ended December 31, 2021, the Company acquired North Avenue Capital, LLC ("NAC"), making the Bank a leading player in the USDA Business & Industry Loan Program and furthered the Company's strategy of diversifying revenue streams and providing meaningful gain on sale and loan servicing fees. The Company will leverage NAC's loan sourcing technology to further enhance the Company's products and services. See Note 25 of the Notes to the Consolidated Financials for further discussion of the acquisition of NAC.

Our Strategy

Our business strategy consists of the following components:

- **Continued Organic Growth.** Our organic growth strategy focuses on penetrating our markets through our community-focused, relationship-driven approach to banking. We believe that our current market area provides abundant opportunities to continue to grow our customer base, increase loans and deposits and expand our overall market share. Our team of seasoned bankers is an important driver of our organic growth by virtue of its role in further developing banking relationships with current and potential customers. Many of these customer relationships span more than 20 years. Our market presidents and relationship managers are incentivized to increase the size and value of their loan and deposit portfolios and generate fee income while maintaining strong credit quality. We expect to have continued success adding to our team of experienced bankers in order to grow our market presence and scale. Also, preserving sound credit underwriting standards as we grow our loan portfolio will continue to be the foundation of our organic growth strategy.
- **Pursue Strategic Acquisitions.** We intend to continue to grow through acquisitions. We believe there are banking organizations in our market area that face significant scale and operational challenges, regulatory pressure, management succession issues and shareholder liquidity needs, which we believe will present attractive acquisition opportunities for us in the future. We believe we have developed an experienced and disciplined acquisition and integration approach capable of identifying candidates, conducting thorough due diligence, determining financial attractiveness and integrating the acquired institution. Utilizing our management team's experience of acquiring

financial institutions, we believe that we have built a corporate infrastructure capable of supporting additional acquisitions and continued organic growth. We believe our acquisition experience and our reputation as a successful acquirer position us to capitalize on potential additional opportunities in the future.

- **Improve Operational Efficiency and Increase Profitability.** We are committed to maintaining and enhancing profitability. We employ a systematic and calculated approach to improving our operational efficiency, which in turn, we believe, increases our profitability. We believe that our scalable infrastructure and efficient operating platform will allow us to achieve continued growth without incurring significant incremental noninterest expenses and will enhance our returns.
- **Strengthen Our Community Ties.** Our officers and employees are heavily involved in civic and community organizations, and we sponsor numerous activities that benefit our community. Our business development strategy, which focuses on building market share through personal relationships, as opposed to formal advertising, is consistent with our customer-centric culture and is a cost-effective approach to developing new relationships and enhancing existing ones.

Our Banking Services

We focus on delivering a wide variety of relationship-driven commercial banking products and services tailored to meet the needs of small to medium-sized businesses and professionals. A general discussion of the range of commercial banking products and other services we offer follows.

Lending Activities. As of December 31, 2022, total loans held for investment ("LHI"), net, including mortgage warehouse ("MW") and Paycheck Protection Program ("PPP") loans, totaled \$9.39 billion, representing 77.3% of our total assets. Our loan portfolio primarily consists of commercial real estate ("CRE") and general commercial loans, MW loans, residential real estate loans, construction and land loans, farmland loans and consumer loans.

Our underwriting philosophy seeks to balance our desire to make sound, high quality loans while recognizing that lending money involves a degree of business risk. Managing credit risk is a company-wide process. Our strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria by loan type and ongoing risk monitoring and review processes for all types of credit exposures. Our processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our loan officers and lending support staff. Our Executive Loan Committee and Credit Portfolio Management Committee provide company-wide credit oversight and periodically review all credit risk portfolios via internal loan reviews throughout the year to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed at least annually to identify problem assets and confirm our internal risk rating of loans. We attempt to identify potential problem loans early in an effort to aggressively seek resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance for credit loss ("ACL") levels for probable credit losses inherent in the loan portfolio.

Deposits. Deposits are our principal source of funds for our interest-earning assets. We believe that a critical component of our success is the importance we place on our deposit services. Our services include typical deposit functions of commercial banks, safe deposit facilities and commercial and personal banking services, in addition to our loan offerings. We offer a variety of deposit products and services consistent with the goal of attracting a wide variety of customers, including high net worth individuals and small to medium-sized businesses. We offer demand, savings, money market and time deposit accounts. We actively pursue business checking accounts by offering competitive rates, telephone banking, online banking and other convenient services to our customers. We also pursue commercial deposit and financial institution money market accounts that will benefit from the utilization of our treasury management services.

Other Products and Services. We offer banking products and services that are attractively priced and we believe easily understood by customers, with a focus on convenience and accessibility. We offer an interest rate swap program as well as a full suite of online banking solutions, including access to account balances, online transfers, online bill payment and electronic delivery of customer statements, as well as ATMs, and mobile banking, mail and personal appointment. We also offer debit cards, night depository, direct deposit, cashier's checks and letters of credit.

We offer a full array of commercial treasury management services designed to be competitive with banks of all sizes. Treasury management services include balance reporting (including current day and previous day activity), transfers between accounts, wire transfer initiation, automated clearinghouse origination and stop payments. Cash management deposit products

and services consist of lockbox, remote deposit capture, positive pay, reverse positive pay, account reconciliation services, zero balance accounts and sweep accounts, including loan sweep.

We remain focused on our organic loan growth and deposit repricing strategy to expand net interest margin. In addition, we are currently focused on limiting our interest rate exposure and expanding noninterest income through increased income from our derivative program. Our interest rate swap program has been developed as an accommodation to our customers who desire a fixed rate on loans over a certain size threshold with a defined repayment schedule. In such cases, we enter into a derivative contract with our borrower using a standard International Swaps and Derivative Association agreement and confirmation, while simultaneously entering into a “mirror” derivative contract with a correspondent bank counterparty. The two derivatives are carried at market value with changes in value offsetting. We use interest rate swaps, floors, caps and collars to manage overall cash flow changes related to interest rate risk exposure on benchmark interest rate loans.

Investments

The primary objectives of our investment policy are to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet or exceed regulatory capital requirements. As of December 31, 2022, the book value of our available-for-sale (“AFS”) and held-to-maturity (“HTM”) debt securities portfolio totaled \$1.38 billion, with an average tax-equivalent yield of 3.28% and an estimated effective duration of approximately 3.94 years.

Our Market Area

We primarily operate in the Dallas-Fort Worth metroplex and the Houston metropolitan area. The economy in these areas is fueled by the real estate, technology, financial services, insurance, transportation, manufacturing, health care and energy sectors. These market areas are among the most vibrant in the United States with rapidly growing populations, a high level of job growth, an affordable cost of living and a pro-growth business climate.

Competition

The Texas market for banking services is highly competitive. Texas’ largest banking organizations are headquartered outside of Texas and are controlled by organizations outside the state. We compete with numerous commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and nationally, and more recently with financial technology companies that rely on technology to provide financial services. We believe that many small to medium-sized businesses and professionals are interested in banking with a company headquartered in, and with decision-making authority based in, Texas. We also believe these customers seek established Texas bankers who have the expertise to act as trusted advisors regarding their banking needs. We believe Veritex can offer customers more responsive and personalized service than many of our competitors cannot. We also believe that, if we service these customers properly, we will be able to establish long-term relationships and provide multiple products to our customers, thereby enhancing our profitability. See “Risk Factors — Risks Related to Veritex’s Business — We face strong competition from financial services companies and other companies that offer banking services, which could adversely affect our business, financial condition, and results of operations.” in Item 1A of this report.

Employees and Human Capital Resources

As of December 31, 2022, we had 763 full-time employees and 5 part-time employees. Our employees are not represented by a union. We strive to maintain a culture where employees are rewarded for hard work and share in the benefits of the success of our company.

We believe we are able to attract and retain top talent by creating a culture that challenges and engages our employees, offering them opportunities to learn, grow and achieve their career goals. Further, our commitment to a culture of inclusion is integral to our goal of attracting and retaining the best talent and ultimately driving our business performance. We also have an established corporate social responsibility strategy with a focus on five core areas: Be Better, Be Healthy, Be Mindful, Be Faithful and Be Prosperous. Our employees participate in a wide array of volunteer activities and we support their charitable giving by matching employee contributions to qualified nonprofit organizations.

We offer comprehensive compensation and benefits packages to our employees, including a 401(k) Plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off and family assistance programs, including paid family leave, flexible work arrangements and adoption assistance plans, amongst others. We also offer stock-based

compensation to certain management personnel as a way to attract and retain key talent. See Notes 20 and 21 in the consolidated financial statements included elsewhere in this report for further discussion of our benefit plans and stock-based compensation.

Our Corporate Information

Our principal executive offices are located at 8214 Westchester Drive, Suite 800, Dallas, Texas 75225, and our telephone number is (972) 349-6200. Our website is www.veritexbank.com. We make available at this address, free of charge, our annual report on Form 10-K, our annual reports to shareholders, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. These documents are also available on the website of the Securities and Exchange Commission (the "SEC") at www.sec.gov. The information contained on or accessible from our website does not constitute a part of this Annual Report on Form 10-K and is not incorporated by reference herein.

Regulation and Supervision

The U.S. banking industry is highly regulated under federal and state law. These laws and regulations affect the operations and performance of Veritex and our subsidiaries and are intended primarily for the protection of the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC"), the bank's depositors and the public, rather than our shareholders or creditors.

Statutes, regulations and policies limit the activities in which we may engage and how we conduct certain permitted activities. Further, the bank regulatory agencies impose reporting and information collection obligations on us. We incur significant costs relating to compliance with these laws and regulations. Banking statutes, regulations and policies are continually under review by federal and state legislatures and regulatory agencies, and a change in them, including changes in how they are interpreted or implemented, could have a material adverse effect on our business. We cannot predict whether or in what form any statute, regulation or policy will be proposed or adopted or the extent to which our business may be affected by any new statute, regulation or policy.

The material statutory and regulatory requirements that are applicable to us and our subsidiaries are summarized below. The description below is not intended to summarize all laws and regulations applicable to us and our subsidiaries, and is based upon the statutes, regulations, policies, interpretive letters and other written guidance that are in effect as of the date of this Annual Report on Form 10-K.

Bank and Bank Holding Company Regulation

The Bank is a Texas-chartered banking association, the deposits of which are insured by the DIF of the FDIC up to applicable legal limits. The Bank is a member of the Federal Reserve System; therefore, the Bank is subject to ongoing and comprehensive supervision, regulation, examination and enforcement by the TDB and the Federal Reserve.

A company that acquires ownership or control of 25% or more of any class of voting securities of a bank or bank holding company, that controls the election of a majority of the board of directors of such an institution, or that exercises a controlling influence over the affairs of such an institution, is a bank holding company and must obtain the prior approval of and later register with the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHC Act").

Bank holding companies are subject to regulation, examination, supervision and enforcement by the Federal Reserve under the BHC Act. The Federal Reserve's jurisdiction also extends to any company that is directly or indirectly controlled by a bank holding company. Similarly, bank holding companies of Texas state-chartered banks are subject to regulation, examination, supervision and enforcement by the TDB.

As a bank holding company, we are subject to ongoing and comprehensive supervision, regulation, examination and enforcement by the Federal Reserve. As a bank holding company of a Texas state-chartered bank, we are also subject to supervision, regulation, examination and enforcement by the TDB.

Broad Supervision, Examination and Enforcement Powers

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banking organizations. To that end, the banking regulators have broad regulatory, examination and enforcement

authority. The regulators regularly examine the operations of banking organizations. In addition, banking organizations are subject to periodic reporting requirements. Insured depository institutions with total assets of \$500 million or more, such as the Bank, must submit annual audit reports prepared by independent auditors to federal and state regulators. In some instances, the audit report of the insured depository institution's bank holding company can be used to satisfy this requirement. Under regulatory guidance, auditors are expected to receive examination reports, supervisory agreements and reports of enforcement actions.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

- require affirmative actions to correct any violation or practice;
- issue administrative orders that can be judicially enforced;
- direct increases in capital;
- direct the sale of subsidiaries or other assets;
- limit dividends and distributions;
- restrict growth;
- assess civil monetary penalties;
- remove officers and directors; and
- terminate deposit insurance

Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject the Company and their officers, directors and institution-affiliated parties to the remedies described above and other sanctions. See "Item 1A. Risk Factors—Risks Related to Veritex's Industry and Regulation."

The Dodd-Frank Act and the Economic Growth, Regulatory Reform, and Consumer Protection Act ("EGRRCPA")

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act imposed significant regulatory and compliance requirements, including the designation of certain financial companies as systemically important financial companies, enhanced oversight of credit rating agencies, the imposition of increased capital, leverage and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector.

Various provisions of the Dodd-Frank Act may affect our business and include, but may not be limited to the following:

- *Source of strength.* Under Federal Reserve policy, bank holding companies have historically been required to act as a source of financial and managerial strength to each of their banking subsidiaries, and the Dodd-Frank Act codified this policy as a statutory requirement. As a result of this requirement, in the future we could be required to provide financial assistance to the Bank should it experience financial distress and in circumstances in which we might not otherwise be inclined or in a financial position to do so.
- *Mortgage loan origination.* The Dodd-Frank Act created the Consumer Financial Protection Bureau (the "CFPB") and authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay a residential mortgage loan. Under the Dodd-Frank Act, financial institutions may not make a residential mortgage loan unless it makes a "reasonable and good faith determination" that the consumer has a "reasonable ability" to repay the loan. The Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure but provides a full or partial safe harbor from such defenses for loans that are "qualified mortgages." The CFPB has promulgated and amended final rules to, among other things, specify the types of income and assets that may be considered in the ability to repay determination, the permissible sources for verification and the required methods of calculating the loan's monthly payments. The rules extend the requirement that creditors verify and document a borrower's income and assets to include all information that creditors rely on in determining repayment ability. The rules also provide further examples of third party documents that may be relied on for such verification, such as government records and check cashing or funds transfer service

receipts. As revised in December 2020, the rules set conditions for “qualified mortgages,” including price-based limits and limits on other terms of the loans. Points and fees are subject to a relatively stringent cap, and are defined to include a wide array of payments that may be made in the course of closing a loan. Certain loans, including interest only loans and negative amortization loans, cannot be qualified mortgages.

- *Risk retention.* The Federal Reserve, together with the FDIC, the SEC, the Federal Housing Finance Agency and the Department of Housing and Urban Development, issued a final rule in 2014 to implement the risk retention requirement mandated by Section 941 of the Dodd-Frank Act. The risk retention requirement generally requires a securitizer to retain no less than 5% of the credit risk in assets it sells into a securitization and prohibits a securitizer from directly or indirectly hedging or otherwise transferring the credit risk that the securitizer is required to retain, subject to limited exemptions. One significant exemption is for securities entirely collateralized by “qualified residential mortgages” (“QRMs”), which are loans deemed to have a lower risk of default. The rule defines QRMs to have the same meaning as the term “qualified mortgage,” as defined by the CFPB. In addition, the rule provides for reduced risk retention requirements for qualifying securitizations of commercial loans, CRE loans and auto loans.
- *Imposition of restrictions on swaps activities.* The Dodd-Frank Act imposes a new regulatory structure on the over-the-counter derivatives market, including requirements for clearing, exchange trading, capital, margin, reporting and record keeping. This framework covers any person required to register as a “major swap participant,” “swap dealer,” “major security-based swap participant” or a “security-based swap dealer.” We are treated as an end user and are not subject directly to many of these requirements, but the requirements may affect the nature of the business we conduct with persons required to register.
- *Consumer Financial Protection Bureau.* The Dodd-Frank Act created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers. For banking organizations with assets of \$10 billion or more, the CFPB has exclusive rule-making, examination, and primary enforcement authority under federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt certain types of consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. Compliance with any such new regulations increases our cost of operations. The rulemaking, examination and enforcement priorities of the CFPB may change under the Biden administration, but we are unable to predict what effect, if any, these changes may have on the Bank.
- *Deposit insurance.* The Dodd-Frank Act made permanent the general \$250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act (the “FDIA”) also revised the assessment base against which an insured depository institution’s deposit insurance premiums paid to the FDIC’s Deposit Insurance Fund will be calculated. Under the amendments, the assessment base is no longer the institution’s deposit base, but rather its average consolidated total assets less its average tangible equity. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the Deposit Insurance Fund, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. For a discussion of the assessments the Bank pays to the FDIC, see “Deposit Insurance and Deposit Insurance Assessments” below.
- *Transactions with affiliates and insiders.* The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and clarification regarding the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations were expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. For a discussion of the restrictions on transactions with affiliates and insiders applicable to the Bank, see “Limits on Transactions with Affiliates and Insiders” below

- *Corporate governance.* The Dodd-Frank Act addressed many investor protections, corporate governance and executive compensation matters that affect most U.S. publicly traded companies, including Veritex. The Dodd-Frank Act: (i) granted shareholders of U.S. publicly traded companies an advisory vote on executive compensation, (ii) enhanced independence requirements for compensation committee members, (iii) required companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers and (iv) provided the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials. For so long as we were an emerging growth company, we took advantage of the provisions of the JOBS Act that allowed us to not seek a non-binding advisory vote on executive compensation or golden parachute arrangements.

In May 2018, EGRRCPA was signed into law. While EGRRCPA preserved the fundamental elements of the post Dodd-Frank regulatory framework, it included modifications that were intended to result in meaningful regulatory relief both from certain Dodd-Frank provisions and from certain regulatory capital rules for smaller and certain regional banking organizations. Among other things, EGRRCPA revised the capital treatment of certain CRE loans, and amended certain Truth in Lending Act requirements for residential mortgage loans.

The Volcker Rule

Section 619 of the Dodd-Frank Act, popularly known as the "Volcker Rule," generally prohibits "banking entities" from engaging in "proprietary trading" and making investments and conducting certain other activities with private equity funds and hedge funds. These prohibitions apply to banking entities of any size, including us and the Bank. In 2013, the Federal Reserve, together with the FDIC, the Office of the Comptroller of the Currency (the "OCC"), the SEC and the Commodity Futures Trading Commission, issued regulations to implement the Volcker Rule. We are subject to the Volcker Rule but the Volcker Rule does not significantly affect the operations of us and our subsidiaries because we do not have any significant engagement in the businesses covered by the Volcker Rule.

Notice and Approval Requirements Related to Control

Federal and state banking laws impose notice, application, approval or non-objection and ongoing regulatory requirements on any shareholder or other person that controls or seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. In addition to requirements that may apply under the BHC Act, described above under "Bank and Bank Holding Company Regulation," the Change in Bank Control Act and the Texas Banking Act require regulatory filings by a shareholder or other person that seeks to acquire direct or indirect "control" of an FDIC-insured, Texas-chartered depository institution. The determination of whether a person "controls" a depository institution or its holding company is based on all of the facts and circumstances surrounding the investment. As a general matter, a person is deemed to control a depository institution or other company if the person owns or controls 25% or more of any class of voting stock. Subject to rebuttal, a person is presumed to control a depository institution or other company if the person owns or controls 10% or more of any class of voting stock and other regulatory criteria are met. The holdings of certain affiliated persons, or persons acting in concert, are typically aggregated for the purpose of applying the 10% and 25% thresholds.

In addition, except under limited circumstances, bank holding companies are prohibited from acquiring, without prior approval of the Federal Reserve, control of any other bank or bank holding company or all or substantially all the assets thereof, or more than 5% of the voting shares of a bank or bank holding company that is not already a subsidiary.

Permissible Activities and Investments

Banking laws generally restrict our ability to engage in, or acquire 5% or more of the voting shares of a company engaged in, activities other than those determined by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act") expanded the scope of permissible activities to include those that are financial in nature or incidental or complementary to a financial activity for a bank holding company that elects to be a financial holding company, which requires the satisfaction of certain conditions. We have not elected financial holding company status.

In addition, as a general matter, we must receive prior regulatory approval before establishing or acquiring a depository institution or, in certain cases, a non-bank entity.

The Texas Constitution, as amended in 1986, provides that a Texas-chartered bank has the same rights and privileges that are or may be granted to national banks domiciled in Texas. To the extent that the Texas laws and regulations may have

allowed state-chartered banks to engage in a broader range of activities than national banks, the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) has operated to limit such activities. FDICIA provides that no state bank or subsidiary thereof may engage as a principal in any activity in which national banks are not permitted to engage, unless the institution complies with applicable capital requirements and the FDIC determines that the activity poses no significant risk to the DIF of the FDIC. In general, statutory restrictions on the activities of banks are aimed at protecting the safety and soundness of depository institutions.

Branches

Texas law provides that a Texas-chartered bank can establish a branch anywhere in Texas provided that the branch is approved in advance by the TDB. The branch must also be approved by the Federal Reserve. The regulators consider a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community, record of the Community Reinvestment Act (the "CRA") performance and consistency with corporate powers. The Dodd-Frank Act permits insured state banks that satisfy certain conditions to engage in de novo interstate branching if the laws of the state where the new branch is to be established would permit the establishment of the branch if it were chartered by such state.

Regulatory Capital Requirements and Capital Adequacy

The bank regulators view capital levels as important indicators of an institution’s financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. The final supervisory determination on an institution’s capital adequacy is based on the regulator’s assessment of numerous factors. As a bank holding company and a state-chartered member bank, we and the Bank are subject to several regulatory capital requirements.

The federal banking agencies' current generally applicable capital requirements for bank holding companies and banks took effect on January 1, 2015, with phase-in periods for certain requirements; as of January 1, 2019, all of the requirements were fully phased in. The requirements are based on a set of international standards popularly known as Basel III.

Under the generally applicable capital requirements, we and the Bank are required to maintain common equity Tier 1 capital of at least 4.5% of RWA, Tier 1 capital of at least 6% of RWA, total capital (a combination of Tier 1 and Tier 2 capital) of at least 8% of RWA, and a leverage ratio of Tier 1 capital to average total consolidated assets of at least 4%. In addition, generally applicable capital requirements subject banking organizations to limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a “capital conservation buffer” of common equity Tier 1 capital in an amount greater than 2.5% of its total RWA in excess of the minimum risk-based capital ratio requirements. The effect of the fully phased-in capital conservation buffer is to increase the minimum common equity Tier 1 capital ratio to 7.0%, the minimum tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5%, for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers. The capital regulations also determine the thresholds necessary for a bank to be deemed well or adequately capitalized; these adjustments are discussed below under “Prompt Corrective Action.”

For purposes of the generally applicable capital requirements, the components of common equity Tier 1 capital include common stock instruments (including related surplus), retained earnings, and certain minority interests in the equity accounts of fully consolidated subsidiaries (subject to certain limitations). A bank must make certain deductions from and adjustments to the sum of these components to determine common equity Tier 1 capital. Additional Tier 1 capital includes noncumulative perpetual preferred stock and related surplus, and certain minority interests in the equity accounts of fully consolidated subsidiaries not included in common equity Tier 1 capital, subject to certain limitations. As a bank holding company with less than \$15 billion in total assets, we may include certain existing trust preferred securities and cumulative perpetual preferred stock in regulatory capital while other instruments are disallowed. Tier 2 capital includes subordinated debt with a minimum original maturity of five years, related surplus, certain minority interests in the equity accounts of fully consolidated subsidiaries not included in Tier 1 capital (subject to certain limitations), and limited amounts of a bank’s ACL. Certain deductions and adjustments are necessary for both additional Tier 1 capital and Tier 2 capital.

In the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provides banking organizations that adopt CECL during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2020, the Company elected to utilize the five-year CECL transition. As a result, the effects of CECL on the Company's and the Bank's regulatory capital will

be delayed through the year 2021, after which the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024.

At December 31, 2022, we and the Bank are in compliance with the generally applicable minimum common equity Tier 1 capital, Tier 1 capital, total capital, and leverage capital requirements, and exceeded the capital conservation buffer. See Note 24 of the Notes to the Consolidated Financials for further discussion.

For us to be “well capitalized,” the Bank must be well capitalized and Veritex must not be subject to any written agreement, order, capital directive or prompt corrective action directive issued by the Federal Reserve to meet and maintain a specific capital level for any capital measure. As of December 31, 2022, we met all the requirements to be deemed well-capitalized.

The capital requirements described above are minimum ratios generally applicable to banking organizations. The Federal Reserve (and the other federal bank regulatory agencies) may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Prompt Corrective Action

In addition to the capital rules described above, the Bank is subject to the PCA regime. The PCA regime subjects an insured depository institution to increasingly stringent restrictions and supervisory actions by its primary federal regulator, if the institution becomes undercapitalized and its financial condition continues to deteriorate. Each U.S. insured depository institution falls within one of five assigned capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” An insured depository institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a common equity Tier 1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater and a leverage ratio of 5.0% or greater and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific level for any capital measure. A well-capitalized institution is not subject to any restrictions on its activities and enjoys certain regulatory advantages such as streamlined processing of many applications. A depository institution is deemed to be “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a common equity Tier 1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 4.0% or greater and does not meet the criteria for a “well capitalized” bank. Adequately-capitalized status is necessary in order to undertake a variety of regulated activities. An institution that is adequately capitalized but not well capitalized may be restricted in its ability to rely on brokered deposits, which is discussed further below under “Brokered Deposits.”

A depository institution is “under capitalized” if it has a total risk-based capital ratio of less than 8.0%, a common equity Tier 1 capital ratio of less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%. A depository institution is “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a common equity Tier 1 capital ratio of less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%. An institution is critically undercapitalized if its ratio of tangible equity to total assets is equal to or less than 2.0%. Significantly undercapitalized institutions are subject to a wider array of adverse agency actions than undercapitalized institutions. A critically undercapitalized institution is likely to be placed in receivership if it does not find a merger partner. Under certain circumstances, an institution may be treated as if the institution were in the next lower capital category.

A banking institution that is undercapitalized is required to submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution provides a performance guarantee of the subsidiary’s compliance with the capital restoration plan up to the lesser of 5% of the bank’s total assets or the amount necessary to bring the bank into compliance with capital requirements as of the time it fell out of compliance.

Failure to meet capital guidelines could subject an institution to a variety of enforcement remedies by federal bank regulatory agencies, including termination of deposit insurance upon notice and hearing, restrictions on certain business activities, and appointment of the FDIC as conservator or receiver. As of December 31, 2022, the Bank met all requirements to be “well capitalized” under the PCA regulations.

Regulatory Limits on Dividends and Distributions

As a bank holding company, we are subject to certain restrictions on paying dividends under applicable federal and Texas laws, regulations and guidance. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless (i) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends, (ii) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (iii) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing.

Substantially all of our income, and a principal source of our liquidity, are dividends from the Bank. Bank dividend activity is governed by federal and state laws, regulations and policies.

Applicable requirements serve to limit the amount of dividends that may be paid by the Bank. The Bank may not declare or pay a dividend if (i) the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Federal Reserve, (ii) the dividend would exceed the Bank's undivided profits, unless the Bank has received the prior approval of the Board and of at least two-thirds of the shareholders of each class of stock outstanding, or (iii) the dividend would cause any portion of the Bank's permanent capital to be withdrawn unless the withdrawal has been approved by the Federal Reserve and by at least two-thirds of the shareholders of each class of stock outstanding. Under the FDIA, an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized." The Federal Reserve may further restrict the payment of dividends by requiring the Bank to maintain a higher level of capital than would otherwise be required to be adequately capitalized for regulatory purposes. In addition, the Bank may not reduce or increase its outstanding capital and surplus through dividend, redemption, share issuance, or otherwise, without the prior approval of the TDB, except as permitted by the Texas Finance Code. Payment of dividends by the Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. If we fail to satisfy the capital conservation buffer, then it may also have the effect of limiting the payment of capital distributions from the Bank.

On January 24, 2023, Veritex Holdings, Inc. announced that its Board of Directors declared a quarterly cash dividend of \$0.20 per share on our outstanding common stock. The dividend was paid on February 24, 2023 to shareholders of record as of February 10, 2023. This dividend reflects the strength of our performance over the last fiscal year as well as organic capital generation.

Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banking organizations are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank. In response to the COVID-19 pandemic, the Federal Reserve reduced reserve requirement ratios to 0% effective March 26, 2020. Increases to the reserve requirement would decrease the amount of the Bank's assets that it may make available for lending and investment activities.

Limits on Transactions with Affiliates and Insiders

Sections 23A and 23B of the Federal Reserve Act, as implemented by the Federal Reserve's Regulation W, subjects insured depository institutions to restrictions on their ability to conduct transactions with affiliates, including their parent bank holding companies and other related parties. Section 23A of the Federal Reserve Act imposes quantitative limits, qualitative requirements, and collateral standards on certain transactions by an insured depository institution with, or for the benefit of, its affiliates, including by requiring that covered transactions between the insured depository institution and any one affiliate are limited to 10% of the insured depository institution's capital and surplus, and that the aggregate of all covered transactions with all affiliates are limited to 20% of the insured depository institution's capital and surplus. Transactions covered by Section 23A include loans, extensions of credit, investment in securities issued by an affiliate, and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act requires that most types of transactions by an insured depository institution with, or for the benefit of, an affiliate be on terms substantially the same or at least as favorable to the insured depository institution as if the transaction were conducted with an unaffiliated third party.

As noted above, the Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including by expanding the definition of “covered transactions” and clarifying the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The ability of the Federal Reserve to grant exemptions from these restrictions is also narrowed by the Dodd-Frank Act, including by requiring coordination with other bank regulators.

The Federal Reserve’s Regulation O imposes restrictions and procedural requirements in connection with the extension of credit by an insured depository institution to directors, executive officers, principal shareholders and their related interests. Section 18(z) of the FDIA limits purchases and sales of assets between an insured depository institution and its executive officers, directors, and principal shareholders.

Brokered Deposits

The FDIA restricts the use of brokered deposits by certain depository institutions. A well capitalized insured depository institution may solicit and accept, renew or roll over any brokered deposit without restriction. An adequately capitalized insured depository institution may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC. The FDIC may grant a waiver upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. The rates that an adequately capitalized institution with a waiver may pay on brokered deposits may not exceed certain ceilings. An “undercapitalized insured depository institution” may not accept, renew or roll over any brokered deposit. As of December 31, 2022, the Bank is considered a well capitalized insured depository institution and had total brokered deposits of \$1.31 billion.

Concentrated CRE Lending Guidance

The federal banking agencies, including the Federal Reserve, have promulgated guidance governing financial institutions with concentrations in CRE lending. The guidance provides that a bank has a concentration in CRE lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total reported loans secured by multifamily and non-farm, non-residential properties and loans for construction, land development and other land represent 300% or more of total risk-based capital and the bank’s CRE loan portfolio has increased 50% or more during the prior 36 months. Owner-occupied CRE loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of CRE lending. At December 31, 2022, our total reported loans for construction, land development and other land represented over 100% of our total capital, indicating a concentration in CRE lending. At December 31, 2022, our management believes that it has adequately addressed the requirements and guidance of federal banking agencies, including the Federal Reserve, for institutions with concentrations in CRE lending.

Examination and Examination Fees

The Federal Reserve and TDB periodically examine our business, including our compliance with laws and regulations. These agencies may conduct joint examinations, and the TDB may accept the results of the Federal Reserve’s examination in lieu of conducting an independent examination. If, as a result of an examination, the Federal Reserve or the TDB were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions may include requiring us to remediate any such adverse examination findings.

In addition, these agencies have the authority to take enforcement action against us to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation of law or regulation or unsafe or unsound practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to direct the sale of subsidiaries or other assets, to limit dividends and distributions, to restrict our growth, to assess civil money penalties against us or our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is imminent risk of loss to depositors, to terminate our deposit insurance and place our Bank into receivership or conservatorship. Any regulatory enforcement action against us could have an adverse effect on our business, financial condition and results of operations.

The TDB charges fees to recover the costs of examining Texas chartered banks, as well as filing fees for certain applications and other filings. The Dodd-Frank Act provides various agencies with the authority to assess additional supervision fees.

Deposit Insurance and Deposit Insurance Assessments

The Bank's deposits are insured by the Deposit Insurance Fund (the "DIF") to the maximum extent permitted by the FDIC. This amount is \$250,000 per depositor per account. The Dodd-Frank Act increased the minimum reserve ratio requirement for the DIF to 1.35% of total estimated insured deposits or the comparable percentage of the deposit assessment base. As of June 30, 2020, the DIF reserve ratio fell to 1.30 percent, below the statutory minimum of 1.35 percent. The decline in the ratio was due to extraordinary insured deposit growth, which was resulted mainly from the COVID-19 pandemic, specifically monetary policy action, direct government assistance to the consumers and businesses, and an overall reduction in spending. The FDIC adopted a restoration plan, which incorporates an increase of 2 basis points to the assessment rate, to restore the DIF reserve ratio assessment rates to the statutory minimum.

Insured depository institutions fund the DIF through quarterly assessments, which are calculated by multiplying the Bank's assessment base by the applicable assessment rate. A bank's deposit insurance assessment base is generally equal to its total assets minus its average tangible equity during the assessment period. For a depository institution that has total consolidated assets of at least \$10 billion, such as the Bank, the FDIC determines the assessment rate based on a scorecard that combines the following measures to produce an assessment rate: CAMELS component ratings, financial measures used to measure a bank's ability to withstand asset-related and funding-related stress, and a measure of loss severity that estimates the relative magnitude of potential losses to the FDIC in the event of the bank's failure. The CAMELS rating system is a supervisory rating system developed to classify a bank's overall condition by taking into account capital adequacy, assets, management capability, earnings, liquidity and sensitivity to market and interest rate risk.

Future changes in insurance premiums could have an adverse effect on operating expenses and results of operations and we cannot predict what insurance assessment rates will be in the future.

As insurer of the Bank's deposits, the FDIC is authorized to conduct examinations of, and to require reporting by, the Bank, and has back-up enforcement authority of the Bank as well. The agency also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the DIF. The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. Management is not aware of any existing circumstances that would result in termination of our deposit insurance.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If we invest in or acquire an insured depository institution that fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including Veritex, with respect to any extensions of credit they have made to such insured depository institution.

Anti-Money Laundering and OFAC

The Bank Secrecy Act (“BSA”), the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act of 2001, and regulations and policies implementing these statutes require the Bank to maintain a risk-based Anti-Money Laundering (“AML”) program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activities. The Federal Reserve expects that we will have an effective governance structure for the program which includes effective oversight by our Board of Directors and management. The program must include, at a minimum, a designated compliance officer, written policies, procedures and internal controls, training of appropriate personnel, and independent testing of the program and risk-based customer due diligence procedures. The U.S. Department of Treasury’s Financial Crimes Enforcement Network (“FinCEN”) and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective AML programs.

In January 2021, the Anti-Money Laundering Act of 2020 (“AMLA”) was enacted. The AMLA includes extensive and fundamental reforms to BSA and other AML laws. Among other things, the AMLA is intended to 1) improve coordination and information sharing among the agencies administering AML, 2) modernize AML laws, 3) encourage technological innovation and the adoption of new technology by financial institutions, 4) reinforce that the AML shall be risk-based, 5) establish uniform beneficial ownership information reporting requirements, and 6) establish a secure, nonpublic database at FinCEN for beneficial ownership information.

Bank regulators routinely examine institutions for compliance with these obligations, and they must consider an institution’s compliance with such obligations in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. Compliance with these requirements has been a special focus of the Federal Reserve and the other Federal banking agencies in recent years. Any non-compliance is likely to result in an enforcement action, often with substantial monetary penalties and reputational damage.

The U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. OFAC administers and enforces applicable economic and trade sanctions programs. These sanctions are usually targeted against foreign countries, terrorists, international narcotics traffickers and those believed to be involved in the proliferation of weapons of mass destruction. These regulations generally require either the blocking of accounts or other property of specified entities or individuals, but they may also require the rejection of certain transactions involving specified entities or individuals.

Failure of a financial institution to maintain and implement adequate BSA/AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal, reputational and financial consequences for the institution. The Company maintains policies, procedures and other internal controls designed to comply with AML requirements and sanctions programs.

Consumer Laws and Regulations

Banking organizations are subject to numerous federal laws intended to protect consumers. These laws include, among others:

- Truth in Lending Act;
- Truth in Savings Act;
- Electronic Funds Transfer Act;
- Expedited Funds Availability Act;
- Equal Credit Opportunity Act;
- Fair and Accurate Credit Transactions Act;
- Fair Housing Act;
- Fair Credit Reporting Act;

- Fair Debt Collection Act;
- The GLB Act;
- Home Mortgage Disclosure Act;
- Right to Financial Privacy Act;
- Real Estate Settlement Procedures Act;
- Section 5 of the Federal Trade Commission Act and section 1031 of the Dodd-Frank Act protecting against unfair, deceptive or abusive acts and practices; and state usury laws.

Many states and local jurisdictions have consumer protection laws analogous to, and in addition to, those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans, or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability. Also, the CFPB is empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. The Bank and its affiliates and subsidiaries are subject to CFPB supervisory and enforcement authority.

Incentive Compensation

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

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

In 2016, the U.S. financial regulators, including the Federal Reserve and the SEC, proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least \$1 billion in total assets (including Veritex and the Bank), but these proposed rules have not been finalized.

In October 2022, the SEC adopted a final rule directing national securities exchanges and associations, including the the Nasdaq Global Market, to implement listing standards that require listed companies to adopt policies mandating the recovery or “clawback” of excess incentive-based compensation earned by a current or former executive officer during the three fiscal years preceding the date the listed company is required to prepare an accounting restatement, including to correct an error that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. The final rule requires us to adopt a clawback policy within 60 days after such listing standard becomes effective. The Company currently has a Compensation Adjustment and Recovery Policy (the "Policy") that addresses such clawbacks and will amend the Policy, as needed, to adhere to the final SEC and Nasdaq rule.

Privacy and Cybersecurity

Federal statutes and regulations require insured depository institutions to take certain actions to protect nonpublic consumer financial information. Consumer data privacy and data protection are also the subject of state laws. The Bank has prepared a privacy policy, which it must disclose to consumers annually. In some cases, the Bank must obtain a consumer's consent before sharing information with an unaffiliated third party, and the Bank must allow a consumer to opt out of the

Bank's sharing of information with its affiliates for marketing and certain other purposes. Additional conditions affect the Bank's information exchanges with credit reporting agencies. The Bank's privacy practices and the effectiveness of its systems to protect consumer privacy are among the subjects covered in periodic compliance examinations conducted by the TDB and the Federal Reserve.

The Federal banking agencies pay close attention to the cybersecurity practices of banks and their holding companies and affiliates. The interagency council of the agencies, the Federal Financial Institutions Examination Council, has issued a number of policy statements and other guidance for banks in light of the growing threat posed by cybersecurity threats. Examinations by the banking agencies include review of an institution's information technology and its ability to identify, assess, and mitigate cybersecurity risks—including those posed by their third-party service providers. Banking organizations such as the Company are subject to the GLB Act, pursuant to which agency guidance requires them to notify their primary federal regulator as soon as possible upon becoming aware of an incident involving unauthorized access to, or use of, sensitive customer information. Additionally, banking organizations are required to report cyberattacks affecting their operations to their primary federal regulator. Under a final rule adopted by the federal banking agencies on November 1, 2022, banking organizations are required to notify its primary federal regulator of certain significant computer security incidents no later than 36 hours after the banking organization determines that the incident has occurred. These computer security incidents include incidents that have affected, in certain circumstances, the viability of a banking organization's operations or its ability to deliver banking products and services. The rule also requires certain third party service providers to notify each affected banking organization customer as soon as possible when the bank service provider determines that it has experienced a significant cybersecurity incident that has caused, or is likely to cause, a material disruption for four or more hours.

In February 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations. In addition, in March 2022, the SEC proposed rules that would require disclosure of material cybersecurity incidents, as well as cybersecurity risk management, strategy and governance.

The CRA

The CRA and related regulations are intended to encourage insured depository institutions to help meet the credit needs of its communities, including low- to moderate-income communities. The CRA does not impose specific lending requirements, and it does not contemplate that an insured depository institution would take any action inconsistent with safety and soundness.

The federal banking agencies evaluate the performance of each of their regulated institutions periodically to determine whether an institution's performance is "Outstanding," "Satisfactory," "Needs to Improve" or "Substantial Noncompliance." Each rating is made public, together with the public section of the underlying report. Ratings of "Outstanding" or "Satisfactory" may be a condition to qualify for certain regulatory benefits.

The CRA requires the federal bank regulators to take into account an insured depository institution's record in meeting the convenience and needs of the communities that the institution serves when considering an application by the institution to establish or relocate a branch or to enter into certain mergers or acquisitions. Similarly, the Federal Reserve is required to consider the CRA performance records of a bank holding company's subsidiary bank (or banks) when considering an application by the bank holding company to acquire a banking organization or to merge with another bank holding company, or to engage in other expansionary transactions. When we or the Bank apply for regulatory approval to engage in certain transactions, the regulators will consider the CRA performance of the Bank and of the target institutions. An evaluation of "Needs to Improve" or "Substantial Noncompliance" may block or impede regulatory approvals of our applications. The Bank received an overall CRA rating of "Satisfactory" on its most recent CRA examination as of April 2022.

In May 2022, the Federal Reserve, the FDIC and the OCC issued a joint proposal that would, among other things, (i) expand access to credit, investment and basic banking services in low- and moderate-income communities, (ii) adapt to changes in the banking industry, including internet and mobile banking, (iii) provide greater clarity, consistency and transparency in the application of the regulations and (iv) tailor performance standards to account for differences in bank size, business model, and local conditions. We will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

Changes in Laws, Regulations or Policies

Federal, state and local legislators and regulators regularly introduce measures or take actions that would modify the regulatory requirements applicable to banks, their holding companies and other financial institutions. Changes in laws, regulations or regulatory policies could adversely affect the operating environment for us in substantial and unpredictable ways, increase our cost of doing business, impose new restrictions on the way in which we conduct our operations or add significant operational constraints that might impair our profitability. Whether new legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on our business, financial condition or results of operations cannot be predicted. The full effect that any such changes will have on us remains uncertain at this time and may have a material adverse effect on our business and results of operations.

Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on borrowings and changes in reserve requirements with respect to deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits. Federal Reserve monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. We cannot predict the nature of future monetary policies and the effect of such policies on its business and earnings.

Risk Factor Summary

The risks and uncertainties facing our company include, but are not limited to, the following:

Risks Related to Veritex's Business

- Our business concentration in Texas, and specifically the Dallas-Fort Worth metroplex and the Houston metropolitan area, imposes risks and may magnify the consequences of any regional or local economic downturn affecting the Dallas-Fort Worth metroplex and the Houston metropolitan area, including any downturn in the real estate sector
- The COVID-19 pandemic continues to affect the Company and its customers, employees and third-party service providers.
- Uncertain market conditions, economic trends, interest rate shifts, and changes in accounting standards and interpretations could adversely affect our business, financial condition and results of operations.
- Labor shortages and constraints in the supply chain could adversely affect our clients' operations as well as our operations.
- Interest rate shifts could reduce net interest income and otherwise negatively impact our financial condition and results of operations.
- A large portion of our loan portfolio consists of commercial loans, the deterioration in value of the collateral of which could increase the potential for future losses.
- 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.
- We may be adversely impacted by the transition from LIBOR as a reference rate.
- Significant increases of nonperforming assets from the current level, or greater than anticipated costs to resolve these credits, will have an adverse effect on Veritex's earnings.
- The small to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.
- Our allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio, which could adversely affect our business, financial condition and results of operations.
- Our financial condition and results of operations may be adversely affected by changes in accounting policies, standards and interpretations.
- We may be unable to implement aspects of our growth strategy, which may affect our ability to maintain historical earnings trends.
- Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.
- As a banking organization with over \$10 billion in total consolidated assets, we are subject to increased regulation.
- Our ability to retain executive officers, bankers and other key employees and recruit additional successful team members is critical to the success of our business strategy.
- Loss of any of our executive officers or other key employees could impair relationships with our customers and adversely affect our business.
- The relatively unseasoned nature of a significant portion of our loan portfolio may expose us to increased credit risks.
- Our CRE and construction and land loan portfolios expose us to credit risks that could be greater than the risks related to other types of loans.
- Because a significant portion of our loan portfolio consists of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.
- We may be subject to environmental liabilities in connection with the foreclosure on real estate assets securing our loan portfolio.
- We are exposed to increased credit losses and credit related expenses in the event of a major natural disaster, public health crisis, other catastrophic event or significant climate change effects.
- We have a concentration of loans outstanding to a limited number of borrowers, which may increase our risk of loss.
- A lack of liquidity could impair our ability to fund operations, adversely affect our operations and jeopardize our business, financial condition and results of operations.
- We have a limited operating history and, accordingly, investors will have little basis on which to evaluate its ability to achieve our business objectives.
- We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as the ability to maintain regulatory compliance, could be adversely affected.
- We face strong competition from financial services companies and other companies that offer banking services.
- We could recognize losses on debt securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

- Negative public opinion regarding Veritex or our failure to maintain our reputation in the community could adversely affect our business and prevent us from continuing to grow our business.
- We may not be able to report our financial results accurately and timely as a publicly listed company if we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting.
- We are subject to certain operational risks, including, but not limited to, customer or employee fraud, data processing system failures and errors, and threats to data security, such as unauthorized access and cyber-crime.
- We have a continuing need for technological change and may not have the resources to effectively implement new technology, or may experience operational challenges when implementing new technology.
- Our operations could be interrupted if third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.
- Unauthorized access, cyber-crime and other threats to data security may require significant resources, harm our reputation, and otherwise cause harm to our business.
- Consumers may decide not to use banks to complete their financial transactions.
- If our goodwill becomes impaired, it could require charges to earnings, which would adversely affect our business, financial condition and results of operations.

Risks Related to Veritex's Industry and Regulation

- The ongoing changes in regulation could adversely affect our business, financial condition, and results of operations.
- We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or failure to comply with them, could adversely affect our business, financial condition and results of operations.
- State and federal banking agencies periodically conduct examinations of our business, including our compliance with laws and regulations, and failure to comply with any supervisory actions to which we are or may become subject as a result of such examinations could adversely affect our business, financial condition and results of operations.
- Many of our new activities and expansion plans require regulatory approvals, and failure to obtain them may restrict future growth.
- Financial institutions, such as the Bank, face a risk of noncompliance with and enforcement action under the Bank Secrecy Act and other anti-money laundering statutes and regulations.
- We are subject to fair lending laws, and failure to comply with these laws could lead to material penalties.
- The FDIC's restoration plan and the related increased assessment rate could adversely affect our earnings.
- We are subject to increased capital requirements, which may adversely impact return on equity or prevent us from paying dividends or repurchasing shares.
- The Federal Reserve imposes monetary policies and regulations on our business and may require us to commit capital resources to support the Bank.
- The Federal Reserve may require us to commit capital resources to support the Bank.
- We could be adversely affected by the soundness of other financial institutions.
- Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

Risks Related to Our Common Stock

- The market price of our common stock may fluctuate significantly.
- If securities or industry analysts change their recommendations regarding our common stock or if our operating results do not meet their expectations, our stock price could decline.
- Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of the common stock.
- The holders of our debt obligations will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up of Veritex and with respect to the payment of interest and preferred dividends.
- We depend on the Bank for cash flow, and the Bank's ability to make cash distributions is restricted.
- Our dividend policy may change without notice, our future ability to pay dividends is subject to restrictions, and we may not pay dividends in the future.
- The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and distract management.
- Shareholders may be deemed to be acting in concert or otherwise in control of us, which could impose notice, approval and ongoing regulatory requirements upon them and result in adverse regulatory consequences for such holders.
- An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC, so you could lose some or all of your investment.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you decide to invest in our common stock, you should carefully consider the risks described below, together with all other information included in this Annual Report on Form 10-K, including the disclosures in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included in “Item 8. Financial Statements and Supplementary Data.” We believe the risks described below are the risks that are material to us as of the date of this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition, results of operations and growth prospects could be adversely affected. In that case, you could experience a partial or complete loss of your investment.

Risks Related to Veritex’s Business

Our business concentration in Texas, and specifically the Dallas-Fort Worth metroplex and the Houston metropolitan area, imposes risks and may magnify the consequences of any regional or local economic downturn affecting the Dallas-Fort Worth metroplex and the Houston metropolitan area, including any downturn in the real estate sector.

We primarily conduct operations in the Dallas-Fort Worth metroplex and the Houston metropolitan area. As of December 31, 2022, the substantial majority of the loans in our loan portfolio were made to borrowers who live and/or conduct business in the Dallas-Fort Worth metroplex and the Houston metropolitan area, and the substantial majority of secured loans were secured by collateral located in the Dallas-Fort Worth metroplex and the Houston metropolitan area. Accordingly, we are significantly exposed to risks associated with a lack of geographic diversification. The economic conditions in the Dallas-Fort Worth metroplex and the Houston metropolitan area are highly dependent on the real estate sector as well as the technology, financial services, insurance, transportation, manufacturing and energy sectors. Any downturn or adverse development in these sectors, particularly the real estate sector, or a decline in the value of single-family homes in the Dallas-Fort Worth metroplex and the Houston metropolitan area, could have an adverse impact on our business, financial condition and results of operations. Any adverse economic developments, among other things, could negatively affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of loans in our portfolio. Volatility in oil prices may have an impact on the economic conditions in the markets in which we operate. Any regional or local economic downturn that affects (1) existing or prospective borrowers, (2) the Dallas-Fort Worth metroplex or Houston metropolitan area or (3) property values in its market areas, may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically focused.

The COVID-19 pandemic continues to affect the Company and its customers, employees and third-party service providers.

The COVID-19 pandemic created a global public health crisis that resulted in continued unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that we serve. These uncertainties may adversely affect the Company’s business, financial condition, liquidity, loans, asset quality, capital, and results of operations. The extent to which the COVID-19 pandemic will continue to negatively affect the Company will depend on future developments that are highly uncertain and cannot be predicted and many of which are outside of the Company’s control. These future developments may include the scope and duration of the COVID-19 pandemic, the emergence of new variants of COVID-19, the possibility of future resurgences of the COVID-19 pandemic, the continued effectiveness of the Company’s business continuity plan including work-from-home arrangements and staffing at branches and certain other facilities, the direct and indirect impact of the COVID-19 pandemic on the Company’s employees, clients, counterparties and service providers, as well as on other market participants, actions taken, or that may yet be taken, by governmental authorities and other third parties in response to the COVID-19 pandemic, and the effectiveness and public acceptance of vaccines for COVID-19.

The widespread availability of multiple COVID-19 vaccines and corresponding rates of vaccination generally have been effective in curtailing rates of infection in many parts of the United States and, in turn, mitigating many of the adverse social and economic effects of the pandemic; however, a significant portion of the population remains unvaccinated and the efficacy of the vaccines in preventing infection and serious illness is believed to wane over time and may be diminished in the face of new coronavirus variants. Accordingly, the pandemic, and related efforts to contain it, continue to disrupt global economic activity and functioning of the financial markets, impact interest rates and monetary policy decisions, increase economic and market uncertainty, and disrupt trade and supply chains. As economic conditions relating to the pandemic have improved over time, the Federal Reserve has shifted its focus to limiting the inflationary and other potentially adverse effects of the extensive pandemic-related government stimulus, which signals the potential for a continued period of economic uncertainty even if the pandemic subsides.

The effects of the COVID-19 pandemic continue to vary significantly by region, and the full extent of the effects of the pandemic on the U.S. and global economies, labor markets and financial markets are still being determined. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our remote working arrangements, third party providers' ability to support our operations, and any further action taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels. We have taken deliberate actions in response to these uncertainties, including increased levels of on balance sheet liquidity and increased capital ratio levels. We continue to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act and the subsequent legislation enacted in connection with the COVID-19 pandemic, as discussed above; however, the extent to which the COVID-19 pandemic will impact our operations and financial results is highly uncertain.

Uncertain market conditions and economic trends could adversely affect our business, financial condition and results of operations.

We operate in an uncertain economic environment, including generally uncertain conditions nationally and locally in our industry and market. Financial institutions continue to be affected by volatility in the real estate market in some parts of the country and uncertain regulatory and interest rate conditions. We retain direct exposure to the residential and CRE market in Texas, particularly in the Dallas-Fort Worth metroplex and Houston metropolitan area, and are affected by these events.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our loan portfolio is made more complex by uncertain market and economic conditions. Unfavorable economic trends, sustained high unemployment, and declines in real estate values can cause a reduction in the availability of commercial credit and can negatively impact the credit performance of commercial and consumer loans, resulting in increased write-downs. These negative trends can cause economic pressure on consumers and businesses and diminish confidence in the financial markets, which may adversely affect our business, financial condition, results of operations and ability to access capital. A worsening of these conditions, such as a recession or economic slowdown, would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. A national economic recession or deterioration of conditions in our market could drive losses beyond that which is provided for in our allowance for credit losses and result in one or more of the following consequences:

- increases in loan delinquencies;
- increases in nonperforming assets and foreclosures;
- decreases in demand for our products and services, which could adversely affect our liquidity position; and
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power and repayment ability

Declines in real estate values, volume of home sales and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse effect on our borrowers and/or their customers, which could adversely affect our business, financial condition and results of operations.

Unfavorable or uncertain economic and market conditions can be caused by a decline in economic growth both in the U.S. and internationally; declines in business activity or investor or business confidence; limitations on the availability of or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; oil price volatility; natural disasters; trade policies and tariffs; or a combination of these or other factors. In addition, financial markets and global supply chains may be adversely affected by the current or anticipated impact of military conflict, including the current Russian invasion of Ukraine, terrorism or other geopolitical events. Current economic conditions are being heavily impacted by elevated levels of inflation and rising interest rates. A prolonged period of inflation may impact our profitability by negatively impacting our fixed costs and expenses. Economic and inflationary pressure on consumers and uncertainty regarding economic improvement could result in changes in consumer and business spending, borrowing and savings habits. Such conditions could have a material adverse effect on the credit quality of our loans and our business, financial condition and results of operations. Furthermore, evolving responses from federal and state governments and other regulators, and our customers or our third-party partners or vendors, to new challenges such as climate change have impacted and could continue to impact the economic and political conditions under which we operate which could have a material adverse effect on our business, financial condition and results of operations.

We are monitoring the conflict between Russia and Ukraine. While we do not expect that such conflict will itself be material to Veritex, geopolitical instability and adversely arising from such conflict (including additional conflicts that could arise from such conflict), the imposition of sanctions, taxes and/or tariffs against Russia and Russia's response to such sanctions (including retaliatory acts, such as cyber attacks and sanctions against other countries) could adversely affect the global economy or specific international, regional and domestic markets, which could have a material adverse effect on our business, results of operations or financial condition.

Labor shortages and constraints in the supply chain could adversely affect our clients' operations as well as our operations.

Many sectors in the United States and around the world are experiencing a shortage of workers. The shortage of workers is exacerbating supply chain disruptions around the world, causing certain industries to struggle to regain momentum due to a lack of workers or materials. Our commercial clients may be impacted by the shortage of workers and constraints in the supply chain, which could adversely impact our clients' operations. Clients may experience disruptions in their operations, which could lead to reduced cash flow and difficulty in making loan repayments. The financial services industry has also been affected by the shortage of workers, and we have experienced the war for talent that is currently underway in the financial services industry. This may lead to open positions remaining unfilled for longer periods of time or a need to increase wages to attract workers. We have had to recently increase wages in certain positions to attract talent, particularly in entry-level type positions and certain specialty areas.

Interest rate shifts could reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of net interest income, or the difference between the interest income earned on loans, investments and other interest-earning assets, and the interest paid on interest-bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease net interest income because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. Our interest sensitivity profile was asset sensitive as of December 31, 2022, meaning that we estimate net interest income would increase more from rising interest rates than from falling interest rates.

An increase in interest rates may also, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume, loan portfolio and overall results. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

Additionally, interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In addition, in a low interest rate environment, loan customers often pursue long-term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have an adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to incur a cost to fund the loan, which is reflected as interest expense on deposits and borrowings, without any interest income to offset the associated funding expense. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans and debt securities. Thus, an increase in the amount of nonperforming assets would have an adverse impact on our net interest income.

A large portion of our loan portfolio consists of commercial loans secured by receivables, promissory notes, inventory, equipment or other commercial collateral, the deterioration in value of which could increase the potential for future losses.

As of December 31, 2022, \$2.94 billion, or 31.0%, of our total LHI, excluding PPP loans, consisted of commercial loans to businesses. In general, these loans are collateralized by general business assets including, among other things, accounts receivable, promissory notes, inventory and equipment, and most are backed by a personal guaranty of the borrower or principal. These commercial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate, thereby exposing us to increased credit risk. A significant portion of our commercial loans are secured by promissory notes that evidence loans made by Veritex to borrowers that in turn make loans to others that are secured by real estate. Accordingly, negative changes in the economy affecting real estate values and liquidity could impair the value of the collateral securing these loans. Significant adverse changes in the economy or local market conditions in which our commercial lending customers operate could cause rapid declines in loan collectability and the values associated with general business assets resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations.

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.

We may be adversely impacted by the transition from LIBOR as a reference rate.

The United Kingdom's Financial Conduct Authority and the administrator of LIBOR have announced that the publication of the most commonly used U.S. dollar London Interbank Offered Rate ("LIBOR") settings will cease to be published or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be published as of December 31, 2021. Given consumer protection, litigation and reputation risks, the bank regulatory agencies have indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and that they will examine bank practices accordingly. Therefore, the agencies encouraged banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and, in any event, by December 31, 2021. We discontinued originating LIBOR-based loans effective December 31, 2021 and will negotiate loans using our preferred replacement index, the Secured Overnight Financing Rate ("SOFR").

On March 15, 2022, President Biden signed into law the "Adjustable Interest Rate (LIBOR) Act," as part of the Consolidated Appropriations Act, 2022, which provides for a statutory transition to a replacement rate selected by the Federal Reserve based on the SOFR for contracts referencing LIBOR that contain no fallback provisions or ineffective fallback provisions, unless a replacement rate is selected by a determining person as outlined in the statute. On December 16, 2022, the Federal Reserve adopted a final rule implementing the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR that will replace LIBOR in certain financial contracts after June 30, 2023. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved or that the use, level, and volatility of LIBOR or other interest rates or the value of LIBOR-based securities will not be adversely affected. As a result, and despite the enactment of the Adjustable Interest Rate (LIBOR) Act, for the most commonly used LIBOR settings, the use or selection of a successor rate could expose us to risks associated with disputes and litigation with our customers and counterparties and other market participants in connection with implementing LIBOR fallback provisions.

As of December 31, 2022, approximately \$2.71 billion of our outstanding loans, and, in addition, certain derivative contracts, borrowings and other financial instruments have attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR has resulted in and could continue to result in added costs and employee efforts and could present additional risk. We are subject to litigation and reputational risks if we are unable to renegotiate and amend existing contracts with counterparties that are dependent on LIBOR, including contracts that do not have fallback language. The timing and manner in which each customer's contract transitions to SOFR will vary on a case-by-case basis. There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition, including with respect to the acceptance and use of SOFR and other benchmark rates. Since SOFR rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR, which may lead to increased volatility as compared to LIBOR. The transition has impacted our market risk profiles and required changes to our risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

Significant increases of nonperforming assets from the current level, or greater than anticipated costs to resolve these credits, will have an adverse effect on Veritex's earnings.

Our nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other real estate owned, adversely affect our net income in various ways. We do not record interest income on nonaccrual loans and assets acquired through foreclosure. We must establish an allowance for credit losses which reserves for losses inherent in our loan portfolio that are both probable and reasonably estimable. From time to time, we also write down the value of properties in our portfolio of assets acquired through foreclosure to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to assets acquired through foreclosure. The resolution of nonperforming assets requires the active involvement of management, which can distract management from daily operations and other income producing activities. Finally, if our estimate of the allowance for credit losses is inadequate, we will have to increase the allowance for credit losses accordingly, which will have an adverse effect on our earnings. Significant increases in the level of our nonperforming assets from the current level, or greater than anticipated costs to resolve these credits, will have an adverse effect on our earnings.

The small to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We focus our business development and marketing strategy primarily on small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which characteristics may impair a borrower's ability to repay a loan. In addition, the success of a small or medium-sized business often depends on the management skills, talents and efforts of a small group of people, and the death, disability or resignation of one or more of these people could have an adverse impact on the business and its ability to repay its loans. If general economic conditions negatively impact the Dallas-Fort Worth metroplex, Houston metropolitan area or Texas generally, and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations could be adversely affected.

Our allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio, which could adversely affect our business, financial condition and results of operations.

We establish an allowance for credit losses and maintain it at a level considered adequate by management to absorb expected credit losses based on our analysis of the loan portfolio and market environment. The allowance for credit losses represents our estimate of expected losses in the portfolio at each balance sheet date and is based upon relevant information available to us. Our allowance for credit losses consists of a general component based upon probable but unidentified losses inherent in the portfolio and a specific component based on individual loans that do not share similar risk characteristics of segmented loan portfolios. The general component is based on a discounted cash flow model driven off forecasted economic indicators, historical loss experience for peer banks and other qualitative factors. The specific component of the allowance for credit losses is calculated based on a review of individual loans that do not share similar risk characteristics of segmented loan portfolios. The specific loan analysis of expected losses may be based on the present value of expected future cash flows discounted at the effective loan rate, an observable market price or the fair value of the underlying collateral on collateral dependent loans. In determining the collectability of certain loans, management also considers the fair value of any underlying

collateral. The amount ultimately realized may differ from the carrying value of these assets because of economic, operating or other conditions beyond our control, and any such differences may be material.

As of December 31, 2022, our allowance for credit losses was \$91.1 million of our total LHI, excluding MW and PPP loans. Loans acquired are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans. Additional credit losses may occur in the future and may occur at a rate greater than we previously experienced. We may be required to take additional provisions for credit losses in the future to further supplement the allowance for credit losses, either due to management's decision to do so or requirements by our banking regulators. In addition, bank regulatory agencies will periodically review the allowance for credit losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require us to recognize future charge-offs. These adjustments could adversely affect our business, financial condition and results of operations.

Our financial condition and results of operations may be adversely affected by changes in accounting policies, standards and interpretations.

The Financial Accounting Standards Board ("FASB") and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of our financial statements. Additionally, those bodies that establish and interpret the accounting standards (such as the FASB, SEC and banking regulators) may change prior interpretations or positions on how these standards should be applied. Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls.

We may be unable to implement aspects of our growth strategy, which may affect our ability to maintain historical earnings trends.

Our business has grown rapidly, with a strategy focused on organic growth, supplemented by acquisitions. Financial institutions that grow rapidly can experience significant difficulties as a result of rapid growth. We may be unable to execute on aspects of our growth strategy to sustain our historical rate of growth or may be unable to grow at all. More specifically, we may be unable to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable acquisition candidates. Various factors, such as economic conditions and competition, may impede or prohibit the growth of our operations, the opening of new branches and the consummation of acquisitions. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our growth. The success of our strategy also depends on our ability to effectively manage growth, which is dependent upon a number of factors, including the ability to adapt existing credit, operational, technology and governance infrastructure to accommodate expanded operations. If we fail to build infrastructure sufficient to support rapid growth or fails to implement one or more aspects of our strategy, we may be unable to maintain historical earnings trends, which could have an adverse effect on our business, financial condition and results of operations.

Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could have an adverse effect on our business, financial condition, results of operations and growth prospects.

We intend to continue pursuing strategic acquisitions. An acquisition strategy involves significant risks, including the following:

- finding suitable candidates for acquisition;
- attracting funding to support additional growth within acceptable risk tolerances;
- maintaining asset quality;
- retaining customers and key personnel, including bankers;
- obtaining necessary regulatory approvals, which we may have difficulty obtaining or be unable to obtain;
- conducting adequate due diligence and managing known and unknown risks and uncertainties;
- integrating acquired businesses; and
- maintaining adequate regulatory capital.

The market for acquisition targets is highly competitive, which may adversely affect our ability to find acquisition candidates that fit our strategy and standards. We face significant competition in pursuing acquisition targets from other banks and financial institutions, many of which possess greater financial, human, technical and other resources. Our ability to compete in acquiring target institutions will depend on the financial resources available to fund acquisitions, including the amount of cash and cash equivalents and the liquidity and market price of our common stock. In addition, increased competition may also drive up the acquisition consideration that we will be required to pay in order to successfully capitalize on attractive acquisition

opportunities. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized.

Acquisitions of financial institutions also involve operational risks and uncertainties, such as unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers and other issues that could negatively affect our business. We may not be able to complete future acquisitions or, if completed, may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities acquired or realize a reduction of redundancies. The integration process may also require significant time and attention from our management that would otherwise be directed toward servicing existing business and developing new business. Failure to successfully integrate the entities we acquire into our existing operations in a timely or effective manner may increase our operating costs significantly and adversely affect our business, financial condition and results of operations. Further, acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisition. In addition, the carrying amount of any goodwill that is currently maintained or that may be acquired may be subject to impairment in future periods.

As a banking organization with over \$10 billion in total consolidated assets, we are subject to increased regulation.

Federal law imposes heightened requirements on bank holding companies and depository institutions that exceed \$10 billion in total consolidated assets. An insured depository institution with \$10 billion or more in total assets is subject to supervision, examination, and enforcement with respect to consumer protection laws by the CFPB. Additionally, other regulatory requirements apply to insured depository institution holding companies and insured depository institutions with \$10 billion or more in total consolidated assets, including the Volcker Rule, management interlocks requirements and inability to comply with capital requirements through the CBLR framework. Further, deposit insurance assessment rates are calculated differently, and may be higher, for insured depository institutions with \$10 billion or more in total consolidated assets.

Debit card interchange fee restrictions set forth in section 1075 of the Dodd-Frank Act, known as the Durbin Amendment, as implemented by regulations of the Federal Reserve, cap the maximum debit interchange fee that an issuer may receive per transaction at the sum of 21 cents plus five basis points. An issuer that adopts certain fraud prevention procedures may charge an additional one cent per transaction. Debit card issuers with less than \$10 billion in total consolidated assets are exempt from these interchange fee restrictions. The exemption for small issuers ceases to apply as of July 1 of the year following the calendar year in which the issuer has total consolidated assets of \$10 billion or more at year-end.

Our ability to retain bankers and recruit additional successful bankers is critical to the success of our business strategy, and any failure to do so could adversely affect our business, financial condition, results of operations and growth prospects.

Our ability to retain and grow loans, deposits and fee income depends upon the business generation capabilities, reputation and relationship management skills of our bankers. If we were to lose the services of any of our bankers, including successful bankers employed by banks that we may acquire, to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead.

Our growth strategy also relies on our ability to attract and retain additional profitable bankers. We may face difficulties in recruiting and retaining bankers of the desired caliber, including as a result of competition from other financial institutions. In particular, some of our competitors are significantly larger with greater financial resources, and may be able to offer more attractive compensation packages and broader career opportunities. Additionally, we may incur significant expenses and expend significant time and resources on training, integration and business development before we are able to determine whether a new banker will be profitable or effective. If we are unable to attract and retain successful bankers, or if our bankers fail to meet expectations in terms of customer relationships and profitability, we may be unable to execute our business strategy and our business, financial condition, results of operations and growth prospects may be adversely affected.

Loss of any of our executive officers or other key employees could impair relationships with our customers and adversely affect our business.

Our success depends on the continued service and skills of our executive management team. Our goals, strategies and marketing efforts are closely tied to the banking philosophy and strengths of our executive management team. Our success is also dependent in part on the continued service of our market presidents and relationship managers. The loss of any of these key personnel could adversely affect our business because of their skills, years of industry experience and relationships with customers, and because it may be difficult to promptly find qualified replacement personnel. We cannot guarantee that these executive officers or key employees will continue to be employed with us in the future.

The relatively unseasoned nature of a significant portion of our loan portfolio may expose us to increased credit risks.

The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. Our LHI, excluding PPP loans, portfolio has grown to \$9.50 billion as of December 31, 2022. This growth is related to both organic growth and loans acquired in connection with business acquisitions. The organic portion of this increase is due to increased loan production in the Texas markets in which we operate. It is difficult to assess the future performance of acquired or recently originated loans because our relatively limited experience with such loans does not provide us with a significant payment history from which to judge future collectability. These loans may experience higher delinquency or charge-off levels than our historical loan portfolio experience, which could adversely affect our business, financial condition and results of operations.

Our CRE and construction and land loan portfolios expose us to credit risks that could be greater than the risks related to other types of loans.

As of December 31, 2022, \$3.06 billion, or 32.2% of total LHI, excluding MW and PPP loans, consisted of CRE loans and \$1.79 billion, or 18.8% of total LHI, excluding MW and PPP loans, consisted of construction and land loans. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate due to the fluctuation of real estate values. Additionally, non-owner occupied CRE loans generally involve relatively large balances to single borrowers or related groups of borrowers. Unexpected deterioration in the credit quality of our non-owner occupied CRE loan portfolio could require us to increase the allowance for credit losses, which would reduce profitability and could have an adverse effect on our business, financial condition and results of operations.

Construction and land loans also involve risks attributable to the fact that loan funds are secured by a project under construction, and the project is of uncertain value prior to its completion. It can be difficult to accurately evaluate the total funds required to complete a project, and construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, we may be unable to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time, any of which could adversely affect our business, financial condition and results of operations.

Because a significant portion of our loan portfolio consists of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2022, \$6.55 billion, or 69.0% of total LHI excluding PPP loans, consisted of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in the Texas markets in which we operate could increase the credit risk associated with our real estate loan portfolio. Real estate values in many Texas markets have experienced periods of fluctuation over the last five years, and the market value of real estate can fluctuate significantly in a short period of time. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, and could result in losses that adversely affect credit quality, financial condition and results of operations. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may need to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have an

adverse impact on our business, results of operations and growth prospects. If real estate values decline, it is also more likely that we would be required to increase the allowance for credit losses, which could adversely affect our business, financial condition and results of operations.

We may be subject to environmental liabilities in connection with the foreclosure on real estate assets securing our loan portfolio.

Hazardous or toxic substances or other environmental hazards may be located on the properties that secure our loans. If we acquire such properties as a result of foreclosure or otherwise, we could become subject to various environmental liabilities. For example, we could be held liable for the cost of cleaning up or otherwise addressing contamination at or from these properties. We could also be held liable to a governmental entity or third party for property damage, personal injury or other claims relating to any environmental contamination at or from these properties. In addition, we may own and operate certain properties that may be subject to similar environmental liability risks during any given fiscal year. Although we have policies and procedures that are designed to mitigate certain environmental risks, we may not detect all environmental hazards associated with these properties. If we were to become subject to significant environmental liabilities, our business, financial condition and results of operations could be adversely affected.

We are exposed to increased credit losses and credit related expenses in the event of a major natural disaster, public health crisis, other catastrophic event or significant climate change effects.

The occurrence of a major natural or environmental disaster, public health crisis or similar catastrophic event, as well as significant climate change effects such as rising sea levels or wildfires, especially in densely populated geographic areas, could increase our credit losses and credit related expenses. A natural disaster, public health crisis or catastrophic event or other significant climate change effect that either damages or destroys residential or multifamily real estate underlying mortgage loans or real estate collateral, or negatively affects the ability of borrowers to continue to make payments on loans, could increase our serious delinquency rates and average credit loss severity in the affected areas. Such events could also cause downturns in economic and market conditions generally, which could have an adverse effect on our business and financial results. We may not have adequate insurance coverage for some of these natural, catastrophic, public health or climate change-related events.

We have a concentration of loans outstanding to a limited number of borrowers, which may increase our risk of loss.

We have extended significant amounts of credit to a limited number of borrowers, and as of December 31, 2022, the aggregate amount of loans to our 10 and 25 largest borrowers (including related entities) amounted to \$401.9 million, or 4.2% of total LHI, excluding PPP loans, and \$889.1 million, or 9.4% of total LHI, excluding PPP loans, respectively. As of such date, none of these loans were nonperforming loans. Concentration of a significant amount of credit extended to a limited number of borrowers increases the risk in our loan portfolio. If one or more of these borrowers is unable to make payments of interest and principal in respect of such loans, the potential loss to us is more likely to have an adverse effect on our business, financial condition and results of operations.

A lack of liquidity could impair our ability to fund operations, adversely affect our operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of loans and debt securities, respectively, to ensure that we have adequate liquidity to fund operations. An inability to raise funds through deposits, borrowings, the sale of our debt securities, or the sale of loans and other sources could have a substantial negative effect on our liquidity.

Our most important source of funds is core deposits. Core deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other products, such as money market funds, we would lose a relatively low-cost source of funds, increasing funding costs and reducing net interest income and net income.

Other primary sources of funds consist of cash flows from operations, maturities and sales of securities, and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from our brokered deposit network, the FHLB and the Federal Reserve Bank of Dallas ("FRB"). We also may borrow funds from third-party lenders, such as other financial institutions. Access to funding sources in amounts adequate to finance or capitalize our activities, or on acceptable terms, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of

business activity as a result of a downturn in the Dallas-Fort Worth metroplex or the Houston metropolitan area or by one or more adverse regulatory actions against Veritex.

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

We have a limited operating history and, accordingly, investors will have little basis on which to evaluate its ability to achieve our business objectives.

We were formed as a bank holding company in 2009 and commenced banking operations in 2010. Accordingly, we have a limited operating history upon which to evaluate our business and future prospects. As a result, it is difficult to predict future operating results and to assess the likelihood of the success of our business. As a relatively young financial institution, Veritex Bank is also subject to risks and levels of risk that are often greater than those encountered by financial institutions with longer established operations and relationships. New financial institutions often require significant capital from sources other than operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as the ability to maintain regulatory compliance, could be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. We may need to raise additional capital in the future to provide sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, we, on a consolidated basis, and Veritex Bank, on a standalone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or reduce our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we may be unable to raise additional capital if needed or on acceptable terms. If we fail to maintain capital to meet regulatory requirements, our liquidity, business, financial condition and results of operations could be adversely affected.

We could recognize losses on debt securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

While we attempt to invest a significant percentage of our assets in loans (our loan to deposit ratio, excluding MW and PPP loans, was 99.2% as of December 31, 2022), we also invest a percentage of our total assets in debt securities (10.6% as of December 31, 2022) with the primary objectives of providing a source of liquidity, providing an appropriate return on funds invested, managing interest rate risk, meeting pledging requirements and meeting regulatory capital requirements. As of December 31, 2022, the fair value of our AFS debt securities portfolio was \$1.10 billion, which included a net unrealized loss of \$99.4 million. Factors beyond our control can significantly influence the fair value of debt securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate debt securities are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.

We face strong competition from financial services companies and other companies that offer banking services, which could adversely affect our business, financial condition and results of operations.

We conduct our operations exclusively in Texas and particularly in the Dallas-Fort Worth metroplex and Houston metropolitan area. Many of our competitors offer the same, or a wider variety of, banking services within the same market area. These competitors include banks with nationwide operations, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings banks, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and certain other non-

financial entities, such as retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing or deposit terms than we can. In addition, a number of out-of-state financial intermediaries have opened production offices, or otherwise solicit deposits, in our market area. Increased competition in our market may result in reduced loans and deposits, as well as reduced net interest margin, fee income and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking customers, we may be unable to continue to grow loan and deposit portfolios, and our business, financial condition and results of operations could be adversely affected.

Our ability to compete successfully depends on a number of factors, including, among other things:

- our ability to develop, build and maintain long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service;
- the ability to expand our market position; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could adversely affect our business, financial condition and results of operations.

Also, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. In particular, the activity of certain "fintech" and "wealthtech" companies have grown significantly over recent years and are expected to continue to grow. Some "fintech" and "wealthtech" companies are not subject to the same regulation as we are, which may allow them to be more competitive. Certain "fintech" and "wealthtech" companies have and may continue to offer bank or bank-like products and a number of such organizations have applied for bank or industrial loan charters while others have partnered with existing banks to allow them to offer deposit products to their customers. Increased competition from "fintech" and "wealthtech" companies and the growth of digital banking may also lead to pricing pressures as competitors offer more low-fee and no-fee products.

Negative public opinion regarding Veritex or our failure to maintain our reputation in the community could adversely affect our business and prevent us from continuing to grow our business.

As a community bank, our reputation within the community we serve is critical to our success. We strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities Veritex serves and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, we may be less successful in attracting new customers, and our business, financial condition, results of operations and prospects could be materially and adversely affected. Further, negative public opinion could expose us to litigation and regulatory action as we seek to implement our growth strategy.

We may not be able to report our financial results accurately and timely as a publicly listed company if we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting.

As a publicly traded company, we are required to file periodic reports containing our consolidated financial statements with the SEC within a specified time following the completion of quarterly and annual periods. Maintaining effective disclosure controls and procedures is necessary to identify information we must disclose in our periodic reports and maintaining effective internal control over financial reporting is necessary to produce reliable financial statements and to prevent fraud. If we fail to maintain effective disclosure controls and procedures or effective internal control over financial reporting, we may experience difficulty in satisfying our SEC reporting obligations. Any failure by us to file our periodic reports with the SEC in a timely manner could harm our reputation and cause investors and potential investors to lose confidence in us and reduce the market price of our common stock, and could result in a suspension or delisting of our common stock.

We must also comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), which requires that we perform an annual evaluation of the effectiveness of our internal control over financial reporting. During the course of our evaluation and testing, we may identify deficiencies, including material weaknesses, which would have to be remediated to satisfy SEC rules for attesting to the effectiveness of our internal control over financial reporting. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. If a material weakness is determined to exist, we must disclose this deficiency in periodic reports we file with the SEC. The existence of a material

weakness would preclude management from concluding that our internal control over financial reporting is effective and would also preclude our independent auditors from attesting to the effectiveness of our internal control over financial reporting. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the market price of our common stock.

More generally, if we are unable to meet the demands that have been placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to accurately report our financial results in future periods, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with the Sarbanes-Oxley Act could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. Under such circumstances, we may be unable to implement the necessary internal controls in a timely manner, or at all, and future material weaknesses may exist or may be discovered. If we fail to implement the necessary improvements, or if material weaknesses or other deficiencies occur, our ability to accurately and timely report our financial position could be impaired, which could result in late filings of our annual and quarterly reports with the SEC, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock, and could have an adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities, improper or unauthorized activities on behalf of customers or improper use of confidential information. It is not always possible to prevent employee errors or misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud, as well as insurance coverage designed to protect us from material losses associated with these risks, including losses resulting from any associated business interruption. If these internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could adversely affect our business, financial condition and results of operations.

In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans to originate, as well as the terms of those loans. If any of the information upon which Veritex relies is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected, or we may fund a loan that it would not have funded or on terms we would not have extended. Whether a misrepresentation is made by the loan applicant or another third party, we will generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of misrepresentation. The sources of the misrepresentations are often difficult to locate, and recovery of any of the resulting monetary losses we may suffer could be difficult.

We have a continuing need for technological change and may not have the resources to effectively implement new technology, or may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in operations as we continue to grow and expand the products and services we offer. We may experience operational challenges as we implement these new technology enhancements or products, which could result in an inability to fully realize the anticipated benefits from such new technology or significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. Accordingly, we may lose customers seeking new technology-driven products and services to the extent we are unable to provide such products and services.

Our operations could be interrupted if third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend on a number of relationships with third-party service providers. Specifically, we receive certain services from third parties including, but not limited to, core systems processing, essential web hosting and other Internet systems, online banking services, deposit processing and other processing services. Our operations could be interrupted if any of these third-party service providers experiences difficulties, or terminates its services, and we are unable to replace the provider with other service providers, particularly on a timely basis. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. In addition, we may not be insured against all types of losses as a result of third-party failures, and insurance coverage may be inadequate to cover all losses resulting from interruptions of third-party services. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

Unauthorized access, cyber-crime and other threats to data security may require significant resources, harm our reputation, and otherwise cause harm to our business.

We necessarily collect, use and hold personal and financial information concerning individuals and businesses with which we have a banking relationship. This information includes non-public, personally identifiable information that is protected under applicable federal and state laws and regulations. Additionally, certain of these data processing functions are outsourced to third-party providers. Our facilities and systems, and those of our third-party service providers, may be vulnerable to threats to data security, security breaches, acts of vandalism and other physical security threats, computer viruses or compromises, ransomware attacks, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of our confidential business, employee or customer information, whether originating with us, our vendors or retail businesses, could severely damage our reputation, expose us to the risks of civil litigation and liability, require the payment of regulatory fines or penalties or undertaking of costly remediation efforts with respect to third parties affected by a security breach, disrupt our operations, and have an adverse effect on our business, financial condition and results of operations. In addition, any damage, failure or security breach that causes breakdowns or disruptions in our general ledger, deposit, loan or other systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our business, financial condition and results of operations.

It is difficult or impossible to defend against every cyber risk and controls employed by our information technology department and our other employees and vendors could prove inadequate. Increasing sophistication of cyber-criminals and terrorists make keeping up with new threats difficult and could result in a breach. Cybersecurity risks appear to be growing and, as a result, the cyber-resilience of banking organizations is of increased importance to federal and state banking agencies and other regulators. New or revised laws and regulations may significantly impact our current and planned privacy, data protection and information security-related practices, the collection, use, sharing, retention and safeguarding of consumer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could materially and adversely affect our profitability. In the last few years, there have been an increasing number of cyber incidents, including several well-publicized cyber-attacks that targeted other U.S. companies, including financial services companies much larger than us. These cyber incidents have been initiated from a variety of sources, including terrorist organizations and hostile foreign governments. As technology advances, the ability to initiate transactions and access data has also become more widely distributed among mobile devices, personal computers, automated teller machines, remote deposit capture sites and similar access points, some of which are not controlled or secured by us. It is possible that we could have exposure to liability and suffer losses as a result of a security breach or cyber-attack that occurred through no fault of Veritex. Further, the probability of a successful cyber-attack against us or one of our third-party service providers cannot be predicted. As cyber threats continue to evolve and increase, we may be required to spend significant additional resources to continue to modify or enhance our protective and preventative measures or to investigate and remediate any information security vulnerabilities. Our systems and those of our third-party vendors may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing consumers to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds, general-purpose reloadable prepaid cards or other mobile payment services. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, which may increase as consumers become more comfortable with

these new technologies and offerings, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have an adverse effect on our financial condition and results of operations.

If the goodwill that we have recorded or may record in connection with a business acquisition becomes impaired, it could require charges to earnings, which would adversely affect our business, financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets acquired in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired. We may first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amounts, including goodwill. We have an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the goodwill impairment test, and we may resume performing the qualitative assessment in any subsequent period. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity shall perform the first step of the two-step goodwill impairment test. Under the first step, the estimation of fair value of the reporting unit is compared to its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. If the carrying amount of the reporting goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in the results of operations in the periods in which they become known. As of December 31, 2022, goodwill totaled \$404.5 million. Although we have not recorded any impairment charges since the goodwill was initially recorded, future evaluations of existing goodwill or goodwill acquired in the future may result in findings of impairment and related write-downs, which could adversely affect our business, financial condition and results of operations.

Risks Related to Veritex's Industry and Regulation

The ongoing changes in regulation could adversely affect our business, financial condition, and results of operations.

In July 2010, the Dodd-Frank Act was signed into law. This statute and its implementing regulations have imposed significant regulatory and compliance changes on financial institutions. The enactment of EGRRCPA in 2018, the CARES Act in 2020 and other legislation or rulemaking by the regulatory agencies may impose other costs or provide regulatory relief. The evolving financial services regulatory framework may impact the profitability of our business activities, require changes to certain of our business practices, require the development of new compliance infrastructure, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations could adversely affect our business, financial condition and results of operations.

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or failure to comply with them, could adversely affect our business, financial condition and results of operations.

We are subject to extensive regulation, supervision and legal requirements that govern almost all aspects of our operations. These laws and regulations are not intended to protect our shareholders. Rather, these laws and regulations are intended to protect customers, depositors, the DIF, and the overall financial stability of the United States. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividends or distributions that the Bank can pay to the Holdco and that Veritex can pay to shareholders, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles would require. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations.

State and federal banking agencies periodically conduct examinations of our business, including our compliance with laws and regulations, and failure to comply with any supervisory actions to which we are or may become subject as a result of such examinations could adversely affect our business, financial condition and results of operations.

The TDB and the Federal Reserve periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, a Texas or federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that Veritex, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to prohibit “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital levels, to restrict our growth, to assess civil monetary penalties against Veritex, the Bank or their respective officers or directors, to remove officers and directors and to terminate the Bank’s deposit insurance upon notice and hearing. If we become subject to such regulatory actions, our business, financial condition, results of operations and reputation could be adversely affected.

Many of our new activities and expansion plans require regulatory approvals, and failure to obtain them may restrict future growth.

We intend to complement and expand our business by pursuing strategic acquisitions of financial institutions and other complementary businesses. Generally, we must receive state and federal regulatory approval before we can acquire a depository institution insured by the FDIC or related business. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, our future prospects and the impact of the proposal on U.S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management and the parties' record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the parties' record of performance under the CRA) and the effectiveness of the parties' in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. We may also be required to sell branches as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to continue *de novo* branching as a part of its organic growth strategy. *De novo* branching and any acquisitions carry with them numerous risks, including the inability to obtain all required regulatory approvals. When evaluating applications to establish a *de novo* branch in Texas, the Federal Reserve and the TDB consider similar factors to those considered in connection with an expansionary transaction. The failure to obtain these regulatory approvals for potential future strategic acquisitions and *de novo* branches could impact our business plans and restrict our growth.

Financial institutions, such as the Bank, face a risk of noncompliance with and enforcement action under the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The BSA, the USA PATRIOT Act, and other laws and regulations require financial institutions, among other requirements, to institute and maintain an effective AML program and file suspicious activity and currency transaction reports as appropriate. FinCEN, established by the U.S. Department of the Treasury to administer the BSA, is authorized to impose significant civil money penalties for violations of those requirements, and may engage in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service, among other government and law enforcement agencies. In addition, OFAC may pursue enforcement actions for failure to comply with the sanctions programs it administers.

In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our BSA/AML programs. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plans, such as acquisitions and *de novo* branching.

We are subject to fair lending laws, and failure to comply with these laws could lead to material penalties.

The Equal Credit Opportunity Act, the Fair Housing Act and other federal and state fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Federal Reserve, TDB, U.S. Department of Justice and other federal and state agencies are responsible for enforcing these laws and regulations against us. A successful challenge to our compliance with fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity, and restrictions on expansion activity. In addition, violations of fair lending laws and regulations may have an adverse effect on our CRA rating, which in turn may affect our ability to obtain regulatory approval for certain expansionary transactions and branching activities. Private parties may also have the ability to challenge an institution’s performance under fair lending laws and regulations in private class action litigation.

The FDIC's restoration plan and the related increased assessment rate could adversely affect our earnings and results of operations.

As a result of economic conditions and the enactment of the Dodd-Frank Act, the FDIC revised its deposit insurance assessment methodology, which has had the effect of raising deposit premiums for many insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, special assessments or increases in deposit insurance premiums may be required. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional financial institution failures that affect the DIF, we may be required to pay FDIC premiums higher than current levels. Our FDIC insurance related costs were \$5.3 million for the year ended December 31, 2022 and \$4.0 million and \$3.1 million for the years ended December 31, 2021 and 2020, respectively. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could adversely affect our earnings and results of operations.

We are subject to increased capital requirements, which may adversely impact return on equity or prevent us from paying dividends or repurchasing shares.

The Dodd-Frank Act requires the federal banking agencies to establish stricter risk-based and leverage capital requirements to apply to insured depository institutions and their holding companies. In 2013, the federal banking agencies adopted revised risk-based and leverage capital requirements as well as a revised method for calculating risk-weighted assets ("RWA").

The revised capital rules subjected us to higher required capital levels on January 1, 2015, with the requirements fully phased in as of January 1, 2019. The application of more stringent capital requirements on us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

The Federal Reserve may require us to commit capital resources to support the Bank.

A bank holding company is required to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. The Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank at times when the bank holding company may not be inclined to do so and may charge the bank holding company with engaging in unsafe and unsound practices for failing to commit resources to such a subsidiary bank. Accordingly, we could be required to provide financial assistance to the Bank if it experiences financial distress.

Such a capital injection may be required at a time when our resources are limited and we may be required to borrow the funds to make the required capital injection. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of any note obligations.

We could be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Any such losses could adversely affect our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the U.S. money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of both the discount rate and the federal funds rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Although we cannot determine the effects of such policies on us at this time, such policies could adversely affect our business, financial condition and results of operations.

Risks Related to Our Common Stock

The market price of our common stock may fluctuate significantly.

The market price of our common stock could fluctuate significantly due to a number of factors, including, but not limited to:

- our quarterly or annual earnings, or those of other companies in our industry;
- actual or anticipated fluctuations in our operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- announcements by us or our competitors of significant acquisitions, dispositions, innovations or new programs and services;
- changes in financial estimates and recommendations by securities analysts that cover our common stock or the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- general economic conditions and overall market fluctuations;
- the trading volume of our common stock;
- changes in business, legal or regulatory conditions, or other developments affecting participants in our industry, and publicity regarding our business or any of our significant customers or competitors;
- changes in governmental monetary policies, including the policies of the Federal Reserve;
- future sales of our common stock by us or our directors, executive officers or significant shareholders; and
- changes in economic conditions in and political conditions affecting our target markets.

In particular, the realization of any of the risks described in this “Item 1A. Risk Factors” could have an adverse effect on the market price of our common stock and cause the value of your investment to decline. In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock over the short, medium or long-term, regardless of our actual performance. If the market price of our common stock reaches an elevated level, it may materially and rapidly decline. In the past, following periods of volatility in the market price of a company’s securities, shareholders have often instituted securities class action litigation. If we were to be involved in a class action lawsuit, it could divert the attention of senior management and could adversely affect our business, financial condition and results of operations.

If securities or industry analysts change their recommendations regarding our common stock or if our operating results do not meet their expectations, our stock price could decline.

The trading market for our common stock could be influenced by the research and reports that industry or securities analysts may publish about Veritex or our business. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, either absolutely or relative to our competitors, our stock price could decline significantly.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of the common stock.

Future sales or the availability for sale of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities.

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments and pursuant to compensation and incentive plans. If any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities

that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of its common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued in connection with an acquisition or under a compensation or incentive plan), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock and could impair our ability to raise capital through future sales of its securities.

The holders of our debt obligations will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up of Veritex and with respect to the payment of interest and preferred dividends.

As of December 31, 2022, we had approximately \$198.1 million outstanding in aggregate principal amount of subordinated notes held by investors, and, in the aggregate, \$30.7 million of junior subordinated debentures issued to four statutory trusts that in turn issued \$32.9 million in the aggregate of trust preferred securities. In the future, we may incur additional indebtedness. Upon our liquidation, dissolution or winding up, holders of our common stock will not be entitled to receive any payment or other distribution of assets until after all of our obligations to our debt holders have been satisfied and holders of trust preferred securities have received any payment or distribution due to them. In addition, we are required to pay interest on our outstanding indebtedness before we pay any dividends on our common stock. Since any decision to issue debt securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital raising efforts is uncertain. Thus, holders of our common stock bear the risk that our future issuances of debt securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

We depend on the Bank for cash flow, and the Bank's ability to make cash distributions is restricted, which could impact our ability to satisfy its obligations.

Our primary asset is the Bank. As such, we depend on cash flow through dividends from the Bank to pay our operating expenses and satisfy our obligations, including debt obligations. There are numerous laws and regulations that limit the Bank's ability to pay dividends to Holdco. If the Bank is unable to pay dividends to Holdco, we will not be able to satisfy our obligations. These statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. Further, federal and state banking authorities have the ability to restrict the Bank's payment of dividends through supervisory action. See also "Item 1. Business—Regulation and Supervision—Regulatory Limits on Dividends and Distributions."

Our dividend policy may change without notice, our future ability to pay dividends is subject to restrictions, and we may not pay dividends in the future.

In January 2019, we initiated a quarterly cash dividend on our common stock. Holders of our common stock are entitled to receive only such cash dividends as our Board of Directors may declare out of funds legally available for the payment of dividends. The timing, declaration, amount and payment of future cash dividends, if any, will be within the discretion of our Board of Directors and will depend upon then-existing conditions, including our results of operations, financial condition, capital requirements, investment opportunities, growth opportunities, any legal, regulatory, contractual or other limitations on our ability to pay dividends and other factors our Board of Directors may deem relevant. As a bank holding company, our ability to pay dividends is also affected by the policies and enforcement powers of the Federal Reserve and any future payment of dividends will depend on the Bank's ability to make distributions and payments to Holdco, as these distributions and payments are our principal source of funds to pay dividends. The Bank is also subject to various legal, regulatory and other restrictions on its ability to make distributions and payments to Holdco. In addition, in the future, we may enter into borrowing or other contractual arrangements that restrict our ability to pay dividends. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could have an adverse effect on the market price of our common stock. See also "Item 1. Business—Regulation and Supervision—Regulatory Limits on Dividends and Distributions."

The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and distract management.

We completed our initial public offering in October 2014. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. We also incur costs associated with our public company reporting requirements and with corporate governance requirements, including requirements under the Sarbanes-Oxley Act, stock exchange rules and the rules implemented by the SEC. These rules and regulations have increased our legal and financial

compliance costs and make some activities more time-consuming and costly. These rules and regulations also make it more difficult and more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as executive officers.

Shareholders may be deemed to be acting in concert or otherwise in control of us, which could impose notice, approval and ongoing regulatory requirements upon them and result in adverse regulatory consequences for such holders.

Veritex is a bank holding company regulated by the Federal Reserve. Banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution or a company that controls an FDIC-insured depository institution, such as a bank holding company. These laws include the BHC Act and the Change in Bank Control Act and, for Texas chartered-banks such as the Bank, change of control requirements established by the Texas Finance Code. The determination as to whether an investor “controls” a depository institution or holding company is based on all of the facts and circumstances surrounding the investment.

As a general matter, a party is deemed to control a depository institution or other company if the party (1) owns or controls 25.0% or more of any class of voting stock of the bank or other company, (2) controls the election of a majority of the directors of the bank or other company, or (3) has the power to exercise a controlling influence over the management or policies of the bank or other company. In addition, subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10.0% or more of any class of voting stock. Ownership by affiliated parties, or parties acting in concert, is typically aggregated for these purposes. “Acting in concert” generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty.

Any shareholder that is deemed to “control” us for regulatory purposes would become subject to notice, approval and ongoing regulatory requirements and may be subject to adverse regulatory consequences. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our stock in excess of the amount that can be acquired without regulatory approval under applicable law. These regulatory constraints on acquisition of our stock could inhibit transactions that would increase the price of our stock.

An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC, so you could lose some or all of your investment.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described herein. As a result, if you acquire our common stock, you could lose some or all of your investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2022, our executive offices were located at 8214 Westchester Drive, Suite 800, Dallas, Texas 75225. In addition to our executive offices, at December 31, 2022, we had 18 full-service branches located in the Dallas-Fort Worth metroplex and 10 full-service branches in the Houston metropolitan area. We own the building in which our executive offices are located and lease the majority of the space in which our other administrative offices are located. As of December 31, 2022, we owned 16 of our branch locations and leased the remaining 12 branch and office locations. The remaining terms of our leases on our full-services branches range from one to ten years and give us the option to renew for subsequent terms of equal duration or otherwise extend the lease term subject to price adjustment based on market conditions at the time of renewal. We believe that our current facilities are adequate to meet our present and immediately foreseeable needs.

For more information about our bank premises and equipment and operating leases, please see Note 7 and Note 8 of our consolidated financial statements included elsewhere in this report.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition laws, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

ITEM 4. MINE AND SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information for Common Stock

Shares of our common stock are traded on the Nasdaq Global Market under the symbol “VBTX”. Our shares have been traded on the Nasdaq Global Market since October 9, 2014. Prior to that date, there was no public trading market for our common stock.

Holders of Record

As of February 27, 2023, there were 54,157,129 holders of record of our common stock.

Dividend Policy

On January 24, 2023, Veritex Holdings, Inc. announced that its Board of Directors declared a quarterly cash dividend of \$0.20 per share on our outstanding common stock. The dividend was paid on February 24, 2023 to shareholders of record as of February 10, 2023. For the year ended December 31, 2022, we declared and paid \$42.3 million in cash dividends.

The timing, declaration, amount and payment of any future cash dividends are at the discretion of our Board of Directors and will depend on many factors, including our results of operations, financial condition, capital requirements, investment opportunities, growth opportunities, any legal, regulatory, contractual or other limitations on our ability to pay dividends and other factors our Board of Directors may deem relevant. In addition, there are regulatory restrictions on our ability and the ability of the Bank to pay dividends. See “Item 1A. Risk Factors—Our dividend policy may change without notice, our future ability to pay dividends is subject to restrictions, and we may not pay dividends in the future” and “Item 1. Business—Regulation and Supervision—Regulatory Limits on Dividends and Distributions.”

Unregistered Sales of Equity Securities

None.

Equity Compensation Plan Information

See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters”. The information regarding the securities authorized for issuance under equity compensation plans called for by this item is set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

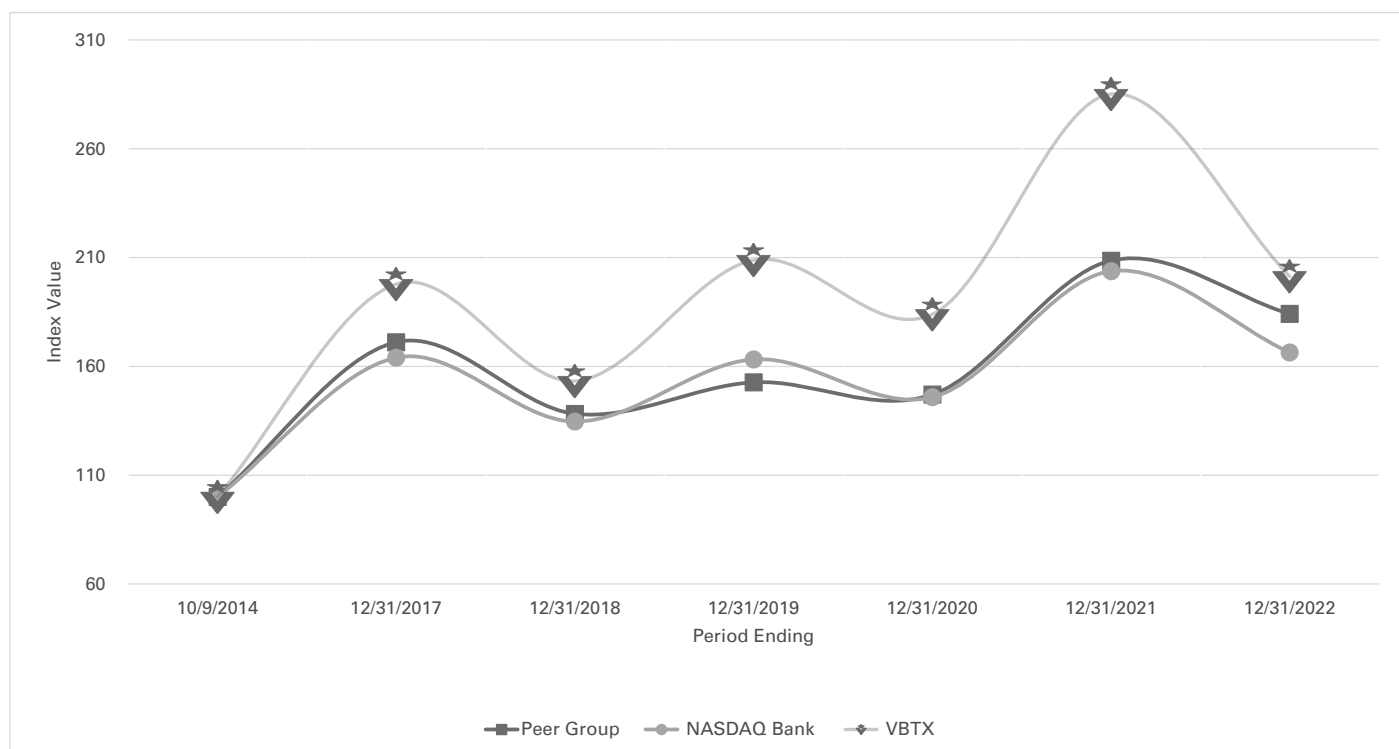
Stock Performance Graph

The following table and graph compares the cumulative total shareholder return on our common stock to the cumulative total return of our peer group and the Nasdaq Bank Index for the period beginning on October 9, 2014, the first day of trading of our common stock on the Nasdaq Global Market through December 31, 2022. The following information reflects index values as of close of trading, assumes \$100 invested on October 9, 2014 in our common stock, the peer group and the Nasdaq Bank Index, and assumes the reinvestment of dividends, if any. The historical stock price performance for our common stock shown below is not necessarily indicative of future stock performance.

	October 9, 2014	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Veritex Holdings, Inc.	\$ 100.00	\$ 197.79	\$ 153.26	\$ 208.82	\$ 183.94	\$ 285.16	\$ 201.29
Peer Group ⁽¹⁾	100.00	171.13	138.20	152.67	144.32	208.62	184.08
Nasdaq Bank Index	100.00	164.00	134.64	163.23	145.84	203.77	166.36

(1) Our peer group includes Bancfirst Corporation, Cadence Bancorp LLC., CVB Financial Corp., Eagle Bancorp, Inc., First Financial Bankshares, Inc., Origin Bancorp, Inc., Hilltop Holdings, Inc., Independent Bank Group, Inc., Servisfirst Bancshares, Inc., Simmons First National Corporation, Southside Bancshares, Inc., Pacific Premier Bancorp, Inc. and Independent Bank Corporation.

Comparison of Cumulative Total Return



Stock Repurchases

On January 28, 2019, our Board of Directors authorized a stock buyback program pursuant to which we may, from time to time, purchase up to \$50.0 million of our outstanding common stock (the “Stock Buyback Program”). Our Board of Directors authorized increases of \$50.0 million in September 2019, \$75.0 million in December 2019 and \$75.0 million in September 2021, resulting in an aggregate authorization to purchase of up to \$250.0 million of our common stock. Our Board of Directors also authorized extensions of the expiration date of the Stock Buyback Program from December 31, 2019 to December 31, 2020, then from December 31, 2020 to March 31, 2021 and then from March 31, 2021 to December 31, 2022. The shares may be repurchased in the open market or in privately negotiated transactions from time to time, depending upon market conditions and other factors, and in accordance with applicable regulations of the SEC. The Stock Buyback Program does not obligate the Company to purchase any shares. The Stock Buyback Program may be terminated or amended by the Board of Directors at any time prior to its expiration. During the fourth quarter of 2022, the Company had no repurchases of shares of its common stock.

Common Stock Offering

On March 8, 2022, the Company completed an underwritten public offering of 3,947,369 shares of its common stock at \$38.00 per share. On March 10, 2022, the representatives of the underwriters delivered to the Company a written notice of exercise by the underwriters of the underwriters' option to purchase an additional 367,105 shares of the Company's common stock at \$38.00 per share, which subsequently closed on March 14, 2022. Net proceeds, after deducting underwriting discounts and offering expenses, of such offering were approximately \$154.4 million. The Company intends to use the net proceeds from the offering for general corporate purposes and to support its continued growth, including investments in the Bank and future strategic acquisitions.

ITEM 6. [RESERVED]

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes included Item 8 of this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth in "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements.

Overview

We are a Texas state banking organization with corporate offices in Dallas, Texas. Through our wholly owned subsidiary, Veritex Community Bank, a Texas state-chartered bank, we provide relationship-driven commercial banking products and services tailored to meet the needs of small to medium-sized businesses and professionals. Beginning at our operational inception in 2010, we initially targeted customers and focused our acquisitions primarily in the Dallas metropolitan area, which we consider to be Dallas and the adjacent communities in North Dallas. Our current primary market now includes the broader Dallas-Fort Worth metroplex and the Houston metropolitan area. As we continue to grow, we may expand to other metropolitan banking markets in Texas.

Our business is conducted through one reportable segment, community banking, which generates the majority of our revenues from interest income on loans, customer service and loan fees, gains on sale of government guaranteed loans and mortgage loans and interest income from securities. We incur interest expense on deposits and other borrowed funds and noninterest expense, such as salaries, employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and expense of our liabilities through net interest margin. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, and interest-bearing and noninterest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and, specifically, in the Dallas-Fort Worth metroplex and Houston metropolitan area, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target market and throughout the state of Texas.

Anticipated 2023 Trends

This discussion of trends expected to impact our business in 2023 is based on information presently available and reflects certain assumptions, including the current economic and interest rate environment. Differences in actual economic conditions compared with our assumptions could have an adverse impact on our results. See "Special Cautionary Notice Regarding Forward-Looking Statements" and Part I, Item 1A, "Risk Factors" of this Annual Report on Form 10-K for additional factors that could cause results to differ materially from those contemplated by the following forward-looking statements. We anticipate the following trends or events related to our business in fiscal year 2023:

- Focus on deposit liquidity to fund continued organic growth;
- Continued emphasis on credit quality and relationship banking;
- Focus on net interest margin and the impact of anticipated interest rate hikes in 2023;
- Targeted focus on talent investments to further organically grow the Company;
- Further expansion in the USDA space via our subsidiary North Avenue Capital, LLC ("NAC");
- Leveraging of our strong capital through accretive organic growth and possible strategic acquisition opportunities; and
- Potential branch restructures, consolidations or closures to continue with our branch-light business model.

Results of Operations

For discussion of the results of operations for the year ended December 31, 2021 compared to year ended December 31, 2020, see Veritex's 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2022.

Year Ended December 31, 2022 compared to year ended December 31, 2021

General

Net income available to common stockholders for the year ended December 31, 2022 was \$146.3 million, an increase of \$6.7 million, or 4.8%, from net income available to common stockholders of \$139.6 million for the year ended December 31, 2021.

Basic earnings per share (“EPS”) for the year ended December 31, 2022 was \$2.75, a decrease of \$0.08 from \$2.83 for the year ended December 31, 2021. Diluted EPS for the year ended December 31, 2022 was \$2.71, a decrease of \$0.06 from \$2.77 for the year ended December 31, 2021.

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a “volume change.” Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as “rate changes.”

To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders’ equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

For the year ended December 31, 2022, net interest income totaled \$364.7 million compared to net interest income of \$280.8 million for the year ended December 31, 2021, an increase of \$83.9 million, or 29.9%. The primary drivers of the increase in net interest income is the result of an increase of \$132.9 million, or 42.0%, in interest income primarily due to yields earned on loan balances, partially offset by the increase of \$49.1 million, or 137.4%, in interest expense resulting from a \$35.9 million increase in interest expense on transaction and savings deposit accounts. Interest income was \$449.4 million, compared to \$316.5 million for the years ended December 31, 2022 and 2021, respectively. Average loan balances, excluding PPP loans, grew from \$6.75 billion for the year ended December 31, 2021 to \$8.30 billion for the year ended December 31, 2022, an increase of \$1.54 billion, or 22.9%.

Interest expense for the year ended December 31, 2022 was \$84.8 million, compared to \$35.7 million for the year ended December 31, 2021, an increase of \$49.1 million, or 137.4%. The year-over-year increase was due to increases in the averages rates paid on interest-bearing demand and savings deposits and certificates and other time deposits and a change in deposit mix. For the year ended December 31, 2022 the average balance for interest-bearing demand and savings deposits was \$3.93 billion compared to \$3.20 billion for the year ended December 31, 2021, an increase of \$736.7 million, or 23.0%. For the year ended December 31, 2022 the average balance for certificates and other time deposits was \$1.60 billion compared to \$1.54 billion for the year ended December 31, 2021, an increase of \$61.5 million, or 4.0%.

Net interest margin and net interest spread were 3.59% and 3.15%, respectively, for the year ended December 31, 2022 compared to 3.24% and 3.03%, respectively, for the year ended December 31, 2021. The increase in net interest margin by 35 basis points and increase in net interest spread by 12 basis points were due to an increase in the average yield earned on interest-bearing assets by 77 basis points, offset by an increase in the average rate paid on interest-bearing liabilities by 65 basis points. The average interest earned on interest-bearing assets increased to 4.42% during the year ended December 31, 2022 from 3.65% for the year ended December 31, 2021 primarily due to an increase in yields earned on loan balances. The average interest paid on interest-bearing liabilities increased to 1.27% during the year ended December 31, 2022 from 0.62% for the

year ended December 31, 2021, primarily due to the increase of average rate paid on deposits. The increases in yields on earning assets and funding costs are attributed to the impact of rising interest rates during 2022.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the year ended December 31, 2022 and 2021, interest income not recognized on nonaccrual loans, excluding purchased credit deteriorated (“PCD”) loans, was \$6.6 million and \$2.7 million, respectively. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

For the Year Ended December 31,

	2022			2021			2020		
	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate
(Dollars in thousands)									
Assets									
Interest-earning assets:									
Loans ⁽¹⁾	\$ 7,865,432	\$ 382,883	4.87 %	\$ 6,285,510	\$ 263,583	4.19 %	\$ 5,770,228	\$ 273,999	4.75 %
LHI, MW	433,062	16,671	3.85	468,001	14,219	3.04	318,657	9,672	3.04
PPP Loans	12,517	125	1.00	272,770	2,724	1.00	290,851	2,912	1.00
Debt securities	1,277,643	38,736	3.03	1,092,967	32,132	2.94	1,083,633	30,726	2.84
Interest-earning deposits in other banks	405,471	6,275	1.55	410,785	589	0.14	276,970	1,221	0.44
Equity securities and other investments	169,875	4,720	2.78	133,594	3,237	2.42	100,556	3,320	3.30
Total interest-earning assets	10,164,000	449,410	4.42 %	8,663,627	316,484	3.65 %	7,840,895	321,850	4.10 %
ACL	(79,845)			(101,383)			(98,527)		
Noninterest-earning assets	905,103			799,334			782,907		
Total assets	<u>\$10,989,258</u>			<u>\$ 9,361,578</u>			<u>\$ 8,525,275</u>		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand and savings deposits	\$ 3,934,926	42,785	1.09 %	\$ 3,198,225	6,858	0.21 %	\$ 2,726,462	13,233	0.49 %
Certificates and other time deposits	1,601,687	15,307	0.96	1,540,188	9,079	0.59	1,550,995	23,678	1.53
Advances from FHLB	896,687	15,501	1.73	777,635	7,336	0.94	1,024,142	10,609	1.04
Subordinated debentures and subordinated notes	230,984	11,160	4.83	263,535	12,428	4.72	172,594	8,532	4.94
Total interest-bearing liabilities	6,664,284	84,753	1.27 %	5,779,583	35,701	0.62 %	5,474,193	56,052	1.02 %
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	2,782,077			2,256,546			1,825,806		
Other liabilities	119,237			57,457			60,303		
Total liabilities	9,565,598			8,093,586			7,360,302		
Stockholders' equity	1,423,660			1,267,992			1,164,973		
Total liabilities and stockholders' equity	<u>\$10,989,258</u>			<u>\$ 9,361,578</u>			<u>\$ 8,525,275</u>		
Net interest spread ⁽²⁾			3.15 %			3.03 %			3.08 %
Net interest income		<u>\$ 364,657</u>			<u>\$ 280,783</u>			<u>\$ 265,798</u>	
Net interest margin ⁽³⁾			3.59 %			3.24 %			3.39 %

⁽¹⁾ Includes average outstanding balances of loans held for sale ("LHFS") of \$13,558, \$12,093 and \$15,315 for the twelve months ended December 31, 2022, 2021 and 2020 respectively.

⁽²⁾ Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

⁽³⁾ Net interest margin is equal to net interest income divided by average interest-earning assets.

The following table presents the changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
	Compared to 2021			Compared to 2020		
	Increase (Decrease) Due To Change in			Increase (Decrease) Due To Change in		
	Volume	Rate	Total	Volume	Rate	Total
(Dollars in thousands)						
Interest-earning assets:						
Loans	\$ 76,942	\$ 42,358	\$ 119,300	\$ 21,590	\$ (32,006)	\$ (10,416)
LHI, MW	(1,345)	3,797	2,452	4,540	7	4,547
PPP loans	(2,599)	—	(2,599)	(188)	—	(188)
Debt securities	5,596	1,008	6,604	274	1,132	1,406
Interest-earning deposits in other banks	(82)	5,768	5,686	800	(883)	(83)
Equity securities and other investments	1,009	474	1,483	187	(819)	(632)
Total increase in interest income	<u>\$ 79,521</u>	<u>\$ 53,405</u>	<u>\$ 132,926</u>	<u>\$ 27,203</u>	<u>\$ (32,569)</u>	<u>\$ (5,366)</u>
Interest-bearing liabilities:						
Interest-bearing demand and savings deposits	\$ 8,030	\$ 27,897	\$ 35,927	\$ 991	\$ (7,366)	\$ (6,375)
Certificates and other time deposits	590	5,638	6,228	(64)	(14,535)	(14,599)
Advances from FHLB	2,060	6,105	8,165	(2,317)	(956)	(3,273)
Subordinated debentures and subordinated notes	(1,572)	304	(1,268)	4,292	(396)	3,896
Total increase in interest expense	<u>9,108</u>	<u>39,944</u>	<u>49,052</u>	<u>2,902</u>	<u>(23,253)</u>	<u>(20,351)</u>
Increase in net interest income	<u>\$ 70,413</u>	<u>\$ 13,461</u>	<u>\$ 83,874</u>	<u>\$ 24,301</u>	<u>\$ (9,316)</u>	<u>\$ 14,985</u>

Provision for Credit Losses

Our provision for credit losses is a charge to income in order to bring our ACL to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the ACL see “—Financial Condition—ACL on LHI”. The provision for credit losses was \$27.0 million for the year ended December 31, 2022, compared to a benefit for credit losses of \$3.3 million for the same period in 2021, an increase to the provision of \$30.3 million. The increased provision for credit losses was primarily attributable to changes in the Texas economic forecasts and loan growth used in the CECL model during the year ended December 31, 2022. These changes in the Texas economic forecasts were made to reflect changes in economic factors such as rising interest rates, inflation and labor supply as of December 31, 2022 compared to such forecasts utilized in the CECL model for the year ended December 31, 2021. ACL as a percentage of LHI, excluding MW and PPP loans, was 1.01% and 1.15% at December 31, 2022 and 2021, respectively.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, loan fees, (loss) gain on the sale of securities, gains on the sale of mortgage LHFS, government guaranteed loan income, net, equity method investment (loss) income and other income. Noninterest income does not include loan origination fees, which are generally recognized over the life of the related loan as an adjustment to yield using the interest method.

The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Year Ended December 31,			2022 vs 2021		2021 vs 2020	
	2022	2021	2020	\$ Change	% Change	\$ Change	% Change
(Dollars in thousands)							
Noninterest income:							
Service charges and fees on deposit accounts	\$ 20,139	\$ 16,742	\$ 13,703	\$ 3,397	20.3 %	\$ 3,039	22.2 %
Loan fees	10,442	7,607	4,556	2,835	37.3	3,051	67.0
(Loss) gain on sales of securities	—	(188)	2,615	188	(100.0)	(2,803)	(107.2)
Gain on sales of mortgage LHFS	550	1,592	1,239	(1,042)	(65.5)	353	28.5
Government guaranteed loan income, net	14,060	15,760	14,150	(1,700)	(10.8)	1,610	11.4
Equity method investment (loss) income	(5,141)	5,760	—	(10,901)	(189.3)	5,760	N/M
Customer swap income	7,898	2,491	2,482	5,407	217.1	9	0.4
Other	4,874	8,641	8,599	(3,767)	(43.6)	42	0.5
Total noninterest income	\$ 52,822	\$ 58,405	\$ 47,344	\$ (5,583)	(9.6)%	\$ 11,061	23.4 %

N/M = Not meaningful

Noninterest income for the year ended December 31, 2022 decreased \$5.6 million or 9.6%, to \$52.8 million compared to noninterest income of \$58.4 million for the same period in 2021. The primary components of the decrease were as follows:

Service charges and fees on deposit accounts. We earn service charges and fees from our customers for deposit-related activities. The income from these deposit activities constitutes a significant and predictable component of our noninterest income. Service charges and fees on deposit accounts were \$20.1 million for the year ended December 31, 2022, an increase of \$3.4 million, or 20.3%, over the same period in 2021. This increase was primarily due to increases in analysis charges of \$1.6 million, other fee income of \$862 thousand and ATM and debit card fees of \$779 thousand for the year ended December 31, 2022 compared to 2021.

Loan fees. We earn certain loan fees in connection with funding and servicing loans. Loan fees were \$10.4 million for the year ended December 31, 2022 compared to \$7.6 million for the same period in 2021. The increase of \$2.8 million was primarily attributable to an increase in loan syndication and arrangement fees of \$2.4 million.

Gain on sales of mortgage LHFS. The decrease of \$1.0 million in gain on sales of mortgage LHFS for the year ended December 31, 2022 was primarily attributable to a decrease in volume of mortgage originations compared to the year ended December 31, 2021.

Government guaranteed loan income, net. Government guaranteed loan income, net, includes non-interest income earned on PPP loans as well as income related to the sales of government guaranteed loans. The decrease in government guaranteed loan income, net of \$1.7 million, was primarily due to a \$7.7 million decrease PPP fee income as a result of no PPP loans originated during 2022, a 2.7 million decrease in gain on sale of SBA loans and a \$1.3 million decrease in PPP loans valuation for the year ended December 31, 2022. The decrease was partially offset by a \$9.5 million increase in gain on sale of USDA loans for the year ended December 31, 2022. The increase in gain on sale of USDA loans is primarily due to an increase in number of loans funded in 2022 as a result of government funding for the USDA loan program in the second half of 2022.

Equity method investment (loss) income. Equity method investment (loss) income is comprised of losses or income recognized on equity method investments, specifically our investment in Thrive, of which the Bank holds a 49% interest. The Bank completed its investment in Thrive in July 2021. The loss from this investment was \$5.1 million for the year ended December 31, 2022, a decrease of \$10.9 million compared to income from this investment of \$5.8 million for the year ended December 31, 2021. The decrease was primarily due to the negative impact of rising interest rates on the fair value and volume of loans originated by Thrive. During the third quarter of 2021, Thrive's PPP loan, originated and serviced by another bank, was 100% forgiven by the SBA. As a result of our 49% investment in Thrive, \$1.9 million of the \$5.8 million represents our portion of the PPP loan forgiveness for the year ended December 31, 2021.

Customer swap income. The increase in customer swap income of \$5.4 million, or 217.1%, was primarily due to the increase in trade executions during the twelve months ended December 31, 2022, compared to the same period in 2021.

Other. Other includes other noninterest income from fees. Other noninterest income was \$4.9 million for the twelve months ended December 31, 2022, a decrease of \$3.8 million, or 43.6%, compared to the same period in 2021. The decrease was primarily driven by a decrease in BOLI insurance income of \$1.9 million and a decrease in the credit valuation adjustment on the servicing asset for commercial loans of \$1.2 million.

Noninterest Expense

Noninterest expense is composed of all employee expenses and costs associated with operating our facilities, acquiring and retaining customer relationships and providing bank services. The major component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of office equipment, professional fees and regulatory fees, data processing and software expenses, marketing expenses and amortization of intangibles.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Year Ended December 31,			2022 vs 2021		2021 vs 2020	
	2022	2021	2020	\$ Change	% Change	\$ Change	% Change
(Dollars in thousands)							
Salaries and employee benefits	\$ 117,841	\$ 94,748	\$ 79,453	\$ 23,093	24.4 %	\$ 15,295	19.3 %
Non-staff expenses:							
Occupancy and equipment	18,744	17,263	16,363	1,481	8.6	900	5.5
Professional and regulatory fees	14,142	12,945	11,729	1,197	9.2	1,216	10.4
Data processing and software expense	14,013	9,946	9,213	4,067	40.9	733	8.0
Marketing	7,179	5,344	3,651	1,835	34.3	1,693	46.4
Amortization of intangibles	9,979	10,057	10,790	(78)	(0.8)	(733)	(6.8)
Telephone and communications	1,484	1,434	1,312	50	3.5	122	9.3
COVID Expenses	—	—	1,377	—	N/M	(1,377)	N/M
Debt extinguishment costs	—	—	11,307	—	N/M	(11,307)	N/M
Merger and acquisition expense	1,379	826	—	553	66.9	826	N/M
Other	18,314	15,149	14,192	3,165	20.9	957	6.7
Total noninterest expense	<u>\$ 203,075</u>	<u>\$ 167,712</u>	<u>\$ 159,387</u>	<u>\$ 35,363</u>	21.1 %	<u>\$ 8,325</u>	5.2 %

N/M = Not meaningful

Noninterest expense for the year ended December 31, 2022 increased \$35.4 million, or 21.1%, to \$203.1 million compared to noninterest expense of \$167.7 million for the same period in 2021. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits include payroll expenses, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. These expenses are impacted by the amount of direct loan origination costs, which are required to be deferred in accordance with ASC 310-20 (formerly FAS91). Salaries and employee benefits were \$117.8 million for the year ended December 31, 2022, an increase of \$23.1 million, or 24.4%, compared to the same period in 2021. The increase was primarily attributable to increases in compensation costs of \$15.2 million from continued investment in talent, stock based compensation, incentive and bonus of \$7.1 million and employee benefit expenses of \$1.7 million, for the year ended December 31, 2022.

Occupancy and equipment. Occupancy and equipment expenses are mainly comprised of depreciation expense on fixed assets and lease expense. The increase of \$1.5 million, or 8.6%, was primarily attributable to increases in lease payments of \$399 thousand, property and casualty insurance of \$296 thousand and building expenses of \$218 thousand for the year ended December 31, 2022.

Professional and regulatory fees. This category includes legal, professional, audit, regulatory, and Federal Deposit Insurance Corporation ("FDIC") assessment fees. The increase of \$1.2 million, or 9.2%, was primarily attributable to an increase in FDIC assessment fees of \$1.3 million due to an increase in asset size, offset by a decrease in legal and professional fees of \$523 thousand for the year ended December 31, 2022.

Data processing and software expense. This category of expenses includes expense related to data processing and software expenses. For the twelve months ended December 31, 2022, data processing and software expense was \$14.0 million, an increase of \$4.1 million, or 40.9%, compared to the same period in 2021. The increase was primarily due to an increase of \$3.9 million in software expenses for the implementation of a new online account opening platform and the enhancement of systems to mitigate security risk due to the Banks growth.

Marketing. This category of expenses includes expenses related to advertising and promotions, which increased \$1.8 million, or 34.3%, primarily due to a \$1.0 million increase in advertising and promotion expenses and \$530 thousand in business development expenses for the year ended December 31, 2022 compared to the same period in 2021.

Other noninterest expense. This category includes loan operations and collections, supplies and printing, automatic teller and online expenses and other miscellaneous expenses. Other noninterest expense was \$18.3 million for the year ended December 31, 2022, compared to \$15.1 million for the same period in 2021, an increase of \$3.2 million, or 20.9%. This increase was primarily due to an increase (i) of \$516 thousand in expenses for third party banking services, (ii) in \$482 thousand in auto and travel related expenses, (iii) of \$397 thousand in subscription related expenses, (iv) of \$192 thousand in expenses for education and training, (v) of \$173 thousand in FHLB LOC fees, in each case, during the year ended December 31, 2022 as compared to the same period in 2021. The remaining changes were nominal amongst individual noninterest expense accounts.

Income Tax Expense

Income tax expense is a function of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities reflect current statutory income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of December 31, 2022 and 2021, the Company did not believe a valuation allowance was necessary.

For the year ended December 31, 2022, income tax expense totaled \$40.3 million, an increase of \$3.6 million, or 9.8%, compared to \$36.7 million for the same period in 2021.

For the year ended December 31, 2022, the Company had an effective tax rate of 21.6%. The Company had a net discrete tax benefit of \$1.1 million. This discrete tax benefit related to \$1.1 million of an excess tax benefit realized on share-based payment awards, partially offset by \$54 thousand of deferred tax true-ups during the year ended December 31, 2022. Excluding these discrete tax items, the Company had an effective tax rate of 22.1% for the year ended December 31, 2022.

For the year ended December 31, 2021, the Company had an effective tax rate of 20.8%. The Company had a net discrete tax benefit of \$814 thousand. This discrete tax benefit related to \$838 thousand of an excess tax benefit realized on share-based payment awards, partially offset by \$24 thousand of deferred tax true-ups during the year ended December 31, 2021. Excluding these discrete tax items, the Company had an effective tax rate of 21.3% for the year ended December 31, 2021.

Financial Condition

Our total assets were \$12.15 billion and \$9.76 billion as of December 31, 2022 and 2021, respectively. Assets increased \$2.40 billion, or 24.6%, from December 31, 2021 to December 31, 2022. Our asset growth was due to the continued execution of our strategy to establish deep relationships in the Dallas-Fort Worth metroplex and the Houston metropolitan. We believe these relationships will continue to bring in new customer accounts and grow balances from existing loan and deposit customers.

Loan Portfolio

Our primary source of income is interest on loans to individuals, professionals, small to medium-sized businesses and commercial companies located in the Dallas-Fort Worth metroplex and Houston metropolitan area. Our loan portfolio consists primarily of commercial loans and real estate loans secured by CRE properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our interest-earning asset base.

As of December 31, 2022, total LHI were \$9.50 billion, an increase of \$2.11 billion, or 28.5%, compared to \$7.39 billion as of December 31, 2021. This increase was the result of the continued execution and success of our loan growth strategy. In addition to these amounts, \$20.6 million and \$26.0 million in loans were classified as held for sale as of December 31, 2022 and 2021, respectively. Of total LHFS, \$866 thousand and \$16.1 million were mortgage LHFS and \$19.8 million and \$9.9 million were SBA LHFS as of December 31, 2022 and 2021, respectively.

Total LHI, excluding MW and PPP loans, as a percentage of deposits were 99.2% and 92.0% as of December 31, 2022 and December 31, 2021, respectively. Total LHI, excluding MW and PPP loans, as a percentage of total assets were 74.5% and 69.4% as of December 31, 2022 and December 31, 2021, respectively.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of December 31,					
	2022		2021		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Commercial	\$ 2,940,353	31.0 %	\$ 2,006,876	27.3 %	\$ 933,477	3.7 %
MW	446,227	4.7	565,645	7.7	(119,418)	(3.0)
Real estate:						
Owner Occupied CRE (“OOCRE”)	715,829	7.5	665,537	9.1	50,292	(1.6)
Non-owner Occupied CRE (“NOOCRE”)	2,341,379	24.6	2,120,309	28.9	221,070	(4.3)
Construction and land	1,787,400	18.8	1,062,144	14.5	725,256	4.3
Farmland	43,500	0.5	55,827	0.8	(12,327)	(0.3)
1 - 4 family residential	894,456	9.4	542,566	7.4	351,890	2.0
Multi-family residential	322,679	3.4	310,241	4.2	12,438	(0.8)
Consumer	7,806	0.1	11,998	0.1	(4,192)	—
Total LHI, carried at amortized cost	<u>\$ 9,499,629</u>	<u>100 %</u>	<u>\$ 7,341,143</u>	<u>100 %</u>	<u>\$ 2,158,486</u>	<u>— %</u>
LHI PPP loans, carried at fair value	\$ 1,995		\$ 53,369		\$ (51,374)	
Total LHFS	\$ 20,641		\$ 26,007		\$ (5,366)	

Commercial. Our commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and effectively. These loans are primarily made based on the identified cash flows of the borrower, and secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and generally include personal guarantees.

Commercial loans increased \$933.5 million, or 46.5%, to \$2.94 billion as of December 31, 2022 from \$2.01 billion as of December 31, 2021. The increase was primarily due to normal fluctuations in the commercial loan portfolio and new loan origination activity for the period that outpaced paydowns during the year ended December 31, 2022 compared to the year ended December 31, 2021.

MW. Our MW loans consist of ownership interests purchased in single-family residential mortgages funded through our warehouse lending group. These loans are typically on our balance sheet for 10 to 25 days or less. We have agreements with mortgage lenders and purchase legal ownership interests in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans or loans eligible for sale to federal agencies or government sponsored entities. However, for accounting purposes, these loans are deemed to be loans to the originator and, as such, are classified as LHI.

As of December 31, 2022 we had \$446.2 million of MW loans, accounting for approximately 4.7% of our total funded loans. The decrease is due to an increase in mortgage rates which has resulted in a decrease in volume of originations and refinancing of MW loans.

CRE. Our CRE loans include owner occupied and non-owner occupied properties, and are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. These loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the portfolio are located throughout

Texas and are generally diverse in terms of type. This diversity helps reduce the exposure to adverse economic events that affect any single industry.

OOCRE loans increased \$50.3 million, or 7.6%, to \$715.8 million as of December 31, 2022 from \$665.5 million as of December 31, 2021. NOOCRE loans increased \$221.1 million, or 10.4%, to \$2.34 billion as of December 31, 2022 from \$2.12 billion as of December 31, 2021. The increase was primarily due to normal fluctuations in the OOCRE loan portfolio and new loan origination activity for the period that outpaced paydowns during the year ended December 31, 2022 compared to the year ended December 31, 2021.

Construction and land. Our construction and land development loans consist of loans to fund construction, land acquisition and land development construction. The properties securing the portfolio are primarily located throughout Texas and are generally diverse in terms of type.

Construction and land loans increased \$725.3 million, or 68.3%, to \$1.79 billion as of December 31, 2022 from \$1.06 billion as of December 31, 2021. This increase was due to the robust business and growth environment in the Dallas-Fort Worth metroplex and the Houston metropolitan area.

1-4 family residential. Our 1-4 family residential loans consist of loans secured by single family homes, which are both owner-occupied and investor owned. Our 1-4 family residential loans have a relatively small balance spread between many individual borrowers.

1-4 family residential loans increased \$351.9 million, or 64.9%, to \$894.5 million as of December 31, 2022 from \$542.6 million as of December 31, 2021. The increase was primarily due to normal fluctuations in the 1-4 family residential loan portfolio and new loan origination activity for the period that outpaced paydowns during the year ended December 31, 2022 compared to the year ended December 31, 2021.

PPP loans. PPP loans decreased \$51.4 million, or 96.3%, as of December 31, 2022. These PPP loans were originated through the SBA as a result of the CARES Act, are 100% forgivable if certain criteria are met by the borrowers, and are 100% guaranteed by the SBA. As of December 31, 2022, we have no reason to believe that any of the Company's PPP loans would not qualify for loan forgiveness or the SBA guarantee.

Other loan categories. Other categories of loans in our loan portfolio include farmland and agricultural loans made to farmers and ranchers relating to their operations, multi-family residential loans, consumer loans and purchased receivables financing. None of these categories of loans represents a significant portion of our total loan portfolio.

Out of State Concentration

The majority of the Company's loan portfolio consists of loans to businesses and individuals in the Dallas-Fort Worth metroplex and the Houston metropolitan area. The following table provides details on our out of state portfolio concentration:

Out of State Loan Portfolio	As of December 31, 2022	
	Amount	Percent of Total Loans
	(Dollars in thousands)	
Commercial Real Estate	\$ 780,833	8.2 %
Lender Finance	580,372	6.1 %
Commercial	346,761	3.6 %
MW	300,895	3.2 %
1-4 Family Residential	260,911	2.7 %
USDA and SBA	160,739	1.7 %
Other	377	— %
Total Out of State Loans	\$ 2,430,888	25.5 %

Loans by Maturity and Interest Rate Sensitivity

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of date indicated are summarized in the following tables:

	As of December 31, 2022				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
	(Dollars in thousands)				
Commercial	\$ 693,796	\$ 2,115,467	\$ 95,202	\$ 35,888	\$ 2,940,353
Construction and land	527,487	1,095,824	70,927	93,162	1,787,400
Farmland	1,883	34,623	6,994	—	43,500
1 - 4 family residential	58,465	205,817	48,254	581,920	894,456
Multi-family residential	34,267	283,285	4,868	259	322,679
OOCRE	109,275	268,090	239,807	98,657	715,829
NOOCRE	367,065	1,598,133	346,867	29,314	2,341,379
Consumer	1,944	3,954	1,626	282	7,806
Total LHI, excluding MW and PPP	<u>\$ 1,794,182</u>	<u>\$ 5,605,193</u>	<u>\$ 814,545</u>	<u>\$ 839,482</u>	<u>\$ 9,053,402</u>
LHI, MW	446,227	—	—	—	446,227
PPP loans, carried at fair value	642	1,353	—	—	1,995
Total LHI ⁽¹⁾	<u><u>\$ 2,241,051</u></u>	<u><u>\$ 5,606,546</u></u>	<u><u>\$ 814,545</u></u>	<u><u>\$ 839,482</u></u>	<u><u>\$ 9,501,624</u></u>

⁽¹⁾ Total LHI at December 31, 2022 excludes \$18,973 of deferred loan fees, net.

The interest rate composition of loans with a maturity date over one year are presented below based on contractual terms.

As of December 31, 2022

	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
(Dollars in thousands)				
Amounts with fixed rates, excluding MW and PPP				
Commercial	\$ 140,500	\$ 38,840	\$ —	\$ 179,340
Construction and land	41,198	5,035	—	46,233
Farmland	19,007	644	—	19,651
1 - 4 family residential	85,307	25,879	65,294	176,480
Multi-family residential	60,729	4,868	—	65,597
OOCRE	157,570	135,522	9,765	302,857
NOOCRE	832,743	127,834	—	960,577
Consumer	3,466	1,627	149	5,242
Total	\$ 1,340,520	\$ 340,249	\$ 75,208	\$ 1,755,977
Amounts with floating rates, excluding MW and PPP				
Commercial	\$ 1,974,967	\$ 56,363	\$ 35,887	\$ 2,067,217
Construction and land	1,054,626	65,892	93,162	1,213,680
Farmland	15,616	6,350	—	21,966
1 - 4 family residential	120,510	22,375	516,626	659,511
Multi-family residential	222,556	—	259	222,815
OOCRE	110,520	104,284	88,893	303,697
NOOCRE	765,390	219,032	29,315	1,013,737
Consumer	488	—	132	620
Total	\$ 4,264,673	\$ 474,296	\$ 764,274	\$ 5,503,243

Nonperforming Assets

We have established procedures to assist us in maintaining the overall quality of our loan portfolio. In addition, we have adopted underwriting guidelines to be followed by our lending officers and require senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we monitor them for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines, independent loan review, approval of large credit relationships by our Executive Loan Committee and loan quality documentation procedures. We, like other financial institutions, are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as nonaccrual loans, accruing loans 90 or more days past due, loans modified under restructurings as a result of the borrower experiencing financial difficulties on nonaccrual status, OREO, and other repossessed assets. The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts:

	As of December 31,	
	2022	2021
	(Dollars in thousands)	
Nonperforming loans⁽¹⁾:		
1 - 4 family residential	\$ 862	\$ 990
OOCRE	9,737	14,236
NOOCRE	21,377	17,978
Commercial	11,397	15,267
Consumer	169	1,216
Accruing loans 90 or more days past due ⁽²⁾	125	235
Total nonperforming loans	43,667	49,922
OREO	—	—
Total nonperforming assets	<u>\$ 43,667</u>	<u>\$ 49,922</u>
Nonperforming assets to total assets	0.36 %	0.51 %
Nonperforming loans to total loans, excluding MW and PPP loans	0.48 %	0.74 %

(1) At December 31, 2022 and 2021, nonaccrual loans included PCD loans of \$8,545 and \$11,056, respectively, not accounted for on a pooled basis along with \$13,178 of PCD loans that are accounted for on a pooled basis at December 31, 2022.

(2) At December 31, 2022 and 2021, accruing loans 90 or more days past due excludes \$669 and \$206 in PPP loans, respectively.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We had \$43.7 million in nonperforming loans as of December 31, 2022 compared to \$49.9 million as of December 31, 2021. The decrease of \$6.3 million in nonperforming assets compared to December 31, 2021 was primarily due to the a \$6.1 million decrease in nonaccrual loans.

The following table presents nonaccrual loans by category at the dates indicated:

	December 31, 2022			December 31, 2021		
	Non-Accrual Loans			Non-Accrual Loans		
	Total Loans	Amount	Percent of Loans in Category	Total Loans	Amount	Percent of Loans in Category
Construction and land	\$ 1,787,400	\$ —	— %	\$ 1,062,144	\$ —	— %
Farmland	43,500	—	—	55,827	—	—
1 - 4 family residential	894,456	862	0.10	542,566	990	0.18
Multi-family residential	322,679	—	—	310,241	—	—
OOCRE	715,829	9,737	1.36	665,537	14,236	2.14
NOOCRE	2,341,379	21,377	0.91	2,120,309	17,978	0.85
Commercial	2,940,353	11,397	0.39	2,006,876	15,267	0.76
MW	446,227	—	—	565,645	—	—
Consumer	7,806	169	2.17	11,998	1,216	10.14
Total LHI, excluding PPP	<u>\$ 9,499,629</u>	<u>\$ 43,542</u>	0.46 %	<u>\$ 7,341,143</u>	<u>\$ 49,687</u>	0.68 %
ACL on loans LHI		\$ 91,052			\$ 77,754	
ACL to nonaccrual loans		209 %			156 %	

ACL on LHI

The ACL is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. When the Company deems all or a portion of a loan to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. Subsequent recoveries, if any, are credited to the ACL when received. Refer to Note 1 "Summary of Significant Accounting Policies" and "—Critical Accounting Policies—Loans and Allowance for Credit Losses" for further discussion of our ACL methodology on loans. Allocations of the ACL may be made for specific loans, but the entire allowance is available for any loan that, in the Company's judgment, should be charged-off. Loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of collateral dependent loans.

The following table sets forth the ACL by category of loan:

	December 31, 2022			December 31, 2021		
	Allocated Allowance	% of Loan Portfolio	ACL to Loans	Allocated Allowance	% of Loan Portfolio	ACL to Loans
Construction and land	\$ 13,120	19.7 %	0.73 %	\$ 7,293	15.7 %	0.69 %
Farmland	127	0.4	0.29	187	0.8	0.33
1 - 4 family residential	9,533	9.9	1.07	5,982	8.0	1.10
Multi-family residential	2,607	3.6	0.81	2,664	4.6	0.86
OOCRE	8,707	7.9	1.22	9,215	9.8	1.38
NOOCRE	26,704	25.9	1.14	30,548	31.3	1.44
Commercial	30,142	32.5	1.03	21,632	29.6	1.08
Consumer	112	0.1	1.43	233	0.2	1.94
Total	<u>\$ 91,052</u>	<u>100.0 %</u>	<u>1.01 %</u>	<u>\$ 77,754</u>	<u>100.0 %</u>	<u>1.15 %</u>

As of December 31, 2022, the ACL totaled \$91.1 million, or 1.01%, of total loans, excluding MW and PPP loans. As of December 31, 2021, the ACL totaled \$77.8 million, or 1.15%, of total loans, excluding MW and PPP loans. The decrease in the percentage of ACL to total loans compared to December 31, 2021 was primarily attributable to net charge-offs of \$13.7 million that were fully reserved against in previous periods.

The Company measures expected credit losses of financial assets on a collective, or pool, basis when the financial assets share similar risk characteristics. Depending on the nature of the pool of financial assets with similar risk characteristics, the Company uses a discounted cash flow (“DCF”) method or a loss-rate method to estimate expected credit losses. The Company uses a probability of default/loss given default (“PD/LGD”) model to estimate expected credit losses for our PCD loans and pools acquired prior to January 1, 2020.

The Company’s methodologies for estimating the ACL take into account available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, to the identified pools of financial assets with similar risk characteristics for which the historical loss experience was observed, adjusted for asset-specific characteristics, economic conditions at the measurement date and forecasts about future economic conditions expected to exist through the contractual lives of the financial assets that are reasonable and supportable.

The Company uses the DCF method to estimate expected credit losses for the CRE, construction and land, 1-4 family residential, commercial (excluding liquid credit and premium finance) and consumer loan pools. For each of these loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, curtailment rates, time to recovery, probability of default and loss given default. The modeling of expected prepayment speeds, curtailment rates and time to recovery are based on historical internal data. Consistent forecasts of the loss drivers are used across the loan segments. The Company also forecasts prepayments speeds for use in the DCF models with higher prepayment speeds resulting in lower required ACL levels and vice versa for shorter prepayment speeds. These assumed prepayment speeds are based upon our historical prepayment speeds by loan type adjusted for the expected impact of the current interest rate environment. Generally, the impact of these assumed prepayment speeds is lesser in magnitude than the aforementioned loss driver assumptions.

For all DCF models at December 31, 2022, the Company determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over four quarters on a straight-line basis. The Company leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. At December 31, 2022 as compared to December 31, 2021, there was relatively little change to forecasted Texas unemployment and a decrease in year over year percentage change in Texas gross domestic product. At December 31, 2022 for Texas unemployment, the Company projected a low percentage in the first quarter followed by a gradual rise in the following three quarters. For percentage change in Texas gross domestic product, the Company projected a high percentage in the first quarter followed by a gradual decline in the following three quarters. At December 31, 2022, the Company slowed its historical prepayment speeds in response to the rising interest rate environment in the macro economy.

The Company uses a loss-rate method to estimate expected credit losses for the farmland and MW loan pools. For each of these loan segments, the Company applies an expected loss ratio based on internal and peer historical losses adjusted as appropriate for qualitative factors. Qualitative loss factors are based on the Company's judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions. Loss factors used to calculate the required ACL on pools that use the loss-rate method reflect the forecasted economic conditions described above.

In estimating expected credit losses as of December 31, 2022, we utilized the Moody’s Analytics December 2022 forecast the macroeconomic variables used in our models. A weighting of forecast scenarios from December 2022 were based on the review of a variety of surveys of forecasts of the U.S. economy. The December 2022 baseline scenario projections included, among other things, (i) U.S. Nominal Gross Domestic Product annualized quarterly growth rate of 2.65% in the first quarter of 2023, followed by annualized quarterly growth rates in the range of 3.62% to 4.50% during the remainder of 2023 and an average annualized growth rate of 4.79% through the end of the forecast period in the fourth quarter of 2024; (ii) U.S. unemployment rate of 3.80% in the first quarter of 2023 and an average quarterly U.S. unemployment rate of 4.06% through the end of the forecast period in the fourth quarter of 2024; (iii) Texas unemployment rate of 4.10% in the first quarter of 2023 and an average quarterly Texas unemployment rate of 4.04% through the end of the forecast period in the fourth quarter of 2024; (iv) projected average 10 year Treasury rate of 4.03% in the first quarter of 2023 and average projected rates of 4.25% during the remainder of 2023 and 3.96% in 2024; and (v) average oil price of \$93 per barrel in the first quarter of 2023 decreasing to \$67 per barrel by the end of the forecast period in the fourth quarter of 2024.

The following tables show our credit ratios and an analysis of our credit loss expense and net (charge-offs) recoveries:

	For the Years Ended December 31,	
	2022	2021
ACL	\$ 91,052	\$ 77,754
Total LHI	9,053,402	6,775,498
ACL to Total LHI	<u>1.01 %</u>	<u>1.15 %</u>
Nonaccrual loans	\$ 43,542	\$ 49,687
Total LHI	9,053,402	6,775,498
Nonaccruals to Total LHI	<u>0.48 %</u>	<u>0.73 %</u>
ACL	\$ 91,052	\$ 77,754
Nonaccrual loans	43,542	49,687
ACL to nonaccrual loans	<u>209.11 %</u>	<u>156.49 %</u>

Additional information related to credit loss expense and net (charge-offs) recoveries is presented in the table below:

(Dollars in thousands)	Net (Charge-offs) Recoveries	Average Loans	Annualized Net (Charge-off) Recoveries to Average Loans
2022			
Construction and land	\$ —	\$ 1,524,434	— %
Farmland	—	48,235	—
1 - 4 family residential	31	733,059	—
Multi-family residential	—	274,408	—
OOCRE	(2,375)	719,649	(0.33)
NOOCRE	(1,685)	2,156,008	(0.08)
Commercial	(8,423)	2,429,899	(0.35)
MW	—	433,062	—
Consumer	(1,200)	8,443	(14.21)
Total	<u>\$ (13,652)</u>	<u>\$ 8,327,197</u>	<u>(0.17)%</u>
2021			
Construction and land	\$ —	\$ 862,465	— %
Farmland	—	28,861	—
1 - 4 family residential	(315)	519,632	(0.06)
Multi-family residential	—	376,405	—
OOCRE	(1,900)	744,572	(0.26)
NOOCRE	(7,936)	2,030,825	(0.39)
Commercial	(14,034)	1,996,970	(0.70)
MW	—	468,001	—
Consumer	204	11,099	1.84
Total	<u>\$ (23,981)</u>	<u>\$ 7,038,830</u>	<u>(0.34)%</u>
2020			
Construction and land	\$ —	\$ 630,019	— %
Farmland	—	15,316	—
1 - 4 family residential	39	543,098	0.01
Multi-family residential	—	391,282	—
OOCRE	(2,421)	743,247	(0.33)
NOOCRE	(2,865)	1,819,774	(0.16)
Commercial	(15,405)	1,920,214	(0.80)
MW	—	318,657	—
Consumer	125	14,782	0.85
Total	<u>\$ (20,527)</u>	<u>\$ 6,396,389</u>	<u>(0.32)%</u>

Net loans charged off decreased \$10.3 million, or 43.1%. Although we believe that we have established our allowance for credit losses in accordance with accounting principles generally accepted in the United States (“GAAP”) and that the allowance for credit losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions will be subject to ongoing evaluations of the risks in our loan portfolio. If we experience economic declines or if asset quality deteriorates, material additional provisions could be required.

Off-Balance Sheet Credit exposure

The ACL on off-balance-sheet credit exposures totaled \$10.1 million and \$9.3 million at December 31, 2022 and December 31, 2021, respectively. The level of the ACL on off-balance-sheet credit exposures depends upon the volume of outstanding commitments, underlying risk grades, the expected utilization of available funds and forecasted economic conditions impacting our loan portfolio.

Equity Securities

As of December 31, 2022, we held equity securities with a readily determinable fair value of \$9.8 million compared to \$11.0 million as of December 31, 2021. These equity securities represent investments in a publicly traded CRA fund and are subject to market pricing volatility, with changes in fair value recorded in earnings.

The Company held equity securities without a readily determinable fair values and measured at cost of \$10.1 million at December 31, 2022 compared to \$4.4 million as of December 31, 2021. The Company measures equity securities that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

FHLB Stock and FRB Stock

As of December 31, 2022, we held FHLB stock and FRB stock of \$101.6 million compared to \$71.9 million as of December 31, 2021. The Bank is a member of its regional Federal Reserve Bank and of the Federal Home Loan Bank (the "FHLB") system. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Both FRB and FHLB stock are carried at cost, restricted for sale, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Other non-marketable equity securities are carried at their cost, which approximates fair value.

Debt Securities

We use our debt securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of December 31, 2022, the carrying amount of debt securities totaled \$1.28 billion, an increase of \$230 million, or 21.8%, compared to \$1.05 billion as of December 31, 2021. The increase in our debt securities in 2022 were primarily due to purchases of debt securities of \$452.6 million and net unrealized gains \$127.2 million, offset by maturities, calls and paydowns of \$103.7 million. Debt securities represented 10.6% and 10.8% of total assets as of December 31, 2022 and 2021, respectively.

Our investment portfolio consists of debt securities classified as available-for-sale ("AFS") and held-to-maturity ("HTM"). As a result, the carrying values of our AFS debt securities are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in stockholders' equity. Our HTM debt securities are recorded at their amortized cost. The following table summarizes the amortized cost and estimated fair value of our AFS debt securities, excluding HTM debt securities, as of the dates shown:

	As of December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
	(Dollars in thousands)				
Corporate bonds	\$ 268,179	\$ 1,445	\$ 17,379	\$ —	\$ 252,245
Municipal securities	49,886	3	4,198	—	45,691
Mortgage-backed securities	156,408	23	17,420	—	139,011
Collateralized mortgage obligations	609,456	—	55,850	—	553,606
Asset-backed securities	42,015	289	2,613	—	39,691
Collateralized loan obligations	69,750	—	3,702	—	66,048
Total	<u>\$ 1,195,694</u>	<u>\$ 1,760</u>	<u>\$ 101,162</u>	<u>\$ —</u>	<u>\$ 1,096,292</u>

As of December 31, 2021

	Amortized Cost	Gross	Gross	ACL	Fair Value
		Unrealized Gains	Unrealized Losses		
(Dollars in thousands)					
Corporate bonds	\$ 198,396	\$ 10,294	\$ 178	\$ —	\$ 208,512
Municipal securities	116,100	8,261	431	—	123,930
Mortgage-backed securities	124,230	4,326	1,489	—	127,067
Collateralized mortgage obligations	424,174	12,240	2,350	—	434,064
Asset-backed securities	53,466	1,616	519	—	54,563
Collateralized loan obligations	45,089	—	167	—	44,922
Total	\$ 961,455	\$ 36,737	\$ 5,134	\$ —	\$ 993,058

All of our mortgage-backed securities and collateralized mortgage obligations are issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored entities. We do not hold any Fannie Mae or Freddie Mac preferred stock, corporate equity, collateralized debt obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt-A or second lien elements in our investment portfolio. As of December 31, 2022, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

Management evaluates AFS debt securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to (1) the extent to which the fair value is less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2022, management believes that AFS debt securities in an unrealized loss position are due to noncredit-related factors, including changes in interest rates and other market conditions, and therefore no allowance for credit losses have been recognized in the Company's condensed consolidated balance sheets. The Company also recorded no allowance for credit losses for its HTM debt securities as of December 31, 2022.

The following table sets forth the fair value and amortized cost for AFS securities and HTM debt securities, respectively, maturities and approximated weighted average yield based on estimated annual income divided by the average fair value of AFS debt securities and amortized cost of HTM debt securities as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

As of December 31, 2022

	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Corporate bonds	\$ —	— %	\$ 53,944	5.54 %	\$ 183,252	4.44 %	\$ 15,049	6.01 %	\$ 252,245	4.77 %
Municipal securities	—	—	235	3.00	15,428	2.68	143,685	2.13	159,348	2.18
Mortgage-backed securities	—	—	17	3.34	33,560	2.93	141,776	2.28	175,353	2.40
Collateralized mortgage obligations	35,761	2.77	91,615	2.81	144,781	2.16	317,618	2.79	589,775	2.64
Asset-backed securities	—	—	4,006	3.28	7,436	6.44	28,249	3.59	39,691	4.09
Collateralized loan obligations	—	—	—	—	20,658	1.63	45,390	1.74	66,048	1.71
Total	\$ 35,761	2.77 %	\$ 149,817	3.81 %	\$ 405,115	3.33 %	\$ 691,767	2.58 %	\$ 1,282,460	2.97 %

As of December 31, 2021

	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Corporate bonds	\$ —	— %	\$ 5,004	3.64 %	\$ 186,170	4.60 %	\$ 17,338	5.98 %	\$ 208,512	4.69 %
Municipal securities	—	—	236	2.56	4,650	2.56	147,223	2.76	152,109	2.75
Mortgage-backed securities	—	—	34	3.25	28,814	3.42	123,986	2.13	152,834	2.37
Collateralized mortgage obligations	—	—	70,358	2.83	209,695	2.42	159,501	1.88	439,554	2.29
Asset-backed securities	—	—	—	—	18,143	2.76	36,420	2.57	54,563	2.63
Collateralized loan obligations	—	—	—	—	15,550	1.74	29,372	1.59	44,922	1.64
Total	\$ —	— %	\$ 75,632	2.88 %	\$ 463,022	3.35 %	\$ 513,840	2.36 %	\$ 1,052,494	2.83 %

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset-backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay amounts outstanding. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed-rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of these securities. The weighted average life of our investment portfolio was 5.98 years with an estimated effective duration of 3.94 years as of December 31, 2022. The average yield of the securities portfolio was 3.03% during 2022 compared to 2.94% during 2021.

As of December 31, 2022 and December 31, 2021, we did not own securities of any one issuer other than U.S. government agency securities, for which aggregate adjusted cost exceeded 10.0% of the consolidated stockholders' equity as of such respective dates.

Intangible Assets and Goodwill

Intangible assets and goodwill as of December 31, 2022 were \$53.2 million and \$404.5 million, respectively. There was a decrease of intangible assets of \$12.8 million compared to December 31, 2021. The increase in goodwill was due to the finalization of the purchase price accounting on our acquisition of NAC.

	December 31, 2022	December 31, 2021
	(Dollars in thousands)	
Intangible assets	\$ 53,213	\$ 66,017
Goodwill	404,452	403,771

Deposits

We offer a variety of deposit products having a wide range of interest rates and terms, including demand, savings, money market and time accounts. We rely primarily on competitive pricing policies, convenient locations and personalized service to attract and retain these deposits.

Total deposits as of December 31, 2022 were \$9.12 billion, an increase of \$1.76 billion, or 23.9%, compared to \$7.36 billion as of December 31, 2021, due primarily to increases of \$1.09 billion and \$129.9 million in money market accounts and noninterest-bearing deposit accounts, and an increase of \$510.1 million in certificates of deposit, respectively. Our deposit growth was primarily related to our continued penetration in our primary market areas, the increase in commercial lending relationships for which we also seek deposit balances and increases in our financial institution money market accounts.

Average deposits for the year ended December 31, 2022 were \$8.32 billion, an increase of \$1.32 billion, or 18.9% over average deposits of \$6.99 billion for the year ended December 31, 2021. The average rate paid on total interest-bearing deposits increased from 0.34% for the year ended December 31, 2021 to 1.05% for the year ended December 31, 2022. The increase in the average rate paid on interest-bearing deposits was due to the overall market condition, and a increase in the prime rate during 2022.

The following table presents the daily average balances and weighted average rates paid on deposits for the periods indicated:

	For Year Ended December 31,			
	2022		2021	
	Average Balance	Average Rate	Average Balance	Average Rate
(Dollars in thousands)				
Interest-bearing demand accounts	\$ 613,318	0.40 %	\$ 484,657	0.11 %
Savings accounts	129,376	0.05	123,432	0.07
Money market accounts	3,192,232	1.26	2,590,136	0.24
Certificates and other time deposits > \$250,000	801,779	0.75	744,512	0.55
Certificates and other time deposits < \$250,000	799,908	1.17	795,676	0.62
Total interest-bearing deposits	<u>5,536,613</u>	1.05	<u>4,738,413</u>	0.34
Noninterest-bearing demand accounts	<u>2,782,077</u>		<u>2,256,546</u>	
Total deposits	<u>\$ 8,318,690</u>	0.70 %	<u>\$ 6,994,959</u>	0.23 %

Our ratio of average noninterest-bearing deposits to average total deposits was 33.4% and 32.3% for the years ended December 31, 2022 and December 31, 2021, respectively.

Factors affecting the cost of funding of our interest-bearing assets include the volume of noninterest- and interest-bearing deposits, changes in market interest rates (including increases in fed fund rates) and economic conditions in our target markets and their impact on interest paid on our deposits, change in deposit mix, as well as the ongoing execution of our balance sheet management strategy. Our cost of funds was 0.70% in 2022 and 0.23% in 2021. Average rates on interest-bearing deposits were 1.05% in 2022 and 0.34% in 2021.

Borrowings

We utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

FHLB Advance

The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2022, 2021 and 2020, total borrowing capacity of \$787.3 million, \$777.5 million and \$766.4 million, respectively, was available under this arrangement and \$1.18 billion, \$777.6 million and \$777.7 million, respectively, was outstanding, with an average interest rate of 1.73% as of December 31, 2022, 0.94% as of December 31, 2021 and 1.04% as of December 31, 2020. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. The following table presents our current FHLB advances based on year of maturity as of December 31, 2022.

Maturity Year	FHLB Advances	
	(Dollars in thousands)	
2023	\$	1,075,000
2024		100,000
Total	<u>\$</u>	<u>1,175,000</u>

The following table presents our FHLB borrowings at the dates indicated. Other than FHLB borrowings, we had no other short-term borrowings at the dates indicated.

	FHLB Advances	
	(Dollars in thousands)	
December 31, 2022		
Amount outstanding at period end	\$	1,175,000
Weighted average interest rate at period end		4.67 %
Maximum month-end balance during the period	\$	1,200,000
Average balance outstanding during the period		896,687
Weighted average interest rate during the period		1.73 %
December 31, 2021		
Amount outstanding at period end	\$	777,562
Weighted average interest rate at period end		0.94 %
Maximum month-end balance during the period	\$	777,654
Average balance outstanding during the period		777,635
Weighted average interest rate during the period		0.94 %
December 31, 2020		
Amount outstanding at period-end	\$	777,718
Weighted average interest rate at period-end		0.94 %
Maximum month-end balance during the period	\$	1,377,767
Average balance outstanding during the period		1,024,142
Weighted average interest rate during the period		1.04 %

FRB. The FRB has an available borrower in custody arrangement, which allows us to borrow on a collateralized basis. Certain commercial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. As of December 31, 2022 and 2021, \$1.14 billion and \$995.1 million, respectively, were available under this arrangement based on collateral values of pledged commercial and consumer loans. As of December 31, 2022, approximately \$1.00 billion in commercial loans were pledged as collateral. As of December 31, 2022 and 2021, no borrowings were outstanding under this arrangement.

Subordinated Notes.

The table below details our subordinated notes, Refer to Note 14 "Borrowed Funds" for further discussion on the details of our subordinated notes.

	Face Value	Maturity Date	Current Rate	Repricing Date	Variable Interest Rate at Repricing Date
4.75% Fixed-to-Floating Rate Subordinated Notes	\$ 75,000	2029	4.75%	11/15/2024	Three Month SOFR+347bps
4.125% Fixed-to-Floating Rate Subordinated Notes	125,000	2030	4.125%	10/15/2025	Three Month SOFR+399.5bps
Total	\$ 200,000				

The subordinated notes bear interest payable semi-annually in arrears to, but excluding the first repricing date, and thereafter payable quarterly in arrears at an annual floating rate. We may, at our option, beginning on the respective first repricing date and on any scheduled interest payment date thereafter, redeem the subordinated notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the subordinated notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The subordinated notes are included on the consolidated balance sheets as liabilities at their carrying values; however, for regulatory purposes, the carrying value of these obligations were eligible for inclusion in Tier 2 regulatory capital. Issuance costs related to the subordinated notes have been netted against the subordinated notes liability on the balance sheet. The debt

issuance costs are being amortized using the effective interest method through maturity and recognized as a component of interest expense.

Junior subordinated debentures.

The table below details our junior subordinated debentures. Refer to Note 14 "Borrowed Funds" for further discussion on the details of our junior subordinated debentures.

	Balance	Maturity Date	Variable Interest Rate	Interest Rate at December 31, 2022
Parkway Trust Securities	\$ 3,093	2036	LIBOR + 1.85%	6.62 %
SovDallas Trust Securities	8,609	2038	LIBOR + 4.00%	7.74
Patriot I Capital Trust I	5,155	2037	LIBOR + 1.85%	5.93
Patriot II Capital Trust II	17,011	2038	LIBOR + 1.80%	6.57
Total	\$ 33,868			

These debentures are unsecured obligations and were issued to trusts that are unconsolidated subsidiaries. The trusts in turn issued trust preferred securities with identical payment terms to unrelated investors. The debentures may be called by the Company at par plus any accrued but unpaid interest; however, we have no current plans to redeem them prior to maturity. Interest on the debentures is calculated quarterly, based on a rate equal to three month LIBOR plus a weighted average spread of 2.37%.

The debentures are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, these obligations are eligible for inclusion in regulatory capital, subject to certain limitations. All of the carrying value of \$33.9 million was allowed in the calculation of Tier I capital as of December 31, 2022

Liquidity and Capital Resources

Liquidity

Liquidity management involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. The Company's liquidity strategy is guided by policies, formulated and monitored by senior management and the Asset and Liability Management Committee which take into account the demonstrated marketability of the Company's assets, the sources and stability of its funding and the level of unfunded commitments. The Company regularly evaluates all of its various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2022, 2021 and 2020, our liquidity needs were primarily met by core deposits, wholesale borrowings, security and loan maturities and amortizing investment and loan portfolios. Use of brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB and the FRB are available and have been utilized to take advantage of the cost of these funding sources.

We maintained five lines of credit with commercial banks that provide for extensions of credit with an availability to borrow up to an aggregate amount of \$175.0 million as of December 31, 2022 and December 31, 2021. There were no advances under these lines of credit outstanding as of December 31, 2022, and 2021.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the period indicated. Average assets totaled \$10.99 billion for the year ended December 31, 2022, \$9.36 billion for the year ended December 31, 2021 and \$8.53 billion for the year ended December 31, 2020.

	For the Years Ended		
	December 31,		
	2022	2021	2020
Sources of Funds:			
Deposits:			
Noninterest-bearing	25.3 %	24.1 %	21.4 %
Interest-bearing	35.8	34.2	32.0
Certificates and other time deposits	14.6	16.5	18.2
Advances from FHLB	8.1	8.3	12.0
Other borrowings	2.1	2.8	2.0
Other liabilities	1.1	0.6	0.7
Stockholders' equity	13.0	13.5	13.6
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>
Uses of Funds:			
Loans	74.9 %	73.2 %	72.7 %
Securities AFS	11.6	12.0	13.2
Interest-bearing deposits in other banks	1.5	1.5	1.2
Other noninterest-earning assets	12.0	13.3	12.9
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>
Average noninterest-bearing deposits to average deposits	33.4 %	32.3 %	29.9 %
Average loans, excluding MW and PPP, to average deposits	94.6 %	89.9 %	94.5 %

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans, excluding MW and PPP, net of allowance for credit loss increased 25.9% for the year ended December 31, 2022 compared to the same period in 2021 and an increase of 9.0% for the year ended December 31, 2021. We invest excess deposits in interest-bearing deposits at other banks, the FRB or liquid investments securities until these monies are needed to fund loan growth.

As of December 31, 2022, we had \$4.51 billion in outstanding commitments to extend credit, \$1.09 billion in MW commitments and \$98.2 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2021, we had \$3.81 billion in outstanding commitments to extend credit, \$716.4 million in MW commitments and \$65.9 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2022, we had cash and cash equivalents of \$436.1 million, compared to \$379.8 million at December 31, 2021.

Analysis of Cash Flows

	For the Years Ended	
	December 31,	
	2022	2021
	(Dollars in thousands)	
Net cash provided by operating activities	\$ 192,726	\$ 193,491
Net cash used in investing activities	(2,399,378)	(816,389)
Net cash provided by financing activities	2,262,945	771,857
Net change in cash and cash equivalents	<u>\$ 56,293</u>	<u>\$ 148,959</u>

Cash Flows Provided by Operating Activities

For the year ended December 31, 2022, net cash provided by operating activities decreased by \$765 thousand from \$193.5 million to \$192.7 million primarily due to a decrease in proceeds from sales of LHFS of \$51.5 million, the cash from the termination of derivatives designated as hedging instruments of \$43.9 million in 2021 and an increase of gain on sales of government guaranteed loans of \$6.8 million. This decrease in cash was offset by a decrease in net originations of LHFS of \$67.0 million, an increase in provision for credit losses of \$32.6 million and an increase in net income of \$6.7 million.

Cash Flows Used in Investing Activities

For the year ended December 31, 2022, net cash used in investing activities increased by \$1.58 billion compared to the same period in 2021. The increase in cash used in investing activities was primarily attributable to a \$1.57 billion increase in net loans originated.

Cash Flows Provided by Financing Activities

For the year ended December 31, 2022, net cash provided by financing activities increased by \$1.49 billion compared to the same period in 2021. The increase in cash provided by financing activities was primarily attributable to a \$908.2 million increase in deposits, a \$397.6 million increase in advances from FHLB and a \$154.4 million increase in proceeds from our common stock offering completed in 2022.

For the years ended December 31, 2022 and 2021, the Company had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

Share Repurchases

On January 28, 2019, our Board of Directors authorized a stock buyback program pursuant to which we may, from time to time, purchase up to \$50.0 million of our outstanding common stock (the "Stock Buyback Program"). Our Board of Directors authorized increases of \$50.0 million in September 2019, \$75.0 million in December 2019 and \$75.0 million in September 2021, resulting in an aggregate authorization to purchase of up to \$250.0 million of our common stock. Our Board of Directors also authorized extensions of the expiration date of the Stock Buyback Program from December 31, 2019 to December 31, 2020, then from December 31, 2020 to March 31, 2021 and then from March 31, 2021 to December 31, 2022. The shares may be repurchased in the open market or in privately negotiated transactions from time to time, depending upon market conditions and other factors, and in accordance with applicable regulations of the SEC. The Stock Buyback Program does not obligate the Company to purchase any shares. The Stock Buyback Program may be terminated or amended by the Board of Directors at any time prior to its expiration.

Share repurchases during the periods ended are as follows:

	Twelve Months Ended December 31,	
	2022	2021
Number of shares repurchased	—	475,744
Weighted average price per share	\$ —	\$ 32.36

In August 2022, the Inflation Reduction Act of 2022 (the "IRA") was enacted. Among other things, the IRA imposes a new 1% excise tax on the fair market value of stock repurchased after December 31, 2022 by publicly traded U.S. corporations. With certain exceptions, the value of stock repurchased is determined net of stock issued in the year, including shares issued pursuant to compensatory arrangements.

Capital Resources

Total stockholders' equity was \$1.45 billion as of December 31, 2022, compared to \$1.32 billion as of December 31, 2021, an increase of \$134.7 million, or 10.2%. The increase from December 31, 2021 was primarily the result of \$154.4 million net proceeds from common stock follow on offering, \$146.3 million in net income and \$11.9 million of stock based compensation partially offset by \$133.5 million of other comprehensive income related to unrealized gain/loss of available for sale debt securities and \$42.3 million in dividends declared and paid.

For the years ended December 31, 2022, 2021 and 2020, we declared and paid \$42.3 million, \$36.5 million and \$34.1 million in cash dividends, respectively. For the years ended December 31, 2022, 2021 and 2020 we purchased zero, 475.7 thousand, and 2.3 million shares, respectively, of our common stock under the Stock Buyback Program.

Under the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in regulatory capital. Accordingly, amounts reported as accumulated other comprehensive income/loss related to debt securities AFS and effective cash flow hedges do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios. In connection with the adoption of ASC 326 on January 1, 2020, we also elected to exclude, for a transitional period, the effects of credit loss accounting under CECL in the calculation of our regulatory capital and regulatory capital ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. See Note 24 - Capital Requirements and Restrictions on Retained Earnings in the accompanying notes to consolidated financial statements elsewhere in this report.

The following table presents the actual capital amounts and regulatory capital ratios for us and the Bank as of the dates indicated.

	As of December 31,		As of December 31,	
	2022		2021	
	Amount	Ratio	Amount	Ratio
(Dollars in thousands)				
Veritex Holdings, Inc.				
Total capital (to RWA)	\$ 1,395,904	11.63 %	\$ 1,100,404	11.60 %
Tier 1 capital (to RWA)	1,121,021	9.34	843,585	8.89
Common equity tier 1 (to RWA)	1,091,353	9.09	814,138	8.58
Tier 1 capital (to average assets)	1,121,021	9.82	843,585	9.05
Veritex Community Bank				
Total capital (to RWA)	\$ 1,368,082	11.41 %	\$ 1,053,871	11.11 %
Tier 1 capital (to RWA)	1,291,288	10.77	994,351	10.48
Common equity tier 1 (to RWA)	1,291,288	10.77	994,351	10.48
Tier 1 capital (to average assets)	1,291,288	11.32	994,351	10.69

We paid quarterly dividends of \$0.20, \$0.20, \$0.20 and \$0.20 per common share during the first, second, third and fourth quarter of 2022, respectively, and quarterly dividends of \$0.17, \$0.20, \$0.20 and \$0.20 per common share during the first, second, third and fourth quarter of 2021, respectively. This equates to a dividend payout ratio of 28.9% in 2022 and 26.2% in 2021. The amount of dividend, if any, we may pay may be limited as more fully discussed in Note 24 in the accompanying notes to consolidated financial statements elsewhere in this report (See Note 24 - Capital Requirements and Restrictions on Retained Earnings).

Contractual Obligations

In the ordinary course of business, we have entered into contractual obligations and have made other commitments to make future payments. Refer to the accompanying notes to consolidated financial statements elsewhere in this report for the expected timing of such payments as of December 31, 2022. These include payments related to (i) operating leases (Note 8 - Leases), (ii) time deposits with stated maturity dates (Note 11 - Deposits), (iii) long-term borrowings (Note 14 - Borrowed Funds), and (iv) commitments to extend credit, MW commitments and standby and commercial letters of credit (Note 18 - Off-Balance-Sheet Loan Commitments).

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may

not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP and the prevailing practices in the financial services industry. However, we also evaluate our performance by reference to certain additional financial measures discussed in this Annual Report on Form 10-K that we identify as being “non-GAAP financial measures.” In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Annual Report on Form 10-K should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Annual Report on Form 10-K may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Annual Report on Form 10-K when comparing such non-GAAP financial measures.

Tangible Book Value Per Common Share. Tangible book value is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) tangible common equity as total stockholders’ equity less goodwill and core deposit intangibles, net of accumulated amortization; and (b) tangible book value per common share as tangible common equity (as described in clause (a)) divided by the number of common shares outstanding at the end of the relevant period. The most directly comparable financial measure calculated in accordance with GAAP is our book value per common share.

We believe that this measure is important to many investors who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and core deposit intangibles have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total stockholders’ equity to tangible common equity and presents our tangible book value per common share compared with our book value per common share:

	For the Year Ended December 31,		
	2022	2021	2020
	(Dollars in thousands, except per share data)		
Tangible Common Equity			
Total stockholders' equity	\$ 1,449,773	\$ 1,315,079	\$ 1,203,376
Adjustments:			
Goodwill	(404,452)	(403,771)	(370,840)
Core deposit intangibles	(38,247)	(47,998)	(57,758)
Tangible common equity	\$ 1,007,074	\$ 863,310	\$ 774,778
Common shares outstanding	54,030	49,372	49,340
Book value per common share	\$ 26.83	\$ 26.64	\$ 24.39
Tangible book value per common share	\$ 18.64	\$ 17.49	\$ 15.70

Tangible Common Equity to Tangible Assets. Tangible common equity to tangible assets is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) tangible common equity as total stockholders’ equity, less goodwill and core deposit intangibles, net of accumulated amortization; (b)

tangible assets as total assets less goodwill and core deposit intangibles, net of accumulated amortization; and (c) tangible common equity to tangible assets as tangible common equity (as described in clause (a)) divided by tangible assets (as described in clause (b)). The most directly comparable financial measure calculated in accordance with GAAP is total stockholders' equity to total assets.

We believe that this measure is important to many investors who are interested in the relative changes from period to period in common equity and total assets, in each case, exclusive of changes in intangible assets. Goodwill and core deposit intangibles have the effect of increasing both total stockholders' equity and assets while not increasing our tangible common equity or tangible assets.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity and total assets to tangible assets and presents our tangible common equity to tangible assets:

	For the Year Ended December 31,		
	2022	2021	2020
	(Dollars in thousands)		
Tangible Common Equity			
Total stockholders' equity	\$ 1,449,773	\$ 1,315,079	\$ 1,203,376
Adjustments:			
Goodwill	(404,452)	(403,771)	(370,840)
Core deposit intangibles	(38,247)	(47,998)	(57,758)
Tangible common equity	\$ 1,007,074	\$ 863,310	\$ 774,778
Tangible Assets			
Total assets	\$ 12,154,361	\$ 9,757,249	\$ 8,820,871
Adjustments:			
Goodwill	(404,452)	(403,771)	(370,840)
Core deposit intangibles	(38,247)	(47,998)	(57,758)
Tangible assets	\$ 11,711,662	\$ 9,305,480	\$ 8,392,273
Tangible Common Equity to Tangible Assets	8.60 %	9.28 %	9.23 %

Critical Accounting Estimates

SEC guidance requires disclosure of "critical accounting estimates." The SEC defines "critical accounting estimates" as those estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the registrant.

We follow financial accounting and reporting policies that are in accordance with accounting principles generally accepted in the United States. The more significant of these policies are summarized in Note 1 - Summary of Significant Accounting Policies in the notes to the consolidated financial statements included elsewhere in this report. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC's definition of a critical accounting policy.

Management considers the policies related to the ACL as the most critical to the financial statement presentation. The total ACL includes activity related to allowances calculated in accordance with ASC 310, "Receivables", and ASC 450, "Contingencies". The ACL is established through a provision for credit losses charged to current earnings. The amount maintained in the allowance reflects management's estimate of expected credit losses in the loan portfolio at the report date. The ACL is comprised of specific reserves assigned to certain financial assets that do not share risk characteristics with its other financial assets and general reserves. Factors contributing to the determination of specific reserves include the creditworthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of establishing the general reserve, we stratify the loan portfolio into homogeneous groups of loans that possess similar loss potential characteristics and apply a loss ratio to these groups of loans to estimate the credit losses in the loan portfolio. We use both historical loss ratios and qualitative loss factors assigned to major loan collateral types to establish general component loss allocations. Refer to "Loans and Allowance for Credit Losses" in Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this report for further discussion of the factors considered by management in establishing the allowance for credit loss.

Business Combinations

We apply the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. We use valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets and liabilities assumed, is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Debt Securities

Securities are classified as HTM and carried at amortized cost when we have the positive intent and ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as AFS and carried at fair value, with the unrealized holding gains and losses reported in other comprehensive income, net of tax. We determine the appropriate classification of securities at the time of purchase.

Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Credit related declines in the fair value of HTM and AFS debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses, with the remaining unrealized loss recognized as a component of other comprehensive income. In estimating allowance for credit losses, we consider, among other things, (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and our ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Goodwill

Goodwill resulting from a business combination represents the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is not amortized but is reviewed for potential impairment annually on October 31 of each fiscal year or when a triggering event occurs.

We may first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. We have an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test, and we may resume performing the qualitative assessment in any subsequent period. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform the quantitative goodwill impairment test. The quantitative goodwill impairment test, used to identify both the existence of potential impairment and the amount of impairment loss, involves estimating the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any such adjustments to goodwill are reflected in the results of operations in the periods in which they become known.

Estimating the fair values of a reporting unit involves the use of significant assumptions, estimates and judgments with respect to a variety of factors, including revenues, capital expenditures, cash flows and the selection and use of an appropriate discount rate and market values and multiples of earnings and revenues of similar public companies. Projected sales and capital expenditures are based on our annual business plan or other forecasted results. Discount rates reflect market-based estimates of the risks associated with the projected cash flows of the reporting unit.

The use of different assumptions, estimates or judgments in the goodwill impairment testing process, including with respect to the estimated future cash flows of our reporting unit, the discount rate used to discount such estimated cash flows to their net present value, and the reasonableness of the resultant implied control premium relative to our market capitalization, could materially increase or decrease the fair value of the reporting unit and/or its net assets and, accordingly, could materially increase or decrease any related impairment charge.

Recent Accounting Pronouncements

Refer to “Recent Accounting Pronouncements” in Note 3 of the Notes to the Consolidated Financial Statements contained in Item 8 of this report for further discussion.

Special Cautionary Notice Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on various facts and derived utilizing assumptions, current expectations, estimates and projections and are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include, without limitation, statements relating to the expected payment date of our quarterly cash dividend, impact of certain changes in our accounting policies, standards and interpretations, our future financial performance, business and growth strategy, projected plans and objectives, as well as other projections based on macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact broader economic and industry trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words “believes,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing words. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to the concentration of our business in Texas, and specifically within the Dallas-Fort Worth metroplex and the Houston metropolitan area, including risks associated with any downturn in the real estate sector and risks associated with a decline in the values of single family homes in the Dallas-Fort Worth metroplex and the Houston metropolitan area;
- uncertain market conditions and economic trends nationally, regionally and particularly in the Dallas-Fort Worth metroplex and Texas;
- the effects of regional or national civil unrest;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses;
- our ability to implement our growth strategy, including identifying and consummating suitable acquisitions;
- our ability to recruit and retain successful bankers that meet our expectations in terms of customer relationships and profitability;
- changes in our accounting policies, standards and interpretations;
- our ability to retain executive officers and key employees and their customer and community relationships;
- risks associated with our CRE and construction loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- risks associated with our commercial loan portfolio, including the risk of deterioration in value of the general business assets that generally secure such loans;
- our level of nonperforming assets and the costs associated with resolving problem loans, if any, and complying with government-imposed foreclosure moratoriums;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- risks related to the significant amount of credit that we have extended to a limited number of borrowers and in a limited geographic area;

- changes in the financial performance and/or condition of our borrowers;
- our ability to maintain adequate liquidity (including the effect of the transition to the CECL methodology for allowances and related adjustments) and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- potential fluctuations in the market value and liquidity of our debt securities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- our ability to maintain an effective system of disclosure controls and procedures and internal control over financial reporting;
- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with difficulties and/or terminations with third-party service providers and the services they provide;
- risks associated with unauthorized access, cyber-crime and other threats to data security;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, and economic stimulus programs;
- uncertainty regarding the future of LIBOR and any replacement alternatives on our business;
- changes in consumer spending, borrowing and saving habits;
- acts of God, war or terrorism;
- the potential impact of climate change;
- the impact of pandemics, epidemics or any other health-related crisis;
- the effects of and changes in governmental monetary and fiscal policies and laws, including the policies of the Federal Reserve;
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of FDIC, insurance and other coverage; and
- systemic risks associated with the soundness of other financial institutions

Other factors not identified above, including those described under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. Any forward-looking statement speaks only as of the date on which it is made. You should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation, and specifically decline any obligation, to publicly release any supplement, update or revision to any forward-looking statements, to report events or to report the occurrence of unanticipated events, whether as a result of new information, future developments or otherwise, unless we are required to do so by law.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset, liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. With exception of an interest rate floors, which is designated as a hedging instrument, we do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. We enter into interest rate swaps, caps and collars as an accommodation to our customers in connection with our interest rate swap program. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset-Liability Committee of the Bank in accordance with policies approved by its board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and the balance sheet, respectively. Contractual maturities and repricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio.

We utilize static balance sheet rate shocks to estimate the potential impact on net interest income of changes in interest rates under various rate scenarios. This analysis estimates a percentage of change in the metric from the stable rate base scenario versus alternative scenarios of rising and falling market interest rates by instantaneously shocking a static balance sheet. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 5.0% for a 100 basis point shift, 10.0% for a 200 basis point shift, and 15.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

Change in Interest Rates (Basis Points)	As of December 31, 2022		As of December 31, 2021	
	Percent Change in Net Interest	Percent Change in Fair Value	Percent Change in Net Interest	Percent Change in Fair Value
	Income	of Equity	Income	of Equity
+300	13.00 %	4.65 %	20.31 %	15.79 %
+200	8.88	3.36	13.13	11.62
+100	4.46	1.77	6.60	6.64
Base	—	—	—	—
-100	(4.72)	(2.55)	(3.85)	(11.68)

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

LIBOR Transition

In 2017, the U.K. Financial Conduct Authority announced that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. The administrator of LIBOR extended publication of the most commonly used U.S. dollar LIBOR settings to June 30, 2023 and ceased publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies issued guidance strongly encouraging banking organizations to cease using U.S. dollar LIBOR as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021.

On March 15, 2022, President Biden signed into law the "Adjustable Interest Rate (LIBOR) Act," as part of the Consolidated Appropriations Act, 2022, which provides for a statutory transition to a replacement rate selected by the Federal Reserve based on the SOFR for contracts referencing LIBOR that contain no fallback provisions or ineffective fallback provisions, unless a replacement rate is selected by a determining person as outlined in the statute. On December 16, 2022, the Federal Reserve adopted a final rule implementing the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR that will replace LIBOR in certain financial contracts after June 30, 2023.

The Company has significant but declining exposure to financial instruments with attributes that are either directly or indirectly dependent on LIBOR to establish their interest rate and/or value, some of which mature after June 30, 2023. The Company established a working group, consisting of key stakeholders from throughout the Company, to monitor developments relating to LIBOR changes and to guide the Bank's response. This team has worked to successfully ensure that technology systems are prepared for the transition, loan documents that reference LIBOR-based rates have been appropriately amended to reference other methods of interest rate determinations and internal and external stakeholders have been apprised of the transition. Based on the transition progress to date, the Company ceased originating LIBOR-based products and began originating alternative indexed products in December 2021. The Company will continue to transition all remaining LIBOR-based products to an alternative benchmark. The Company will also continue to evaluate the transition process and align its trajectory with regulatory guidelines regarding the cessation of LIBOR as well as monitor new developments for transitioning to alternative reference rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Veritex Holdings, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Veritex Holdings, Inc. (a Texas corporation) and subsidiaries (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 28, 2023 expressed an unqualified opinion.

Basis for opinion

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

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

Critical audit matter

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

Allowance for credit losses – macroeconomic forecasts on collectively evaluated loans

As described further in Notes 1 and 6 to the consolidated financial statements, in connection with the allowance for credit losses (“ACL”) on loans held for investment (“LHI”) within the consolidated balance sheets, the Company measures expected credit losses of financial assets on a collective (pooled) basis when the financial assets share similar risk characteristics. The Company’s discounted cash flow (“DCF”) model for estimating the ACL on the loan portfolio considers available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The forecasts about future economic conditions are updated within the ACL model on a quarterly basis. To incorporate management’s estimate of forecasted economic conditions, the Company applies weightings to different forecasted economic scenarios based on the likeliness of a scenario occurring as of the reporting date, which are applied in the DCF model that calculates the estimate amount. We identified the selection and weighting of economic forecasts on collectively evaluated loans as a critical audit matter.

The principal consideration for our determination that the selection and weighting of economic forecasts on collectively evaluated loans represents a critical audit matter is that management made significant judgments in estimating their reasonable and supportable forecasts by selecting and weighing the available forecast scenarios. Evaluating management’s conclusions required a high degree of auditor judgment in auditing these significant assumptions and evaluating the reasonableness of management’s judgments.

Our audit procedures related to the selection and weighting of economic forecasts on collectively evaluated loans included the following, among others:

- We tested the design and operating effectiveness of management’s review controls over the ACL, which included committee oversight and approval of the selection and weighting of forecast assumptions applied in the DCF model.
- We obtained an understanding as it related to key judgments made by management in the determination of expected credit losses, including management’s methodology and processes for the selection and weighting of economic forecasts.
- We evaluated management’s selection of and weighting applied to forecasted economic scenarios by inspecting the underlying scenario assumptions and considering publicly available evidence.
- We validated the mathematical accuracy of the weighted forecast assumptions applied within the DCF model.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2014.

Dallas, Texas

February 28, 2023

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2022 and 2021
(Dollars in thousands, except par value information)

	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	\$ 60,551	\$ 44,023
Interest bearing deposits in other banks	375,526	335,761
Total cash and cash equivalents	436,077	379,784
Debt securities available-for-sale ("AFS"), at fair value	1,096,292	993,058
Debt securities held-to-maturity ("HTM") (fair value of \$158,781 and \$61,446 at December 31, 2022 and 2021, respectively)	186,168	59,436
Equity securities	19,864	15,393
Securities purchased under agreement to resell	—	102,288
Investment in unconsolidated subsidiaries	1,018	1,018
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock	101,568	71,892
Total investments	1,404,910	1,243,085
Loans held for sale ("LHFS")	20,641	26,007
Loans held for investment ("LHI"), Paycheck Protection Program ("PPP") loans, carried at fair value	1,995	53,369
LHI, mortgage warehouse ("MW")	446,227	565,645
LHI, excluding MW and PPP	9,034,429	6,766,009
Less: Allowance for credit losses ("ACL")	(91,052)	(77,754)
Total LHI, net	9,391,599	7,307,269
Bank-owned life insurance ("BOLI")	84,496	83,194
Premises and equipment, net	108,824	109,271
Intangible assets, net of accumulated amortization	53,213	66,017
Goodwill	404,452	403,771
Other assets	250,149	138,851
Total assets	\$ 12,154,361	\$ 9,757,249
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing deposits	\$ 2,640,617	\$ 2,510,723
Interest-bearing transaction and savings deposits	4,395,975	3,276,312
Certificates and other time deposits	2,086,642	1,576,580
Total deposits	9,123,234	7,363,615
Accounts payable and other liabilities	177,579	69,160
Advances from FHLB	1,175,000	777,562
Subordinated debentures and subordinated notes	228,775	227,764
Securities sold under agreements to repurchase	—	4,069
Total liabilities	10,704,588	8,442,170
Stockholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares - 75,000,000		
Issued shares - 60,668,049 and 56,010,423 at December 31, 2022 and December 31, 2021, respectively	607	560
Additional paid-in capital ("APIC")	1,306,852	1,142,758
Retained earnings	379,299	275,273
Accumulated other comprehensive (loss) income ("AOCI")	(69,403)	64,070
Treasury stock, 6,638,094 and 6,638,094 shares at cost at December 31, 2022 and 2021, respectively	(167,582)	(167,582)
Total stockholders' equity	1,449,773	1,315,079
Total liabilities and stockholders' equity	\$ 12,154,361	\$ 9,757,249

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2022, 2021 and 2020
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2022	2021	2020
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	\$ 399,679	\$ 280,526	\$ 286,583
Debt securities	38,736	32,132	30,726
Deposits in financial institutions and Fed Funds sold	6,275	589	1,221
Equity securities and other investments	4,720	3,237	3,320
Total interest and dividend income	449,410	316,484	321,850
INTEREST EXPENSE			
Transaction and savings deposits	42,785	6,858	13,233
Certificates and other time deposits	15,307	9,079	23,678
Advances from FHLB	15,501	7,336	10,609
Subordinated debentures and subordinated notes	11,160	12,428	8,532
Total interest expense	84,753	35,701	56,052
NET INTEREST INCOME	364,657	280,783	265,798
Provision (benefit) for credit losses	26,950	(3,349)	56,640
Provision (benefit) for credit losses on unfunded commitments	820	(1,481)	9,029
Net interest income after provision for credit losses	336,887	285,613	200,129
NONINTEREST INCOME			
Service charges and fees on deposit accounts	20,139	16,742	13,703
Loan fees	10,442	7,607	4,556
(Loss) gain on sale of debt securities	—	(188)	2,615
Gain on sale of mortgage LHFS	550	1,592	1,239
Government guaranteed loan income, net	14,060	15,760	14,150
Equity method investment (loss) income	(5,141)	5,760	—
Customer swap income	7,898	2,491	2,482
Other	4,874	8,641	8,599
Total noninterest income	52,822	58,405	47,344
NONINTEREST EXPENSE			
Salaries and employee benefits	117,841	94,748	79,453
Occupancy and equipment	18,744	17,263	16,363
Professional and regulatory fees	14,142	12,945	11,729
Data processing and software expense	14,013	9,946	9,213
Marketing	7,179	5,344	3,651
Amortization of intangibles	9,979	10,057	10,790
Telephone and communications	1,484	1,434	1,312
COVID expenses	—	—	1,377
Debt extinguishment costs	—	—	11,307
Merger and acquisition ("M&A") expense	1,379	826	—
Other	18,314	15,149	14,192
Total noninterest expense	203,075	167,712	159,387
Income before income tax expense	186,634	176,306	88,086
Income tax expense	40,319	36,722	14,203
NET INCOME	\$ 146,315	\$ 139,584	\$ 73,883
Basic earnings per share	<u>2.75</u>	<u>2.83</u>	<u>1.48</u>
Diluted earnings per share	<u>\$ 2.71</u>	<u>\$ 2.77</u>	<u>\$ 1.48</u>

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022, 2021 and 2020
(Dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
NET INCOME	\$ 146,315	\$ 139,584	\$ 73,883
OTHER COMPREHENSIVE INCOME			
Net unrealized (losses) gains on debt securities AFS:			
Change in net unrealized (losses) gains on debt securities AFS during the period, net	(131,005)	(23,596)	35,400
Amortization from transfer of debt securities from AFS to HTM	3,790	—	—
Reclassification adjustment for net losses (gains) included in net income	—	188	(2,623)
Net unrealized (losses) gains on securities AFS	(127,215)	(23,408)	32,777
Net unrealized (losses) gains on derivative instruments designated as cash flow hedges	(41,499)	33,338	14,657
Other comprehensive (loss) income, before tax	(168,714)	9,930	47,434
Income tax (benefit) expense	(35,241)	2,085	10,270
Other comprehensive (loss) income, net of tax	(133,473)	7,845	37,164
COMPREHENSIVE INCOME	<u>\$ 12,842</u>	<u>\$ 147,429</u>	<u>\$ 111,047</u>

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2022, 2021 and 2020
(Dollars in thousands, except share data)

	Common Stock		Treasury Stock		APIC	Retained Earnings	AOCI	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	51,063,869	\$ 549	3,812,711	\$ (94,603)	\$ 1,117,879	\$ 147,911	\$ 19,061	\$ 1,190,797
Restricted stock units ("RSUs") vested, net of 22,404 shares withheld to cover taxes	111,558	1	—	—	(666)	—	—	(665)
Exercise of employee stock options, net of 100,400 and 145,044 shares withheld to cover taxes and exercise, respectively	501,980	5	—	—	1,132	—	—	1,137
Stock warrants exercised	10,000	—	—	—	109	—	—	109
Stock buyback	(2,349,639)	—	2,349,639	(57,470)	—	—	—	(57,470)
Stock based compensation	—	—	—	—	7,983	—	—	7,983
Net income	—	—	—	—	—	73,883	—	73,883
Dividends paid	—	—	—	—	—	(34,057)	—	(34,057)
CECL impact on date of adoption	—	—	—	—	—	(15,505)	—	(15,505)
Other comprehensive income	—	—	—	—	—	—	37,164	37,164
Balance at December 31, 2020	<u>49,337,768</u>	<u>\$ 555</u>	<u>6,162,350</u>	<u>\$ (152,073)</u>	<u>\$ 1,126,437</u>	<u>\$ 172,232</u>	<u>\$ 56,225</u>	<u>\$ 1,203,376</u>
RSUs vested, net of 23,613 shares withheld to cover taxes	118,454	2	—	—	(579)	—	—	(577)
Exercise of employee stock options, net of 13,015 and 71,089 shares withheld to cover taxes and exercise, respectively	376,851	3	—	—	6,162	—	—	6,165
Stock warrants exercised	15,000	—	—	—	165	—	—	165
Stock buyback	(475,744)	—	475,744	(15,509)	—	—	—	(15,509)
Stock based compensation	—	—	—	—	10,573	—	—	10,573
Net income	—	—	—	—	—	139,584	—	139,584
Dividends paid	—	—	—	—	—	(36,543)	—	(36,543)
Other comprehensive income	—	—	—	—	—	—	7,845	7,845
Balance at December 31, 2021	<u>49,372,329</u>	<u>\$ 560</u>	<u>6,638,094</u>	<u>\$ (167,582)</u>	<u>\$ 1,142,758</u>	<u>\$ 275,273</u>	<u>\$ 64,070</u>	<u>\$ 1,315,079</u>
RSUs vested, net of 83,447 shares withheld to cover taxes	259,733	3	—	—	(3,366)	—	—	(3,363)
Exercise of employee stock options, net of 6,904 and 28,064 shares withheld to cover taxes and exercise, respectively	83,419	1	—	—	1,159	—	—	1,160
Common stock follow on offering	4,314,474	43	—	—	154,372	—	—	154,415
Stock based compensation	—	—	—	—	11,929	—	—	11,929
Net income	—	—	—	—	—	146,315	—	146,315
Dividends paid	—	—	—	—	—	(42,289)	—	(42,289)
Other comprehensive loss	—	—	—	—	—	—	(133,473)	(133,473)
Balance at December 31, 2022	<u>54,029,955</u>	<u>\$ 607</u>	<u>6,638,094</u>	<u>\$ (167,582)</u>	<u>\$ 1,306,852</u>	<u>\$ 379,299</u>	<u>\$ (69,403)</u>	<u>\$ 1,449,773</u>

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2022, 2021 and 2020
(Dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
OPERATING ACTIVITIES:			
Net income	\$ 146,315	\$ 139,584	\$ 73,883
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets and intangibles	18,668	15,731	15,832
Net accretion of time deposit premium, debt discount and debt issuance costs	977	(713)	(1,735)
Provision for credit losses and unfunded commitments	27,770	(4,830)	65,669
Accretion of loan discount	(5,047)	(7,193)	(14,060)
Stock-based compensation expense	11,929	10,573	7,983
Deferred tax (benefit) expense	(5,662)	4,647	(9,384)
Excess tax benefit from stock compensation	(1,056)	(838)	(1,435)
Net amortization of premiums on debt securities	4,708	2,885	3,236
Unrealized loss (gain) on equity securities recognized in earnings	1,246	325	(480)
Change in cash surrender value and mortality rates of BOLI	(1,302)	(339)	(1,940)
Net loss (gain) on sales of debt securities	—	188	(2,615)
Change in fair value of government guaranteed loans using fair value option	(1,072)	(1,845)	2,040
Gain on sales of mortgage LHFS	(550)	(1,592)	(1,239)
Gain on sales of government guaranteed loans	(12,988)	(6,194)	(3,379)
Originations of LHFS	(52,991)	(119,989)	(132,842)
Proceeds from sales of LHFS	61,130	112,606	125,375
Net impairment of servicing asset	1,823	71	368
Loss (gain) on sales of OREO	—	416	(693)
Equity method investment loss (income)	5,141	(5,760)	—
Termination of derivatives designated as hedging instruments	—	43,900	—
Gain on sale of premises and equipment	—	—	(358)
(Increase) decrease in other assets	(55,770)	11,139	(20,546)
Increase (decrease) in accounts payable and other liabilities	49,457	719	3,970
Net cash provided by operating activities	192,726	193,491	107,650
INVESTING ACTIVITIES:			
Net cash paid for acquisitions	—	(55,522)	—
Purchases of AFS debt securities	(452,599)	(201,385)	(1,175,050)
Proceeds from sales of AFS debt securities	—	13,300	113,771
Proceeds from maturities, calls and pay downs of AFS debt securities	103,683	193,227	1,033,779
Purchases of HTM debt securities	(17,460)	(32,286)	—
Maturity, calls and paydowns on HTM debt securities	4,487	3,370	1,793
Purchases of equity method securities	—	(54,970)	(2,888)
Purchases of other investments	(35,393)	(1,436)	—
Sales (purchases) of securities under agreements to resell	102,288	(102,288)	—
Proceeds from sales of equity securities	—	—	221
Net loans originated	(2,193,503)	(626,512)	(897,455)
Proceeds from sale of government guaranteed loans	93,739	44,912	44,867
Net additions to premises and equipment	(4,620)	(13,575)	(2,864)
Proceeds from sales of premises and equipment	—	14,551	2,157
Proceeds from sales of OREO and repossessed assets	—	2,225	7,114
Net cash used in investing activities	(2,399,378)	(816,389)	(874,555)

FINANCING ACTIVITIES:			
Net increase in deposits	1,759,653	851,468	619,380
Net increase (decrease) in advances from FHLB	397,438	(156)	99,848
Redemption of subordinated debt	—	(35,000)	(5,000)
Proceeds from issuance of subordinated notes, net of debt issuance costs paid	—	—	123,026
Net change in securities sold under agreement to repurchase	(4,069)	1,844	(128)
Net proceeds on sale of common stock in public offering	154,415	—	—
Proceeds from exercise of employee stock options	1,160	6,313	4,301
Payments to tax authorities for stock-based compensation	(3,363)	(725)	(3,829)
Proceeds from exercise of stock warrants	—	165	109
Purchase of treasury stock	—	(15,509)	(57,470)
Dividends paid	(42,289)	(36,543)	(34,057)
Net cash provided by financing activities	2,262,945	771,857	746,180
Net increase (decrease) in cash and cash equivalents	56,293	148,959	(20,725)
Cash and cash equivalents at beginning of year	379,784	230,825	251,550
Cash and cash equivalents at end of year	\$ 436,077	\$ 379,784	\$ 230,825

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollars in thousands, except for per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

In this report, the words, "Veritex," "the Company," "we," "us," and "our" refer to the combined entities of Veritex Holdings, Inc. and its subsidiaries, including Veritex Community Bank. The word "Holdco" refers to Veritex Holdings, Inc.. The words "the Bank" refers to Veritex Community Bank.

Veritex is a Texas state banking organization, with corporate offices in Dallas, Texas, and currently operates 18 branches located in the Dallas-Fort Worth metroplex and 10 branches in the Houston metropolitan area. The Bank provides a full range of banking services to individual and corporate customers, which include commercial and retail lending, and the acceptance of checking and savings deposits. The Texas Department of Banking (the "TDB") and the Board of Governors of the Federal Reserve System (the "Federal Reserve") are the primary regulators of the Company and the Bank, and both regulatory agencies perform periodic examinations to ensure regulatory compliance.

The accounting principles followed by the Company and the methods of applying them are in conformity with U.S. generally accepted accounting principles ("GAAP") and prevailing practices of the banking industry. Intercompany transactions and balances are eliminated in consolidation.

Accounting Standards Codification ("ASC")

The Financial Accounting Standards Board's ("FASB") ASC is the officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Segment Reporting

The Company has one reportable segment. All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each activity of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Bank as one segment or unit. The Company's chief operating decision-maker, the Chief Executive Officer, uses the consolidated results to make operating and strategic decisions.

Reclassifications

Certain items in the Company's prior year financial statements were reclassified to conform to the current presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates. The allowance for credit losses, the fair values of financial instruments, realization of deferred tax assets, and the status of contingencies are particularly subject to change.

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks, interest-bearing deposits in other banks and federal funds sold.

The Bank maintains deposits with other financial institutions in amounts that exceed federal deposit insurance coverage. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Debt Securities

Debt securities that the Company has both the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost. Debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as AFS and are carried at fair value. Unrealized gains and losses on debt securities classified as AFS have been accounted for as accumulated other comprehensive income (loss), net of taxes. Management determines the appropriate classification of debt securities at the time of purchase.

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

The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest separately in other assets on the consolidated balance sheets. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2022, 2021 and 2020.

Transfers of debt securities from AFS to HTM

Transfers of debt securities into the HTM category from the AFS category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in other comprehensive income and in the carrying value of the HTM securities. Such amounts are amortized over the remaining life of the security.

Equity Securities

Equity securities are recorded at fair value, with unrealized gains and losses included in other noninterest income. The Company measures equity securities that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Dividends on equity securities are recorded in interest income for equity securities and other investments. Realized gains and losses are recorded on the sale of equity securities in gain (loss) on sales of securities. The Company recorded no impairment for equity securities without a readily determinable fair value for the years ended December 31, 2022 and 2021.

ACL – AFS Debt Securities

For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities AFS that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as provision for (or benefit of) credit loss expense. Losses are charged against the allowance when management believes the non-collectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on AFS debt securities is excluded from the estimate of credit losses.

ACL – HTM Debt Securities

Management measures expected credit losses on HTM debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Accrued interest receivable on HTM debt securities is excluded from the estimate of credit losses.

Management classifies the HTM portfolio into the following major security types: mortgage-backed securities, collateralized mortgage obligations and municipal securities. All of the mortgage-backed securities and collateralized mortgage obligations held by the Company are issued by U.S. government entities and agencies. These debt securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses.

FHLB and FRB Stock

The Bank is a member of its regional FRB and of the FHLB system. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Both FRB and FHLB stock are carried at cost, restricted for sale, and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are recorded in interest income for equity securities and other investments.

LHFS

Loans are classified as held-for-sale when management has positively determined that the loans will be sold in the foreseeable future and the Company has the intent and ability to do so. The Company's held-for-sale loans typically consist of certain government guaranteed loans or mortgage loans. The classification may be made upon origination or subsequent to origination or purchase. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost or estimated fair value on an individual loan basis, except for those held-for-sale loans for which the Company elects to use the fair value option. The fair value of loans held-for-sale is based on commitments from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. The Company obtains commitments to purchase the loans from secondary market investors prior to closing of the loans. Mortgage LHFS are sold with servicing released. Gains and losses on sales of LHFS are based on the difference between the selling price and the carrying value of the related loan sold.

Fair Value Option

On a specific identification basis, the Company may elect the fair value option for certain financial instruments in the period the financial instrument was originated or acquired. As of December 31, 2022, the Company had held for sale government guaranteed loans and held for investment PPP loans that the Company has elected to carry at fair value. Changes in fair value for instruments using the fair value option are recorded in noninterest income. The Company had a decrease in fair value for loans the Company elected to carry at fair value of \$1,072 for the year ended December 31, 2022 as compared to an increase in the fair value for loans the Company elected to carry at fair value of \$1,845 for the year ended December 31, 2021. There was an decrease of \$2,040 in fair value for LHFS using the fair value option for the year ended December 31, 2020.

In addition, the Company records upfront costs and fees as incurred that are related to items for which the fair value option is elected through noninterest income. For the years ended December 31, 2021 and 2020 the Company recognized any upfront fees of \$7,721 and \$12,811 on PPP loans through government guaranteed loan income, net, on the consolidated statements of income, respectively. No fee was recognized for the year ended December 31, 2022.

Gain on Sale of Guaranteed Portion of Small Business Administration ("SBA") and United States Department of Agriculture ("USDA") Loans

The Company originates loans to customers under government guaranteed programs that generally provide for guarantees of 50% to 90% of each loan, subject to a maximum guaranteed amount. The Company can sell the guaranteed portion of the loan in an active secondary market and retains the unguaranteed portion in its portfolio.

All sales of government guaranteed loans are executed on a servicing retained basis, and the Company retains the rights and obligations to service the loans. The standard sale structure provides for the Company to retain a portion of the cash flow from the interest payment received on the loan. When a loan sale involves the transfer of an interest less than the entire loan, the controlling accounting method under FASB ASC 860, Transfers and Servicing, requires the seller to reallocate the carrying basis between the assets transferred and the assets retained based on the relative fair value of the respective assets as of the date of sale. The maximum gain on sale that can be recognized is the difference between the fair value of the assets sold and the reallocated basis of the assets sold. The gain on sale, which is recognized in government guaranteed loan income, net on the consolidated statements of income, is the sum of the cash premium on the guaranteed loan and the fair value of the servicing assets recognized, less the discount recorded on the unguaranteed portion of the loan retained by the Company. For the years ended December 31, 2022, 2021 and 2020, the Company recognized \$12,988, \$6,194, and \$3,379, respectively, of gain on sales of government guaranteed loans.

Gain on Sale of Mortgage LHFS

Certain mortgage LHFS are sold with servicing released. Gains and losses on sales of mortgage LHFS are based on the difference between the selling price and the carrying value of the loan sold.

Adoption of New Accounting Standard

On January 1, 2020, the Company adopted Accounting Standard Update (“ASU”) 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet (“OBS”) credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for AFS debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, net investments in leases and OBS credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of \$15,505 as of January 1, 2020 for the cumulative effect of adopting ASC 326.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (“PCD”) that were previously classified as purchased credit impaired (“PCI”) and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2020, the amortized cost basis of the PCD assets were adjusted to reflect the addition of \$19,710 of the ACL. The remaining noncredit discount will be accreted into interest income at the effective interest rate. As allowed by ASC 326, the Company elected to maintain pools of loans accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption.

The following table illustrates the impact of ASC 326.

	January 1, 2020		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
ACL on debt securities HTM	\$ —	\$ —	\$ —
ACL on loans			
Construction and land	3,760	3,822	(62)
Farmland	65	61	4
1 - 4 family residential	6,002	1,378	4,624
Multi-family residential	2,593	1,965	628
Owner Occupied Commercial Real Estate ("OOCRE")	13,066	1,978	11,088
Non-Owner Occupied Commercial Real Estate ("NOOCRE")	15,314	8,139	7,175
Commercial	27,729	12,369	15,360
Consumer	442	122	320
ACL on loans	\$ 68,971	\$ 29,834	\$ 39,137
Liabilities:			
ACL on OBS credit exposures	\$ 1,718	\$ 878	\$ 840

LHI

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the ACL. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, fair value hedge accounting adjustments, deferred loan fees and costs. The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and report accrued interest separately from the related loan balance in other assets on the Consolidated Balance Sheets.

Interest on loans is recognized using the effective-interest method on the daily balances of the principal amounts outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due in accordance with the terms of the loan agreement. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they come due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When a loan is placed on nonaccrual status, all interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Acquired Loans

Prior to January 1, 2020, loans acquired in a business combination that had evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable were considered PCI. PCI loans were accounted for individually or aggregated into pools of loans based on common risk characteristics such as credit grade, loan type, and date of origination.

All loans considered to be PCI loans prior to January 1, 2020 were converted to PCD loans upon the Company's adoption of ASC 326. The Company elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account for all applicable areas of accounting which include credit loss measurement, interest income recognition, non-accrual determination, write-off determination and trouble debt restructuring identification. Loans are only removed from the existing pools if they are foreclosed, written off, paid off, or sold. Upon adoption of ASC 326, the ACL was determined for each loan or pool and added to the loan or pool's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the loan or pool and the new amortized cost basis is the noncredit premium or discount which will be accreted into interest income over the remaining life of the loan or pool. Changes to the ACL after adoption are recorded through provision for credit loss expense.

Subsequent to January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered PCD loans. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial ACL is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial ACL is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the loans.

For acquired loans not deemed purchased credit deteriorated at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. At the acquisition date, an initial allowance for expected credit losses is estimated and recorded as credit loss expense.

The subsequent measurement of expected credit losses for all acquired loans is the same as the subsequent measurement of expected credit losses for originated loans.

ACL - Loans

The ACL is a valuation account that is deducted from the LHI amortized cost basis to present the net amount expected to be collected on LHI.

The Company estimates the ACL on loan held for investment based on the underlying assets' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL.

Expected credit losses are reflected in the ACL through a charge to provision for credit loss expense. When the Company deems all or a portion of a financial asset to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. The Company applies judgment to determine when a financial asset is deemed uncollectible; however, an asset will typically be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACL when received.

The Company measures expected credit losses of financial assets on a collective, or pool, basis, when the financial assets share similar risk characteristics. Depending on the nature of the pool of financial assets with similar risk characteristics, the Company uses a discounted cash flow ("DCF") method or a loss-rate method to estimate expected credit losses. The Company uses a probability of default/loss given default ("PD/LGD") model to estimate expected credit losses for our PCD loans and pools acquired prior to January 1, 2020.

The Company's methodologies for estimating the ACL take into account available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions expected to exist through the contractual lives of the financial assets that are reasonable and supportable, to the identified pools of financial assets with similar risk characteristics for which the historical loss experience was observed.

The Company has identified the following pools of financial assets with similar risk characteristics for measuring expected credit losses:

Real Estate — This category of loans consists of the following loan types:

Construction and land — This category of loans consists of loans to finance the ground up construction, improvement and/or carrying for sale after the completion of construction of owner occupied and non-owner occupied residential and commercial properties, and loans secured by raw or improved land. The repayment of construction loans is generally dependent upon the successful completion of the improvements by the builder for the end user, or sale of the property to a third party. Repayment of land secured loans are dependent upon the successful development and sale of the property, the sale of the land as is, or the outside cash flow of the owners to support the retirement of the debt.

Farmland — These loans are principally loans to purchase farmland.

1-4 family residential — This category of loans includes both first and junior liens on residential real estate. Home equity revolving lines of credit and home equity term loans are included in this group of loans.

Multi-family residential — This category of loans is primarily secured by non-owner occupied apartment or multifamily residential buildings. Generally, these types of loans are thought to involve a greater degree of credit risk than owner occupied CRE as they are more sensitive to adverse economic conditions.

OOCRE — This category of loans includes real estate loans for a variety of commercial property types and purposes. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location, throughout the Dallas-Fort Worth metroplex and Houston metropolitan area. This diversity helps reduce the exposure to adverse economic events that may affect any single market or industry.

NOOCRE — This category of loans includes investment real estate loans that are primarily secured by office and industrial buildings, retail shopping centers and various special purpose properties. Generally, these types of loans are thought to involve a greater degree of credit risk than OOCRE as they are more sensitive to adverse economic conditions.

Commercial — This category of loans is for commercial, corporate and business purposes. The Company's commercial business loan portfolio is comprised of loans for a variety of purposes and across a variety of industries. These loans include general commercial and industrial loans, loans to purchase capital equipment, agriculture operating loans and other business loans for working capital and operational purposes. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory.

Mortgage warehouse — Mortgage warehouse facilities are provided to unaffiliated mortgage origination companies and are collateralized by 1-4 family residential loans. The originator closes new mortgage loans with the intent to sell these loans to third party investors for a profit. The Company provides funding to the mortgage companies for the period between the origination and their sale of the loan. The Company is repaid with the proceeds received from sale of the mortgage loan to the final investor.

Consumer — This category of loans is used for personal use typically for consumer purposes.

Collateral Dependent Financial Assets

Loans that do not share similar risk characteristics are evaluated on an individual basis. For collateral dependent financial assets where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the financial asset exceeds the fair value of the underlying collateral less estimated costs to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

For collateralized financial assets that are not collateral dependent, the Company will consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured with similar collateral to determine the ACL.

Troubled-debt Restructurings (TDRs)

From time to time, the Company may modify its loan agreement with a borrower. A modified loan is considered a TDR, using Accounting Standards Codification 310-40, “*Receivables – Troubled Debt Restructurings by Creditors*,” (“ASC 310-40”), when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. The ACL on a TDR is measured using the same method as all other LHI except that the original interest rate is used to discount the expected cash flows, not the rate specified within the restructuring. In addition, when management has a reasonable expectation of executing a TDR, the expected effect of the modification is included in the estimate of the ACL. ASU 2022-02, “*Financial Instruments - Credit Losses (Topic 326)*” (“ASU 2022-02”) eliminates the guidance on troubled debt restructurings and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans and leases. The adoption of ASU 2022-02 is not expected to have a significant impact on our financial statements.

Contractual Term

The Company’s estimate of the ACL reflects losses expected over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected TDR.

Discounted Cash Flow Method

The Company uses the DCF method to estimate expected credit losses for the CRE, construction and land, 1-4 family residential, commercial (excluding liquid credit and premium finance), and consumer loan pools. For each of these loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, curtailment rates, time to recovery, probability of default and loss given default. The modeling of expected prepayment speeds, curtailment rates and time to recovery are based on historical internal data.

The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. For all loan pools utilizing the DCF method, management utilizes and forecasts Texas unemployment as a loss driver. Management also utilizes and forecasts either one-year percentage change in Texas gross domestic product or one-year percentage change in the CRE property index as a second loss driver depending on the nature of the underlying loan pool and how well that loss driver correlates to expected future losses.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over four quarters on a straight-line basis as of the reporting period. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment speeds, curtailment rates and time to recovery) produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows (“NPV”). An ACL is established for the difference between the instrument’s NPV and amortized cost basis. The ACL is further refined for qualitative loss factors based on management’s judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions.

Loss-Rate Method

The Company uses a loss-rate method to estimate expected credit losses for its farmland and MW loan pool. For these loan segments, the Company applies an expected loss ratio based on internal and peer historical losses adjusted as appropriate for qualitative factors. Qualitative loss factors are based on management’s judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions.

Probability of Default/Loss Given Default Method

The Company uses the PD/LGD method to estimate expected credit losses for the construction and land, 1-4 family residential, OOCRE, NOOCRE, commercial and consumer PCD loan pools. For each of these loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, time to recovery, probability of default, and loss given default.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment and time to recovery) produces an expected cash flow stream at the instrument level. An ACL is established for the difference between the instrument's undiscounted cash flows and amortized cost basis. The ACL is further refined for qualitative loss factors based on management's judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions.

Loan Commitments and ACL on Off-Balance Sheet Credit Exposures

Financial instruments include OBS credit instruments, such as commitments to make loans, MW commitments and standby and commercial letters of credit, issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for OBS loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an ACL on OBS credit exposures, unless the commitments to extend credit are unconditionally cancellable, through a charge to provision for credit losses for unfunded commitments included in the Company's consolidated statements of income. The ACL on OBS credit exposures is estimated by loan segment at each balance sheet date under the CECL model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur, and is included in accounts payable and other liabilities on the Company's consolidated balance sheets.

Derivative Financial Instruments (Not Designated as Accounting Hedges)

The Company has entered into certain derivative instruments pursuant to a customer accommodation program under which the Company enters into an interest rate swap, cap or collar agreement with a commercial customer and an agreement with offsetting terms with a correspondent bank. These derivative instruments are not designated as accounting hedges and the swap fees and changes in net fair value are recognized in noninterest income or expense on the Company's condensed consolidated statements of income and the fair value amounts are included in other assets and accounts payable and other liabilities on the Company's condensed consolidated balance sheets.

Derivative Financial Instruments (Designated as Accounting Hedges)

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company uses interest rate swaps, floors, caps and collars to manage overall cash flow changes related to interest rate risk exposure on benchmark interest rate loans. The entire change in the fair value related to the derivative instrument is recognized as a component of other comprehensive income and subsequently reclassified into interest income when the forecasted transaction affects income.

The Company assesses the "effectiveness" of hedging derivatives on the date an arrangement was entered into and on a prospective basis at least quarterly. Hedge "effectiveness" is determined by the extent to which changes in the fair value of a derivative instrument offset changes in the fair value, cash flows or carrying value attributable to the risk being hedged. If the relationship between the change in the fair value of the derivative instrument and the change in the hedged item falls within a range considered to be the industry norm, the hedge is considered "highly effective" and qualifies for hedge accounting. A hedge is "ineffective" if the relationship between the changes falls outside the acceptable range. In that case, hedge accounting is discontinued on a prospective basis. The time value of the option is excluded from the assessment of effectiveness and is recognized in earnings using a straight-line amortization method over the life of the hedge arrangement. Gains or losses resulting from the termination or sale of a derivative accounted for as a cash flow hedge remain in other comprehensive income and are accreted or amortized to earnings over the remaining period of the former hedging relationship unless the forecasted transaction becomes probable of not occurring.

Transfers of Financial Assets

Transfers of financial assets (generally consisting of sales of LHFS and loan participation with unaffiliated banks) are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Equity Method Investments

The Company applies the equity method of accounting to investments when the Company has significant influence, but not a controlling interest in the investee. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

The Company's equity method investments are reported at cost and include direct transaction costs to make the investment. Equity method investments are subsequently adjusted each period for the Company's proportionate share of the investee's income or loss, which includes an elimination by the Company of any intra-entity profits and losses. In addition, the Company's subsequent proportionate share of other comprehensive income or loss is reported in the Company's condensed consolidated statements of comprehensive income with a corresponding adjustment to the equity method investment. Any dividends received on the investment are recognized as a reduction to the carrying amount of the investment.

The difference between the cost of an investment and the amount of underlying equity in net assets of the investee represents an equity method basis difference, which shall be accounted for as if the investee were consolidated. The Company accounts for the equity method basis difference as equity method goodwill. The Company assesses equity method investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable.

On July 16, 2021, the Bank acquired a 49% interest in Thrive Mortgage, LLC ("Thrive") for \$54,914 in cash and obtained the right to designate a member to Thrive's board of directors. As a result of the investment, the Company has a \$35,816 basis difference which is being accounted for as equity method goodwill.

The Company had \$55,589 and \$60,730 in equity method investments for the years ended December 31, 2022 and 2021 reported in "other assets" in the consolidated balance sheets. The Company's proportionate share of the loss resulting from these investments for the years ended December 31, 2022 was \$5,141. The Company's proportionate share of the income resulting from these investments for the years ended December 31, 2021 was \$5,760. The Company's proportionate share of the (loss) income resulting from these investments is reported under the line item captioned "equity method investment (loss) income" in the Company's consolidated statements of income.

Bank Premises and Equipment

Buildings and improvements, furniture and equipment are carried at cost less accumulated depreciation computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings and improvements	10 - 40 years
Site improvements	15 years
Tenant improvements	Lease term
Leasehold improvements	Lease term
Furniture and equipment	3 - 10 years

Major replacements and betterments are capitalized while maintenance and repairs are charged to expense when incurred. Gains or losses on dispositions are reflected in the consolidated statements of income as incurred.

Bank premises and equipment with definite lives are tested for impairment when a triggering event occurs. No impairment charges related to bank premises and equipment assets were recorded during the years ended December 31, 2022, 2021 and 2020.

Leases

The Company's operating leases relate primarily to office space and bank branches. Right-of-use ("ROU") assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commencement date. ROU assets are further adjusted for lease incentives, deferred rent and prepaid rent. Operating lease expense, which consists of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in occupancy and equipment expense in the consolidated statements of income. Certain of the Company's leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. The ROU asset and operating lease liability are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. See Note 8 - Leases for additional information.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent the purchase of interests in securities by the Company's customers. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. The Company does not account for any of its repurchase agreements as sales for accounting purposes in its financial statements. Repurchase agreements are settled on the following business day. All securities sold under agreements to repurchase are collateralized by pledged debt securities. The debt securities underlying the repurchase agreements are held in safekeeping by the Bank's safekeeping agent.

OREO

OREO represents properties acquired through or in lieu of loan foreclosure and is initially recorded at fair value less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Bank's recorded investment in the related loan, a write-down is recognized through a charge to the ACL. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain employees. These bank-owned life insurance ("BOLI") policies are recorded in the accompanying consolidated balance sheets at their cash surrender values. Income from these policies and changes in the cash surrender values are recorded in noninterest income in the Company's consolidated statements of income. Death benefit proceeds in excess of cash surrender are recorded when realized in noninterest income in the Company's consolidated statements of income.

Goodwill and Intangible Assets

Goodwill resulting from a business combination represents the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is not amortized but is reviewed for potential impairment annually on October 31 of each fiscal year or when a triggering event occurs. The Company may first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. The Company has an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test, and the Company may resume performing the qualitative assessment in any subsequent period. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company proceeds to perform the quantitative goodwill impairment test. The quantitative goodwill impairment test, used to identify both the existence of potential impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any such adjustments to goodwill are reflected in the results of operations in the periods in which they become known.

The Company performed its annual goodwill impairment test as of October 31, 2022 using a qualitative impairment assessment and determined that it was not more likely than not that the fair value of our reporting unit was less than its carrying amount. The Company also did not identify any potential impairment indicators subsequent to our annual assessment. Management will continue to monitor events that could impact this conclusion in the future.

Intangible assets consist of core deposit intangibles and in-place lease intangibles associated with the purchase of our corporate office. Intangible assets are initially recognized based on a valuation performed as of the acquisition date and are amortized on a straight-line basis over their estimated useful lives of the respective intangible assets as follows:

Core deposit intangible	7 - 10 years
In-place lease intangible	Lease term

All indefinite lived intangible assets are tested annually for potential impairment or when triggering events occur. Intangible assets with definite lives are tested for impairment when a triggering event occurs. No impairment charges related to goodwill and intangible assets were recorded during the years ended December 31, 2022, 2021 and 2020.

Servicing Assets

The Company accounts for its servicing assets at amortized cost in accordance with ASC 860, "*Servicing Assets and Liabilities*." The codification requires that servicing rights acquired through the origination of loans, which are sold with servicing rights retained, are recognized as separate assets. Servicing assets are recorded as the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are periodically reviewed and adjusted for any impairment. The amount of impairment recognized, if any, is the amount by which the servicing assets exceed their fair value. The amount of recovery, if any, cannot exceed the previous impairment recognized. Fair value of the servicing assets is estimated using discounted cash flows based on current market interest rates. Servicing rights are amortized over their estimated lives.

Marketing Expense

The Company expenses all marketing costs as they are incurred. Marketing expenses were \$7,179, \$5,344 and \$3,651 in 2022, 2021 and 2020, respectively.

Income Taxes

The Company files a consolidated income tax return with its subsidiaries. Federal income tax expense or benefit is allocated on a separate return basis.

The Company accounts for income taxes using the asset and liability approach for financial accounting and reporting. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years.

The Company may recognize the tax benefit of an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements would be the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. For the years ended December 31, 2022 and 2021, management has determined there are no material uncertain tax positions.

When necessary, the Company would include interest assessed by taxing authorities in "interest expense" and penalties related to income taxes in "other expense" on its Consolidated Statements of Income. The Company recorded \$22, \$126 and \$143 of interest or penalties related to income tax for the years ended December 31, 2022, 2021 and 2020, respectively. With few exceptions, such as state examinations, the Company is generally no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2019 and state income tax examinations for tax years prior to 2018.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with ASC Topic 606, “Revenue from Contracts with Customers” (“Topic 606”). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company’s primary sources of revenue are derived from interest and dividends earned on loans, debt and equity securities and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Stock Based Compensation

Compensation cost is recognized for stock options and other equity awards (performance and non-performance based) issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. The market price of the Company’s common stock on the date of grant is used to estimate fair value for other nonperformance based equity awards. A Monte Carlo simulation is used to estimate the fair value of performance-based restricted stock units that include a vesting condition and a market condition based on the Company’s total shareholder return relative to a peer group comprised of commercial banks in similar markets, which determines the number of shares of Company common stock subject to the restricted stock unit.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Treasury Stock

Treasury stock is stated at cost, which is determined by the first-in, first-out method.

Comprehensive Income

Comprehensive income includes all changes in stockholders’ equity during a period, except those resulting from transactions with stockholders. In addition to net income, comprehensive income includes the net effect of changes in the fair value of AFS debt securities, net of tax, and the net effect of changes in fair value of derivative instruments designated as cash flow hedges. Comprehensive income is reported in the accompanying consolidated statements of comprehensive income.

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Earnings Per Share ("EPS")

EPS are based upon the weighted-average number of shares outstanding. The table below sets forth the reconciliation between weighted average shares used for calculating basic and diluted EPS for the years ended December 31, 2022, 2021 and 2020.

	Year Ended December 31,		
	2022	2021	2020
Earnings (numerator)			
Net income	\$ 146,315	\$ 139,584	\$ 73,883
Shares (denominator)			
Weighted average shares outstanding for basic EPS (thousands)	53,170	49,405	49,883
Dilutive effect of employee stock-based awards	782	947	153
Adjusted weighted average shares outstanding	\$ 53,952	\$ 50,352	\$ 50,036
EPS:			
Basic	\$ 2.75	\$ 2.83	\$ 1.48
Diluted	\$ 2.71	\$ 2.77	\$ 1.48

For the year ended December 31, 2022, there were 177 antidilutive shares excluded from the diluted EPS weighted average shares, 177 of these relate to antidilutive restricted stock units ("RSUs") and the remaining none relate to stock options excluded from the diluted EPS weighted average shares. For the year ended December 31, 2021, there were 29 antidilutive RSUs excluded from the diluted EPS weighted average shares. For the year ended December 31, 2020, there were 1,481 antidilutive shares excluded from the diluted EPS weighted average shares, 1,137 of these relate to antidilutive stock options and the remaining 344 relate to antidilutive RSUs.

2. SUPPLEMENTAL STATEMENT OF CASH FLOWS

Other supplemental cash flow information is presented below:

	Year Ended December 31,		
	2022	2021	2020
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 77,298	\$ 37,139	\$ 58,236
Cash paid for income taxes	36,165	14,349	40,690
Supplemental Disclosures of Non-Cash Flow Information:			
Setup of ROU asset and lease liability	\$ —	\$ 6,232	\$ 4,123
Contingent consideration in connection with acquisitions	—	5,000	—
Transfer of AFS debt securities to HTM debt securities	117,001	—	—
Net foreclosure of OREO and repossessed assets	—	334	2,764
LHI transferred to LHFS	—	10,890	4,511
Adjustments to Purchase Price Accounting Related to Mergers and Acquisitions			
Year Ended December 31,			
	2022	2021	2020
Noncash assets acquired¹			
LHI	\$ (681)	\$ 29,338	\$ —
Intangible assets, net	—	13,913	—
Goodwill	681	32,931	—
Other assets	—	690	—
Total assets	\$ —	\$ 76,872	\$ —
Noncash liabilities assumed¹			
Accounts payable and other liabilities	—	16,350	—
Total liabilities	\$ —	\$ 16,350	\$ —
Total equity			

¹ Noncash assets acquired and noncash liabilities assumed during 2021 related to our acquisition of North Avenue Capital, LLC. ("NAC").

3. NEW ACCOUNTING PRONOUNCEMENTS

ASU 2022-01, “*Derivatives and Hedging (Topic 815)*” (“ASU 2022-01”) clarifies the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios and financial assets. Among other things, the amended guidance established the “last-of-layer” method for making the fair value hedge accounting for these portfolios more accessible and renamed that method the “portfolio layer” method. ASU 2022-01 is effective January 1, 2023. The adoption of ASU 2022-01 is not expected to have a significant impact on our financial statements.

ASU 2022-02, “*Financial Instruments - Credit Losses (Topic 326)*” (“ASU 2022-02”) eliminates the guidance on troubled debt restructurings and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans and leases. ASU 2022-02 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The adoption of ASU 2022-02 is not expected to have a significant impact on our financial statements.

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

4. SHARE TRANSACTIONS

The Company's Board of Directors (the "Board") has authorized the purchase of up to \$250,000 of the Company's outstanding common stock under a stock buyback program (the "Stock Buyback Program") with an expiration date of December 31, 2022. The shares may be repurchased in the open market or in privately negotiated transactions from time to time, depending upon market conditions and other factors, and in accordance with applicable regulations of the Securities and Exchange Commission ("SEC"). The Stock Buyback Program does not obligate the Company to purchase any shares. The Stock Buyback Program may be terminated or amended by the Board at any time prior to its expiration.

	Year Ended December 31,	
	2022	2021
Number of shares repurchased	—	475,744
Weighted average price per share	\$ —	\$ 32.36

In August 2022, the Inflation Reduction Act of 2022 (the "IRA") was enacted. Among other things, the IRA imposes a new 1% excise tax on the fair market value of stock repurchased after December 31, 2022 by publicly traded U.S. corporations. With certain exceptions, the value of stock repurchased is determined net of stock issued in the year, including pursuant to compensatory arrangements.

Common Stock Offering

On March 8, 2022, the Company completed an underwritten public offering of 3,947,369 shares of its common stock at \$38.00 per share. On March 10, 2022, the representatives of the underwriters delivered to the Company a written notice of exercise by the underwriters of the underwriters' option to purchase an additional 367,105 shares of the Company's common stock at \$38.00 per share, which subsequently closed on March 14, 2022. Net proceeds, after deducting underwriting discounts and offering expenses, of such offering were approximately \$154,372. The Company intends to use the net proceeds from the offering for general corporate purposes and to support its continued growth, including investments in the Bank and future strategic acquisitions.

5. SECURITIES

Equity Securities With a Readily Determinable Fair Value

The Company held equity securities with a fair value of \$9,792 and \$11,038 at December 31, 2022 and 2021, respectively. No gains or losses on equity securities with a readily determinable fair value were realized during the year ended December 31, 2022 or 2021. The Company realized a loss of \$8 on equity securities with a readily determinable fair value during the year ended December 31, 2020.

The gross unrealized gain recognized on equity securities with readily determinable fair values recorded in other noninterest income in the Company's consolidated statements of income were as follows:

	2022	2021	2020
Unrealized (loss) gain recognized on equity securities with a readily determinable fair value	\$ (1,246)	\$ (325)	\$ 480

Equity Securities Without a Readily Determinable Fair Value

The Company held equity securities without a readily determinable fair values and measured at cost of \$10,072 and \$4,355 at December 31, 2022 and 2021, respectively.

Securities purchased under agreements to resell

The Company held no securities purchased under agreements to resell as of December 31, 2022. The Company held securities purchased under agreements to resell of \$102,288 as of December 31, 2021. During the twelve months ended December 31, 2022 and 2021, interest income recorded in equity securities and other investments in the Company's consolidated statements of income was \$1,386 and \$529, respectively. Interest income of securities purchased under agreements to resell typically mature 30 days from the settlement date, qualify as a secured borrowing and are measured at amortized cost.

Debt Securities

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost, related gross unrealized gains and losses, ACL and the fair value of AFS and HTM debt securities are as follows:

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
		AFS			
Corporate bonds	\$ 268,179	\$ 1,445	\$ 17,379	\$ —	\$ 252,245
Municipal securities	49,886	3	4,198	—	45,691
Mortgage-backed securities	156,408	23	17,420	—	139,011
Collateralized mortgage obligations	609,456	—	55,850	—	553,606
Asset-backed securities	42,015	289	2,613	—	39,691
Collateralized loan obligations	69,750	—	3,702	—	66,048
	<u>\$1,195,694</u>	<u>\$ 1,760</u>	<u>\$ 101,162</u>	<u>\$ —</u>	<u>\$1,096,292</u>
	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
		HTM			
Mortgage-backed securities	\$ 36,342	\$ —	\$ 6,753	\$ —	\$ 29,589
Collateralized mortgage obligations	36,169	—	5,884	—	30,285
Municipal securities	113,657	6	14,756	—	98,907
	<u>\$ 186,168</u>	<u>\$ 6</u>	<u>\$ 27,393</u>	<u>\$ —</u>	<u>\$ 158,781</u>

The Company elected to transfer 25 AFS debt securities with an aggregate fair value of \$117,001 to a classification of HTM debt securities on January 1, 2022. In accordance with FASB ASC 320-10-35-10, the transfer from AFS to HTM must be recorded at the fair value of the AFS debt securities at the time of transfer. The net unrealized holding gain of \$4,387, net of tax, at the date of transfer was retained in AOCI, with the associated pre-tax amount retained in the carrying value of the HTM debt securities. Such amounts will be amortized to comprehensive income over the remaining life of the securities. The Company did not transfer any debt securities from AFS to HTM at fair value during the year ended December 31, 2021.

December 31, 2021

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
AFS					
Corporate bonds	\$ 198,396	\$ 10,294	\$ 178	\$ —	\$ 208,512
Municipal securities	116,100	8,261	431	—	123,930
Mortgage-backed securities	124,230	4,326	1,489	—	127,067
Collateralized mortgage obligations	424,174	12,240	2,350	—	434,064
Asset-backed securities	53,466	1,616	519	—	54,563
Collateralized loan obligations	45,089	—	167	—	44,922
	<u>\$ 961,455</u>	<u>\$ 36,737</u>	<u>\$ 5,134</u>	<u>\$ —</u>	<u>\$ 993,058</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
HTM					
Mortgage-backed securities	\$ 25,767	\$ 45	\$ 508	\$ —	\$ 25,304
Collateralized mortgage obligations	5,490	560	—	—	6,050
Municipal securities	28,179	2,015	102	—	30,092
	<u>\$ 59,436</u>	<u>\$ 2,620</u>	<u>\$ 610</u>	<u>\$ —</u>	<u>\$ 61,446</u>

The following tables disclose the Company's AFS debt securities in an unrealized loss position for which an ACL has not been recorded, aggregated by investment category and length of time that individual debt securities have been in a continuous loss position:

	December 31, 2022					
	Less Than 12 Months		12 Months or More		Totals	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
AFS						
Corporate bonds	\$ 197,946	\$ 15,697	\$ 15,568	\$ 1,682	\$ 213,514	\$ 17,379
Municipal securities	33,919	848	8,813	3,350	42,732	4,198
Mortgage-backed securities	115,467	11,104	22,780	6,317	138,247	17,421
Collateralized mortgage obligations	482,358	42,553	71,198	13,296	553,556	55,849
Asset-backed securities	15,195	991	11,207	1,621	26,402	2,612
Collateralized loan obligations	23,673	1,328	42,375	2,375	66,048	3,703
	<u>\$868,558</u>	<u>\$ 72,521</u>	<u>\$171,941</u>	<u>\$ 28,641</u>	<u>\$1,040,499</u>	<u>\$101,162</u>

HTM						
Mortgage-backed securities	\$ 804	\$ 85	\$ 28,784	\$ 6,668	\$ 29,588	\$ 6,753
Collateralized mortgage obligations	25,285	4,676	4,999	1,208	30,284	5,884
Municipal securities	85,671	11,411	9,161	3,345	94,832	14,756
	<u>\$111,760</u>	<u>\$ 16,172</u>	<u>\$ 42,944</u>	<u>\$ 11,221</u>	<u>\$ 154,704</u>	<u>\$ 27,393</u>

	December 31, 2021					
	Less Than 12 Months		12 Months or More		Totals	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
AFS						
Corporate bonds	\$ 7,072	\$ 178	\$ —	\$ —	\$ 7,072	\$ 178
Municipal securities	12,704	194	4,350	237	17,054	431
Mortgage-backed securities	40,276	1,283	4,677	206	44,953	1,489
Collateralized mortgage obligations	106,063	2,350	—	—	106,063	2,350
Asset-backed securities	11,265	519	—	—	11,265	519
Collateralized loan obligations	44,922	167	—	—	44,922	167
	<u>\$222,302</u>	<u>\$ 4,691</u>	<u>\$ 9,027</u>	<u>\$ 443</u>	<u>\$231,329</u>	<u>\$ 5,134</u>

HTM						
Mortgage-backed securities	\$ 24,214	\$ 508	\$ —	\$ —	\$ 24,214	\$ 508
Collateralized mortgage obligations	—	—	—	—	—	—
Municipal securities	4,583	102	—	—	4,583	102
	<u>\$ 28,797</u>	<u>\$ 610</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,797</u>	<u>\$ 610</u>

Management evaluates AFS debt securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to (1) the extent to which the fair value is less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The number of AFS debt securities in an unrealized loss position totaled 175 and 34 at December 31, 2022 and December 31, 2021, respectively. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of December 31, 2022, management believes that the unrealized losses detailed in the previous table are due to noncredit-related factors, including changes in interest rates and other market conditions, and therefore no losses have been recognized in the Company's consolidated statements of income.

The amortized costs and estimated fair values of AFS debt securities, by contractual maturity, as of the dates indicated, are shown in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgage loans and other loans that have varying maturities. The terms of mortgage-backed securities, collateralized mortgage obligations and asset-backed securities thus approximates the terms of the underlying mortgages and loans and can vary significantly due to prepayments. Therefore, these securities are not included in the maturity categories below.

	December 31, 2022			
	AFS		HTM	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due from one year to five years	\$ 53,692	\$ 54,179	\$ —	\$ —
Due from five years to ten years	205,911	190,406	8,275	8,129
Due after ten years	58,462	53,351	105,382	90,778
	<u>318,065</u>	<u>297,936</u>	<u>113,657</u>	<u>98,907</u>
Mortgage-backed securities and collateralized mortgage obligations	765,864	692,617	72,511	59,874
Asset-backed securities	42,015	39,691	—	—
Collateralized loan obligations	69,750	66,048	—	—
	<u>\$ 1,195,694</u>	<u>\$ 1,096,292</u>	<u>\$ 186,168</u>	<u>\$ 158,781</u>

	December 31, 2021			
	AFS		HTM	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due from one year to five years	\$ 5,201	\$ 5,241	\$ —	\$ —
Due from five years to ten years	178,203	186,972	3,849	4,115
Due after ten years	131,092	140,229	24,330	25,977
	<u>314,496</u>	<u>332,442</u>	<u>28,179</u>	<u>30,092</u>
Mortgage-backed securities and collateralized mortgage obligations	548,404	561,131	31,257	31,354
Asset-backed securities	53,466	54,563	—	—
Collateralized loan obligations	45,089	44,922	—	—
	<u>\$ 961,455</u>	<u>\$ 993,058</u>	<u>\$ 59,436</u>	<u>\$ 61,446</u>

Proceeds from sales of debt securities AFS and gross realized gains and losses for the years ended December 31, 2022, 2021 and 2020 were as follows:

	December 31,		
	2022	2021	2020
Proceeds from sales	\$ —	\$ 13,300	\$ 113,771
Gross realized gains	—	—	2,879
Gross realized losses	—	188	256

As of December 31, 2022 and December 31, 2021, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity. As further explained in Note 12, Advances from the FHLB, there was a blanket floating lien on all debt securities to secure FHLB advances as of December 31, 2022 and December 31, 2021.

6. LHI AND ACL

LHI in the accompanying consolidated balance sheets are summarized as follows:

	December 31,	
	2022	2021
LHI, carried at amortized cost:		
Real estate:		
Construction and land	\$ 1,787,400	\$ 1,062,144
Farmland	43,500	55,827
1 - 4 family residential	894,456	542,566
Multi-family residential	322,679	310,241
OOCRE	715,829	665,537
NOOCRE	2,341,379	2,120,309
Commercial	2,940,353	2,006,876
MW	446,227	565,645
Consumer	7,806	11,998
	<u>9,499,629</u>	<u>7,341,143</u>
Deferred loan fees, net	(18,973)	(9,489)
ACL	(91,052)	(77,754)
LHI carried at amortized cost, net	\$ 9,389,604	\$ 7,253,900
LHI, carried at fair value:		
PPP Loans	\$ 1,995	\$ 53,369
Total LHI, net	<u>\$ 9,391,599</u>	<u>\$ 7,307,269</u>

Included in the total LHI, net, as of December 31, 2022 and 2021 was an accretible discount related to purchased performing and PCD loans acquired in the approximate amounts of \$8,260 and \$8,657, respectively. The discount is being accreted into income on a level-yield basis over the life of the loans. In addition, included in total LHI, net, as of December 31, 2022 and 2021 is a discount on retained loans from sale of originated U.S. Small Business Administration ("SBA") and U.S. Department of Agriculture ("USDA") loans of \$5,238 and \$3,430, respectively. During 2022, the Company purchased \$223,924 in pooled residential real estate loans at a net discount. The remaining net purchase discount of \$4,135 is included in the total LHI, net and will be amortized on a straight line basis over five years.

LHI, PPP loans, carried at fair value

Included in total LHI, net, as of December 31, 2022 and 2021, was \$1,995 and \$53,369, respectively, of PPP loans, which are carried at fair value. The following table summarizes the PPP fee income and net gain due to the change in the fair value of PPP loans which are included in government guaranteed loan income, net on the Company's consolidated statements of income and in change in fair value of government guaranteed loans using fair value option on the Company's consolidated statements of cash flows.

	December 31, 2022	December 31, 2021
PPP fee income	\$ —	\$ 7,721
Net gain due to the change in fair value	258	1,531

These PPP loans were originated through an application to the SBA under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and are 100% forgivable if certain criteria are met by the borrowers. As of December 31, 2022 we believe a majority of the Company's PPP loans will meet such criteria.

ACL

The Company's estimate of the ACL reflects losses expected over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected troubled debt restructuring ("TDR"). The activity in the ACL related to LHI is as follows:

December 31, 2022									
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	Consumer	Total
Balance at beginning of year	\$ 7,293	\$ 187	\$ 5,982	\$ 2,664	\$ 9,215	\$ 30,548	\$ 21,632	\$ 233	\$ 77,754
Credit loss (benefit) expense non-PCD loans	5,855	(60)	3,757	(57)	4,633	(2,588)	18,933	2,355	32,828
Credit (benefit) loss expense PCD loans	(28)	—	(237)	—	(2,766)	429	(2,000)	(1,276)	(5,878)
Charge-offs	—	—	—	—	(2,646)	(2,410)	(9,731)	(1,285)	(16,072)
Recoveries	—	—	31	—	271	725	1,308	85	2,420
Ending Balance	<u>\$ 13,120</u>	<u>\$ 127</u>	<u>\$ 9,533</u>	<u>\$ 2,607</u>	<u>\$ 8,707</u>	<u>\$ 26,704</u>	<u>\$ 30,142</u>	<u>\$ 112</u>	<u>\$ 91,052</u>

December 31, 2021									
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	Consumer	Total
Balance at beginning of year	\$ 7,768	\$ 56	\$ 8,148	\$ 6,231	\$ 9,719	\$ 35,237	\$ 37,554	\$ 371	\$ 105,084
Credit loss (benefit) expense non-PCD loans	(547)	131	(2,153)	(3,567)	(2,325)	(7,490)	(9,510)	(401)	(25,862)
Credit loss expense PCD loans	72	—	302	—	3,721	10,737	7,622	59	22,513
Charge-offs	—	—	(379)	—	(2,400)	(7,936)	(15,576)	(99)	(26,390)
Recoveries	—	—	64	—	500	—	1,542	303	2,409
Ending Balance	<u>\$ 7,293</u>	<u>\$ 187</u>	<u>\$ 5,982</u>	<u>\$ 2,664</u>	<u>\$ 9,215</u>	<u>\$ 30,548</u>	<u>\$ 21,632</u>	<u>\$ 233</u>	<u>\$ 77,754</u>

December 31, 2020

	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	Consumer	Total
Balance at beginning of year	\$ 3,821	\$ 62	\$ 2,143	\$ 1,200	\$ 1,991	\$ 8,126	\$ 12,369	\$ 122	\$ 29,834
Impact of adopting ASC 326 non-PCD loans	(707)	4	3,716	628	3,406	5,138	7,025	217	19,427
Impact of adopting ASC 326 PCD loans	645	—	908	—	7,682	2,037	8,335	103	19,710
Credit loss (benefit) expense non-PCD loans	4,554	(10)	1,720	4,403	4,364	15,397	24,413	(178)	54,663
Credit loss expense PCD loans	(545)	—	(378)	—	(5,303)	7,404	817	(18)	1,977
Charge-offs	—	—	(18)	—	(2,421)	(2,865)	(15,507)	(162)	(20,973)
Recoveries	—	—	57	—	—	—	102	287	446
Ending Balance	<u>\$ 7,768</u>	<u>\$ 56</u>	<u>\$ 8,148</u>	<u>\$ 6,231</u>	<u>\$ 9,719</u>	<u>\$ 35,237</u>	<u>\$ 37,554</u>	<u>\$ 371</u>	<u>\$105,084</u>

The majority of the Company's loan portfolio consists of loans to businesses and individuals in the Dallas-Fort Worth metroplex and the Houston metropolitan area. This geographic concentration subjects the loan portfolio to the general economic conditions within these areas. The risks created by this concentration have been considered by management in the determination of the adequacy of the ACL. Management believes the ACL was adequate to cover estimated losses on loans as of December 31, 2022 and 2021.

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2022:

	December 31, 2022		December 31, 2021	
	Real Property ⁽¹⁾	ACL Allocation	Real Property ⁽¹⁾	ACL Allocation
OOCRE	\$ 1,193	\$ 129	\$ —	\$ —
NOOCRE	20,896	2,138	17,908	7,808
Commercial	1,240	396	1,702	—
Consumer	15	—	1,063	—
Total	<u>\$ 23,344</u>	<u>\$ 2,663</u>	<u>\$ 20,673</u>	<u>\$ 7,808</u>

⁽¹⁾ Loans reported exclude PCD loans that transitioned upon adoption of ASC 326 and accounted for on a pooled basis. Refer to Note 1 for further discussion.

Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due in accordance with the terms of the loan agreement. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonaccrual loans, aggregated by class of loans, as of December 31, 2022 and 2021, were as follows:

	December 31, 2022		December 31, 2021	
	Nonaccrual	Nonaccrual With No ACL	Nonaccrual	Nonaccrual With No ACL
Real estate:				
1 - 4 family residential	\$ 862	\$ 862	\$ 990	\$ 990
OOCRE	9,737	8,545	14,236	13,824
NOOCRE	21,377	13,178	17,978	191
Commercial	11,397	2,521	15,267	4,207
Consumer	169	169	1,216	1,216
Total	<u>\$ 43,542</u>	<u>\$ 25,275</u>	<u>\$ 49,687</u>	<u>\$ 20,428</u>

There were \$8,545 and \$11,056 of PCD loans that are not accounted for on a pooled basis at December 31, 2022 and 2021, respectively. There was \$13,178 of PCD loans that are accounted for on a pooled basis included in nonaccrual loans at December 31, 2022.

During the year ended December 31, 2022 and 2021, interest income not recognized on non-accrual loans, excluding PCD loans, was \$6,567 and \$2,718, respectively.

An age analysis of past due loans, aggregated by class of loans, as of December 31, 2022 and 2021 is as follows:

	December 31, 2022							Total 90 Days Past Due and Still Accruing ⁽²⁾
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due ⁽¹⁾	Total Current	PCD	Total Loans	
Real estate:								
Construction and land	\$ 1,121	\$ 2,111	\$ —	\$ 3,232	\$ 1,782,624	\$ 1,544	\$1,787,400	\$ —
Farmland	—	—	—	—	43,500	—	43,500	—
1 - 4 family residential	4,319	129	499	4,947	888,329	1,180	894,456	123
Multi-family residential	1,000	—	—	1,000	321,679	—	322,679	—
OOCRE	3,342	1,186	1,193	5,721	690,291	19,817	715,829	—
NOOCRE	5,156	—	20,896	26,052	2,302,579	12,748	2,341,379	—
Commercial	3,088	2,188	1,675	6,951	2,929,701	3,701	2,940,353	—
MW	—	—	—	—	446,227	—	446,227	—
Consumer	352	—	45	397	7,386	23	7,806	2
	<u>\$18,378</u>	<u>\$ 5,614</u>	<u>\$ 24,308</u>	<u>\$ 48,300</u>	<u>\$ 9,412,316</u>	<u>\$39,013</u>	<u>\$9,499,629</u>	<u>\$ 125</u>

⁽¹⁾ Total past due loans includes \$13,178 of pooled PCD loans as of December 31, 2022.

⁽²⁾ Loans 90 days past due and still accruing excludes \$2,004 of PCD loans and \$669 of PPP loans as of December 31, 2022.

December 31, 2021

	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current	PCD	Total Loans	Total 90 Days Past Due and Still Accruing ⁽¹⁾
Real estate:								
Construction and land	\$ —	\$ —	\$ —	\$ —	\$1,059,796	\$ 2,348	\$1,062,144	\$ —
Farmland	—	—	—	—	55,827	—	55,827	—
1 - 4 family residential	2,073	—	1,008	3,081	538,307	1,178	542,566	24
Multi-family residential	—	—	—	—	310,241	—	310,241	—
OOCRE	4,538	965	11,622	17,125	620,848	27,564	665,537	—
NOOCRE	936	—	192	1,128	2,100,981	18,200	2,120,309	—
Commercial	1,525	4,395	3,708	9,628	1,988,622	8,626	2,006,876	191
MW	—	—	—	—	565,645	—	565,645	—
Consumer	135	105	1,082	1,322	10,499	177	11,998	20
	<u>\$ 9,207</u>	<u>\$ 5,465</u>	<u>\$ 17,612</u>	<u>\$ 32,284</u>	<u>\$7,250,766</u>	<u>\$58,093</u>	<u>\$7,341,143</u>	<u>\$ 235</u>

⁽¹⁾ Loans 90 days past due and still accruing excludes \$9,345 of pooled PCD loans and \$206 of PPP loans as of December 31, 2021.

Loans 90 days past due and still accruing interest were \$125 and \$235 as of December 31, 2022 and December 31, 2021, respectively. These loans are considered well-secured and in the process of collection as of the reporting date with plans in place for the borrowers to bring the loans fully current. The Company believes that it will collect all principal and interest due on each of the loans 90 days past due and still accruing.

Troubled Debt Restructuring

Modifications of terms for the Company's loans and their inclusion as TDRs are based on individual facts and circumstances. Loan modifications that are included as TDRs may involve a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or deferral of principal payments, regardless of the period of the modification. The recorded investment in TDRs was \$13,666 and \$25,518 as of December 31, 2022 and 2021, respectively.

The following table presents the pre- and post-modification amortized cost of loans modified as TDRs during the twelve months ended December 31, 2022. There was three new TDR during the year ended December 31, 2022 and one new TDRs during the year ended December 31, 2021, which was paid off prior to year-end. The Company did not grant principal reductions or interest rate concessions on any TDRs during the twelve months ended December 31, 2022. The terms of certain loans modified as TDRs during the year ended December 31, 2022 and December 31, 2021 are summarized in the following tables:

	During the year ended December 31, 2022			
	Adjusted Payment Structure	Payment Deferrals	Total Modifications	Number of Loans
Commercial	\$ —	\$ 946	\$ 946	1
Consumer	29	—	29	2
Total	<u>\$ 29</u>	<u>\$ 946</u>	<u>\$ 975</u>	<u>3</u>

There were no loans modified as TDR loans within the previous 12 months and for which there was a payment default during the years ended December 31, 2022 and 2021. A default for purposes of this disclosure is a TDR loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

During the years ended December 31, 2022 and 2021, interest income that would have been recorded on TDR loans had the terms of the loans not been modified was \$742 and \$778, respectively.

The Company has not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of December 31, 2022 or December 31, 2021.

Credit Quality Indicators

From a credit risk standpoint, the Company classifies its loans in one of the following categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans classified as loss are charged-off. Loans not rated special mention, substandard, doubtful or loss are classified as pass loans.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on criticized credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. All classified credits are evaluated for impairment. If impairment is determined to exist, a specific reserve is established. The Company's methodology is structured so that specific reserves are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

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

Credits classified as PCD are those that, at acquisition date, have experienced a more-than-insignificant deterioration in credit quality since origination. All loans considered to be PCI loans prior to January 1, 2020 were converted to PCD loans upon adoption of ASC 326. The Company elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. Loans are only removed from the existing pools if they are foreclosed, written off, paid off, or sold.

The Company considers the guidance in ASC 310-20 when determining whether a modification, extension or renewal of a loan constitutes a current period origination. Generally, current period renewals of credit are re-underwritten at the point of renewal and considered current period originations for purposes of the table below. Based on the most recent analysis performed, the risk category of loans by class of loans based on year or origination is as follows:

	Term Loans Amortized Cost Basis by Origination Year ¹						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2022	2021	2020	2019	2018	Prior			
As of December 31,									
Construction and land:									
Pass	\$ 347,855	\$ 709,208	\$ 378,229	\$ 69,241	\$ 30,673	\$ 14,025	\$ 215,263	\$ 140	\$ 1,764,634
Special mention	—	18,662	2,560	—	—	—	—	—	21,222
PCD	—	—	—	—	—	1,544	—	—	1,544
Total construction and land	\$ 347,855	\$ 727,870	\$ 380,789	\$ 69,241	\$ 30,673	\$ 15,569	\$ 215,263	\$ 140	\$ 1,787,400
Farmland:									
Pass	\$ 2,546	\$ 16,242	\$ 18,530	\$ 21	\$ —	\$ 5,069	\$ 1,092	\$ —	\$ 43,500
Total farmland	\$ 2,546	\$ 16,242	\$ 18,530	\$ 21	\$ —	\$ 5,069	\$ 1,092	\$ —	\$ 43,500

1 - 4 family residential:

Pass	\$ 135,006	\$ 188,635	\$ 87,861	\$ 43,293	\$ 41,960	\$ 257,768	\$ 86,900	\$ 726	\$ 842,149
Special mention	—	—	—	—	—	278	26,068	—	26,346
Substandard	—	184	—	—	—	1,028	23,569	—	24,781
PCD	—	—	—	—	—	1,180	—	—	1,180
Total 1-4 family residential	<u>\$ 135,006</u>	<u>\$ 188,819</u>	<u>\$ 87,861</u>	<u>\$ 43,293</u>	<u>\$ 41,960</u>	<u>\$ 260,254</u>	<u>\$ 136,537</u>	<u>\$ 726</u>	<u>\$ 894,456</u>
Multi-family residential:									
Pass	\$ 72,044	\$ 80,793	\$ 110,426	\$ 8,402	\$ 32,822	\$ 2,494	\$ —	\$ —	\$ 306,981
Substandard	—	—	—	1,954	13,744	—	—	—	15,698
Total multi-family residential	<u>\$ 72,044</u>	<u>\$ 80,793</u>	<u>\$ 110,426</u>	<u>\$ 10,356</u>	<u>\$ 46,566</u>	<u>\$ 2,494</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 322,679</u>
OOCRE:									
Pass	\$ 191,044	\$ 106,698	\$ 84,230	\$ 43,965	\$ 49,461	\$ 167,968	\$ 5,225	\$ —	\$ 648,591
Special mention	—	2,321	1,409	1,964	—	3,447	—	45	9,186
Substandard	—	—	—	—	23,231	15,004	—	—	38,235
PCD	—	—	—	—	—	19,817	—	—	19,817
Total OOCRE	<u>\$ 191,044</u>	<u>\$ 109,019</u>	<u>\$ 85,639</u>	<u>\$ 45,929</u>	<u>\$ 72,692</u>	<u>\$ 206,236</u>	<u>\$ 5,225</u>	<u>\$ 45</u>	<u>\$ 715,829</u>
NOOCRE:									
Pass	\$ 752,476	\$ 531,735	\$ 215,076	\$ 149,246	\$ 196,424	\$ 305,434	\$ 16,642	\$ 465	\$ 2,167,498
Special mention	—	—	22,774	19,464	12,274	51,451	—	—	105,963
Substandard	—	—	—	1,310	7,659	46,201	—	—	55,170
PCD	—	—	—	—	12,697	51	—	—	12,748
Total NOOCRE	<u>\$ 752,476</u>	<u>\$ 531,735</u>	<u>\$ 237,850</u>	<u>\$ 170,020</u>	<u>\$ 229,054</u>	<u>\$ 403,137</u>	<u>\$ 16,642</u>	<u>\$ 465</u>	<u>\$ 2,341,379</u>
Commercial:									
Pass	\$ 473,084	\$ 132,396	\$ 88,548	\$ 83,996	\$ 40,030	\$ 31,269	\$1,906,074	\$ 553	\$ 2,755,950
Special mention	—	666	—	4,543	7,385	270	114,447	—	127,311
Substandard	17,894	4,058	5,189	4,195	10,954	4,732	6,292	77	53,391
PCD	—	—	—	—	273	3,428	—	—	3,701
Total commercial	<u>\$ 490,978</u>	<u>\$ 137,120</u>	<u>\$ 93,737</u>	<u>\$ 92,734</u>	<u>\$ 58,642</u>	<u>\$ 39,699</u>	<u>\$2,026,813</u>	<u>\$ 630</u>	<u>\$ 2,940,353</u>
MW:									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 444,393	\$ —	\$ 444,393
Special mention	—	—	—	—	—	—	1,626	—	1,626
Substandard	—	—	—	—	46	162	—	—	208
Total MW	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ 162</u>	<u>\$ 446,019</u>	<u>\$ —</u>	<u>\$ 446,227</u>
Consumer:									
Pass	\$ 1,965	\$ 452	\$ 872	\$ 216	\$ 135	\$ 2,298	\$ 1,618	\$ —	\$ 7,556
Special mention	—	—	—	—	—	58	—	—	58
Substandard	—	—	—	—	—	169	—	—	169
PCD	—	—	—	—	—	23	—	—	23
Total consumer	<u>\$ 1,965</u>	<u>\$ 452</u>	<u>\$ 872</u>	<u>\$ 216</u>	<u>\$ 135</u>	<u>\$ 2,548</u>	<u>\$ 1,618</u>	<u>\$ —</u>	<u>\$ 7,806</u>
Total Pass	\$1,976,020	\$1,766,159	\$ 983,772	\$ 398,380	\$ 391,505	\$ 786,325	\$2,677,207	\$ 1,884	\$ 8,981,252
Total Special Mention	—	21,649	26,743	25,971	19,659	55,504	142,141	45	291,712
Total Substandard	17,894	4,242	5,189	7,459	55,634	67,296	29,861	77	187,652
Total PCD	—	—	—	—	12,970	26,043	—	—	39,013

Total	<u>\$1,993,914</u>	<u>\$1,792,050</u>	<u>\$1,015,704</u>	<u>\$ 431,810</u>	<u>\$ 479,768</u>	<u>\$ 935,168</u>	<u>\$2,849,209</u>	<u>\$ 2,006</u>	<u>\$ 9,499,629</u>
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¹ Term loans amortized cost basis by origination year excludes \$18,973 of deferred loan fees, net.

Term Loans Amortized Cost Basis by Origination Year¹

As of December 31,	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Construction and land:									
Pass	\$ 389,420	\$ 453,262	\$ 116,855	\$ 57,637	\$ 5,741	\$ 29,182	\$ 4,631	\$ 1,163	\$ 1,057,891
Special mention	—	1,593	—	312	—	—	—	—	1,905
PCD	—	—	—	—	—	2,348	—	—	2,348
Total construction and land	<u>\$ 389,420</u>	<u>\$ 454,855</u>	<u>\$ 116,855</u>	<u>\$ 57,949</u>	<u>\$ 5,741</u>	<u>\$ 31,530</u>	<u>\$ 4,631</u>	<u>\$ 1,163</u>	<u>\$ 1,062,144</u>
Farmland:									
Pass	\$ 16,849	\$ 28,655	\$ 27	\$ 3,367	\$ 2,957	\$ 2,643	\$ 1,329	\$ —	\$ 55,827
Total farmland	<u>\$ 16,849</u>	<u>\$ 28,655</u>	<u>\$ 27</u>	<u>\$ 3,367</u>	<u>\$ 2,957</u>	<u>\$ 2,643</u>	<u>\$ 1,329</u>	<u>\$ —</u>	<u>\$ 55,827</u>
1 - 4 family residential:									
Pass	\$ 191,333	\$ 101,377	\$ 54,826	\$ 59,861	\$ 27,743	\$ 85,661	\$ 12,659	\$ 6,025	\$ 539,485
Special mention	—	—	—	—	—	352	—	—	352
Substandard	—	—	—	—	81	903	567	—	1,551
PCD	—	—	—	—	—	1,178	—	—	1,178
Total 1 - 4 family residential	<u>\$ 191,333</u>	<u>\$ 101,377</u>	<u>\$ 54,826</u>	<u>\$ 59,861</u>	<u>\$ 27,824</u>	<u>\$ 88,094</u>	<u>\$ 13,226</u>	<u>\$ 6,025</u>	<u>\$ 542,566</u>
Multi-family residential:									
Pass	\$ 67,979	\$ 59,239	\$ 54,321	\$ 68,531	\$ 11,815	\$ 27,020	\$ 49	\$ —	\$ 288,954
Special mention	—	—	—	21,287	—	—	—	—	21,287
Total multi-family residential	<u>\$ 67,979</u>	<u>\$ 59,239</u>	<u>\$ 54,321</u>	<u>\$ 89,818</u>	<u>\$ 11,815</u>	<u>\$ 27,020</u>	<u>\$ 49</u>	<u>\$ —</u>	<u>\$ 310,241</u>
OOCRE:									
Pass	\$ 114,413	\$ 111,516	\$ 56,964	\$ 73,112	\$ 54,921	\$ 174,500	\$ 2,986	\$ 2,965	\$ 591,377
Special mention	2,420	—	1,052	—	—	6,232	—	—	9,704
Substandard	—	412	—	25,440	781	10,259	—	—	36,892
PCD	—	1,377	—	—	6,567	19,620	—	—	27,564
Total OOCRE	<u>\$ 116,833</u>	<u>\$ 113,305</u>	<u>\$ 58,016</u>	<u>\$ 98,552</u>	<u>\$ 62,269</u>	<u>\$ 210,611</u>	<u>\$ 2,986</u>	<u>\$ 2,965</u>	<u>\$ 665,537</u>
NOOCRE:									
Pass	\$ 628,140	\$ 298,091	\$ 254,566	\$ 319,359	\$ 56,710	\$ 336,713	\$ 5,861	\$ 23,015	\$ 1,922,455
Special mention	—	613	1,685	29,469	16,354	48,952	—	489	97,562
Substandard	—	48	1,775	26,209	1,581	52,479	—	—	82,092
PCD	—	—	—	13,620	—	4,580	—	—	18,200
Total NOOCRE	<u>\$ 628,140</u>	<u>\$ 298,752</u>	<u>\$ 258,026</u>	<u>\$ 388,657</u>	<u>\$ 74,645</u>	<u>\$ 442,724</u>	<u>\$ 5,861</u>	<u>\$ 23,504</u>	<u>\$ 2,120,309</u>
Commercial:									
Pass	\$ 430,213	\$ 187,370	\$ 124,798	\$ 65,186	\$ 40,254	\$ 52,491	\$ 968,229	\$ 19,130	\$ 1,887,671
Special mention	7,958	2,341	149	15,136	1,069	3,368	3,482	2,589	36,092
Substandard	15,662	5,843	6,286	14,908	4,167	2,779	20,500	4,342	74,487
PCD	—	—	—	315	1,785	6,526	—	—	8,626
Total commercial	<u>\$ 453,833</u>	<u>\$ 195,554</u>	<u>\$ 131,233</u>	<u>\$ 95,545</u>	<u>\$ 47,275</u>	<u>\$ 65,164</u>	<u>\$ 992,211</u>	<u>\$ 26,061</u>	<u>\$ 2,006,876</u>

MW:

Pass	\$	—	\$	—	\$	—	\$	—	\$	—	\$	564,850	\$	250	\$	565,100
Substandard		—		—		—		—		—		545		—		545
Total MW	\$	—	\$	—	\$	—	\$	—	\$	—	\$	565,395	\$	250	\$	565,645

Consumer:

Pass	\$	3,362	\$	1,566	\$	512	\$	408	\$	2,777	\$	784	\$	1,006	\$	25	\$	10,440
Special mention		—		—		—		—		65		14		—		—		79
Substandard		—		—		22		—		177		39		1,064		—		1,302
PCD		—		—		—		—		24		153		—		—		177
Total consumer	\$	3,362	\$	1,566	\$	534	\$	408	\$	3,043	\$	990	\$	2,070	\$	25	\$	11,998

Total Pass	\$1,841,709	\$1,241,076	\$ 662,869	\$ 647,461	\$ 202,918	\$ 708,994	\$1,561,600	\$ 52,573	\$ 6,919,200
Total Special Mention	10,378	4,547	2,886	66,204	17,488	58,918	3,482	3,078	166,981
Total Substandard	15,662	6,303	8,083	66,557	6,787	66,459	22,676	4,342	196,869
Total PCD	—	1,377	—	13,935	8,376	34,405	—	—	58,093
Total	\$1,867,749	\$1,253,303	\$ 673,838	\$ 794,157	\$ 235,569	\$ 868,776	\$1,587,758	\$ 59,993	\$ 7,341,143

¹ Term loans amortized cost basis by origination year excludes \$9,489 of deferred loan fees, net.

Servicing Assets

The Company was servicing loans of approximately \$543,220 and \$509,977 as of December 31, 2022 and 2021, respectively. A summary of the changes in the related servicing assets are as follows:

	Year Ended December 31,	
	2022	2021
Balance at beginning of year	\$ 17,705	\$ 3,363
Servicing assets acquired through acquisition	—	13,913
Increase from loan sales	2,670	1,330
Servicing asset impairment, net of recoveries	(1,823)	(71)
Amortization charged as a reduction to income	(3,672)	(830)
Balance at year-end	\$ 14,880	\$ 17,705

Fair value of servicing assets is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. As of December 31, 2022 and 2021 there was a valuation allowance of \$2,451 and \$628, respectively.

The Company may also receive a portion of subsequent interest collections on loans sold that exceed the contractual servicing fees. In that case, the Company records an interest-only strip based on its relative fair market value and the other components of the loans. There was no interest-only strip receivable recorded at December 31, 2022 and 2021.

The following table reflects principal sold and related gain for SBA and USDA LHFI. The gain on sale of these loans is recorded in government guaranteed loan income, net in the Company's consolidated statements of income.

	Year Ended December 31,		
	2022	2021	2020
SBA LHFI principal sold	\$ 9,491	\$ 40,001	\$ 41,488
Gain on sale of SBA LHFI	848	4,911	3,379
USDA LHFI principal sold	72,670	—	—
Gain on sale of USDA LHFI	10,731	—	—

7. PREMISES AND EQUIPMENT

Premises and equipment in the accompanying consolidated balance sheets are summarized as follows:

	December 31,	
	2022	2021
Building and improvements	\$ 56,517	\$ 53,955
Site improvements	2,903	2,903
Tenant improvements	779	779
Leasehold improvements	7,497	7,358
Land	38,709	38,709
Furniture, fixtures and equipment	27,417	25,662
Construction in progress	1,579	1,464
	135,401	130,830
Less accumulated depreciation and amortization	26,577	21,559
	<u>\$ 108,824</u>	<u>\$ 109,271</u>

The Company recorded depreciation and amortization expense of approximately \$5,018, \$3,123 and \$4,535 for the years ended December 31, 2022, 2021 and 2020, respectively.

8. LEASES

Operating leases in which the Company is the lessee are recorded as operating lease ROU assets and operating lease liabilities, included in other assets and accounts payable and other liabilities, respectively, on the Company's consolidated balance sheets. The Company does not currently have finance leases in which it is the lessee.

Operating lease ROU assets represent the Company's right to use an underlying asset during the lease term and operating liabilities represent its obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commencement date. ROU assets are further adjusted for lease incentives. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in net occupancy and equipment expense in the consolidated statements of income.

The Company's leases related primarily to office space and bank branches with remaining lease terms generally ranging from one to eight years. Certain lease arrangements contain extension options which typically range from five to 10 years at the then fair market rental rates. As these extension options are not generally considered reasonably certain of exercise, they are not included in the lease term. As of December 31, 2022, operating lease ROU assets and liabilities were \$16,762 and \$17,327, respectively. As of December 31, 2021, operating lease ROU assets and liabilities were \$17,060 and \$18,023, respectively, and is recorded in other assets and accounts payable and accrued expenses, respectively, in the consolidated balance sheets.

The table below summarizes the Company's net lease cost:

	For the Year Ended December 31,	
	2022	2021
Operating lease cost	\$ 5,161	\$ 4,298
Variable lease cost	640	641
Net lease cost	<u>\$ 5,801</u>	<u>\$ 4,939</u>

The table below summarizes other information related to the Company's operating leases:

	For the Year Ended December 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 4,781	\$ 4,051
Weighted-average remaining lease term - operating leases, in years	5.4 years	6.0 years
Weighted-average discount rate - operating leases	2.88 %	1.94 %

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

	December 31, 2022
Lease payments due:	
Within one year	\$ 4,737
After one but within two years	4,351
After two but within three years	3,549
After three but within four years	2,227
After four but within five years	1,089
After five years	3,235
Total undiscounted cash flows	<u>19,188</u>
Less: Discount on cash flows	<u>(1,861)</u>
Total lease liability	<u>\$ 17,327</u>

There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the years ended December 31, 2022 and 2021. As of December 31, 2022, the Company did not have any leases that had not yet commenced, but will create significant rights and obligations for the Company.

9. INTANGIBLE ASSETS

Intangible assets in the accompanying consolidated balance sheets are summarized as follows:

	December 31, 2022				
	Remaining	Gross	Valuation	Accumulated	Net
	Weighted				
	Amortization	Asset	Asset	Amortization	Asset
	Period				
Core deposit intangibles	4.0 years	\$ 81,769	\$ —	\$ 43,523	\$ 38,246
Servicing asset	7.4 years	24,760	2,451	7,429	14,880
Intangible lease assets	0.3 years	4,779	—	4,692	87
		<u>\$ 111,308</u>	<u>\$ 2,451</u>	<u>\$ 55,644</u>	<u>\$ 53,213</u>

	December 31, 2021				
	Remaining	Gross	Valuation	Accumulated	Net
	Weighted				
	Amortization	Asset	Asset	Amortization	Asset
	Period				
Core deposit intangibles	5.0 years	\$ 81,769	\$ —	\$ 33,771	\$ 47,998
Servicing asset	7.2 years	22,090	627	3,758	17,705
Intangible lease assets	1.3 years	4,779	—	4,465	314
		<u>\$ 108,638</u>	<u>\$ 627</u>	<u>\$ 41,994</u>	<u>\$ 66,017</u>

For the years ended December 31, 2022, 2021 and 2020, amortization expense related to intangible assets of approximately \$13,650, \$10,888 and \$11,297, respectively, is included within amortization of intangibles, occupancy and equipment and other income within the consolidated statements of income. For the years ended December 31, 2022 and 2021, a valuation allowance related to intangible assets was \$2,451 and \$627, respectively. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2022 was as follows:

Year	Amount
2023	\$ 11,839
2024	11,752
2025	11,415
2026	11,329
2027	2,000
Thereafter	4,878
	<u>\$ 53,213</u>

10. GOODWILL

Changes in the carrying amount of goodwill in the accompanying consolidated balance sheets are summarized as follows:

	December 31,	
	2022	2021
Balance at beginning of year	\$ 403,771	\$ 370,840
NAC acquisition ¹	681	32,931
Balance at end of year	<u>\$ 404,452</u>	<u>\$ 403,771</u>

¹During the first quarter of 2022, the purchased accounting adjustments for NAC were finalized resulting in an increase in goodwill during 2022.

11. DEPOSITS

Deposits in the accompanying consolidated balance sheets are summarized as follows:

	December 31,	
	2022	2021
Noninterest-bearing demand accounts	\$ 2,640,617	\$ 2,510,723
Interest-bearing demand accounts	622,814	579,408
Savings accounts	118,293	128,061
Limited access money market accounts	3,654,868	2,568,843
Certificates of deposit, greater than \$250	853,659	651,345
Certificates of deposit, less than \$250	1,232,983	925,235
Total	<u>\$ 9,123,234</u>	<u>\$ 7,363,615</u>

As of December 31, 2022, the scheduled maturities of certificates of deposit were as follows:

Year	Amount
2023	\$ 1,954,852
2024	102,339
2025	19,391
2026	6,396
2027	3,664
Total	<u>\$ 2,086,642</u>

The aggregate amount of demand deposit overdrafts that have been reclassified as loans were \$395 and \$2,128 as of December 31, 2022 and 2021, respectively. Brokered deposits at December 31, 2022 and 2021 totaled approximately \$1,307,996 and \$182,303, respectively.

12. ADVANCES FROM FHLB

Advances from the FHLB totaled \$1,175,000 and \$777,562 at December 31, 2022 and 2021, respectively. As of December 31, 2022, the advances were collateralized by a blanket floating lien on certain debt securities and loans, had a weighted average rate of 4.67% and mature on various dates from 2023 to 2024. The Company had the availability to borrow additional funds of approximately \$787,324 as of December 31, 2022.

Contractual maturities of FHLB advances at December 31, 2022 were as follows:

2023	\$ 1,075,000
2024	100,000
Total	<u>\$ 1,175,000</u>

13. OTHER CREDIT EXTENSIONS

As of December 31, 2022 the Company maintained five credit facilities with commercial banks that provided federal funds credit extensions with an availability to borrow up to an aggregate amount of \$175,000. As of December 31, 2021, the Company maintained five credit facilities with commercial banks that provide federal funds credit extensions with an availability to borrow up to an aggregate amount of approximately \$175,000. There were no borrowings under these credit facilities as of December 31, 2022 and 2021.

As of December 31, 2022 and 2021, the Company maintained a secured line of credit with the FRB with an availability to borrow approximately \$1,138,661 and \$995,139, respectively. Approximately \$1,000,730 and \$805,747 of commercial loans were pledged as collateral at December 31, 2022 and 2021, respectively. There were no borrowings under this line of credit as of December 31, 2022 and 2021.

14. SUBORDINATED DEBENTURES AND SUBORDINATED NOTES

Borrowed funds in the accompanying consolidated balance sheets are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Junior subordinated debentures ⁽¹⁾	\$ 30,686	\$ 30,465
Subordinated notes ⁽²⁾	198,089	197,299
	<u>\$ 228,775</u>	<u>\$ 227,764</u>

⁽¹⁾ Junior subordinated debentures are net of a discount of \$3,182 and \$3,403 as of December 31, 2022 and 2021, respectively.

⁽²⁾ Subordinated notes include a debt issuance costs of \$1,911 and \$2,701 as of December 31, 2022 and 2021, respectively.

Junior Subordinated Debentures

In connection with a previous acquisition, the Company assumed \$3,093 in fixed to floating rate junior subordinated debentures underlying common securities and preferred capital securities (the "Parkway Trust Securities"), issued by Parkway National Capital Trust I ("Parkway Trust"), a statutory business trust and acquired wholly owned subsidiary of the Company. The Company became a guarantor and, as such, unconditionally guaranteed payment of accrued and unpaid distributions required to be paid on the Parkway Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if Parkway Trust is liquidated or terminated.

The Company owns all of the outstanding common securities of the Parkway Trust. The Parkway Trust used the proceeds from the issuance of the Parkway Trust Securities to buy the debentures originally issued by Fidelity Resource Company. These debentures are the Parkway Trust's only assets and the interest payments from the debentures finance the distributions paid on the Parkway Trust Securities.

The Parkway Trust Securities pay cumulative cash distributions quarterly at a rate per annum equal to the 3-month LIBOR plus 1.85%. So long as no event of default leading to an acceleration event has occurred, the Company has the right at any time and from time to time during the term of the debentures to defer payments of interest by extending the interest distribution period for up to twenty consecutive quarterly periods. The effective rate as of December 31, 2022 and 2021 was 6.62% and 2.05%, respectively. The Parkway Trust Securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures at the stated maturity in the year 2036 or their earlier redemption, in each case at a redemption price equal to the aggregate liquidation preference of the Parkway Trust Securities plus any accumulated and unpaid distributions thereon to the date of redemption. Prior redemption is permitted under certain circumstances.

In connection with the acquisition of Sovereign on August 1, 2017, the Company assumed \$8,609 in floating rate junior subordinated debentures underlying common securities and preferred capital securities (the “SovDallas Trust Securities”), issued by SovDallas Capital Trust I (“SovDallas Trust”), a statutory business trust and wholly-owned subsidiary of the Company. The Company became a guarantor and, as such, unconditionally guaranteed payment of accrued and unpaid distributions required to be paid on the SovDallas Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if SovDallas Trust is liquidated or terminated. The Company also owns all of the outstanding common securities of the SovDallas Trust.

The SovDallas Trust invested the total proceeds from the sale of the SovDallas Trust Securities and the investment in common shares in floating rate junior subordinated debentures originally issued by Sovereign. Interest on the SovDallas Trust Securities is payable quarterly at a rate equal to 3-month LIBOR plus 4.00%. Principal payments are due at maturity in July 2038. The effective rate as of December 31, 2022 and 2021 was 7.74% and 4.13%. The SovDallas Trust Securities are guaranteed by the Company and are subject to redemption. The Company may redeem the debt securities, in whole or in part, at any time at an amount equal to the principal amount of the debt securities being redeemed plus any accrued and unpaid interest.

In connection with the acquisition of Green on January 1, 2019, the Company assumed \$5,155 in floating rate junior subordinated debentures underlying common securities and preferred capital securities (the “Patriot I Trust Securities”), issued by Patriot I Capital Trust I (“Patriot I Trust”), a statutory business trust and wholly-owned subsidiary of the Company. The Company became a guarantor and, as such, unconditionally guaranteed payment of accrued and unpaid distributions required to be paid on the Patriot I Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if Patriot I Trust is liquidated or terminated. The Company also owns all of the outstanding common securities of the Patriot I Trust.

The Patriot I Trust invested the total proceeds from the sale of the Patriot I Trust Securities and the investment in common shares in floating rate junior subordinated debentures originally issued by Green. Interest on the Patriot I Trust Securities is payable quarterly at a rate equal to 3-month LIBOR plus 1.85%. Principal payments are due at maturity in April 2036. The effective rate as of December 31, 2022 and 2021 was 5.93% and 1.97%. The Patriot I Trust Securities are guaranteed by the Company and are subject to redemption. The Company may redeem the debt securities, in whole or in part, at any time at an amount equal to the principal amount of the debt securities being redeemed plus any accrued and unpaid interest.

In connection with the acquisition of Green on January 1, 2019, the Company assumed \$17,011 in floating rate junior subordinated debentures underlying common securities and preferred capital securities (the “Patriot II Trust Securities”), issued by Patriot II Capital Trust I (“Patriot II Trust”), a statutory business trust and wholly-owned subsidiary of the Company. The Company became a guarantor and, as such, unconditionally guaranteed payment of accrued and unpaid distributions required to be paid on the Patriot II Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if Patriot II Trust is liquidated or terminated. The Company also owns all of the outstanding common securities of the Patriot II Trust.

The Patriot II Trust invested the total proceeds from the sale of the Patriot II Trust Securities and the investment in common shares in floating rate junior subordinated debentures originally issued by Sovereign. Interest on the Patriot II Trust Securities is payable quarterly at a rate equal to 3-month LIBOR plus 1.80%. Principal payments are due at maturity in September 2037. The effective rate as of December 31, 2022 and 2021 was 6.57% and 2.00%. The Patriot II Trust Securities are guaranteed by the Company and are subject to redemption. The Company may redeem the debt securities, in whole or in part, at any time at an amount equal to the principal amount of the debt securities being redeemed plus any accrued and unpaid interest.

The Parkway Trust Securities, SovDallas Trust Securities, Patriot I Trust Securities and Patriot II Trust Securities qualify as Tier 1 capital, subject to regulatory limitations, under guidelines established by the Federal Reserve.

Subordinated Notes

On November 8, 2019, the Company issued \$75,000 in aggregate principal amount of 4.75% Fixed-to-Floating Rate Subordinated Notes (the "2019 Notes"). The 2019 Notes were issued in a private placement transaction to certain qualified institutional buyers and accredited and were registered under the Securities Act effective February 13, 2020. The 2019 Notes were issued under an indenture for Fixed-to-Floating Rate Subordinated Notes dated November 8, 2019, between Veritex Holdings, Inc., as issuer, and UMB Bank, N.A., as trustee. The Company may elect to redeem the 2019 Notes (subject to regulatory approval), in whole or in part, on any early redemption date which is any interest payment date on or after November 15, 2024 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. The 2019 Notes, which qualify as Tier 2 capital under the Federal Reserve's capital guidelines, have an interest rate of 4.75% per annum during the fixed rate period from date of issuance through November 15, 2024. Interest is payable semi-annually on each May 15 and November 15 through November 15, 2024. The interest rate on the notes will vary beginning November 15, 2024, at a floating rate equal to the secured overnight financing rate, as determined quarterly on the determination date for the applicable interest period, plus 347 basis points.

On October 5, 2020, the Company completed the issuance and sale of \$125,000 in aggregate principal amount of its 4.125% Fixed-to-Floating Rate Subordinated Debt due in 2030 (the "2020 Notes"). The 2020 Notes will bear interest: (i) from and including the date of issuance to, but excluding, October 15, 2025, at a rate of 4.125% per year and (ii) from and including October 15, 2025 to, but excluding, the maturity date (unless redeemed prior to such date), at a floating rate per year equal to the Benchmark (which is expected to be Three-Month Term Secured Overnight Funding Rate) plus 399.5 basis points. The Company has the right, subject to certain circumstances and the receipt of any required approval of the Federal Reserve Board, to redeem the 2020 Notes at the Company's option, in whole or in part, on any interest payment date on or after October 15, 2025. The Company intends to use the net proceeds from the offering of 2020 Notes for general corporate purposes, including the potential repayment of outstanding indebtedness, and supporting capital levels of the Bank.

15. INCOME TAXES

The provision for income taxes is summarized as follows:

	Year Ended December 31,		
	2022	2021	2020
Income tax expense (benefit):			
Current	\$ 45,981	\$ 32,075	\$ 23,587
Deferred	(5,662)	4,647	(9,384)
	<u>\$ 40,319</u>	<u>\$ 36,722</u>	<u>\$ 14,203</u>

The table below reconciles income tax expense for the years ended December 31, 2022, 2021 and 2020 computed by applying the applicable U.S. federal statutory income tax rate, reconciled to the tax expense computed at the effective income tax rate:

	Year Ended December 31,		
	2022	2021	2020
Federal income tax expense rate at 21% for December 31, 2022, 2021 and 2020	\$ 39,193	\$ 37,024	\$ 18,498
Bank-owned life insurance	(448)	(852)	(407)
Non-deductible transaction costs	—	78	—
Tax exempt interest income	(579)	(545)	(452)
Deferred tax true up	54	24	(1,181)
162(m) Disallowance	1,183	504	65
State taxes, net of federal benefit	1,769	1,039	902
Excess benefit on share-based compensation	(1,056)	(838)	(1,435)
Net Operating Loss ("NOL") Carryback	—	—	(1,799)
Other	203	288	12
Total income tax expense	\$ 40,319	\$ 36,722	\$ 14,203
Effective tax rate	<u>21.6 %</u>	<u>20.8 %</u>	<u>16.1 %</u>

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
ACL	\$ 21,647	\$ 18,274
Equity compensation	4,286	4,111
Purchase premium/loan discounts	1,546	1,555
Lease liability	3,708	3,785
Net unrealized loss on debt securities AFS	17,204	—
Purchased securities	2,520	2,507
Other	9,219	6,320
Total deferred tax assets	\$ 60,130	\$ 36,552
Deferred tax liabilities:		
Intangibles	9,340	10,372
Bank premises and equipment	6,163	5,773
ROU asset	3,587	3,583
Net unrealized gain on debt securities AFS	—	17,030
Other	3,214	1,864
Total deferred tax liabilities	22,304	38,622
Net deferred tax asset (liability)	\$ 37,826	\$ (2,070)

Included within other assets in the Company's consolidated balance sheet as of December 31, 2022 is a current tax receivable of \$1,741 and included within other assets is a net deferred tax asset of \$37,826. Additionally, included within accounts payable and accrued expenses in the Company's consolidated balance sheets as of December 31, 2022 is a \$573 current state tax payable. Included within other assets in the Company's consolidated balance sheets as of December 31, 2021 is

a current tax receivable of \$9,366 and included in other liabilities is a net deferred tax liability of \$2,070. Additionally, included within accounts payable and accrued expenses in the Company's consolidated balance sheets as of December 31, 2021 is a \$806 current state tax payable.

The following table provides a rollforward of the Company's gross federal and state unrecognized tax benefits for the years ending December 31, 2022, 2021 and 2020.

	December 31		
	2022	2021	2020
Unrecognized tax benefits at the beginning of the year:	\$ 503	\$ 549	\$ —
Gross increases, related to tax positions taken in a prior period	—	—	281
Gross decreases, related to tax positions taken in a prior period	(44)	(101)	—
Gross increases, related to tax positions taken in current period	75	55	268
Settlement with taxing authority	(241)	—	—
Unrecognized tax benefits at the end of the year	<u>\$ 293</u>	<u>\$ 503</u>	<u>\$ 549</u>

The Company files income tax returns in the U.S. federal jurisdiction and U.S. state jurisdictions. As of December 31, 2022, the Company is no longer subject to U.S. federal income tax examinations for tax years prior to 2019 and state income tax examinations for tax years prior to 2018.

16. COMMITMENTS AND CONTINGENCIES

Litigation

The Company may from time to time be involved in legal actions arising from normal business activities. Management believes that these actions in which the Company or any of its subsidiaries is a defendant are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial position or results of operations of the Company.

Refer to Note 12 "Advances from the FHLB", Note 14 "Borrowed Funds" and Note 18 "Off-Balance Sheet Loan Commitments" for further discussion on commitments.

17. FAIR VALUE DISCLOSURES

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

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

Level 1 Inputs. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government agencies, corporate bonds, municipal securities, mortgage-backed securities, collateralized mortgage obligations and asset-backed securities.

Level 3 Inputs. Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

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

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

Assets and liabilities measured at fair value on a recurring basis include the following:

AFS Debt Securities: Debt securities classified as AFS are reported at fair value utilizing Level 2 inputs. For those debt securities classified as Level 2, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live+ trading levels, trade execution data for similar securities, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Equity Security With a Readily Determinable Fair Value: This investment represents our CRA security which is reported at fair value utilizing a Level 1 input which includes a quoted price in an active market for the identical asset.

PPP Loans: The fair value of PPP loans is based on commitments from investors or prevailing market prices.

LHFS: The fair value of government guaranteed loans held-for-sale is based on commitments from investors or prevailing market prices.

Derivative Financial Instruments: The fair value of correspondent interest rate swaps, customer interest rate swaps, correspondent interest rate caps and collars, customer interest rate caps and collars, and commercial loan interest rate floors are derived from pricing models based on past, present and projected future market conditions, quoted market prices of instruments with similar characteristics or discounted cash flows, classified in Level 2 of the fair value hierarchy.

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
AFS debt securities	\$ —	\$ 1,096,292	\$ —	\$ 1,096,292
Equity securities with a readily determinable fair value	9,792	—	—	9,792
PPP Loans	—	—	1,995	1,995
LHFS (1)	—	19,775	—	19,775
Interest rate swaps designated as hedging instruments	—	26,523	—	26,523
Correspondent interest rate swaps not designated as hedging instruments	—	38,839	—	38,839
Customer interest rate swaps not designated as hedging instruments	—	1,004	—	1,004
Correspondent interest rate caps and collars not designated as hedging instruments	—	1,494	—	1,494
Financial Liabilities:				
Interest rate swaps designated as hedging instruments	\$ —	\$ 54,171	\$ —	\$ 54,171
Correspondent interest rate swaps not designated as hedging instruments	—	1,126	—	1,126
Customer interest rate swaps not designated as hedging instruments	—	38,188	—	38,188
Customer interest rate caps and collars not designated as hedging instruments	—	1,494	—	1,494

⁽¹⁾ Represents LHFS elected to be carried at fair value upon origination or acquisition.

	December 31, 2021			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
AFS debt securities	\$ —	\$ 993,058	\$ —	\$ 993,058
Equity securities with a readily determinable fair value	11,038	—	—	11,038
PPP Loans	—	53,369	—	53,369
LHFS (1)	—	9,867	—	9,867
Interest rate swaps designated as hedging instruments	—	7,001	—	7,001
Correspondent interest rate swaps not designated as hedging instruments	—	1,527	—	1,527
Customer interest rate swaps not designated as hedging instruments	—	3,261	—	3,261
Customer interest rate caps and collars not designated as hedging instruments	—	1	—	1
Financial Liabilities:				
Interest rate swaps designated as hedging instruments	\$ —	\$ 1,404	\$ —	\$ 1,404
Correspondent interest rate swaps not designated as hedging instruments	—	3,498	—	3,498
Customer interest rate swaps not designated as hedging instruments	—	1,442	—	1,442
Correspondent interest rate caps and collars not designated as hedging instruments	—	1	—	1

⁽¹⁾ Represents LHFS elected to be carried at fair value upon origination or acquisition.

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

Certain assets, including collateral dependent loans with an ACL and servicing asset with a valuation allowance are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Collateral Dependent Loans with an ACL: A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL is measured by estimating the fair value of the loan's underlying collateral. For real estate loans, fair value of the loan's collateral is determined by third-party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. Appraisals for collateral dependent loans with an ACL are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once reviewed, a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparisons to independent data sources such as recent market data or industry wide-statistics. On a periodic basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustments, if any, should be made to the appraisal value to arrive at fair value.

Servicing Assets with a Valuation Allowance: The fair value of the servicing asset is estimated using discounted cash flows based on current market interest rates. A valuation allowance is recorded when the fair value is below the carrying amount of the asset.

The following table summarizes assets measured at fair value on a non-recurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value			Total	
	Measurements Using				
	Level 1	Level 2	Level 3		
	Inputs	Inputs	Inputs	Fair Value	
As of December 31, 2022					
Assets:					
Collateral dependent loans with an ACL	\$	—	\$	7,969	\$ 7,969
Servicing assets with a valuation allowance		—		10,984	10,984
As of December 31, 2021					
Assets:					
Collateral dependent loans with an ACL	\$	—	\$	10,100	\$ 10,100
Servicing assets with a valuation allowance		—		3,223	3,223

At December 31, 2022, collateral dependent loans with an ACL had a recorded investment of \$10,632, with \$2,663 specific allowance for credit loss allocated. At December 31, 2021, collateral dependent loans with an ACL had a recorded investment of \$17,908, with \$7,808 specific allowance for credit loss allocated.

At December 31, 2022, servicing assets of \$13,435 had a valuation allowance totaling \$2,451. At December 31, 2021, servicing assets of \$3,850 had a valuation allowance totaling \$627.

There were no liabilities measured at fair value on a non-recurring basis as of December 31, 2022 and 2021.

Fair Value of Financial Instruments

The Company is required under current authoritative guidance to disclose the estimated fair value of its financial instrument assets and liabilities, including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments, as defined in such guidance. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop an estimate of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, *Financial Instruments*, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:

Cash and cash equivalents: The carrying amount of cash and cash equivalents approximates their fair value.

HTM debt securities: The fair values of these debt securities is determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

LHI: The fair value of LHI, excluding previously presented collateral dependent loans with an ACL measured at fair value on a non-recurring basis, is estimated using a discounted cash flow analysis. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit, and prepayment risk of the loans. Loans are considered a Level 3 financial asset.

Securities purchased under agreements to resell: The fair value for securities purchased under agreements to resell approximate their carrying value as these reprice at market rates generally daily.

LHFS: LHFS, including mortgage loans, which are carried at the lower of cost or estimated fair value. The fair value for the mortgage loans approximate their carrying value and these loans are considered Level 2 financial assets.

Accrued interest receivable: The carrying amounts of accrued interest approximate their fair values due to short-term maturity.

BOLI: The carrying amounts of bank-owned life insurance policies approximate their fair value.

Servicing Asset: Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset.

Equity securities without a readily determinable fair value: Certain equity securities are carried at cost as these securities did not have a readily determinable fair value. There were no observable price changes in orderly transactions for the identical or a similar investment of the same issuer as of December 31, 2022 and 2021.

FHLB and FRB stock: FHLB and FRB stock are carried at cost basis due to restrictions placed on the transferability of these investments. As a result, the fair value of these investments was not practicable to determine.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit ("CDs") approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on CDs to a schedule of aggregated expected monthly maturities on time deposits.

Advances from FHLB: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company's current borrowing rate for similar arrangements.

Subordinated debentures and subordinated notes: The fair values are based upon prevailing rates on similar debt in the marketplace.

Securities sold under agreement to repurchase: The carrying amount of securities sold under agreements to repurchase is a reasonable estimate of fair value because these borrowings reprice at market rates generally daily.

Off-balance sheet instruments: Commitments to extend credit and standby letters of credit are generally priced at market at the time of funding and were not material to the Company's consolidated financial statements.

The estimated fair values and carrying values of all financial instruments not measured at fair value on a recurring or non-recurring basis under current authoritative guidance as of December 31, 2022 and 2021 were as follows:

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
December 31, 2022				
Financial assets:				
Cash and cash equivalents	\$ 436,077	\$ —	\$ 436,077	\$ —
Held-to-maturity debt securities	186,168	—	158,781	—
Securities purchased under agreements to resell	—	—	—	—
LHFS ⁽¹⁾	866	—	866	—
LHI ⁽²⁾	9,399,614	—	—	9,163,616
Accrued interest receivable	44,035	—	44,035	—
BOLI	84,496	—	84,496	—
Servicing asset	3,896	—	3,896	—
Equity securities without a readily determinable fair value	10,072	N/A	N/A	N/A
FHLB and FRB stock	101,568	N/A	N/A	N/A
Financial liabilities:				
Deposits	\$ 9,123,234	\$ —	\$ 8,341,419	\$ —
Advances from FHLB	1,175,000	—	1,156,852	—
Accrued interest payable	8,795	—	8,795	—
Subordinated debentures and subordinated notes	228,775	—	228,775	—
Securities sold under agreement to repurchase	—	—	—	—
December 31, 2021				
Financial assets:				
Cash and cash equivalents	\$ 379,784	\$ —	\$ 379,784	\$ —
Held-to-maturity debt securities	59,436	—	61,446	—
Securities purchased under agreements to resell	102,288	—	102,288	—
LHFS ⁽¹⁾	16,140	—	16,140	—
LHI ⁽²⁾	7,259,233	—	—	7,283,992
Accrued interest receivable	22,008	—	22,008	—
Bank-owned life insurance	83,194	—	83,194	—
Servicing asset	14,482	—	14,482	—
Equity securities without readily determinable fair value	4,355	N/A	N/A	N/A
FHLB and FRB stock	71,892	N/A	N/A	N/A
Financial liabilities:				
Deposits	\$ 7,363,615	\$ —	\$ 7,145,175	\$ —
Advances from FHLB	777,562	—	796,480	—
Accrued interest payable	1,507	—	1,507	—
Subordinated debentures and subordinated notes	227,764	—	227,764	—
Securities sold under agreement to repurchase	4,069	—	4,026	—

⁽¹⁾ LHFS primarily represent commercial loans moved to held for sale or mortgage LHFS that are carried at lower of cost or market.

⁽²⁾ LHI includes MW and is carried at amortized cost.

18. OFF-BALANCE SHEET LOAN COMMITMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, MW commitments and standby and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to a financial instrument for commitments to extend credit, MW commitments and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following table sets forth the approximate amounts of these financial instruments as of December 31, 2022 and 2021:

	December 31,	
	2022	2021
Commitments to extend credit	\$ 4,511,671	\$ 3,809,509
MW commitments	1,088,558	716,370
Standby and commercial letters of credit	98,179	65,881
	<u>\$ 5,698,408</u>	<u>\$ 4,591,760</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis and substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of future loan funding. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

MW commitments are unconditionally cancellable and represent the unused capacity on MW facilities the Company has approved. The Company reserves the right to refuse to buy any mortgage loans offered for sale by a customer, for any reason, at the Company's sole and absolute discretion.

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby and commercial letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

The table below presents the activity in the allowance for unfunded commitment credit losses related to those financial instruments discussed above. This allowance is recorded in accounts payable and other liabilities on the Consolidated Balance Sheets:

	December 31,	
	2022	2021
Beginning balance for ACL on unfunded commitments	\$ 9,266	\$ 10,747
Provision (benefit) for credit losses on unfunded commitments	820	(1,481)
Ending balance of ACL on unfunded commitments	<u>\$ 10,086</u>	<u>\$ 9,266</u>

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Company primarily uses derivatives to manage exposure to market risk, including interest rate risk and credit risk and to assist customers with their risk management objectives. Management will designate certain derivatives as hedging instruments in a qualifying hedge accounting relationship. The Company's remaining derivatives consist of derivatives held for customer accommodation or other purposes.

The fair value of derivative positions outstanding is included in other assets and accounts payable and other liabilities on the Company's consolidated balance sheets and in the net change in each of these financial statement line items in the Company's consolidated statements of cash flows. For derivatives not designated as hedging instruments, swap fee income and gains and losses due to changes in fair value are included in noninterest income and the operating section of the Company's consolidated statement of cash flows. For derivatives designated as hedging instruments, the entire change in the fair value related to the derivative instrument is recognized as a component of other comprehensive income and subsequently reclassified into interest income when the forecasted transaction affects income. The notional amounts and estimated fair values as of December 31, 2022 and December 31, 2021 were as shown in the table below.

	December 31, 2022			December 31, 2021		
	Notional Amount	Estimated Fair Value		Notional Amount	Estimated Fair Value	
		Asset Derivative	Liability Derivative		Asset Derivative	Liability Derivative
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate swap on money market deposit account payments	\$ 250,000	\$ 21,234	\$ —	\$ 250,000	\$ 4,541	\$ —
Interest rate swaps on customer loan interest payments	375,000	—	49,211	375,000	2,460	1,404
Interest rate collars on customer loan interest payments	450,000	3,267	4,960	—	—	—
Interest rate floor on customer loan interest payments	100,000	2,022	—	—	—	—
Total derivatives designated as hedging instruments	\$ 1,175,000	\$ 26,523	\$ 54,171	\$ 625,000	\$ 7,001	\$ 1,404
Derivatives not designated as hedging						
Financial institution counterparty:						
Interest rate swaps	\$ 805,311	\$ 38,839	\$ 1,126	\$ 379,787	\$ 1,527	\$ 3,498
Interest rate caps and collars	68,370	1,494	—	41,916	—	1
Commercial customer counterparty:						
Interest rate swaps	805,311	1,004	38,188	379,787	3,261	1,442
Interest rate caps and collars	68,370	—	1,494	41,916	1	—
Total derivatives not designated as hedging instruments	\$ 1,747,362	\$ 41,337	\$ 40,808	\$ 843,406	\$ 4,789	\$ 4,941
Offsetting derivative assets/liabilities		(30,982)	(30,982)		(2,609)	(2,609)
Total derivatives	\$ 2,922,362	\$ 36,878	\$ 63,997	\$ 1,468,406	\$ 9,181	\$ 3,736

Pre-tax gain (loss) included in the Company's consolidated statements of income and related to derivative instruments for the years ended December 31, 2022 and 2021 was as follows:

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
	Net (loss) gain recognized in other comprehensive income on derivative	Gain (loss) reclassified from accumulated other comprehensive income into income	Location of gain (loss) reclassified from accumulated other comprehensive income into income	Net gain (loss) recognized in other comprehensive income on derivative	(Loss) gain reclassified from accumulated other comprehensive income into income	Location of (loss) gain reclassified from accumulated other comprehensive income into income
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate swap on borrowing advances	\$ (3,569)	\$ 3,569	Interest Expense	\$ 26,357	\$ —	Interest Expense
Interest rate swap on money market deposit account payments	16,693	3,208	Interest Expense	6,995	(803)	Interest Expense
Commercial loan interest rate floor	—	—	Interest Income	—	866	Interest Income
Interest rate swaps, collars and floor on customer loan interest payments	(54,623)	(1,757)	Interest Income	(14)	3,714	
Total	\$ (41,499)	\$ 5,020		\$ 33,338	\$ 3,777	

	Net Gain recognized in other noninterest income	Loss recognized in other noninterest income
Derivatives not designated as hedging instruments:		
Interest rate swaps, caps and collars	\$ 7,217	\$ 1,913

Cash Flow Hedges

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company uses interest rate swaps, floors, caps and collars to manage overall cash flow changes related to interest rate risk exposure on benchmark interest rate loans.

In October 2022, the Company entered into an interest rate floor for a notional amount of \$100,000 to hedge for changes in cash flows attributable to changes in the contractually specified interest rate, currently the 1M SOFR CME rate on a pool of customer floating rate loans from November 2022 through October 2025. The Company also entered into an interest rate collar for a notional amount of \$100,000 to hedge for changes in cash flows attributable to changes in the contractually specified interest rate, currently the 1M SOFR CME rate on a separate pool of customer floating rate loans from November 2022 through October 2026.

In August 2022, the Company entered into an interest rate collar for a notional amount of \$350,000 to hedge for changes in its cash flows attributable to changes in the contractually specified interest rate, currently the 1M SOFR CME rate of its customer floating rate loan portfolio from August 2022 through August 2025.

In March 2021, the Company entered into three fixed receive/pay variable interest rate swaps, each with a notional amount of \$125,000, to hedge the variability of cash flow payments attributable to changes in interest rates in regards to forecasted three-month attributable to changes in interest rates in regards to forecasted money market account borrowings from March 2021 through March 2028 and March 2021 through March 2031.

In March 2020, the Company entered into an interest rate swap for a notional amount of \$500,000 to hedge the variability of cash flow payments attributable to changes in interest rates in regards to forecasted issuances of three-month term debt arrangements every three months from March 2022 through March 2032. These forecasted borrowings can be sourced from an FHLB advance, repurchase agreement, brokered certificate of deposit or some combination. The interest rate swap was terminated on February 24, 2021. The pre-tax gain of \$43,900, resulting from the termination of the interest rate swap, will remain in other comprehensive income (loss) and will be accreted over a 10 year period starting in March 2022 unless forecasted transactions become probable of not occurring. The gain accreted into income during the twelve months ended December 31, 2022 was \$3,569.

In March 2020, the Company entered into an interest rate swap for a notional amount of \$250,000 to hedge the variability of cash flow payments attributable to changes in interest rates in regards to forecasted money market account borrowings from March 2020 through March 2025.

Interest Rate Swap, Floor, Cap and Collar Agreements Not Designated as Hedging Derivatives

In order to accommodate the borrowing needs of certain commercial customers, the Company has entered into interest rate swap or cap agreements with those customers. These interest rate derivative contracts effectively allow the Company's customers to convert a variable rate loan into a fixed rate loan. In order to offset the exposure and manage interest rate risk, at the time an agreement was entered into with a customer, the Company entered into an interest rate swap or cap with a correspondent bank counterparty with offsetting terms. These derivative instruments are not designated as accounting hedges and changes in the net fair value are recognized in noninterest income or expense. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on the Company's results of operations. The fair value amounts are included in other assets and other liabilities.

The following is a summary of the interest rate swaps outstanding as of December 31, 2022 and December 31, 2021.

December 31, 2022					
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
Non-hedging derivative instruments:					
Customer interest rate derivative:					
Interest rate swaps - receive fixed/pay floating	\$ 805,311	2.41% - 8.470%	LIBOR 1 month + 2.750% - 5.000% SOFR CME 1 month + —%- 3.750% SOFR - NYFD 30 day average + 2.500% - 2.964%	Wtd. Avg. 5.1 years	\$(37,183)
Interest rate caps and collars	\$ 68,370	3.500%	LIBOR 1 month + 0.00%	Wtd. Avg. 1.8 years	\$ (1,494)
Correspondent interest rate derivative:					
Interest rate swaps - pay fixed/receive floating	\$ 805,311	2.41% - 8.470%	LIBOR 1 month + 2.750% - 5.000% SOFR CME 1 month + —%- 3.750% SOFR - NYFD 30 day average + 2.500% - 2.964%	Wtd. Avg. 5.1 years	\$ 37,713
Interest rate caps and collars	\$ 68,370	3.500%	LIBOR 1 month + 0.00%	Wtd. Avg. 1.8 years	\$ 1,494

December 31, 2021

	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
Non-hedging derivative instruments:					
Customer interest rate derivative:					
Interest rate swaps - receive fixed/pay floating	\$ 379,787	2.97% - 8.47%	LIBOR 1 month + 2.20% - 5.00% SOFR CME 1 month + 2.48% - 2.90% SOFR - NYFD 30 day average + 2.50% - 2.964%	Wtd. Avg. 4.8 years	\$ 1,820
Interest rate caps and collars	\$ 41,916	3.00% / 5.00%	LIBOR 1 month + 0.00% - 2.50%	Wtd. Avg. 0.6 years	\$ 1
Correspondent interest rate derivative:					
Interest rate swaps - pay fixed/receive floating	\$ 379,787	2.97% - 8.47%	LIBOR 1 month + 2.20% - 5.00% SOFR CME 1 month + 2.48% - 2.90% SOFR - NYFD 30 day average + 2.50% - 2.964%	Wtd. Avg. 4.8 years	\$(1,972)
Interest rate caps and collars	\$ 41,916	2.50% / 3.00%	LIBOR 1 month + 0.00%	Wtd. Avg. 0.6 years	\$ (1)

20. EMPLOYEE BENEFITS

Defined Contribution Plan

The Company maintains a retirement savings 401(k) profit sharing plan (the “Plan”) in which substantially all employees may participate. The Plan allows employees to make discretionary “before tax” contributions through salary reductions under section 401(k) of the Internal Revenue Code. The Company may make a discretionary match of employees’ contributions based on a percentage of salary deferrals and certain discretionary profit sharing contributions. For the year ended December 31, 2022 and 2021, the company made matching contributions of \$4,661 and \$3,755, respectively.

21. STOCK AND INCENTIVE PLANS

2010 Stock Option and Equity Incentive Plan

In 2010, the Company adopted the 2010 Stock Option and Equity Incentive Plan (the “2010 Incentive Plan”), which the Company’s shareholders approved in 2011. The maximum number of shares of common stock that may be issued pursuant to grants or options under the 2010 Incentive Plan is 1,000,000. The 2010 Incentive Plan is administered by the Board and provides for both the direct award of stock and the grant of stock options to eligible directors, officers, employees and outside consultants of the Company or its affiliates as defined in the 2010 Incentive Plan. The Company may grant either incentive stock options or nonqualified stock options as directed in the 2010 Incentive Plan.

The Board authorized grants of equity awards under the 2010 Incentive Plan consisting of 100,000 shares of direct stock awards (restricted shares) and 900,000 shares of stock options, of which 500,000 shares are or were performance-based stock options. Options were generally granted with an exercise price equal to the market price of the Company’s stock as of the date of the grant. In general, the terms of awards varied depending on whether a participant was a shareholder owning more than 10% of the total combined voting power of all classes of Company stock (a “controlling participant”). Options granted to non-controlling participants generally vested after 5 years of continuous service, with 10-year contractual terms, and forfeiture of unexercised options upon termination of employment with the Company. Other grant terms varied for controlling participants. Restricted share awards generally vested after 4 years of continuous service. The terms of the 2010 Incentive Plan provide that all unearned non-performance options and restricted shares become immediately exercisable and fully vested upon a change in control.

During the years ending December 31, 2022, 2021 and 2020, the Company did not award any restricted stock units, non-performance based stock options or performance-based stock options or other awards under the 2010 Incentive Plan.

Stock based compensation expense is measured based upon the fair market value of the award at the grant date and is recognized ratably over the period during which the shares are earned (the requisite service period). For the years ended December 31, 2022, 2021 and 2020, there was no stock compensation expense related to the 2010 Incentive Plan.

A summary of the status of options granted under the 2010 Incentive Plan at December 31, 2022, 2021 and 2020 and changes during the years then ended is presented below:

	2010 Incentive Plan			
	Nonperformance-based stock options			
	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2019	257,500	\$ 10.28	1.37 years	
Exercised	(237,500)	10.12		
Outstanding at December 31, 2020	20,000	\$ 10.09	1.06 years	
Exercised	(19,000)	10.00		
Outstanding at December 31, 2021	1,000	\$ 10.43	1.07 years	
Outstanding and exercisable at December 31, 2022	1,000	\$ 10.43	1.07 years	\$ 43

As of December 31, 2022, 2021, and 2020 there was no unrecognized stock compensation expense related to non-performance based stock options.

A summary of the fair value of the Company's stock options exercised vested under the 2010 Incentive Plan as of December 31, 2022, 2021 and 2020 is presented below:

	Fair Value of Options Exercised or Restricted Stock Units Vested as of December 31,		
	2022	2021	2020
Nonperformance-based stock options exercised	\$ —	\$ 568	\$ 6,579

2022 Amended Plan and Green Acquired Omnibus Plans

At the Company's 2022 annual meeting of shareholders, the Company sought approval from its shareholders to authorize the amendment and restatement of the 2019 Amended and Restated Omnibus Incentive Plan (now referred to as the "2022 Equity Plan") to, among other things, increase the aggregate number of shares that are available for grant thereunder, (the "Shareholder Approval"). Other terms amended in the 2022 Equity Plan included adding a one-year minimum vesting requirement on equity awards and clarifying certain provisions with respect to (i) the Compensation Committee's authority and responsibilities in the administration of the 2022 Equity Plan, (ii) prohibitions against (x) dividend payments and voting rights with respect to any unvested awards, (y) the repricing of stock options and SARs, and (z) transfers of awards, and (iii) the definitions of termination of service, disability, and retirement. The Compensation Committee of the Board approved the amendment and restatement of the 2022 Equity Plan in May 2022 and Shareholder Approval was received in May 2022.

2022 Grants of Restricted Stock Units

In the year ended December 31, 2022, the Company granted non-performance-based RSUs and performance-based restricted stock units ("PSUs") under the 2022 Equity Plan and the Veritex (Green) 2014 Omnibus Equity Incentive Plan (the "Veritex (Green) 2014 Plan"). The majority of the RSUs granted to employees during the year ended December 31, 2022 with annual graded vesting over a three year period from the grant date.

The PSUs granted in February 2022 are subject to a service, performance and market condition. The performance and market condition determine the number of awards to vest. The service period is from February 1, 2022 to January 31, 2025, the performance condition performance period is from January 1, 2022 to December 31, 2024 and the market condition performance period is from February 1, 2022 to January 31, 2025. A Monte Carlo simulation was used to estimate the fair value of PSUs on the grant date.

Stock Compensation Expense

Stock compensation expense of options, RSUs and PSUs granted under the 2022 Equity Plan and the Veritex (Green) 2014 Plan was as follows:

	Year ended December 31,	
	2022	2021
2022 Equity Plan	\$ 11,109	\$ 8,614
Veritex (Green) 2014 Plan	820	1,959

2022 Equity Plan

A summary of the status of the Company's stock options under the 2022 Equity Plan as of December 31, 2022, 2021 and 2020, and changes during the years then ended, is as follows:

	2022 Equity Plan			
	Nonperformance-based stock options			
	Equity Awards			
	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2019	849,768	\$ 23.61	8.24 years	
Granted	185,025	26.73		
Forfeited	(25,053)	27.37		
Exercised	(33,939)	19.10		
Outstanding at December 31, 2020	<u>975,801</u>	<u>\$ 24.26</u>	<u>7.45 years</u>	
Granted	500	\$ 36.54		
Forfeited	(13,996)	25.93		
Exercised	(252,262)	23.87		
Outstanding at December 31, 2021	<u>710,043</u>	<u>\$ 24.38</u>	<u>6.91 years</u>	
Granted	1,500	\$ 31.26		
Exercised	(54,049)	23.51		
Outstanding at December 31, 2022	<u>657,494</u>	<u>\$ 24.47</u>	<u>5.58 years</u>	<u>\$ 2,547</u>
Options exercisable at December 31, 2022	<u>550,454</u>	<u>\$ 24.64</u>	<u>5.30 years</u>	<u>\$ 2,019</u>
Weighted average fair value of options granted during the period		<u>\$ 31.26</u>		

As of December 31, 2022, 2021 and 2020 there was \$172, \$803 and \$2,470 of total unrecognized compensation expense related to stock options awarded under the 2022 Equity Plan, respectively. The unrecognized compensation expense at December 31, 2022 is expected to be recognized over the remaining weighted average requisite service period of 0.31 years.

A summary of the status of the Company's RSUs under the 2022 Equity Plan as of December 31, 2022, 2021 and 2020, and changes during the year then ended is as follows:

	2022 Equity Plan	
	RSUs	
	Equity Awards	
	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	175,688	\$ 21.65
Granted	360,400	20.38
Vested into shares	(93,377)	24.73
Forfeited	(1,579)	29.13
Outstanding at December 31, 2020	441,132	\$ 20.39
Granted	281,149	28.68
Vested into shares	(108,732)	24.19
Forfeited	(15,498)	28.47
Outstanding at December 31, 2021	598,051	\$ 23.39
Granted	546,405	33.79
Vested into shares	(175,159)	27.88
Forfeited	(14,193)	33.18
Outstanding at December 31, 2022	955,104	\$ 28.38

A summary of the status of the Company's PSUs under the 2022 Equity Plan as of December 31, 2022, 2021 and 2020, and changes during the years then ended is as follows:

	2022 Equity Plan	
	PSUs	
	Equity Awards	
	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	63,727	\$ 22.76
Granted	39,398	25.94
Vested into shares	(1,841)	19.69
Forfeited	(1,089)	19.69
Outstanding at December 31, 2020	100,195	\$ 23.20
Granted	56,276	25.94
Outstanding at December 31, 2021	156,471	\$ 24.17
Granted	39,429	40.38
Incremental PSUs granted upon performance conditions met	34,194	23.90
Vested into shares	(103,387)	22.79
Outstanding at December 31, 2022	126,707	\$ 31.19

As of December 31, 2022, 2021, and 2020 there was \$17,160, \$10,413 and \$8,222 of total unrecognized compensation expense related to RSUs and PSUs awarded under the 2022 Equity Plan, respectively. The unrecognized compensation expense at December 31, 2022 is expected to be recognized over the remaining weighted average requisite service period of 2.54 years.

A summary of the fair value of the Company's stock options exercised and restricted stock units vested under the 2022 Equity Plan as of December 31, 2022, 2021 and 2020 is presented below:

Fair Value of Options Exercised, RSUs and PSUs Vested as of December 31,

	2022	2021	2020
Nonperformance-based stock options exercised	\$ 792	\$ 9,214	\$ 954
RSUs vested	6,356	2,781	2,529
PSUs vested	4,040	—	36

Veritex (Green) 2014 Plan

A summary of the status of the Company's stock options under the Veritex (Green) 2014 Plan as of December 31, 2022, 2021 and 2020 changes during the years then ended is as follows:

Veritex (Green) 2014 Plan				
Non-performance Based Stock Options				
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2019	386,969	\$ 19.30		
Granted	31,075	29.13		
Forfeited	(30,711)	20.92		
Exercised	(35,333)	19.42		
Outstanding at December 31, 2020	352,000	\$ 19.99		
Forfeited	(7,245)	21.38		
Exercised	(126,951)	20.55		
Outstanding at December 31, 2021	217,804	\$ 19.62		
Exercised	(62,592)	19.59		
Outstanding at December 31, 2022	155,212	\$ 19.83	5.20 years	\$ 1,321
Options exercisable at December 31, 2022	145,696	\$ 19.16	5.07 years	\$1,321

As of December 31, 2022 there was no unrecognized compensation expense related to options awarded under the Veritex (Green) 2014 Plan. As of December 31, 2021 and 2020 there was \$100 and \$626, respectively, of total unrecognized compensation expense related to options awarded under the Veritex (Green) 2014 Plan.

A summary of the status of the Company's RSUs under the Veritex (Green) 2014 Plan as of December 31, 2022, 2021 and 2020 and changes during the years then ended, is as follows:

	Veritex (Green) 2014 Plan	
	RSUs	
	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	116,250	\$ 21.38
Granted	93,918	21.36
Outstanding at Vested into shares	(38,744)	21.38
Outstanding at Forfeited	(15,237)	23.62
Outstanding at December 31, 2020	156,187	\$ 22.64
Granted	5,692	26.12
Vested into shares	(33,335)	21.38
Forfeited	(5,760)	25.21
Outstanding at December 31, 2021	122,784	\$ 21.13
Granted	4,231	40.38
Vested into shares	(32,931)	21.80
Forfeited	(7,851)	29.13
Outstanding at December 31, 2022	86,233	\$ 21.09

A summary of the status of the Company's PSUs under the Veritex (Green) 2014 Plan as of December 31, 2022, 2021 and 2020 and changes during the years then ended, is as follows:

	Veritex (Green) 2014 Plan	
	PSUs	
	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	25,320	\$ 21.38
Granted	8,531	25.94
Forfeited	(3,123)	19.69
Outstanding at December 31, 2020	30,728	\$ 21.43
Granted	6,231	25.94
Forfeited	(1,060)	19.69
Outstanding at December 31, 2021	35,899	\$ 22.26
Granted	4,411	40.38
Incremental PSUs granted upon performance condition met	10,566	19.69
Vested into shares	(31,703)	21.38
Outstanding at December 31, 2022	19,173	\$ 30.74

As of December 31, 2022, 2021 and 2020, there was \$3,825, \$1,252 and \$2,484, respectively, of total unrecognized compensation related to outstanding RSUs and PSUs awarded under the Veritex (Green) 2014 Plan to be recognized over a remaining weighted average requisite service period of 1.69 years.

A summary of the fair value of the Company's stock options exercised and RSUs vested under the Veritex (Green) 2014 Plan during the year ended December 31, 2022, 2021 and 2020 is presented below:

	Fair Value of Options Exercised or Restricted Stock Units Vested in the year ended December 31,		
	2022	2021	2020
Non-performance-based stock options exercised	\$ 1,157	\$ 4,599	\$ 1,021
RSUs vested	1,312	713	828
PSUs vested	1,261	—	—

Green 2010 Plan

In addition to the Veritex (Green) 2014 Plan discussed earlier in this Note, the Company assumed the Green Bancorp Inc. 2010 Stock Option Plan ("Green 2010 Plan").

A summary of the status of the Company's stock options under the Green 2010 Plan as of December 31, 2022, 2021 and 2020 and changes during the years then ended, is as follows:

	Green 2010 Plan			
	Non-performance Based Stock Options			
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2019	571,735	\$ 10.64		
Exercised	(440,652)	10.35		
Outstanding at December 31, 2020	131,083	\$ 11.60		
Forfeited	(2,198)	13.69		
Exercised	(62,742)	10.51		
Outstanding at December 31, 2021	66,143	\$ 12.56		
Cancelled	(21,235)	11.40		
Exercised	(1,746)	13.20		
Outstanding and exercisable at December 31, 2022	<u>43,162</u>	<u>\$ 13.11</u>	<u>2.03 years</u>	<u>\$ 646</u>

A summary of the fair value of the Company's stock options exercised under the Green 2010 Plan during the year ended December 31, 2022, 2021, and 2020 is presented below:

	Fair Value of Options Exercised in the year ended December 31,		
	2022	2021	2020
Non-performance-based stock options exercised	\$ 47	\$ 1,838	\$ 12,231

22. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within the Dallas-Fort Worth metroplex and Houston metropolitan area. Such customers are normally also depositors of the Company.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company has a diversified loan portfolio, however a significant portion of the Company's loans are collateralized by real estate. Repayment of these loans is in part dependent upon the economic conditions in the market area.

The contractual amounts of credit related financial instruments such as commitments to extend credit, MW commitments, credit card arrangements, and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

23. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its employees, officers, directors and their affiliates. These loans are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. The aggregate amounts of such loans were approximately \$35,005 and \$12,651 as of December 31, 2022 and 2021, respectively. During the year ended December 31, 2022, new advances of approximately \$33,624 were made to related parties with approximately \$11,270 principal payments received. During the year ended December 31, 2021, new advances of approximately \$6,185 were made to related parties with approximately \$16,976 principal payments received and approximately \$11,502 of loans no longer related party transactions. There were \$7,895 and \$4,028 in unfunded commitments to related parties as of December 31, 2022 and 2021, respectively. At December 31, 2022, there were no loans to employees, officers, directors or their affiliates that were considered non-performing or potentially problem loans.

Deposits received from related parties as of December 31, 2022 and 2021 totaled approximately \$275,807 and \$303,190, respectively.

24. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

Under applicable U.S. banking laws, there are legal restrictions limiting the amount of dividends the Company can declare. Approval of the regulatory authorities is required if, among other things, the effect of the dividends declared would cause regulatory capital of the Company to fall below specified minimum levels.

The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements triggers certain mandatory actions and may lead to additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action ("PCA"), the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and PCA classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings of assets, and other factors. In addition, an institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios, if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

Under the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 and implementing regulations of the federal banking agencies, certain banking organizations with less than \$10 billion in total consolidated assets may elect to satisfy a single Community Bank Leverage Ratio ("CBLR") of Tier 1 capital to average total consolidated assets in lieu of the generally applicable capital requirements of the capital rules implementing Basel III. Banks meeting all of the requirements under this framework are not required to report or calculate risk-based capital, and will be considered to have met the well-capitalized ratio requirements under PCA regulations. The Bank was eligible and elected to use the CBLR framework as of December 31, 2020; however, the Bank was no longer eligible to use the CBLR framework beginning as of June 30, 2021.

As a result of our no longer using the CBLR framework, we are subject to various quantitative measures established by regulation to ensure capital adequacy. These generally applicable capital requirements require a banking organization that does not operate under the CBLR framework to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The capital rules implementing Basel III also include a "capital conservation buffer" of 2.5% on top of each of the minimum risk-based capital ratios, and a banking organization with any risk-based capital ratio that meets or exceeds the minimum requirement but does not meet the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments based on the amount of the shortfall. Additionally, to be categorized as "well capitalized," a bank that does not operate under the CBLR framework is required to maintain minimum total risk-based common equity Tier 1, Tier 1, and total capital ratios and Tier 1 leverage ratios as set forth in the table below.

As of December 31, 2022 and December 31, 2021, the Company's and the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized." There are no conditions or events since December 31, 2022 that management believes have changed the Company's category.

In the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provides banking organizations that adopt CECL during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2020, the Company elected to utilize the five-year CECL transition. As a result, the effects of CECL on the Company's and the Bank's regulatory capital was delayed through the year 2021, with the effects phased-in over a three-year period from January 1, 2022 through December 31, 2024.

A comparison of the Company's and Bank's actual capital amounts and ratios to required capital amounts and ratios is presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total capital (to risk-weighted assets "RWA")						
Company	\$ 1,395,904	11.63 %	\$960,209	8.0 %	n/a	n/a
Bank	1,368,082	11.41	959,216	8.0	\$1,199,020	10.0 %
Tier 1 capital (to RWA)						
Company	1,121,021	9.34	720,142	6.0	n/a	n/a
Bank	1,291,288	10.77	719,381	6.0	959,174	8.0
Common equity tier 1 (to RWA)						
Company	1,091,353	9.09	540,274	4.5	n/a	n/a
Bank	1,291,288	10.77	539,535	4.5	779,329	6.5
Tier 1 capital (to average assets)						
Company	1,121,021	9.82	456,628	4.0	n/a	n/a
Bank	1,291,288	11.32	456,286	4.0	570,357	5.0
As of December 31, 2021						
Total capital (to RWA)						
Company	\$ 1,100,404	11.60 %	\$758,899	8.0 %	n/a	n/a
Bank	1,053,871	11.11	758,863	8.0	\$ 948,579	10.0 %
Tier 1 capital (to RWA)						
Company	843,585	8.89	569,349	6.0	n/a	n/a
Bank	994,351	10.48	569,285	6.0	759,047	8.0
Common equity tier 1 (to RWA)						
Company	814,138	8.58	426,995	4.5	n/a	n/a
Bank	994,351	10.48	426,964	4.5	616,725	6.5
Tier 1 capital (to average assets)						
Company	843,585	9.05	372,855	4.0	n/a	n/a
Bank	994,351	10.69	372,068	4.0	465,085	5.0

Dividend Restrictions

Dividends paid by the Bank are subject to certain restrictions imposed by regulatory agencies. Capital requirements further limit the amount of dividends that may be paid by the Bank. Dividends of \$35,000 and \$8,440 were paid by the Bank to the Holdco during the years ended December 31, 2022 and 2021, respectively.

Dividends of \$42,289, or \$0.20 per outstanding share on the applicable record date, were paid by the Company during the year ended December 31, 2022. Dividends of \$36,543, or \$0.20 per outstanding share on the applicable record date, were paid by the Company during the year ended December 31, 2021.

The Bank is subject to limitations on dividend payouts if, among other things, it does not have a capital conservation buffer of 2.5% or more. The Bank had a capital conservation buffer of 3.34% as of December 31, 2022.

25. BUSINESS COMBINATIONS

North Avenue Capital, LLC ("NAC")

On November 1, 2021, the Company completed its acquisition of NAC. Under this method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. As the consideration paid for NAC exceeded the provisional value of the net assets acquired, goodwill of \$32,931 related to the acquisition was recorded. This goodwill resulted from the combination of expected operational synergies and increased market share in the fragmented USDA lending space. The goodwill will be deducted for tax purposes.

The acquisition makes the Bank a leading player in the USDA Business and Industry lending program. It furthered the Company's strategy of diversifying revenue streams and providing meaningful gain on sale and loan servicing fees. The Company will leverage NAC's loan sourcing technology to further enhance the Company's products and services.

Consideration

Under the terms of the definitive agreement for the acquisition, the Bank paid \$57,500 in cash to existing shareholders of NAC. Three years after the transaction, NAC has the right, subject to adjustment, to receive an additional \$5,000 in cash subject to certain performance measures. NAC will continue to operate under its current name and brand and in its current office space, as a wholly owned subsidiary of the Bank.

Fair Value

The following table presents the amounts recorded on the consolidated balance sheets on the acquisition date of November 1, 2021, showing the estimated fair value as reported at December 31, 2021, the measurement period adjustments and the fair value determined to be final as of March 31, 2022.

	Estimate at December 31, 2021	Measurement Period Adjustments	Final Fair Value
Assets acquired			
Cash and cash equivalents	\$ 1,978	\$ —	\$ 1,978
LHI	29,338	(681)	28,657
Servicing asset	13,913	—	13,913
Other assets	690	—	690
	<u>45,919</u>	<u>(681)</u>	<u>45,238</u>
Liabilities assumed			
Accounts payable and other accrued expenses	16,350	—	16,350
	<u>16,350</u>	<u>—</u>	<u>16,350</u>
Fair value of net assets acquired	29,569	(681)	28,888
Consideration:			
Cash paid	57,500	—	57,500
Contingent consideration	5,000	—	5,000
Total consideration	<u>\$ 62,500</u>	<u>\$ —</u>	<u>\$ 62,500</u>
Goodwill	<u>\$ 32,931</u>	<u>\$ 681</u>	<u>\$ 33,612</u>

Acquisition-related Expenses

For the year ended December 31, 2022, the Company incurred no pre-tax M&A expenses. For the year ended December 31, 2021, the Company incurred \$826 of pre-tax merger and M&A.

Acquired Loans and PCD Loans

Acquired loans were recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, loss given defaults and recovery rates. No ACL was carried over from NAC. The Bank did not identify any acquired PCD loans.

The following table discloses the fair value and contractual value of loans acquired from NAC on November 1, 2021:

	Total acquired loans	
Commercial	\$	26,519
CRE		2,138
Total fair value	\$	28,657
Contractual principal balance	\$	29,338

Supplemental Pro Forma Information (unaudited)

The following table presents supplemental pro forma information for the years ended December 31, 2020 and 2019 as if the NAC acquisition was completed as of January 1, 2019. The pro forma results combine the historical results of NAC into the Company's consolidated statements of income, including the impact of certain purchase accounting adjustments, including loan discount accretion. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2019:

	Year Ended December 31,			
	2020		2019	
Net interest income	\$	267,331	\$	286,313
Net income		84,368		93,939
Basic EPS	\$	1.69	\$	1.77
Diluted EPS		1.69		1.74

26. PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following condensed balance sheets, statements of income and statements of cash flows for Veritex Holdings, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

Balance Sheet

	December 31,	
	2022	2021
Assets		
Cash and cash equivalents	\$ 18,278	\$ 44,507
Investment in subsidiaries	1,650,727	1,496,310
Other assets	13,043	3,736
Total assets	<u>\$ 1,682,048</u>	<u>\$ 1,544,553</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ 3,500	\$ 1,710
Other borrowings	228,775	227,764
Total liabilities	<u>232,275</u>	<u>229,474</u>
Stockholders' equity		
Common stock	\$ 607	\$ 560
Additional paid-in capital	1,306,852	1,142,758
Retained earnings	379,299	275,273
Accumulated other comprehensive income	(69,403)	64,070
Treasury stock	(167,582)	(167,582)
Total stockholders' equity	<u>1,449,773</u>	<u>1,315,079</u>
Total liabilities and stockholders' equity	<u>\$ 1,682,048</u>	<u>\$ 1,544,553</u>

Statements of Income

	Year Ended December 31,		
	2022	2021	2020
Cash dividends from subsidiary	\$ 35,000	\$ 8,440	\$ 65,000
Excess of earnings over dividend from subsidiary	121,350	142,289	16,693
Other	43	43	53
	<u>156,393</u>	<u>150,772</u>	<u>81,746</u>
Interest on borrowings	11,156	12,426	8,529
Salaries and employee benefits	685	668	612
Other	891	1,057	798
	<u>12,732</u>	<u>14,151</u>	<u>9,939</u>
Earnings before income tax benefit	<u>143,661</u>	<u>136,621</u>	<u>71,807</u>
Income tax benefit	(2,654)	(2,963)	(2,076)
Net income	<u>\$ 146,315</u>	<u>\$ 139,584</u>	<u>\$ 73,883</u>

Statements of Cash Flows

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 146,315	\$ 139,584	\$ 73,883
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of debt discount and debt issuance costs, net	790	817	1,263
Equity in undistributed net income of Bank	(121,350)	(142,289)	(16,693)
(Increase) decrease in other assets	(7,801)	902	(1,853)
Decrease (increase) in other liabilities	504	(3,177)	726
Net cash (used in) provided by operating activities	18,458	(4,163)	57,326
Cash flows from investing activities:			
Advances to subsidiaries	(154,610)	—	—
Net cash provided by investing activities	(154,610)	—	—
Cash flows from financing activities:			
Proceeds from issuance of subordinated notes, net of debt issuance costs paid	—	—	123,026
Net proceeds from sale of common stock in public offering	154,415	—	—
Proceeds from exercise of stock warrants	—	165	109
Redemption of subordinated debt	—	(35,000)	(5,000)
Proceeds from exercise of employee stock options	1,160	6,313	4,301
Payments to tax authorities for stock-based compensation	(3,363)	(725)	(3,829)
Repurchase of treasury stock	—	(15,509)	(57,470)
Dividends paid	(42,289)	(36,543)	(34,057)
Net cash (used in) provided by financing activities	109,923	(81,299)	27,080
Net (decrease) increase in cash and cash equivalents	(26,229)	(85,462)	84,406
Cash and cash equivalents at beginning of year	44,507	129,969	45,563
Cash and cash equivalents at end of year	<u>\$ 18,278</u>	<u>\$ 44,507</u>	<u>\$ 129,969</u>

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with GAAP.

As of December 31, 2022, management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control—Integrated Framework (2013),” issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2022.

Grant Thornton LLP, (U.S. PCAOB Auditor Firm I.D. 248) the independent registered public accounting firm that audited the consolidated financial statements of Veritex included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2022. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2022, is included in this Item under the heading “Report of Independent Registered Public Accounting Firm.”

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Veritex Holdings, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Veritex Holdings, Inc. (a Texas corporation) and subsidiaries (the “Company”) as of December 31, 2022, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2022, and our report dated February 28, 2023 expressed an unqualified opinion on those financial statements.

Basis for opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

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

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

/s/ GRANT THORNTON LLP

Dallas, Texas
February 28, 2023

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information called for by this item is set forth in our Definitive Proxy Statement relating to the 2023 Annual Meeting of Shareholders (the “2023 Proxy Statement”), to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2022, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

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

The information called for by this item is set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

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

The information called for by this item is set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information called for by this item is set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report:

(1) Financial Statements: Reference is made to the information set forth in Part II, Item 8 of this Annual Report on Form 10-K, which information is incorporated herein by reference.

(2) Financial Statement Schedules: All financial statement schedules are omitted because they are either not applicable or not required, or because the required information is included in the consolidated financial statements or the notes thereto is included in Part II, Item 8 of this Annual Report on Form 10-K.

(3) Exhibits: See (b) below.

(b) Exhibits:

Exhibit Number	Description
2.1	<u>Agreement and Plan of Reorganization dated July 23, 2018, by and among Veritex Holdings, Inc., MustMS, Inc. and Green Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed July 24, 2018)</u>
3.1	<u>Restated Certificate of Formation (with Amendments) of Veritex Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-198484) filed September 22, 2014)</u>
3.2	<u>Third Amended and Restated Bylaws of Veritex Holdings, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed January 2, 2019).</u>
4.1	<u>Specimen Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1(Registration No. 333-198484) filed September 29, 2014)</u>
4.2	<u>Form of Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1(Registration No. 333-198484) filed August 29, 2014)</u>
4.3	<u>Form of Senior Debt Indenture by and between Veritex Holdings, Inc. and U.S. Bank National Association, in its capacity as indenture trustee (incorporated herein by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 (Registration No. 333-207934) filed November 10, 2015)</u>
4.4	<u>Form of Subordinated Debt Indenture by and between Veritex Holdings, Inc. and U.S. Bank National Association, in its capacity as indenture trustee (incorporated herein by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3 (Registration No. 333-207934) filed November 10, 2015)</u>
4.5	<u>Indenture, dated as of November 8, 2019, by and between Veritex Holdings, Inc. and UMB Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed November 8, 2019)</u>
4.6	<u>Form of 4.75% Fixed-to-Floating Subordinated Note due 2029 of Veritex Holdings, Inc. (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed November 8, 2019)</u>
4.7	<u>Subordinated Indenture, dated as of October 5, 2020, by and between Veritex Holdings, Inc. and UMB Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed October 5, 2020).</u>
4.8	<u>First Supplemental Indenture, dated as of October 5, 2020, between Veritex Holdings, Inc. and UMB Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed October 5, 2020).</u>
4.9	<u>Form of 4.125% Fixed-to-Floating Rate Subordinated Notes due 2030 (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed October 5, 2020).</u>
4.10	<u>Registrant's Description of Capital Stock</u>
10.2†	<u>Veritex Holdings, Inc. First Amended 2010 Stock Option and Equity Incentive Plan (including form of stock option agreement and stock award agreement) (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 333-198484) filed August 29, 2014)</u>
10.3†	<u>2014 Omnibus Equity Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-198484) filed September 22, 2014)</u>
10.4†	<u>Veritex Community Bank Employee Stock Ownership Plan Adoption Agreement dated December 31, 2012 (incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-198484) filed August 29, 2014)</u>
10.5	<u>Form of 2013 Subordinated Promissory Note dated December 23, 2014 issued by Veritex Holdings, Inc. (including associated terms and conditions) (incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-198484) filed August 29, 2014)</u>
10.6†	<u>Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (Registration No. 333-198484) filed September 29, 2014)</u>
10.10	<u>Separation Agreement and Release dated July 23, 2018 among Veritex Community Bank, Veritex Holdings, Inc. and Manuel J. Mehos (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 2, 2019)</u>
10.11	<u>Executive Employment Agreement dated July 23, 2018 among Veritex Community Bank, Veritex Holdings, Inc. and Terry S. Earley (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 2, 2019)</u>
10.12	<u>Executive Employment Agreement dated July 23, 2018 among Veritex Community Bank, Veritex Holdings, Inc. and Geoffrey D. Greenwade (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 2, 2019)</u>
10.13†	<u>2022 Amended and Restated Omnibus Incentive Plan</u>
10.14	<u>Form of Subordinated Note Purchase Agreement, dated as of November 8, 2019, by and among Veritex Holdings, Inc. and the several Purchasers (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 8, 2019)</u>
10.15	<u>Form of Registration Rights Agreement, dated as of November 8, 2019, by and among Veritex Holdings, Inc. and the several Purchasers (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed November 8, 2019)</u>
21.1*	<u>Subsidiaries of the Registrant</u>
23.1*	<u>Consent of Grant Thornton LLP</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2**	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101***	The following materials from Veritex Holdings Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (Inline Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

*** Submitted electronically herewith.

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 28, 2023

Veritex Holdings, Inc.

By: /s/ C. Malcolm Holland, III
 Name: C. Malcolm Holland, III
 Title: *Chairman and Chief Executive Officer*

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

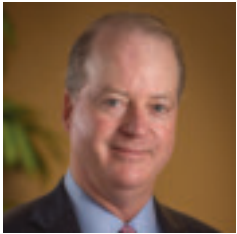
Name	Title	Date
<u>/s/ C. Malcolm Holland, III</u> C. Malcolm Holland, III	Chairman and Chief Executive Officer (Principal Executive Officer)	February 28, 2023
<u>/s/ Terry S. Earley</u> Terry S. Earley	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	February 28, 2023
<u>/s/ Pat S. Bolin</u> Pat S. Bolin	Director	February 28, 2023
<u>/s/ William D. Ellis</u> William D. Ellis	Director	February 28, 2023
<u>/s/ Mark C. Grieger</u> Mark C. Grieger	Director	February 28, 2023
<u>/s/ Steven D. Lerner</u> Steven D. Lerner	Director	February 28, 2023
<u>/s/ Manuel J. Mehos</u> Manuel J. Mehos	Director	February 28, 2023
<u>/s/ Gregory B. Morrison</u> Gregory B. Morrison	Director	February 28, 2023
<u>/s/ John T. Sughrue</u> John T. Sughrue	Director	February 28, 2023
<u>/s/ April Box</u> April Box	Director	February 28, 2023
<u>/s/ Blake Bozman</u> Blake Bozman	Director	February 28, 2023
<u>/s/ William E. Fallon</u> William E. Fallon	Director	February 28, 2023
<u>/s/ Gordon Huddleston</u> Gordon Huddleston	Director	February 28, 2023
<u>/s/ Arcilia Acosta</u> Arcilia Acosta	Director	February 28, 2023

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2022 MANAGEMENT TEAM



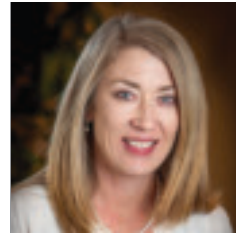
C. Malcolm Holland III
Chairman of the Board
CEO and President



LaVonda Renfro
Sr. Executive Vice President
Chief Operating Officer



Terry Earley
Sr. Executive Vice President
Chief Financial Officer



Angela Harper
Sr. Executive Vice President
Chief Risk Officer



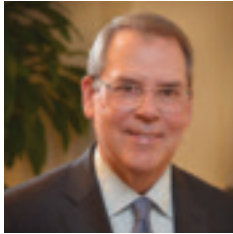
Clay Riebe
Sr. Executive Vice President
Chief Credit Officer



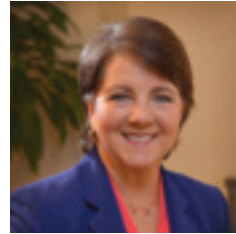
Jeff Kesler
Sr. Executive Vice President
Dallas | Fort Worth
Market President



Jon Heine
Sr. Executive Vice President
Houston Market President

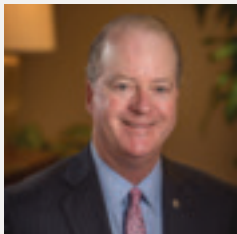


James Recer
(Former)
Sr. Executive Vice President
Chief Banking Officer

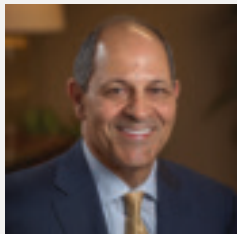


Cara McDaniel
Sr. Executive Vice President
Chief HR | Talent Officer

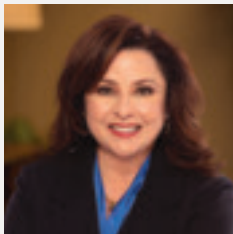
2022 BOARD OF DIRECTORS



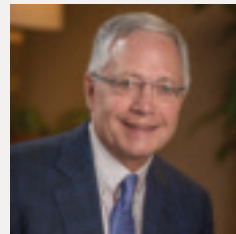
C. Malcolm Holland III
Chairman of the Board



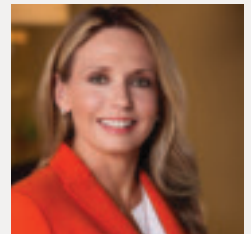
Mark C. Grieve
Lead Independent Director



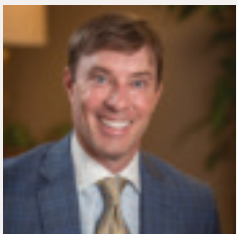
Arcilia Acosta



Pat S. Bolin



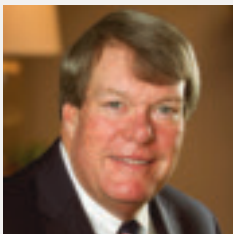
April Box



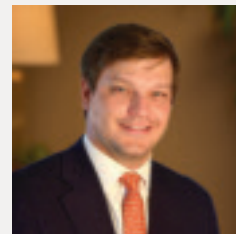
Blake Bozman



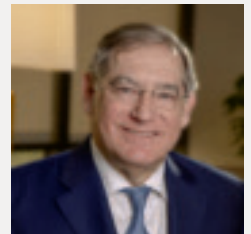
William D. Ellis



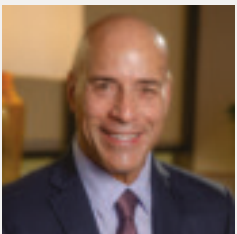
William E. Fallon



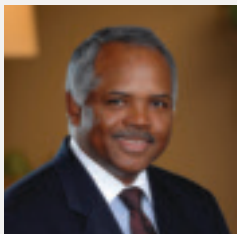
Gordon Huddleston



Steven D. Lerner



Manuel J. Mehos



Gregory B. Morrison



John T. Sughrue

VERITEX COMMUNITY BANK CENTERS

PARK BRANCH

5049 W Park Blvd
Plano, TX 75093

WEST 7TH BRANCH

2800 W 7th St
Fort Worth, TX 76107

MESQUITE BRANCH

1438 Oates Dr
Mesquite, TX 75150

FRIENDSWOOD BRANCH

102 West Parkwood
Friendswood, TX 77546

GARLAND BRANCH

1001 Main St
Garland, TX 75040

MERRICK BRANCH

2424 Merrick St
Fort Worth, TX 76107

HONEY GROVE BRANCH

201 W Main St
Honey Grove, TX 75446

BAY AREA BRANCH

2424 Bay Area Blvd
Houston, TX 77058

WESTCHESTER BRANCH

8214 Westchester Dr, Ste 100
Dallas, TX 75225

MATLOCK BRANCH

3800 Matlock Rd
Arlington, TX 76015

GREENBRIAR BRANCH

4000 Greenbriar
Houston, TX 77098

TANGLEWOOD BRANCH

5111 San Felipe
Houston, TX 77056

LAKWOOD BRANCH

2101 Abrams Rd
Dallas, TX 75214

DAVIS BRANCH

6330 Davis Blvd
North Richland Hills, TX 76180

HOUSTONIAN BRANCH

109 N Post Oak Ln, Ste 100
Houston, TX 77024

CLEVELAND BRANCH

908 E Houston St
Cleveland, TX 77327

OAK LAWN BRANCH

2706 Oak Lawn Ave
Dallas, TX 75219

HIGHWAY 26 BRANCH

7001 Boulevard 26, Ste 100
North Richland Hills, TX 76180

SAN FELIPE BRANCH

7500 San Felipe, Ste 125
Houston, TX 77063

BELT LINE BRANCH

4300 N Belt Line Rd
Irving, TX 75038

HULEN BRANCH

3880 Hulen St, Ste 100
Fort Worth, TX 76107

MEMORIAL BRANCH

5900 Memorial Dr, Ste 100
Houston, TX 77007

FRISCO BRANCH

1518 Legacy Dr, Ste 100
Frisco, TX 75034

UPTOWN BRANCH

2408 Cedar Springs Rd
Dallas, TX 75201

THE WOODLANDS BRANCH

1455 Research Forest Dr
Shenandoah, TX 77380

FRANKFORD BRANCH

17950 Preston Rd, Ste 100
Dallas, TX 75252

RICHARDSON BRANCH

1301 E Campbell Rd
Richardson, TX 75081

KINGWOOD BRANCH

1102 Kingwood Dr
Kingwood, TX 77339

SHAREHOLDER INFORMATION

CORPORATE ADDRESS

8214 Westchester Dr, Ste 800 | Dallas, TX 75225

ANNUAL MEETING

For information on the Veritex Holdings, Inc. 2023 Annual Meeting of Shareholders, please visit the Investor Relations section of our website, www.veritexbank.com, under the About Us tab.

STOCK LISTING

NASDAQ Global Market under the symbol **VBTX**

TRANSFER AGENT FOR COMMON STOCK

Continental Stock Transfer & Trust

17 Battery Pl, 8th Floor | New York, NY 10004

INDEPENDENT ACCOUNTANTS

Grant Thornton LLP | 1717 Main St, Ste 1800 | Dallas, TX 75201

INVESTOR RELATIONS

Veritex Holdings, Inc.

8214 Westchester Dr, Ste 800 | Dallas, TX 75225

investorrelations@veritexbank.com



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This Annual Report includes industry and trade association data, forecasts and information that Veritex has prepared based, in part, upon data, forecasts and information obtained from independent trade associations, industry publications and surveys, government agencies and other information publicly available to Veritex, which information may be specific to particular markets or geographic locations. Some data is also based on Veritex's good faith estimates, which are derived from management's knowledge of the industry and independent sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. Although Veritex believes these sources are reliable, Veritex has not independently verified the information contained therein. While Veritex is not aware of any misstatements regarding the industry data presented in this presentation, Veritex's estimates involve risks and uncertainties and are subject to change based on various factors. Similarly, Veritex believes that its internal research is reliable, even though such research has not been verified by independent sources.