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, 2023
OR

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

For the transition period from to

Commission File No. 001-36682

Veritex Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

(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. ☒
If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐
Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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, 2023 was approximately $945,616,000.

At February 27, 2024, we had outstanding 54,495,326 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 2024 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, 2023.

VERITEX HOLDINGS, INC.
Annual Report on Form 10-K
December 31, 2023

Glossary of Acronyms, Abbreviations, and Terms

The acronyms, abbreviations, and terms listed below are used in various sections of this Form 10-K, including "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

ACL	Allowance for Credit Loss	Green	Green Bank
AFS	Available-For-Sale	HTM	Held-To-Maturity
AML	Anti-Money Laundering	IRA	Inflation Reduction Act of 2022
AMLA	Anti-Money Laundering Act of 2020	KRX	KBW Regional Banking Index
AOCI	Accumulated Other Comprehensive Loss	LHI	Loans Held for Investment
APIC	Additional Paid-In Capital	LIBOR	London Interbank Offered Rate
ASC	Accounting Standards Codification	Lower	Lower Holding Company
ASU	Accounting Standard Update	MDR	Managed Detection and Response
BHC	Bank Holding Company Act of 1956	M&A	Mergers and acquisitions
BOLI	Bank-Owned Life Insurance	Management's Report	Management’s Report on Internal Control over Financial Reporting
Board	Board of Directors of Veritex	MW	Mortgage Warehouse
BSA	Bank Secrecy Act	NAC	North Avenue Capital, LLC
CD	Certificates of Deposit	NOOCRE	Non-owner Occupied CRE
CET1	Common Equity Tier 1	NPV	Net Present Value
CFPB	Consumer Financial Protection Bureau	OBS	Off-Balance Sheet
CISO	Chief Information Security Officer	OCC	Office of the Comptroller of the Currency
COSO	Committee of Sponsoring Organizations of the Treadway Commission	OFAC	U.S. Department of the Treasury’s Office of Foreign Assets Control
CRA	Community Reinvestment Act	OOCRE	Owner Occupied CRE
CRE	Commercial Real Estate	PCAOB	Public Company Accounting Oversight Board
DCF	Discounted Cash Flow	PCD	Purchased Credit Deteriorated
DIF	Deposit Insurance Fund	PCI	Purchased Credit Impaired
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	PD/LGD	Probability of Default/Loss Given Default
EITF	Emerging Issues Task Force	PSU	Performance-based Restricted Stock Units
EGRRCPA	Economic Growth, Regulatory Reform, and Consumer Protection Act	QRMs	Qualified Residential Mortgages
EPS	Earnings Per Share	RBC	Risk-Based Capital
Exchange Act	Securities Exchange Act of 1934	RSU	Restricted stock units
FASB	Financial Accounting Standards Board	RWA	Risk-Weighted Assets
FDIA	Federal Deposit Insurance Act	Sarbanes-Oxley Act	Sarbanes-Oxley Act of 2002
FDIC	Federal Deposit Insurance Corporation	SBA	Small Business Administration
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991	SEC	Securities and Exchange Commission
Federal Reserve	The Federal Reserve System	SOFR	Secured Overnight Financing Rate
FHLB	Federal Home Loan Bank	Sovereign	Sovereign Bancshares, Inc.
FinCEN	U.S. Department of Treasury’s Financial Crimes Enforcement Network	TDB	Texas Department of Banking
FRB	Federal Reserve Bank of Dallas	Thrive	Thrive Mortgage, LLC
GAAP	Generally Accepted Accounting Principles	USDA	United States Department of Agriculture
GLB Act	Gramm-Leach-Bliley Financial Modernization Act of 1999		

Cautionary Note 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, impairment, and/or expected additional impairment on our current equity method investment in Thrive, the transaction between Thrive and Lower, including the expected timing of the completion of such transaction, the ability of the parties thereto to complete such transaction, the ability of the parties thereto to obtain any required regulatory or other approvals, authorizations or consents in connection with such transaction, and diversion of management time on issues related to such transaction, impact of certain changes in our accounting policies, standards and interpretations, a continuation of recent turmoil in the banking industry, responsive measures to mitigate and manage it and related supervisory and regulatory actions and costs and 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,” “seeks,” “targets,” “outlooks,” “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;
- the effects of war or other conflicts, including, but not limited to, the current conflicts between Russia and the Ukraine and Israel and Hamas, acts of terrorism, cyber-attacks or other catastrophic events, including natural disasters such as storms, droughts, tornadoes, hurricanes and flooding, that may affect general economic conditions;
- 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;
- 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.

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 TDB and the Board of Governors of 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, 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, 2023, where we acquired 100% of the interest of each bank listed below in the table:

Bank Acquired	Date Completed	Number of Branches	Locations
Green through Green Bancorp, Inc.	January 2019	21	Houston and Dallas
Liberty Bank through Liberty Bancshares, Inc.	December 2017	5	Fort Worth
Sovereign through Sovereign Bancshares, Inc.	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.

Non-bank acquisitions

During 2021, the Company purchased a 49% interest in 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. On December 11, 2023, Thrive entered into a definitive agreement, pursuant to which, subject to the terms and conditions therein, among other things, (a) 100% of Thrive will be acquired by Lower and (b) Veritex is expected to acquire an approximately 12.5% equity interest in Lower (the “Proposed Transaction”). Closing of the Proposed Transaction is expected to occur during the first quarter of 2024 and is subject to satisfaction of conditions to closing, including receipt of required regulatory approvals.

Additionally during 2021, the Company acquired 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 leverages NAC’s loan sourcing technology to further enhance the Company’s products and services. The following table provides the gain on sale of USDA loans for each year presented since the acquisition of NAC:

	For the Year Ended		
($ in thousands)	2023	2022	2021
Gain on sale of USDA loans	$ 13,190	$ 10,731	$ 1,283
Fair value of USDA loans HFS at period end	$ 4,572	$ 8,214	$ —

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, 2023, total LHI totaled $9.47 billion, representing 76.4% of our total assets. Our loan portfolio primarily consists of 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 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 and digital 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 though increased income from our derivative program and non-bank subsidiaries. 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 objective of our investment policy is 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, 2023, the book value of our AFS and HTM debt securities portfolio totaled $1.34 billion, with an average tax-equivalent yield of 3.90% and an estimated effective duration of approximately 4.12 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 superior to our competitors. 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, 2023, we had 820 full-time employees and 6 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 19 and 20 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 Bank website is www.veritexbank.com and our Company investor relations website is ir.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 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 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.

Supervision and Regulation

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 DIF of 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; 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 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 EGRRCPA

On July 21, 2010, 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 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 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.

- *CFPB.* 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 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.

- *Debit Card Interchange Fees.* Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions. Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Federal Reserve rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. An upward adjustment of no more than 1 cent to an issuer's debit card interchange fee is allowed if the card issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. In October 2023, the Federal Reserve issued a proposal under which the maximum permissible interchange fee for an electronic debit transaction would be the sum of 14.4 cents per transaction and 4 basis points multiplied by the value of the transaction. Furthermore, the fraud-prevention adjustment would increase from a maximum of 1 cent to 1.3 cents. The proposal would adopt an approach for future adjustments to the interchange fee cap, which would occur every other year based on issuer cost data gathered by the Federal Reserve from large debit card issuers.

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 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 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 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 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 CET1 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 CET1 capital in an amount greater than 2.5% of its total RWA in excess of the minimum RBC ratio requirements. The effect of the fully phased-in capital conservation buffer is to increase the minimum CET1 capital ratio to 7.0%, the minimum tier 1 RBC ratio to 8.5% and the minimum total RBC 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 CET1 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 CET1 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 CET1 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 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, 2023, we and the Bank are in compliance with the generally applicable capital ratio requirements. See Note 23 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, 2023, we met all the requirements to be deemed well-capitalized.

($ in thousands)	Amount	Ratio
As of December 31, 2023		
Total capital (to RWA)		
Company	$ 1,500,703	13.18 %
Bank	1,467,960	12.90
Tier 1 capital (to RWA)		
Company	1,202,252	10.56
Bank	1,368,384	12.03
Common equity tier 1 (to RWA)		
Company	1,172,362	10.29
Bank	1,368,384	12.03
Tier 1 capital (to average assets)		
Company	1,202,252	10.03
Bank	1,368,384	11.43

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 FDIC's Prompt Corrective Action ("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 RBC ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 RBC 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 RBC ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 RBC 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 RBC ratio of less than 8.0%, a CET1 capital ratio of less than 4.5%, a Tier 1 RBC 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 RBC ratio of less than 6.0%, a CET1 capital ratio of less than 3.0%, a Tier 1 RBC 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 place 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, 2023, the Bank met all requirements to be "well capitalized" under the PCA regulations.

Regulatory Limits on Dividends, Distributions and Stock Repurchases

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 23, 2024, Veritex Holdings, Inc. announced that its Board declared a quarterly cash dividend of $0.20 per share on our outstanding common stock. The dividend was paid on February 23, 2024 to shareholders of record as of February 9, 2024. This dividend reflects the strength of our performance over the last fiscal year as well as organic capital generation.

In August 2022, the Inflation Reduction Act of 2022 was enacted. Among other things, the Inflation Reduction Act 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.

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, 2023, the Bank is considered a well capitalized insured depository institution and had total brokered deposits of $2.03 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 RBC 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 RBC 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, 2023, our total reported loans for construction, land development and other land represented over 100% of our total RBC, indicating a concentration in CRE lending. At December 31, 2023, 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 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 on September 15, 2020 to restore the DIF reserve ratio to the statutory minimum. This restoration plan was amended on June 21, 2022 based on projections indicating that the DIF reserve ratio was at risk of not reaching the required minimum by the statutory deadline of September 30, 2028. In conjunction with the amended restoration plan, the FDIC increased deposit insurance assessment rates by 2 basis points for all insured depository institutions, effective in the first quarterly assessment period of 2023. As of June 30, 2023, the DIF reserve ratio fell to 1.10 percent, from 1.25 percent as of December 31, 2022. The decline in the DIF reserve ratio was due to increased loss provisions, including for the bank failures that occurred in March and May 2023, respectively, coupled with strong insured deposit growth.

On November 16, 2023, the FDIC issued a final rule to implement a special assessment to recover losses to the DIF associated with protecting uninsured depositors following the March and May 2023 bank failures. The FDIA requires the FDIC to take this action in connection with the systematic risk determination announced on March 12, 2023 to cover certain deposits that were otherwise uninsured in connection with the March and May 2023 bank failures. The FDIC will collect the special assessment at an annual rate of 13.4 basis points beginning with the first quarterly assessment period of 2024 (i.e., January 1 through March 31, 2024), and will continue to collect special assessments for an anticipated total of eight quarterly assessment periods. The special assessment will be based on an insured depository institution's estimated uninsured deposits for the December 31, 2022 reporting period, adjusted to exclude the first $5.0 billion in estimated uninsured deposits from the insured depository institution. As a result of the FDIC's final rule, we accrued $768 thousand related to the special assessment in the fourth quarter of 2023. This amount represents our current expectation of the full amount of the assessment based on our total uninsured deposits as of December 31, 2022. Under the final rule, the estimated loss pursuant to the systemic risk determination will be periodically adjusted, and the FDIC has retained the ability to cease collection early, extend the special assessment collection period and impose a final shortfall special assessment on a one-time basis. The extent to which any such additional future assessments will impact our future deposit insurance expense is currently uncertain.

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.

AML and OFAC

The 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 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 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 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 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 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.

Many states and local jurisdictions have consumer protection laws analogous to, and in addition to, those listed above, including state usury laws. 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.

On October 26, 2022, the SEC adopted a final rule under the Dodd-Frank Act directing national securities exchanges and associations, including Nasdaq, to implement listing standards that require listed companies to adopt policies providing for the recovery (or "clawback") of erroneously awarded incentive-based compensation received by current or former executive officers in connection with a required accounting restatement. On June 9, 2023, the SEC approved Nasdaq's proposed listing standards that implement the Dodd-Frank Act rule, including for issuers on the Nasdaq Global Market. These standards became effective with respect to compensation received by such executive officers on or after October 2, 2023. Nasdaq-listed issuers had until December 1, 2023 to adopt a compliant recovery policy, which the Company has adopted.

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.On July 26, 2023, the SEC issued a final rule that requires current disclosure of material cybersecurity incidents, as well as enhances and standardizes disclosures regarding cybersecurity risk management, strategy and governance. Effective September 5, 2023, the SEC's rule requires public companies to generally disclose information about a material cybersecurity incident within four business days of determining it is material, with periodic updates as to the status of the incident in subsequent filings as necessary.

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.

On October 24, 2023, the Federal Reserve, the FDIC and the OCC jointly issued a final rule to strengthen and modernize regulations implementing the CRA that, among other things, (i) encourages banks to expand access to credit, investment, and banking services in low- to moderate-income communities, (ii) adapts to changes in the banking industry, including internet and mobile banking, (iii) provides greater clarity and consistency in the application of the CRA regulations and (iv) tailors CRA evaluations and data collection to bank size and type. Most of the rule's requirements will be applicable beginning January 1, 2026. The remaining requirements, including the data reporting requirements, will be applicable on January 1, 2027. We are and will continue to evaluate the impact of these 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.

ITEM 1A. RISK FACTORS 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
- 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.
- 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 stay at current levels or 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.
- Recent negative developments in the banking industry could adversely affect our current and projected business operations and our 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.

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, 2023, 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.

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; the impact of political conditions, including the 2024 presidential and congressional elections; 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, Israel and Hamas conflict, 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 conflicts between Russia and Ukraine and Israel and Hamas. While we do not expect that either conflict will itself be material to Veritex, geopolitical instability and adversity arising from such conflicts (including additional conflicts that could arise from such conflicts), 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, 2023, 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, 2023, $2.75 billion of our loan portfolio or 28.7%, of our total LHI, 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.

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, 2023, our allowance for credit losses was $109.8 million of our total LHI. 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 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 portfolio has grown to $9.59 billion as of December 31, 2023. 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, 2023, $3.14 billion of our loan portfolio, or 32.8% of total LHI, consisted of CRE loans and $1.73 billion of our loan portfolio, or 18.1% of total LHI, 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, 2023, $6.83 billion of our loan portfolio, or 71.2% of total LHI, 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, 2023, the aggregate amount of loans to our 10 and 25 largest borrowers (including related entities) amounted to $811.2 million, or 8.5% of total LHI, and $1.68 billion, or 17.5%, of total LHI, 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 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 stay at current levels or 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 was 89.1% as of December 31, 2023), we also invest a percentage of our total assets in debt securities (10.1% as of December 31, 2023) 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, 2023, the fair value of our AFS debt securities portfolio was $1.08 billion, which included a net unrealized loss of $84.5 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.

As a result of inflationary pressures and the resulting rapid increases in interest rates over the last two years, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including the Company's, resulting in unrealized losses embedded in U.S. banks' securities portfolios. If the Company were to sell such securities with embedded unrealized losses, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve has announced a Bank Term Funding Program available to eligible depository institutions secured by U.S. treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral at par, to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that this program or similar programs will be available in the future or effective in addressing liquidity needs on favorable terms as they arise.

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, 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, 2023, 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.

On November 16, 2023, the FDIC issued a final rule to implement a special assessment to recover losses to the DIF associated with protecting uninsured depositors following the March and May 2023 bank failures. The FDIA requires the FDIC to take this action in connection with the systematic risk determination announced on March 12, 2023 to cover certain deposits that were otherwise uninsured in connection with the March and May 2023 bank failures. The FDIC will collect the special assessment at an annual rate of 13.4 basis points beginning with the first quarterly assessment period of 2024 (i.e., January 1 through March 31, 2024), and will continue to collect special assessments for an anticipated total of eight quarterly assessment periods. The special assessment will be based on an insured depository institution's estimated uninsured deposits for the December 31, 2022 reporting period, adjusted to exclude the first $5.0 billion in estimated uninsured deposits from the insured depository institution. As a result of the FDIC's final rule, we accrued $768 thousand related to the special assessment in the fourth quarter of 2023. This amount represents our current expectation of the full amount of the assessment based on our total uninsured deposits as of December 31, 2022. Under the final rule, the estimated loss pursuant to the systemic risk determination will be periodically adjusted, and the FDIC has retained the ability to cease collection early, extend the special assessment collection period and impose a final shortfall special assessment on a one-time basis. The extent to which any such additional future assessments will impact our future deposit insurance expense is currently uncertain.

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 $12.2 million, which included $768 thousand of FDIC special assessment, for the year ended December 31, 2023 and $5.3 million and $4.0 million for the years ended December 31, 2022 and 2021, 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 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.

Recent negative developments in the banking industry could adversely affect our current and projected business operations and our financial condition and results of operations.

The March and May 2023 bank failures, need for outside liquidity support and related negative media attention have generated significant market trading volatility among publicly traded bank holding companies and, in particular, regional bank holding companies like the Company. These developments have negatively impacted customer confidence in regional banks, which could prompt customers to move and/or maintain their deposits to/with larger financial institutions. Further, competition for deposits has increased in recent periods, and the cost of funding has similarly increased, putting pressure on our net interest margin. If we were required to sell a portion of our securities portfolio to address liquidity needs, we may incur losses, including as a result of the negative impact of higher interest rates on the value of our securities portfolio, which could negatively affect our earnings and our capital. If we were required to raise additional capital in the current environment, any such capital raise may be on unfavorable terms, thereby negatively impacting book value and profitability. While we have taken actions to improve our funding, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs.

We also anticipate increased regulatory scrutiny and regulatory initiatives, such as new regulations or heightened supervisory expectations, intended to address the recent negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. Regulators, customers and investors may, among other things, view our deposit composition, level of uninsured deposits, potential losses embedded in HTM securities, contingent liquidity, CRE composition and concentration, capital position and oversight and internal control structures regarding the foregoing as presenting higher risk in comparison with large national banks or smaller community banks. We could face increased scrutiny or be viewed as higher risk by regulators and/or the investor community, which could have a material adverse effect on 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, 2023, we had approximately $198.9 million outstanding in aggregate principal amount of subordinated notes held by investors, and, in the aggregate, $30.9 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 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 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 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 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 1C. CYBERSECURITY

Cybersecurity risks are constantly evolving and becoming increasingly pervasive across all industries. To mitigate these risks and protect sensitive customer data, financial transactions and our information systems, the Company has implemented a comprehensive cybersecurity risk management program, which is a component of its overarching enterprise risk management program. Key components of the cybersecurity risk management program include:

- A risk assessment process that identifies and prioritizes material cybersecurity risks; defines and evaluates the effectiveness of controls to mitigate these risks; and reports results to executive management and the Board;
- A third-party MDR service, which monitors the security of our information systems around-the-clock, including intrusion detection and alerting;
- A dedicated cybersecurity team covering critical cyber defense functions such as engineering, data protection, identity and access management, insider risk management, security operations, threat emulation and threat intelligence;
- A training program that educates employees about cybersecurity risks and how to protect themselves from cyberattacks;
- An awareness program that keeps employees informed about cybersecurity threats and how to stay safe online;
- An incident response plan that outlines the steps the Company will take to respond to a cybersecurity incident, which is tested on a periodic basis.

The Company engages reputable third-party assessors to conduct various independent risk assessments on a regular basis, including but not limited to maturity assessments and various testing. Following a defense-in-depth strategy, the Company leverages both in-house resources and third-party service providers to implement and maintain processes and controls to manage the identified risks.

Our third-party risk management program is designed to ensure that our vendors meet our cybersecurity requirements. This includes conducting periodic risk assessments of vendors, requiring vendors to implement appropriate cybersecurity controls and monitoring vendor compliance with our cybersecurity requirements.

The Company’s cybersecurity risk management program and strategy are designed to ensure the Company's information and information systems are appropriately protected from a variety of threats, both natural and man-made. Periodic risk assessments are performed to validate control requirements and ensure that the Company’s information is protected at a level commensurate with its sensitivity, value, and criticality. Preventative and detective security controls are employed on media where information is stored, the systems that process it, and infrastructure components that facilitate its transmission to ensure the confidentiality, integrity, and availability of Company information. These controls include, but are not limited to access control, data encryption, data loss prevention, incident response, security monitoring, third party risk management, and vulnerability management.

The Company's cybersecurity risk management program and strategy are regularly reviewed and updated to ensure that they are aligned with the Company's business objectives and are designed to address evolving cybersecurity threats and satisfy regulatory requirements and industry standards.

Material Effects of Cybersecurity Threats

While cybersecurity risks have the potential to materially affect the Company's business, financial condition, and results of operations, the Company does not believe that risks from cybersecurity threats or attacks, including as a result of any previous cybersecurity incidents, have materially affected the Company, including its business strategy, results of operations or financial condition. However, the sophistication of cyber threats continues to increase, and the Company’s cybersecurity risk management and strategy may be insufficient or may not be successful in protecting against all cyber incidents. Accordingly, no matter how well designed or implemented the Company’s controls are, it may not be able to anticipate all cyber security breaches, and it may not be able to implement effective preventive measures against such security breaches in a timely manner.

For more information on how cybersecurity risk may materially affect the Company's business strategy, results of operations or financial condition, please refer to Item 1A Risk Factors.

Governance

Board Oversight

The Board is charged with overseeing the establishment and execution of the Company's risk management framework and monitoring adherence to related policies required by applicable statutes, regulations and principles of safety and soundness. Consistent with this responsibility the Board has delegated primary oversight responsibility over the Company's risk management framework, including oversight of cybersecurity risk and cybersecurity risk management, to the Risk Committee of the Board. The Risk Committee receives regular updates on cybersecurity risks and incidents and the cybersecurity program through direct interaction with the CISO and the Head of Information Risk and provides periodic updates regarding cybersecurity risks and the cybersecurity program to the full Board. Additionally, awareness and training on cybersecurity topics is provided to the Board on an annual basis.

Management's Role

The Information Security department is responsible for implementing and maintaining the Company's cybersecurity risk management program. The Information Security department consists of cybersecurity and information risk professionals who assess, identify, and manage cybersecurity risks. Information Security is led by the CISO, who reports directly to the Chief Information Officer and the Board with a secondary reporting line to the Chief Risk Officer. The Company's CISO has over 20 years of experience in cybersecurity across the financial services industry, as well as experience working in a leading managed security services provider. Prior to joining the Company, the Company's CISO served as leader of the Global Threat Management Center for a major global financial institution. The Information Risk department, led by the Head of Information Risk, who reports directly to the Chief Risk Officer, is responsible for ensuring the protection of electronic and physical information through the identification and management of risk activities. As a governance and oversight function, the Information Risk department measures and reports on the quality of information and cyber risk management across all functions of the Company. Information security risk is reported by both the Information Security and Information Risk departments through monthly management metric reporting working groups and multiple layers of quarterly risk committees to achieve an appropriate flow of information risk reporting to the Board. The risk committees include the Operational Risk Management Committee, the Executive Risk Management Committee and the Risk Committee of the Board. These committees establish and oversee policies, programs, and other guidance to provide specific expectations for managing the cybersecurity risk.

ITEM 2. PROPERTIES

At December 31, 2023, our executive offices were located at 8214 Westchester Drive, Suite 800, Dallas, Texas 75225. In addition to our executive offices, at December 31, 2023, we had 18 full-service branches located in the Dallas-Fort Worth metroplex and 11 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, 2023, we owned 16 of our branch locations and leased the remaining 13 branch and office locations. The remaining terms of our leases on our full-services branches range from one to nine 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 leases, please see Note 7 and Note 8, respectively, 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, 2024, there were 272 holders of record of our common stock.

Dividend Policy

On January 23, 2024, Veritex announced that its Board declared a quarterly cash dividend of $0.20 per share on our outstanding common stock. The dividend was paid on February 23, 2024 to shareholders of record as of February 9, 2024. For the year ended December 31, 2023, we declared and paid $43.3 million in cash dividends.

The timing, declaration, amount and payment of any future cash dividends are at the discretion of our Board 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 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 2024 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 the KBW Nasdaq Regional Banking Index and the Nasdaq Bank Index for the period beginning on December 31, 2018 through December 31, 2023. The following information reflects index values as of close of trading, assumes $100 invested on December 31, 2018 in our common stock, the KBW Nasdaq Regional Banking Index 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.

	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
Veritex Holdings, Inc.	$ 100.00	$ 121.23	$ 108.31	$ 151.34	$ 123.55	$ 115.31
KBW Nadsaq Regional Banking Index (KRX)	100.00	100.53	99.29	128.04	116.75	101.46
Nasdaq Bank Index	100.00	136.25	120.02	186.06	131.34	108.84

Comparison of Cumulative Total Return

Stock Repurchases

On January 28, 2019, our Board 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 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 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 at any time prior to its expiration. During 2023, the Company had no repurchases of shares of its common stock.

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 2024 Trends

This discussion of trends expected to impact our business in 2024 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 2024:

- 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 movement in 2024;
- Targeted focus on talent investments to further organically grow the Company;
- Further expansion in the USDA space via our subsidiary 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.

Recent Industry Developments

During the first half of 2023, the banking industry experienced significant volatility with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, unrealized securities losses, CRE loans and eroding consumer confidence in the banking system. Despite these negative industry developments, the Company’s liquidity position and balance sheet remains robust. The Company’s total deposits increased by 1.4% and 13.3% as compared to September 30, 2023 and December 31, 2022, respectively, to $10.34 billion at December 31, 2023. Borrowings from the FHLB decreased $1.08 billion during the year ended December 31, 2023. In March of 2023, the Federal Reserve established a Bank Term Funding Program to offer loans of up to one year to eligible depository institutions pledging qualifying assets as collateral. These assets will be valued at par. The Company signed up for the program; however, the Company has no outstanding borrowings. The Company also took a number of preemptive actions, which included pro-active outreach to clients and actions to maximize its funding sources in response to these recent developments. Furthermore, the Company remains well capitalized with CET1 at 10.29% as of December 31, 2023, an increase of 120 bps from December 31, 2022.

Results of Operations

For discussion of the results of operations for the year ended December 31, 2022 compared to year ended December 31, 2021, see Veritex's 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2023.

Year Ended December 31, 2023 compared to year ended December 31, 2022

General

Net income available to common stockholders for the year ended December 31, 2023 was $108.3 million, a decrease of $38.1 million, or 26.0%, from net income available to common stockholders of $146.3 million for the year ended December 31, 2022.

Basic EPS for the year ended December 31, 2023 was $2.00, a decrease of $0.75 from $2.75 for the year ended December 31, 2022. Diluted EPS for the year ended December 31, 2023 was $1.98, a decrease of $0.73 from $2.71 for the year ended December 31, 2022.

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, 2023, net interest income totaled $399.1 million compared to net interest income of $364.7 million for the year ended December 31, 2022, an increase of $34.5 million, or 9.4%. Interest income was $726.9 million, compared to $449.4 million, for the years ended December 31, 2023 and 2022, respectively. The primary drivers of the increase in interest income is the result of an increase of $277.5 million, or 61.7%, in interest income primarily due to an increase in interest income on loans of $248.6 million due to an increase in loan yields. The increase in net interest income is partially offset by the increase of $243.0 million, or 286.7%, in interest expense resulting from a $110.1 million increase in certificates and other time deposits and a $106.2 million increase in interest expense on transaction and savings deposit accounts. Average loan balances grew from $8.31 billion for the year ended December 31, 2022 to $9.59 billion for the year ended December 31, 2023, an increase of $1.28 billion, or 15.4%.

Interest expense for the year ended December 31, 2023 was $327.8 million, compared to $84.8 million for the year ended December 31, 2022, an increase of $243.0 million, or 286.7%. 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, 2023 the average balance for interest-bearing demand and savings deposits was $4.20 billion compared to $3.93 billion for the year ended December 31, 2022, an increase of $262.6 million, or 6.7%. For the year ended December 31, 2023 the average balance for certificates and other time deposits was $2.98 billion compared to $1.60 billion for the year ended December 31, 2022, an increase of $1.38 billion, or 85.9%.

Net interest margin and net interest spread were 3.49% and 2.40%, respectively, for the year ended December 31, 2023 compared to 3.59% and 3.15%, respectively, for the year ended December 31, 2022. The decrease in net interest margin by 10 basis points and decrease in net interest spread by 75 basis points were due to an increase in the average rate paid on interest-bearing liabilities by 269 basis points, offset by an increase in the average yield earned on interest-bearing assets by 194 basis points. The average interest earned on interest-bearing assets increased to 6.36% during the year ended December 31, 2023 from 4.42% for the year ended December 31, 2022 primarily due to an increase in yields earned on loan balances. The average interest paid on interest-bearing liabilities increased to 3.96% during the year ended December 31, 2023 from 1.27% for the year ended December 31, 2022, 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 2023.

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, 2023 and 2022, interest income not recognized on nonaccrual loans, excluding PCD loans, was $6.5 million and $6.6 million, respectively. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

	For the Year Ended December 31,								
	2023			2022			2021		
	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]	$ 9,244,070	$ 628,122	6.79 %	$ 7,877,949	$ 383,008	4.86 %	$ 6,558,280	$ 266,307	4.06 %
LHI, MW	347,596	20,123	5.79	433,062	16,671	3.85	468,001	14,219	3.04
Debt securities	1,173,880	44,364	3.78	1,277,643	38,736	3.03	1,092,967	32,132	2.94
Interest-earning deposits in other banks	542,959	28,331	5.22	405,471	6,275	1.55	410,785	589	0.14
Equity securities and other investments	120,135	5,934	4.94	169,875	4,720	2.78	133,594	3,237	2.42
Total interest-earning assets	11,428,640	726,874	6.36 %	10,164,000	449,410	4.42 %	8,663,627	316,484	3.65 %
ACL	(103,179)			(79,845)			(101,383)		
Noninterest-earning assets	957,286			905,103			799,334		
Total assets	$ 12,282,747			$ 10,989,258			$ 9,361,578		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand and savings deposits	$ 4,197,517	148,975	3.55 %	$ 3,934,926	42,785	1.09 %	$ 3,198,225	6,858	0.21 %
Certificates and other time deposits	2,977,178	125,409	4.21	1,601,687	15,307	0.96	1,540,188	9,079	0.59
Advances from FHLB	873,617	41,024	4.70	896,687	15,501	1.73	777,635	7,336	0.94
Subordinated debentures and subordinated notes	229,268	12,352	5.39	230,984	11,160	4.83	263,535	12,428	4.72
Total interest-bearing liabilities	8,277,580	327,760	3.96 %	6,664,284	84,753	1.27 %	5,779,583	35,701	0.62 %
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	2,309,983			2,782,077			2,256,546		
Other liabilities	193,659			119,237			57,457		
Total liabilities	10,781,222			9,565,598			8,093,586		
Stockholders' equity	1,501,525			1,423,660			1,267,992		
Total liabilities and stockholders' equity	$ 12,282,747			$ 10,989,258			$ 9,361,578		
Net interest spread[2]			2.40 %			3.15 %			3.03 %
Net interest income		$ 399,114			$ 364,657			$ 280,783	
Net interest margin[3]			3.49 %			3.59 %			3.24 %

[1] Includes average outstanding balances of LHFS of $25,684, $13,558 and $12,093 for the twelve months ended December 31, 2023, 2022 and 2021, 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, 2023 Compared to 2022			For the Year Ended December 31, 2022 Compared to 2021		
	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[1]	$ 92,760	$ 152,354	$ 245,114	$ 74,343	$ 42,358	$ 116,701
LHI, MW	(4,949)	8,401	3,452	(1,345)	3,797	2,452
Debt securities	(3,922)	9,550	5,628	5,596	1,008	6,604
Interest-earning deposits in other banks	7,177	14,879	22,056	(82)	5,768	5,686
Equity securities and other investments	(2,457)	3,671	1,214	1,009	474	1,483
Total increase in interest income	$ 88,609	$ 188,855	$ 277,464	$ 79,521	$ 53,405	$ 132,926
Interest-bearing liabilities:						
Interest-bearing demand and savings deposits	$ 9,322	$ 96,868	$ 106,190	$ 8,030	$ 27,897	$ 35,927
Certificates and other time deposits	57,908	52,194	110,102	590	5,638	6,228
Advances from FHLB	(1,084)	26,607	25,523	2,060	6,105	8,165
Subordinated debentures and subordinated notes	(92)	1,284	1,192	(1,572)	304	(1,268)
Total increase in interest expense	66,054	176,953	243,007	9,108	39,944	49,052
Increase in net interest income	$ 22,555	$ 11,902	$ 34,457	$ 70,413	$ 13,461	$ 83,874

[1] Includes average outstanding balances of LHFS of $25,684, $13,558 and $12,093 for the twelve months ended December 31, 2023, 2022 and 2021 respectively.

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 $42.5 million for the year ended December 31, 2023, compared to a provision for credit losses of $27.0 million for the same period in 2022, an increase to the provision of $15.6 million. The increased provision for credit losses was primarily attributable to changes in the Texas economic forecasts, increases in qualitative factors and loan growth used in the CECL model during the year ended December 31, 2023. These changes in the Texas economic forecasts were made to reflect changes in economic factors such as rising interest rates, inflation, labor supply and the conflicts between Russia and Ukraine and Israel and Hamas as of December 31, 2023 compared to such forecasts utilized in the CECL model for the year ended December 31, 2022. ACL as a percentage of LHI was 1.14% and 0.96% at December 31, 2023 and 2022, respectively.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, loan fees, loss on the sale of securities, gains on the sale of mortgage LHFS, gain on sale of SBA LHFS, gain on sale of USDA LHFS, 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,			2023 vs 2022		2022 vs 2021	
	2023	2022	2021	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Noninterest income:							
Service charges and fees on deposit accounts	$ 20,248	$ 20,139	$ 16,742	$ 109	0.5 %	$ 3,397	20.3 %
Loan fees	6,348	10,442	7,607	(4,094)	(39.2)	2,835	37.3
Loss on sales of securities	(5,321)	—	(188)	(5,321)	N/M	188	N/M
Gain on sales of mortgage LHFS	77	550	1,592	(473)	(86.0)	(1,042)	(65.5)
Government guaranteed loan income, net	19,982	14,060	15,760	5,922	42.1	(1,700)	(10.8)
Equity method investment (loss) income	(30,589)	(5,141)	5,760	(25,448)	495.0	(10,901)	(189.3)
Customer swap income	1,618	7,898	2,491	(6,280)	(79.5)	5,407	217.1
Other	6,742	4,874	8,641	1,868	38.3	(3,767)	(43.6)
Total noninterest income	$ 19,105	$ 52,822	$ 58,405	$ (33,717)	(63.8)%	$ (5,583)	(9.6)%

N/M = Not meaningful

Noninterest income for the year ended December 31, 2023 decreased $33.7 million, or 63.8%, to $19.1 million compared to noninterest income of $52.8 million for the same period in 2022. The primary components of the decrease were as follows:

Loan fees. We earn certain loan fees in connection with funding and servicing loans. Loan fees were $6.3 million for the year ended December 31, 2023 compared to $10.4 million for the same period in 2022. The decrease of $4.1 million was primarily attributable to a decrease in loan syndication and arrangement fees of $3.4 million.

Loss on sales of securities. The loss on sale of securities of $5.3 million for the year ended December 31, 2023 was primarily attributable to a $5.3 million loss on sales of debt securities due to the Company selling $116.2 million of debt securities in early March 2023. There were no comparative sales of securities for the year ended December 31, 2022.

Government guaranteed loan income, net. Government guaranteed loan income, net, includes income related to the sales of government guaranteed loans. The increase in government guaranteed loan income, net, of $5.9 million was primarily due to a $2.5 million increase in the gain on USDA and SBA loans and an increase of $3.6 million in government guaranteed LHFS loan valuation for the year ended December 31, 2023.

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 currently holds a 49% interest. The loss from this investment was $30.6 million for the year ended December 31, 2023, a decrease of $25.4 million compared to income from this investment of $5.1 million for the year ended December 31, 2022. The decrease was primarily due to an impairment on our equity method investment in Thrive related to Thrive's entry into a definitive agreement in December 2023 to be acquired by Lower and the negative impact of rising rates on the fair value and volume of loans originated by Thrive.

Customer swap income. The decrease in customer swap income of $6.3 million, or 79.5%, was primarily due to the decrease in trade executions during the year ended December 31, 2023, compared to the same period in 2022.

Other. Other includes other noninterest income from fees. Other noninterest income was $6.7 million for the twelve months ended December 31, 2023, an increase of $1.9 million, or 38.3%, compared to the same period in 2022. The increase was primarily driven by an increase in the credit valuation adjustment and amortization on the servicing asset for commercial loans of $3.8 million, an increase in analysis charges of $1.9 million, a $1.4 million increase in the fair value of other equity method investments and an increase in BOLI insurance income of $1.1 million. The increase was partially offset by a decrease in services charges for bankruptcy trust of $1.1 million and a decrease in debit card income of $915 thousand. The remaining changes were nominal between other noninterest income accounts.

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,			2023 vs 2022		2022 vs 2021	
	2023	2022	2021	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Salaries and employee benefits	$ 122,070	$ 117,841	$ 94,748	$ 4,229	3.6 %	$ 23,093	24.4 %
Non-staff expenses:							
Occupancy and equipment	19,351	18,744	17,263	607	3.2	1,481	8.6
Professional and regulatory fees	26,166	14,142	12,945	12,024	85.0	1,197	9.2
Data processing and software expense	18,539	14,013	9,946	4,526	32.3	4,067	40.9
Marketing	8,704	7,179	5,344	1,525	21.2	1,835	34.3
Amortization of intangibles	9,838	9,979	10,057	(141)	(1.4)	(78)	(0.8)
Telephone and communications	1,551	1,484	1,434	67	4.5	50	3.5
M&A expense	—	1,379	826	(1,379)	(100.0)	553	66.9
Other	27,245	18,314	15,149	8,931	48.8	3,165	20.9
Total noninterest expense	$ 233,464	$ 203,075	$ 167,712	$ 30,389	15.0 %	$ 35,363	21.1 %

Noninterest expense for the year ended December 31, 2023 increased $30.4 million, or 15.0%, to $233.5 million compared to noninterest expense of $203.1 million for the same period in 2022. 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 $122.1 million for the year ended December 31, 2023, an increase of $4.2 million, or 3.6%, compared to the same period in 2022. The increase was primarily attributable to increases in compensation costs of $7.4 million from continued investment in talent, which included a one-time signing bonus of $500 thousand to our new Chief Banking Officer, contra origination costs of $6.0 million, and employee benefit expense of $2.6 million. The increase was partially offset by a decrease in stock based compensation, incentive and bonus of $11.8 million for the year ended December 31, 2023.

Professional and regulatory fees. This category includes legal, professional, audit, regulatory, and FDIC assessment fees. The increase of $12.0 million, or 85.0%, was primarily attributable to an increase in FDIC assessment fees of $6.9 million, which includes a $768 thousand FDIC special assessment expense, an increase in legal and professional fees of $3.8 million and an increase in audit and regulatory services of $1.3 million for the year ended December 31, 2023. In November 2023, the FDIC issued a final rule to implement a special assessment to recover losses to the DIF incurred as a result of March and May 2023 bank failures and the FDIC's use of the systemic risk exception to cover certain deposits that were otherwise uninsured. The FDIA requires the FDIC to take this action in connection with the systematic risk determination announced on March 12, 2023 to cover certain deposits that were otherwise uninsured in connection with the March and May 2023 bank failures. The FDIC will collect the special assessment at an annual rate of 13.4 basis points beginning with the first quarterly assessment period of 2024 (i.e., January 1 through March 31, 2024), and will continue to collect special assessments for an anticipated total of eight quarterly assessment periods. The special assessment will be based on an insured depository institution’s estimated uninsured deposits for the December 31, 2022 reporting period, adjusted to exclude the first $5.0 billion in estimated uninsured deposits from the insured depository institution. As a result of this final rule, we accrued $768 thousand related to the special assessment in the fourth quarter of 2023. This amount represents our current expectation of the full amount of the assessment based on our total uninsured deposits as of December 31, 2022. Under the final rule, the estimated loss pursuant to the systemic risk determination will be periodically adjusted, and the FDIC has retained the ability to cease collection early, extend the special assessment collection period and impose a final shortfall special assessment on a one-time basis. The extent to which any such additional future assessments will impact our future deposit insurance expense is currently uncertain.

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, 2023, data processing and software expense was $18.5 million, an increase of $4.5 million, or 32.3%, compared to the same period in 2022. The increase was primarily due to an increase of $3.5 million in software expenses for the enhancement of systems to mitigate security risk due to the Bank's growth and $1.0 million in data processing expenses.

Marketing. This category of expenses includes expenses related to advertising and promotions, which increased $1.5 million, or 21.2%, primarily due to a $1.4 million increase in advertising and promotion expenses for the year ended December 31, 2023 compared to the same period in 2022.

M&A expense. M&A expense includes legal, professional, audit, regulatory and other expenses incurred in connection with a merger or acquisition. There were no M&A related expenses for the twelve months ended December 31, 2023.

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 $27.2 million for the year ended December 31, 2023, compared to $18.3 million for the same period in 2022, an increase of $8.9 million, or 48.8%. This increase was primarily due to an increase of $1.1 million in third party banking services, an increase of $1.6 million in loan and collection expenses and an increase of $4.0 million in earned credit rebates in excess of reversed interest income during the year ended December 31, 2023 as compared to the same period in 2022. 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, 2023, a $4.2 million valuation allowance was established relating to an impairment on our investment in Thrive. As of December 31, 2022, the Company did not believe a valuation allowance was necessary.

For the year ended December 31, 2023, income tax expense totaled $36.0 million, a decrease of $4.3 million, or 10.7%, compared to $40.3 million for the same period in 2022.

For the year ended December 31, 2023, the Company had an effective tax rate of 25.0%. The change in the effective tax rate for the twelve months ended December 31, 2023, compared to the twelve months ended December 31, 2022, was primarily due to a $4.2 million valuation allowance relating to an impairment on our investment in Thrive. The deferred tax asset is not realizable due to the capital loss that will not be recognized.

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.

Financial Condition

Our total assets were $12.39 billion and $12.15 billion as of December 31, 2023 and 2022, respectively. Assets increased $240.0 million, or 2.0%, from December 31, 2022 to December 31, 2023. 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, 2023, total LHI were $9.59 billion, an increase of $91.5 million, or 1.0%, compared to $9.50 billion as of December 31, 2022. This increase was the result of the continued execution and success of our loan growth strategy. In addition to these amounts, $79.1 million and $20.6 million in loans were classified as held for sale as of December 31, 2023 and 2022, respectively.

Total LHI as a percentage of deposits were 92.8% and 104.1% as of December 31, 2023 and December 31, 2022, respectively. Total LHI as a percentage of total assets were 77.4% and 78.2% as of December 31, 2023 and December 31, 2022, respectively.

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

	As of December 31,					
	2023		2022		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Commercial	$ 2,752,063	28.7 %	$ 2,942,348	31.0 %	$ (190,285)	(2.3)%
MW	377,796	3.9	446,227	4.7	(68,431)	(0.8)
Real estate:						
OOCRE	794,088	8.3	715,829	7.5	78,259	0.8
NOOCRE	2,350,725	24.5	2,341,379	24.6	9,346	(0.1)
Construction and land	1,734,254	18.1	1,787,400	18.8	(53,146)	(0.7)
Farmland	31,114	0.3	43,500	0.5	(12,386)	(0.2)
1 - 4 family residential	937,119	9.8	894,456	9.4	42,663	0.4
Multi-family residential	605,817	6.3	322,679	3.4	283,138	2.9
Consumer	10,149	0.1	7,806	0.1	2,343	—
Total LHI, carried at amortized cost	$ 9,593,125	100 %	$ 9,501,624	100 %	$ 91,501	— %
Total LHFS	$ 79,072		$ 20,641		$ 58,431	

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 decreased $190.3 million, or 6.5%, to $2.75 billion as of December 31, 2023 from $2.94 billion as of December 31, 2022. The decrease was primarily due to a decrease in loan volume in the commercial loan portfolio due to rising rates during the year ended December 31, 2023 compared to the year ended December 31, 2022.

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.

MW loans decreased $68.4 million, or 15.3%, to $377.8 million as of December 31, 2023 from $446.2 million as of December 31, 2022. 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 $78.3 million, or 10.9%, to $794.1 million as of December 31, 2023 from $715.8 million as of December 31, 2022. NOOCRE loans increased $9.3 million, or 0.4%, to $2.35 billion as of December 31, 2023 from $2.34 billion as of December 31, 2022. The increase was primarily due to normal fluctuations in the NOOCRE loan portfolio, conversion of ADC loans in NOOCRE and new loan origination activity for the period that outpaced paydowns during the year ended December 31, 2023 compared to the year ended December 31, 2022.

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 decreased $53.1 million, or 3.0%, to $1.73 billion as of December 31, 2023 from $1.79 billion as of December 31, 2022. This decrease was due to the loans being converted from construction and land loans to NOOCRE and a decrease in loan volume in the construction and land portfolio due to rising rates during the year ended December 31, 2023 compared to the year ended December 31, 2022.

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 $42.7 million, or 4.8%, to $937.1 million as of December 31, 2023 from $894.5 million as of December 31, 2022. 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, 2023 compared to the year ended December 31, 2022.

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.

CRE Portfolio Composition

The majority of our CRE loan portfolio consists of multifamily residential, NOOCRE and construction and land loans. The table below details the composition of the multifamily residential, NOOCRE and construction and land loan portfolio's by borrower type and geographic location.

	As of December 31, 2023					
Property Type	**DFW**	**Houston**	**Secondary Texas[1]**	**Out of State**	**Total**	**% of Total Loans**
Industrial	$ 409,899	$ 263,880	$ 151,780	$ 265,138	$ 1,090,697	11.4 %
Multifamily	395,344	506,761	165,340	125,890	1,193,335	12.4
Office	361,612	137,486	31,914	32,627	563,639	5.9
Retails	192,770	188,582	138,176	179,536	699,064	7.3
Hotel	166,356	22,764	110,795	141,054	440,969	4.6
SFR	250,151	29,556	89,582	8,201	377,490	3.9
Other	81,981	108,512	53,438	81,671	325,602	3.4
Total CRE	$ 1,858,113	$ 1,257,541	$ 741,025	$ 834,117	$ 4,690,796	48.9 %

[1]Includes loans made to markets in the state of Texas outside of DFW and Houston.

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:

	As of December 31,			
	2023		2022	
Out of State Loan Portfolio	**Amount**	**Percent of Total Loans**	**Amount**	**Percent of Total Loans**
(Dollars in thousands)				
Commercial Real Estate	$ 784,523	8.2 %	$ 780,833	8.2 %
Lender Finance	536,568	5.6	580,372	6.1
Commercial	355,626	3.7	346,761	3.6
MW	141,329	1.5	300,895	3.2
Mortgage Servicing Rights	227,002	2.4	—	—
1-4 Family Residential	259,745	2.7	260,911	2.7
USDA and SBA	199,184	2.1	160,739	1.7
Other	370	—	377	—
Total Out of State Loans	$ 2,504,347	26.1 %	$ 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, 2023				
	One Year or Less	**One Through Five Years**	**Five Through Fifteen Years**	**After Fifteen Years**	**Total**
	(Dollars in thousands)				
Commercial	$ 1,391,352	$ 1,246,128	$ 101,958	$ 12,625	$ 2,752,063
Construction and land	522,420	996,734	35,436	179,664	1,734,254
Farmland	1,965	22,347	6,802	—	31,114
1 - 4 family residential	193,868	97,579	34,376	611,296	937,119
Multi-family residential	189,708	411,143	4,715	251	605,817
OOCRE	40,006	339,210	269,542	145,330	794,088
NOOCRE	558,591	1,511,305	262,190	18,639	2,350,725
Consumer	3,090	5,887	1,015	157	10,149
Total LHI, excluding MW	$ 2,901,000	$ 4,630,333	$ 716,034	$ 967,962	$ 9,215,329
LHI, MW	377,796	—	—	—	377,796
Total LHI (1)	$ 3,278,796	$ 4,630,333	$ 716,034	$ 967,962	$ 9,593,125

(1) Total LHI at December 31, 2023 excludes $8,785 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, 2023				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
	(Dollars in thousands)				
Amounts with fixed rates					
Commercial	$ 49,596	$ 133,547	$ 26,271	$ —	$ 209,414
Construction and land	28,717	42,836	10,958	—	82,511
Farmland	1,965	20,979	599	—	23,543
1 - 4 family residential	112,542	83,639	11,574	2,285	210,040
Multi-family residential	21,764	53,476	4,715	—	79,955
OOCRE	16,409	207,933	103,677	6,062	334,081
NOOCRE	223,151	803,424	49,215	—	1,075,790
Consumer	2,628	5,399	888	157	9,072
Total fixed	$ 456,772	$ 1,351,233	$ 207,897	$ 8,504	$ 2,024,406
Amounts with floating rates					
Commercial	$ 1,341,756	$ 1,112,581	$ 75,687	$ 12,625	$ 2,542,649
Construction and land	493,703	953,898	24,478	179,664	1,651,743
Farmland	—	1,368	6,203	—	7,571
1 - 4 family residential	81,326	13,940	22,802	609,011	727,079
Multi-family residential	167,944	357,667	—	251	525,862
OOCRE	23,597	131,277	165,865	139,268	460,007
NOOCRE	335,440	707,881	212,975	18,639	1,274,935
Consumer	462	488	127	—	1,077
Total floating, excluding MW	2,444,228	3,279,100	508,137	959,458	7,190,923
MW	377,796	—	—	—	377,796
Total	$ 3,278,796	$ 4,630,333	$ 716,034	$ 967,962	$ 9,593,125

We generally structure commercial loans with shorter-term maturities in order to match our funding sources and to enable us to effectively manage the loan portfolio by providing the flexibility to respond to liquidity needs, changes in interest rates and changes in underwriting standards and loan structures, among other things. Due to the shorter-term nature of such loans, from time to time in the ordinary course of business and without any contractual obligation on our part, we will renew/extend maturing lines of credit or refinance existing loans at their maturity dates. Some loans may renew multiple times in a given year as a result of general customer practice and need. These renewals, extensions and refinancings are made in the ordinary course of business for customers that meet our normal level of credit standards. Such borrowers typically request renewals to support their on-going working capital needs to finance their operations. Such borrowers are not experiencing financial difficulties and generally could obtain similar financing from another financial institution. In connection with each renewal, extension or refinancing, we may require a principal reduction, adjust the rate of interest and/or modify the structure and other terms to reflect the current market pricing/structuring for such loans or to maintain competitiveness with other financial institutions. In such cases, we do not generally grant concessions, and, except for those reported in Note 6 - LHI and ACL in the accompanying notes to consolidated financial statements included elsewhere in this report, any such renewals, extensions or refinancings that occurred during the reported periods were not deemed to be modifications to borrowers experiencing financial difficulty pursuant to applicable accounting guidance.

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,	
	2023	**2022**
	(Dollars in thousands)	
Nonperforming loans[1]:		
Construction and land	$ 6,793	$ —
1 - 4 family residential	1,965	862
OOCRE	9,719	9,737
NOOCRE	33,479	21,377
Commercial	40,868	11,397
Consumer	24	169
Accruing loans 90 or more days past due	2,975	125
Total nonperforming loans	95,823	43,667
OREO	—	—
Total nonperforming assets	$ 95,823	$ 43,667
Nonperforming assets to total assets	0.77 %	0.36 %
Nonperforming loans to total loans	1.00 %	0.46 %

[1] At December 31, 2023 and 2022, nonaccrual loans included $13,715 and $13,178, respectively, of PCD loans that are accounted for on a pooled basis.

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.

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

	Total Loans	Accruing Loans 30-89 Days Past Due		Accruing Loans 90 or more Days Past Due		Total Accruing Past Due Loans	
		Amount	Percent of Loans in Category	Amount	Percent of Loans in Category	Amount	Percent of Loans in Category
December 31, 2023							
Construction and land	$ 1,734,254	$ 29,379	1.69 %	$ —	— %	$ 29,379	1.69 %
Farmland	31,114	—	—	—	—	—	—
1 - 4 family residential	937,119	6,894	0.74	1,726	0.18	8,620	0.92
Multi-family residential	605,817	15,095	2.49	—	—	15,095	2.49
OOCRE	794,088	1,030	0.13	466	0.06	1,496	0.19
NOOCRE	2,350,725	3,824	0.16	783	0.03	4,607	0.20
Commercial	2,752,063	4,879	0.18	—	—	4,879	0.18
MW	377,796	—	—	—	—	—	—
Consumer	10,149	76	0.75	—	—	76	0.75
Total	$ 9,593,125	$ 61,177	0.64 %	$ 2,975	0.03 %	$ 64,152	0.67 %
December 31, 2022							
Construction and land	$ 1,787,400	$ 3,232	0.18 %	$ —	— %	$ 3,232	0.18 %
Farmland	43,500	—	—	—	—	—	—
1 - 4 family residential	894,456	4,448	0.50	123	0.01	4,571	0.51
Multi-family residential	322,679	1,000	0.31	—	—	1,000	0.31
OOCRE	715,829	4,528	0.63	—	—	4,528	0.63
NOOCRE	2,341,379	5,156	0.22	—	—	5,156	0.22
Commercial	2,942,348	5,276	0.18	—	—	5,276	0.18
MW	446,227	—	—	—	—	—	—
Consumer	7,806	352	4.51	2	0.03	354	4.53
Total	$ 9,501,624	$ 23,992	0.25 %	$ 125	— %	$ 24,117	0.25 %

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 $95.8 million in nonperforming loans as of December 31, 2023 compared to $43.7 million as of December 31, 2022. The increase of $52.2 million in nonperforming assets compared to December 31, 2022 was primarily due to the a $49.3 million increase in nonaccrual loans. The increase in nonaccrual loans is related to risk rating changes on NAC loans which were placed on nonaccrual during December 2023.

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

	December 31, 2023					December 31, 2022				
			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	$	1,734,254	$	6,793	0.39 %	$	1,787,400	$	—	— %
Farmland		31,114		—	—		43,500		—	—
1 - 4 family residential		937,119		1,965	0.21		894,456		862	0.10
Multi-family residential		605,817		—	—		322,679		—	—
OOCRE		794,088		9,719	1.22		715,829		9,737	1.36
NOOCRE		2,350,725		33,479	1.42		2,341,379		21,377	0.91
Commercial		2,752,063		40,868	1.48		2,942,348		11,397	0.39
MW		377,796		—	—		446,227		—	—
Consumer		10,149		24	0.24		7,806		169	2.17
Total LHI[(1)]	$	9,593,125	$	92,848	0.97 %	$	9,501,624	$	43,542	0.46 %
ACL on loans LHI			$	109,816				$	91,052	
Ratio of ACL to nonaccrual loans				118 %					209 %	

[(1)] At December 31, 2023 and 2022, the non-accrual loans amount related to NAC included in total LHI was $15,615 and $8,545, respectively.

Potential Problem Loans

The following tables summarize our internal rating of our loans as of the dates indicated.

	December 31, 2023									
	Pass		Special Mention		Substandard		PCD		Total	
	(Dollars in thousands)									
Construction and land	$	1,693,230	$	34,231	$	6,793	$	—	$	1,7[illegible]
Farmland		31,114		—		—		—		[illegible]
1 - 4 family residential		928,106		4,501		3,382		1,130		9[illegible]
Multi-family residential		579,021		11,701		15,095		—		60[illegible]
OOCRE		722,430		25,925		27,563		18,170		79[illegible]
NOOCRE		2,066,080		182,531		88,030		14,084		2,3[illegible]
Commercial		2,641,017		51,073		57,065		2,908		2,7[illegible]
MW		377,796		—		—		—		3[illegible]
Consumer		9,972		85		79		13		[illegible]
Total	$	9,048,766	$	310,047	$	198,007	$	36,305	$	9,5[illegible]

	December 31, 2022				
	Pass	Special Mention	Substandard	PCD	Total
	(Dollars in thousands)				
Construction and land	$ 1,764,634	$ 21,222	$ —	$ 1,544	$ 1,7
Farmland	43,500	—	—	—	
1 - 4 family residential	842,149	26,346	24,781	1,180	8
Multi-family residential	306,981	—	15,698	—	3
OOCRE	648,591	9,186	38,235	19,817	7
NOOCRE	2,167,498	105,963	55,170	12,748	2,3
Commercial	2,757,945	127,311	53,391	3,701	2,9
MW	444,393	1,626	208	—	4
Consumer	7,556	58	169	23	
Total	$ 8,983,247	$ 291,712	$ 187,652	$ 39,013	$ 9,5

ACL

Our ACL on loans is calculated in accordance with ASC Topic 326 (“ASC 326”) Financial Instruments - Credit Losses. The ACL is a valuation allowance estimated at each balance sheet date that is deducted from the LHFIs’ 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, 2023			December 31, 2022		
	Allocated Allowance	% of Loan Portfolio	ACL to Loans	Allocated Allowance	% of Loan Portfolio	ACL to Loans
Construction and land	$ 21,032	18.1 %	1.21 %	$ 13,120	19.7 %	0.73 %
Farmland	101	0.3	0.32	127	0.4	0.29
1 - 4 family residential	9,539	9.8	1.02	9,533	9.9	1.07
Multi-family residential	4,882	6.3	0.81	2,607	3.6	0.81
OOCRE	10,252	8.3	1.29	8,707	7.9	1.22
NOOCRE	27,729	24.5	1.18	26,704	25.9	1.14
Commercial	35,886	28.7	1.30	30,142	32.5	1.02
MW	260	3.9	0.07	—	—	—
Consumer	135	0.1	1.33	112	0.1	1.43
Total	$ 109,816	100.0 %	1.14 %	$ 91,052	100.0 %	0.96 %

As of December 31, 2023, the ACL totaled $109.8 million, or 1.14%, of total loans. As of December 31, 2022, the ACL totaled $91.1 million, or 0.96%, of total loans. The increase in the percentage of ACL to total loans compared to December 31, 2022 was primarily attributable to an additional $15.6 million in provision for loan losses for the year ending December 31, 2023. The increase in provision for loan losses was primarily attributable to an increase in general reserves as a result of changes in economic factors driving an increase in general reserves, which includes an increase in qualitative factors applied in our CRE office portfolio, and increase in individually analyzed loans receiving specific reserves.

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 DCF method or a loss-rate method to estimate expected credit losses. The Company uses a 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, 2023, 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, 2023 as compared to December 31, 2022, 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, 2023 for Texas unemployment, the Company projected a low percentage in the first quarter followed by a gradual rise in the following three quarters. For year-over-year percentage change in Texas gross domestic product, the Company projected a high year-over-year percentage change in the first quarter, followed by a decrease in the second and third quarters and an increase in the fourth quarter. At December 31, 2023, the Company overall decreased 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, 2023, we utilized the Moody's Analytics December 2023 forecast the macroeconomic variables used in our models. A weighting of forecast scenarios from December 2023 were based on the review of a variety of surveys of forecasts of the U.S. economy. The December 2023 baseline scenario projections included, among other things, (i) U.S. Nominal Gross Domestic Product annualized quarterly growth rate of 2.00% in the first quarter of 2024, followed by annualized quarterly growth rates in the range of 1.64% to 1.96% during the remainder of 2024 and an average annualized growth rate of 2.32% through the end of the forecast period in the fourth quarter of 2025; (ii) U.S. unemployment rate of 4.08% in the first quarter of 2024 and an average quarterly U.S. unemployment rate of 3.96% through the end of the forecast period in the fourth quarter of 2025; (iii) Texas CRE price index change of -3.26% in the first quarter of 2024 and an average quarterly Texas CRE price index change of -2.44% through the end of the forecast period in the fourth quarter of 2025; and (iv) projected average 10 year Treasury rate of 4.30% in the first quarter of 2024 and average projected rates of 4.15% during the remainder of 2024 and 4.50% in 2025.

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,	
	2023	2022
ACL	$ 109,816	$ 91,052
Total LHI	9,593,125	9,501,624
ACL to Total LHI	1.14 %	0.96 %
Nonaccrual loans	$ 92,848	$ 43,542
Total LHI	9,593,125	9,501,624
Nonaccruals to Total LHI	0.97 %	0.46 %
ACL	$ 109,816	$ 91,052
Nonaccrual loans	92,848	43,542
ACL to nonaccrual loans	118.28 %	209.11 %

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
2023			
Construction and land	$ —	$ 1,842,624	— %
Farmland	—	46,901	—
1 - 4 family residential	(18)	910,061	—
Multi-family residential	(192)	533,661	(0.04)
OOCRE	(855)	709,322	(0.12)
NOOCRE	(13,299)	2,348,303	(0.57)
Commercial	(9,248)	2,844,269	(0.33)
MW	—	347,596	—
Consumer	(136)	8,929	(1.52)
Total	$ (23,748)	$ 9,591,666	(0.25)%
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	$ (13,652)	$ 8,327,197	(0.16)%
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	$ (23,981)	$ 7,038,830	(0.34)%

Net loans charged off increased $10.1 million, or 74.0%. Although we believe that we have established our ACL in accordance with GAAP and that the ACL 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.

OBS Credit exposure

The ACL on OBS credit exposures totaled $8.0 million and $10.1 million at December 31, 2023 and December 31, 2022, respectively. The level of the ACL on OBS 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. The $2.1 million decrease in the ACL on OBS credit exposure is primarily attributable to a $1.20 billion, or 64.3%, decrease in total CRE ADC unfunded commitments during 2023 which is slightly offset by an increase in the loss rates applied to the CRE ADC portfolio.

As of December 31, 2023, we held equity securities with a readily determinable fair value of $9.9 million compared to $9.8 million as of December 31, 2022. 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 $11.6 million at December 31, 2023 compared to $10.1 million as of December 31, 2022. 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, 2023, we held FHLB stock and FRB stock of $53.7 million compared to $101.6 million as of December 31, 2022. The change is driven by a decrease in FHLB stock of $48.2 million. 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. 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, 2023, the carrying amount of debt securities totaled $1.26 billion, a decrease of $25.4 million, or 2.0%, compared to $1.28 billion as of December 31, 2022. The decrease in our debt securities in 2023 was primarily due to purchases of debt securities of $1.38 billion and net unrealized gains $14.2 million, offset by maturities, calls and paydowns of $1.30 billion and proceeds from sales of $109.8 million. Debt securities represented 10.1% and 10.6% of total assets as of December 31, 2023 and 2022, respectively.

Our investment portfolio consists of debt securities classified as AFS and 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, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
	(Dollars in thousands)				
Corporate bonds	$ 244,652	$ 1,034	$ 29,566	$ —	$ 216,120
Municipal securities	46,631	108	3,258	—	43,481
Mortgage-backed securities	194,486	4,430	13,465	—	185,451
Collateralized mortgage obligations	563,421	4,634	46,999	—	521,056
Asset-backed securities	47,738	1,045	2,130	—	46,653
Collateralized loan obligations	64,250	—	372	—	63,878
Total	$ 1,161,178	$ 11,251	$ 95,790	$ —	$ 1,076,639

	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	$ 1,195,694	$ 1,760	$ 101,162	$ —	$ 1,096,292

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, 2023, 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, 2023, 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 consolidated balance sheets. The Company also recorded no allowance for credit losses for its HTM debt securities as of December 31, 2023.

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, 2023									
	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	$ 1,906	4.28 %	$ 44,924	9.19 %	$ 156,569	4.33 %	$ 12,721	5.99 %	$ 216,120	5.44 %
Municipal securities	—	—	6,202	2.77	19,636	2.83	129,847	2.69	155,685	2.71
Mortgage-backed securities	—	—	5	3.37	25,386	2.91	193,776	3.52	219,167	3.45
Collateralized mortgage obligations	—	—	77,081	2.46	146,807	3.17	331,651	4.29	555,539	3.74
Asset-backed securities	—	—	3,211	3.54	20,382	6.05	23,060	3.94	46,653	4.83
Collateralized loan obligations	—	—	—	—	24,158	7.28	39,720	7.26	63,878	7.27
Total	$ 1,906	4.28 %	$ 131,423	4.80 %	$ 392,938	4.00 %	$ 730,775	3.98 %	$ 1,257,042	4.07 %

	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 %

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 6.56 years with an estimated effective duration of 4.12 years as of December 31, 2023. The average yield of the securities portfolio was 3.78% during 2023 compared to 3.03% during 2022.

As of December 31, 2023 and December 31, 2022, 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.

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, 2023 were $10.34 billion, an increase of $1.21 billion, or 13.3%, compared to $9.12 billion as of December 31, 2022, due primarily to increases of $1.11 billion in certificates of deposit, $304.4 million in interest-bearing demand accounts and $209.5 million in money market accounts. The increase was partially offset by a decrease of $422.6 million in noninterest-bearing deposit accounts. 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, 2023 were $9.48 billion, an increase of $1.17 billion, or 14.0% over average deposits of $8.32 billion for the year ended December 31, 2022. The average rate paid on total interest-bearing deposits increased from 1.05% for the year ended December 31, 2022 to 3.82% for the year ended December 31, 2023. The increase in the average rate paid on interest-bearing deposits was due to the overall market condition, and an increase in the prime rate during 2023.

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

	For Year Ended December 31,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Interest-bearing demand accounts	$ 770,666	3.23 %	$ 613,318	0.40 %
Savings accounts	106,358	0.52	129,376	0.05
Money market accounts	3,320,493	3.72	3,192,232	1.26
Certificates and other time deposits > $250,000	1,065,537	3.99	801,779	0.75
Certificates and other time deposits < $250,000	1,911,641	4.34	799,908	1.17
Total interest-bearing deposits	7,174,695	3.82	5,536,613	1.05
Noninterest-bearing demand accounts	2,309,983		2,782,077	
Total deposits	$ 9,484,678	2.89 %	$ 8,318,690	0.70 %

Our ratio of average noninterest-bearing deposits to average total deposits was 24.4% and 33.4% for the years ended December 31, 2023 and December 31, 2022, 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 2.89% in 2023 and 0.70% in 2022. Average rates on interest-bearing deposits were 3.82% in 2023 and 1.05% in 2022.

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, 2023, 2022 and 2021, total borrowing capacity of $2.19 billion, $787.3 million and $777.5 million, respectively, was available under this arrangement and $100.0 million, $1.18 billion and $777.6 million, respectively, was outstanding, with an average interest rate of 4.70% as of December 31, 2023, 1.73% as of December 31, 2022 and 0.94% as of December 31, 2021. 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, 2023.

Maturity Year	FHLB Advances
	(Dollars in thousands)
2024	100,000
Total	$ 100,000

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, 2023		
Amount outstanding at period end	$	100,000
Additional availability at period end		2,191,608
Weighted average interest rate at period end		5.54 %
Maximum month-end balance during the period	$	1,680,000
Average balance outstanding during the period		873,617
Weighted average interest rate during the period		4.70 %
December 31, 2022		
Amount outstanding at period end	$	1,175,000
Additional availability at period end		1,765,197
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
Additional availability at period end		777,466
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 %

Fed Funds Borrowings

The Company maintains credit facilities with commercial banks that provided federal funds credit extensions. The following table outlines the credit facilities and the federal funds credit availability for each period presented:

	For the Year Ended December 31,		
	2023	2022	2021
Credit facilities (count of facilities)	5	5	5
Total outstanding at period end	$ —	$ —	$ —
Additional availability at period end	125,000	175,000	175,000

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. The following table outlines the FRB availability:

	For the Year Ended December 31,					
	2023		2022		2021	
FRB loans pledged as collateral at period end	$	2,143,269	$	2,384,492	$	805,747
FRB securities pledged as collateral at period end		328,919		261,319		—
BTFP availability at period end[(1)]		455,361		434,349		—
Total FRB availability	$	2,927,549	$	3,080,160	$	805,747

[(1)] There were no borrowings against the BTFP at the end of the respective periods.

Subordinated Notes

The table below details our subordinated notes, Refer to Note 13 "Subordinated Debentures and Subordinated Notes" 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.

The subordinated notes, which are held at Veritex, of $75.0 million and $125.0 million have a repricing date of November 15, 2024 and October 15, 2025, respectively. The Company is evaluating the impact of such repricing and specifically its impact on capital ratios and earnings per share to determine the most appropriate decision upon each respective repricing date.

Junior subordinated debentures

The table below details our junior subordinated debentures. Refer to Note 13 "Subordinated Debentures and Subordinated Notes" for further discussion on the details of our junior subordinated debentures.

	Balance		Maturity Date	Variable Interest Rate	Interest Rate at December 31, 2023
Parkway Trust Securities	$	3,093	2036	SOFR + 1.85%	7.50 %
SovDallas Trust Securities		8,609	2038	SOFR + 4.00%	9.66
Patriot I Capital Trust I		5,155	2037	SOFR + 1.85%	7.51
Patriot II Capital Trust II		17,011	2038	SOFR + 1.80%	7.45
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 SOFR 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, 2023

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, 2023, 2022 and 2021, 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 $125.0 million as of December 31, 2023 and $175.0 million as of December 31, 2022. There were no advances under these lines of credit outstanding as of December 31, 2023 and 2022.

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 $12.28 billion for the year ended December 31, 2023, $10.99 billion for the year ended December 31, 2022 and $9.36 billion for the year ended December 31, 2021.

	For the Years Ended December 31,		
	2023	2022	2021
Sources of Funds:			
Deposits:			
Noninterest-bearing	18.8 %	25.3 %	24.1 %
Interest-bearing	34.2	35.8	34.2
Certificates and other time deposits	24.2	14.6	16.5
Advances from FHLB	7.1	8.1	8.3
Other borrowings	1.9	2.1	2.8
Other liabilities	1.6	1.1	0.6
Stockholders' equity	12.2	13.0	13.5
Total	100 %	100 %	100 %
Uses of Funds:			
Loans	77.3 %	74.9 %	73.2 %
Securities AFS	9.6	11.6	12.0
Interest-bearing deposits in other banks	1.0	1.5	1.5
Other noninterest-earning assets	12.2	12.0	13.3
Total	100 %	100 %	100 %
Average noninterest-bearing deposits to average deposits	24.4 %	33.4 %	32.3 %
Average loans, to average deposits	97.5 %	94.6 %	89.9 %

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, net of allowance for credit loss increased 17.2% for the year ended December 31, 2023 compared to the same period in 2022 and an increase of 25.9% for the year ended December 31, 2022. 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, 2023, we had $3.08 billion in outstanding commitments to extend credit, $803.7 million in MW commitments and $111.6 million in commitments associated with outstanding standby and commercial letters of credit. 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. 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, 2023, we had cash and cash equivalents of $629.1 million, compared to $436.1 million at December 31, 2022.

Analysis of Cash Flows

	For the Years Ended December 31,	
	2023	2022
	(Dollars in thousands)	
Net cash provided by operating activities	$ 144,087	$ 192,726
Net cash used in investing activities	(47,503)	(2,399,378)
Net cash provided by financing activities	96,402	2,262,945
Net change in cash and cash equivalents	$ 192,986	$ 56,293

Cash Flows Provided by Operating Activities

For the year ended December 31, 2023, net cash provided by operating activities decreased by $48.6 million from $192.7 million to $144.1 million, primarily due to an increase in originations of LHFS of $39.4 million, a decrease in net income of $38.1 million, a decrease in accounts payable and other liabilities of $12.5 million, a decrease in proceeds from sales of LHFS of $7.7 million and a decrease in equity method investment income of $4.0 million. This decrease in cash was offset by an increase in impairment on equity method investment of $29.4 million, an increase in other assets of $11.3 million and an increase in provision for credit losses of $12.7 million.

Cash Flows Used in Investing Activities

For the year ended December 31, 2023, net cash used in investing activities decreased by $2.35 billion compared to the same period in 2022. The decrease in cash used in investing activities was primarily attributable to a $1.98 billion decrease in net loans originated and a $1.19 billion increase in proceeds from maturities, calls and pay downs of AFS debt securities. The decrease was partially offset by a $924.9 million increase in purchases of AFS debt securities.

Cash Flows Provided by Financing Activities

For the year ended December 31, 2023, net cash provided by financing activities decreased by $2.17 billion compared to the same period in 2022. The decrease in cash provided by financing activities was primarily attributable to a $15.24 billion increase in repayments from FHLB advances, a $543.6 million decrease in deposits and a $154.4 million decrease in proceeds from our common stock offering completed in 2022. The decrease was partially offset by a $13.77 billion increase in proceeds of FHLB advances.

For the years ended December 31, 2023 and 2022, the Company had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

Capital Resources

Total stockholders’ equity was $1.53 billion as of December 31, 2023, compared to $1.45 billion as of December 31, 2022, an increase of $81.6 million, or 5.6%. The increase from December 31, 2022 was primarily the result of $108.3 million in net income, $12.1 million of stock based compensation and $5.9 million of other comprehensive income related to unrealized gain/loss of AFS debt securities. The increase is partially offset by $43.3 million in dividends declared and paid.

For the years ended December 31, 2023, 2022 and 2021, we declared and paid $43.3 million, $42.3 million and $36.5 million in cash dividends, respectively. For the years ended December 31, 2023, 2022 and 2021 we purchased zero, zero and 476 thousand 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 RBC 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, 2023		As of December 31, 2022	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Veritex Holdings, Inc.				
Total capital (to RWA)	$ 1,500,703	13.18 %	$ 1,395,904	11.63 %
Tier 1 capital (to RWA)	1,202,252	10.56	1,121,021	9.34
CET1 (to RWA)	1,172,362	10.29	1,091,353	9.09
Tier 1 capital (to average assets)	1,202,252	10.03	1,121,021	9.82
Veritex Community Bank				
Total capital (to RWA)	$ 1,467,960	12.90 %	$ 1,368,082	11.41 %
Tier 1 capital (to RWA)	1,368,384	12.03	1,291,288	10.77
CET1 (to RWA)	1,368,384	12.03	1,291,288	10.77
Tier 1 capital (to average assets)	1,368,384	11.43	1,291,288	11.32

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 2023, respectively, and 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. This equates to a dividend payout ratio of 40.0% in 2023 and 28.9% in 2022. 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, 2023. These include payments related to (i) operating leases (Note 8 - Leases), (ii) time deposits with stated maturity dates (Note 10 - Deposits), (iii) long-term borrowings (Note 13 - Subordinated Debentures and Subordinated Notes), and (iv) commitments to extend credit, MW commitments and standby and commercial letters of credit (Note 17 - 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,		
	2023	2022	2021
	(Dollars in thousands, except per share data)		
Tangible Common Equity			
Total stockholders' equity	$ 1,531,323	$ 1,449,773	$ 1,315,079
Adjustments:			
Goodwill	(404,452)	(404,452)	(403,771)
Core deposit intangibles	(28,495)	(38,247)	(47,998)
Tangible common equity	$ 1,098,376	$ 1,007,074	$ 863,310
Common shares outstanding	54,338	54,030	49,372
Book value per common share	$ 28.18	$ 26.83	$ 26.64
Tangible book value per common share	$ 20.21	$ 18.64	$ 17.49

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,		
	2023	2022	2021
	(Dollars in thousands)		
Tangible Common Equity			
Total stockholders' equity	$ 1,531,323	$ 1,449,773	$ 1,315,079
Adjustments:			
Goodwill	(404,452)	(404,452)	(403,771)
Core deposit intangibles	(28,495)	(38,247)	(47,998)
Tangible common equity	$ 1,098,376	$ 1,007,074	$ 863,310
Tangible Assets			
Total assets	$ 12,394,337	$ 12,154,361	$ 9,757,249
Adjustments:			
Goodwill	(404,452)	(404,452)	(403,771)
Core deposit intangibles	(28,495)	(38,247)	(47,998)
Tangible assets	$ 11,961,390	$ 11,711,662	$ 9,305,480
Tangible Common Equity to Tangible Assets	9.18 %	8.60 %	9.28 %

Operating Earnings, Pre-tax, Pre-provision Operating Earnings and performance metrics calculated using Operating Earnings and Pre-tax, Pre-provision Operating Earnings, including Diluted Operating Earnings per Share, Pre-tax, Pre-Provision Operating Return on Average Assets, Operating Return on Average Assets, Pre-tax, Pre-Provision Operating Return on Average Loans, Operating Return on Average Tangible Common Equity and Operating Efficiency Ratio**.** Operating earnings, pre-tax, pre-provision operating earnings and the performance metrics calculated using these metrics, listed below, are non-GAAP measures used by management to evaluate the Company's financial performance. We calculate (a) operating earnings as net income plus equity method investment write-down, plus FDIC special assessment, plus severance payments, plus loss on sale of debt securities AFS, net, plus M&A expenses, less tax impact of adjustments, plus nonrecurring tax adjustments. We calculate (b) diluted operating earnings per share as operating earnings as described in clause (a) divided by weighted average diluted shares outstanding. We calculate (c) pre-tax, pre-provision operating earnings as operating earnings as described in clause (a) plus provision for income taxes, plus benefit (provision) for credit losses and unfunded commitments. We calculate (d) pre-tax, pre-provision operating return on average assets as pre-tax, pre-provision operating earnings as described in clause (a) divided by total average assets. We calculate (e) operating return on average assets as operating earnings as described in clause (a) divided by total average assets. We calculate (f) operating return on average tangible common equity as operating earnings as described in clause (a), adjusted for the amortization of intangibles and tax benefit at the statutory rate, divided by total average tangible common equity (average stockholders' equity less average goodwill and average core deposit intangibles, net of accumulated amortization). We calculate (g) operating efficiency ratio as noninterest expense plus adjustments to operating noninterest expense divided by noninterest income plus adjustments to operating noninterest income, plus net interest income

We believe that these measures and the operating metrics calculated utilizing these measures are important to management and many investors in the marketplace who are interested in understanding the ongoing operating performance of the Company and provide meaningful comparisons to its peers.

The following tables reconcile, as of the dates set forth below, operating net income and pre-tax, pre-provision operating earnings and related metrics:

	For the Year Ended December 31,					
	2023		2022		2021	
Operating Earnings						
Net income	$	108,261	$	146,315	$	139,584
Plus: Equity method investment write-down		29,417		—		—
Plus: FDIC special assessment		768		—		—
Plus: Severance payments[1]		1,950		630		627
Plus: Loss on sale of debt securities AFS, net		5,321		—		188
Less: Thrive PPP loan forgiveness income[2]		—		—		1,912
Plus: M&A expenses		—		1,379		826
Operating pre-tax income		145,717		148,324		139,313
Less: Tax impact of adjustments		3,603		435		92
Plus: Nonrecurring tax adjustments[3]		—		—		426
Operating earnings	$	142,114	$	147,889	$	139,647
Weighted average diluted shares outstanding		54,596		53,952		50,352
Diluted EPS	$	1.98	$	2.71	$	2.77
Diluted operating EPS	$	2.60	$	2.74	$	2.77

[1] Severance payments relate to restructurings made during the periods disclosed.
[2] During the third quarter of 2021, Thrive's PPP loan with another bank was 100% forgiven by the SBA. As a result of our 49% investment in Thrive, the $1.9 million represents our portion of the PPP loan forgiveness. PPP fee income is not taxable and as such has no tax impact.
[3] A nonrecurring tax adjustment of $426 thousand recorded in the first quarter of 2021 was due to a true-up of a deferred tax liability.

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.

ACL

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.

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. Management believes there is no significant risk of the reporting unit failing the goodwill impairment test.

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.

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:

	As of December 31, 2023		As of December 31, 2022	
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**
+300	11.39 %	(6.15)%	13.00 %	4.65 %
+200	7.70	(3.23)	8.88	3.36
+100	3.92	(1.05)	4.46	1.77
Base	—	—	—	—
−100	(4.16)	(1.65)	(4.72)	(2.55)

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.

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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with 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, 2023, 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 27, 2024 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 matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate 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 matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

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 likelihood 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 considerations 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:

a. We tested the design and operating effectiveness of management's review controls over the ACL, which included ACL committee oversight and approval of the selection and weighting of forecast assumptions applied in the DCF model.
b. 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.
c. We evaluated management's selection of and weighting applied to forecasted economic scenarios by inspecting the underlying scenario assumptions and considering publicly available evidence.
d. We validated the mathematical accuracy of the weighted forecast assumptions applied within the DCF model.

Goodwill impairment assessments

As described further in Note 1 to the consolidated financial statements, the Company’s recorded goodwill was $404.5 million as of December 31, 2023. The Company tests goodwill for impairment annually on October 31 of each fiscal year or when a triggering event occurs. During the year, economic uncertainty and market volatility resulting from the rising interest rate environment and the banking crisis resulted in a decrease in the Company’s stock price and market capitalization. Therefore quantitative goodwill impairment assessments were performed, requiring valuation methodologies. As inputs into the valuation methodologies related to the impairment assessments, the Company estimates the projected cash flows, based on historical results, forecasted economic data, and industry data and selects an appropriate discount rate. The application of these valuation methodologies and necessary assumptions requires a significant amount of judgment by management. We identified the goodwill impairment assessments as a critical audit matter.

The principal considerations for our determination that the goodwill impairment assessments are a critical audit matter is that certain significant assumptions, including the projected cash flows, selected discount rate, and the substantiation of the implied control premium required significant auditor judgment and increased audit effort, including the use of our internal valuation specialists.

Our audit procedures related to the goodwill impairment assessments included the following, among others:

a. We tested the design and operating effectiveness of management’s review controls over the goodwill impairment assessments, including controls over management’s significant assumptions such as preparation of cash flow projections, discount rate, and the reasonableness of the implied control premium.
b. We evaluated the reasonableness of management’s cash flow projections by comparing management’s assumptions to historically and publicly available financial and economic information.
c. We utilized our internal valuation specialists to assist in evaluating the methodology used in the quantitative impairment analysis and significant assumptions used, such as the discount rate, and evaluating the reasonableness of the implied control premium and its various assumptions.

/s/ GRANT THORNTON LLP

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

Dallas, Texas
February 27, 2024

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollars in thousands, except par value information)

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 58,914	$ 60,551
Interest bearing deposits in other banks	570,149	375,526
Total cash and cash equivalents	629,063	436,077
Debt securities AFS, at fair value	1,076,639	1,096,292
Debt securities HTM (fair value of $160,021 and $158,781 at December 31, 2023 and 2022, respectively)	180,403	186,168
Equity securities	21,521	19,864
Investment in unconsolidated subsidiaries	1,018	1,018
FHLB and FRB stock	53,699	101,568
Total investments	1,333,280	1,404,910
LHFS	79,072	20,641
LHI, MW	377,796	446,227
LHI, excluding MW	9,206,544	9,036,424
Less: ACL	(109,816)	(91,052)
Total LHI, net	9,474,524	9,391,599
BOLI	84,833	84,496
Premises and equipment, net	105,727	108,824
Intangible assets, net of accumulated amortization	41,753	53,213
Goodwill	404,452	404,452
Other assets	241,633	250,149
Total assets	$ 12,394,337	$ 12,154,361
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing deposits	$ 2,218,036	$ 2,640,617
Interest-bearing transaction and savings deposits	4,348,385	3,514,729
Certificates and other time deposits	3,191,737	2,086,642
Correspondent money market account	580,037	881,246
Total deposits	10,338,195	9,123,234
Accounts payable and other liabilities	195,036	177,579
Advances from FHLB	100,000	1,175,000
Subordinated debentures and subordinated notes	229,783	228,775
Total liabilities	10,863,014	10,704,588
Stockholders' equity:		
Common stock, $0.01 par value:		
Authorized shares - 75,000,000		
Issued shares - 60,976,462 and 60,668,049 at December 31, 2023 and December 31, 2022, respectively	610	607
APIC	1,317,516	1,306,852
Retained earnings	444,242	379,299
AOCI	(63,463)	(69,403)
Treasury stock, 6,638,094 and 6,638,094 shares at cost at December 31, 2023 and 2022, respectively	(167,582)	(167,582)
Total stockholders' equity	1,531,323	1,449,773
Total liabilities and stockholders' equity	$ 12,394,337	$ 12,154,361

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2023	**2022**	**2021**
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 648,245	$ 399,679	$ 280,526
Debt securities	44,364	38,736	32,132
Deposits in financial institutions and Fed Funds sold	28,331	6,275	589
Equity securities and other investments	5,934	4,720	3,237
Total interest and dividend income	726,874	449,410	316,484
INTEREST EXPENSE			
Transaction and savings deposits	148,975	42,785	6,858
Certificates and other time deposits	125,409	15,307	9,079
Advances from FHLB	41,024	15,501	7,336
Subordinated debentures and subordinated notes	12,352	11,160	12,428
Total interest expense	327,760	84,753	35,701
NET INTEREST INCOME	399,114	364,657	280,783
Provision (benefit) for credit losses	42,512	26,950	(3,349)
(Benefit) provision for credit losses on unfunded commitments	(2,041)	820	(1,481)
Net interest income after provision for credit losses	358,643	336,887	285,613
NONINTEREST INCOME			
Service charges and fees on deposit accounts	20,248	20,139	16,742
Loan fees	6,348	10,442	7,607
Loss on sale of debt securities	(5,321)	—	(188)
Gain on sale of mortgage LHFS	77	550	1,592
Gain on sale of SBA LHFS	2,711	2,838	14,477
Gain on sale of USDA LHFS	17,271	11,222	1,283
Equity method investment (loss) income	(30,589)	(5,141)	5,760
Customer swap income	1,618	7,898	2,491
Other	6,742	4,874	8,641
Total noninterest income	19,105	52,822	58,405
NONINTEREST EXPENSE			
Salaries and employee benefits	122,070	117,841	94,748
Occupancy and equipment	19,351	18,744	17,263
Professional and regulatory fees	26,166	14,142	12,945
Data processing and software expense	18,539	14,013	9,946
Marketing	8,704	7,179	5,344
Amortization of intangibles	9,838	9,979	10,057
Telephone and communications	1,551	1,484	1,434
M&A expense	—	1,379	826
Other	27,245	18,314	15,149
Total noninterest expense	233,464	203,075	167,712
Income before income tax expense	144,284	186,634	176,306
Income tax expense	36,023	40,319	36,722
NET INCOME	$ 108,261	$ 146,315	$ 139,584
Basic earnings per share	$ 2.00	$ 2.75	$ 2.83
Diluted earnings per share	$ 1.98	$ 2.71	$ 2.77

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands)

	Year Ended December 31,		
	2023	2022	2021
NET INCOME	$ 108,261	$ 146,315	$ 139,584
OTHER COMPREHENSIVE INCOME			
Net unrealized gains (losses) on debt securities AFS:			
Change in net unrealized gains (losses) on debt securities AFS during the period, net	5,752	(131,005)	(23,596)
Amortization from transfer of debt securities from AFS to HTM	3,122	3,790	—
Reclassification adjustment for net losses included in net income	5,321	—	188
Net unrealized gains (losses) on securities AFS	14,195	(127,215)	(23,408)
Net unrealized (losses) gains on derivative instruments designated as cash flow hedges	(7,744)	(41,499)	33,338
Other comprehensive income (loss), before tax	6,451	(168,714)	9,930
Income tax expense (benefit)	511	(35,241)	2,085
Other comprehensive income (loss), net of tax	5,940	(133,473)	7,845
COMPREHENSIVE INCOME	$ 114,201	$ 12,842	$ 147,429

See accompanying Notes to Consolidated Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands, except share data)

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amount	APIC	Retained Earnings	AOCI	Total
Balance at December 31, 2020	49,337,768	$ 555	6,162,350	$ (152,073)	$ 1,126,437	$ 172,232	$ 56,225	$ 1,203,376
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	49,372,329	$ 560	6,638,094	$ (167,582)	$ 1,142,758	$ 275,273	$ 64,070	$ 1,315,079
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	54,029,955	$ 607	6,638,094	$ (167,582)	$ 1,306,852	$ 379,299	$ (69,403)	$ 1,449,773
RSUs vested, net of 92,134 shares withheld to cover taxes	246,604	3	—	—	(2,310)	—	—	(2,307)
Exercise of employee stock options, net of 121 and 9,729 shares withheld to cover taxes and exercise, respectively	61,809	—	—	—	924	—	—	924
Stock based compensation	—	—	—	—	12,050	—	—	12,050
Net income	—	—	—	—	—	108,261	—	108,261
Dividends paid	—	—	—	—	—	(43,318)	—	(43,318)
Other comprehensive income	—	—	—	—	—	—	5,940	5,940
Balance at December 31, 2023	54,338,368	$ 610	6,638,094	$ (167,582)	$ 1,317,516	$ 444,242	$ (63,463)	$ 1,531,323

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2023	2022	2021
OPERATING ACTIVITIES:			
Net income	$ 108,261	$ 146,315	$ 139,584
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets and intangibles	19,485	18,668	15,731
Net accretion of time deposit premium, debt discount and debt issuance costs	(134)	977	(713)
Provision (benefit) for credit losses and unfunded commitments	40,471	27,770	(4,830)
Accretion of loan discounts	(3,882)	(5,047)	(7,193)
Stock-based compensation expense	12,050	11,929	10,573
Deferred tax (benefit) expense	(2,649)	(5,662)	4,647
Excess tax expense (benefit) from stock compensation	340	(1,056)	(838)
Net amortization of premiums on debt securities	2,135	4,708	2,885
Unrealized (gain) loss on equity securities recognized in earnings	(105)	1,246	325
Change in cash surrender value and mortality rates of BOLI	(337)	(1,302)	(339)
Net loss on sales of debt securities	5,321	—	188
Change in fair value of government guaranteed loans using fair value option	(4,417)	(1,072)	(1,845)
Gain on sales of mortgage LHFS	(77)	(550)	(1,592)
Gain on sales of government guaranteed loans	(15,565)	(12,988)	(6,194)
Originations of LHFS	(92,375)	(52,991)	(119,989)
Proceeds from sales of LHFS	53,410	61,130	112,606
Servicing asset (recoveries) impairment, net	(919)	1,823	71
Loss on sales of OREO	—	—	416
Equity method investment loss (income)	1,172	5,141	(5,760)
Impairment on equity method investment	29,417	—	—
Termination of derivatives designated as hedging instruments	—	—	43,900
(Increase) decrease in other assets	(44,484)	(55,770)	11,139
Increase in accounts payable and other liabilities	36,969	49,457	719
Net cash provided by operating activities	144,087	192,726	193,491
INVESTING ACTIVITIES:			
Net cash paid for acquisitions	—	—	(55,522)
Purchases of AFS debt securities	(1,377,537)	(452,599)	(201,385)
Proceeds from sales of AFS debt securities	109,793	—	13,300
Proceeds from maturities, calls and pay downs of AFS debt securities	1,295,897	103,683	193,227
Purchases of HTM debt securities	—	(17,460)	(32,286)
Maturity, calls and paydowns on HTM debt securities	4,004	4,487	3,370
Purchases of equity method securities	—	—	(54,970)
Purchases of other investments	46,317	(35,393)	(1,436)
Sales (purchases) of securities under agreements to resell	—	102,288	(102,288)
Net loans originated	(215,899)	(2,193,503)	(626,512)
Proceeds from sale of government guaranteed loans	91,776	93,739	44,912
Net additions to premises and equipment	(1,854)	(4,620)	(13,575)
Proceeds from sales of premises and equipment	—	—	14,551
Proceeds from sales of OREO and repossessed assets	—	—	2,225
Net cash used in investing activities	(47,503)	(2,399,378)	(816,389)
FINANCING ACTIVITIES:			
Net increase in deposits	1,216,103	1,759,653	851,468
Proceeds from FHLB advances	48,817,233	35,049,938	—
Repayments of FHLB advances	(49,892,233)	(34,652,500)	(156)
Redemption of subordinated debt	—	—	(35,000)
Net change in securities sold under agreement to repurchase	—	(4,069)	1,844
Net proceeds on sale of common stock in public offering	—	154,415	—
Proceeds from exercise of employee stock options	924	1,160	6,313
Payments to tax authorities for stock-based compensation	(2,307)	(3,363)	(725)
Proceeds from exercise of stock warrants	—	—	165
Purchase of treasury stock	—	—	(15,509)
Dividends paid	(43,318)	(42,289)	(36,543)
Net cash provided by financing activities	96,402	2,262,945	771,857
Net increase in cash and cash equivalents	192,986	56,293	148,959
Cash and cash equivalents at beginning of year	436,077	379,784	230,825
Cash and cash equivalents at end of year	$ 629,063	$ 436,077	$ 379,784

See accompanying Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of 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 11 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 TDB and the Board of Governors of 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. GAAP and prevailing practices of the banking industry. Intercompany transactions and balances are eliminated in consolidation.

ASC

The 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 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, 2023, 2022 and 2021.

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, 2023 and 2022.

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, 2023, the Company had held for sale government guaranteed 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 an increase in fair value for loans the Company elected to carry at fair value of $4,417 for the year ended December 31, 2023 as compared to a decrease in the fair value for loans the Company elected to carry at fair value of $1,072 for the year ended December 31, 2022. There was an increase of $1,845 in fair value for loans using the fair value option for the year ended December 31, 2021.

Gain on Sale of Guaranteed Portion of SBA and 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 gain on sale of SBA LHFS and gain on sale of USDA LHFS 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, 2023, 2022 and 2021, the Company recognized $15,565, $12,988, and $6,194, 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.

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.

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 LHI 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 DCF method or a loss-rate method to estimate expected credit losses. The Company uses a 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.

Modifications to Borrowers Experiencing Financial Difficulty

The Company adopted ASU 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

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 TLM.

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 consolidated statements of income and the fair value amounts are included in other assets and accounts payable and other liabilities on the Company's 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 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.

On July 16, 2021, the Bank acquired a 49% interest in 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 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. The Company recorded an impairment of $29.4 million on our equity method investment in Thrive related to Thrive's entry into a definitive agreement in December 2023 to be acquired by Lower and the negative impact of rising rates on the fair value and volume of loans originated by Thrive.

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, 2023, 2022 and 2021.

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.

BOLI

The Company has purchased life insurance policies on certain employees. These 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.

During the second quarter of 2023, the Company observed a sustained decline in the market valuation of the Company’s common stock as a result of significant volatility in the banking industry with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, unrealized securities losses and eroding consumer confidence in the banking system. As a result, the Company performed an interim quantitative impairment test with a trigger date of May 31, 2023. The Company determined the fair value of its reporting unit using a combination of a market and an income approach. Upon completion of the quantitative evaluation, the Company determined that the fair value of the Company's reporting unit exceeded its related carrying value, and therefore goodwill was not impaired. During the third quarter of 2023, the Company evaluated current conditions and concluded there have been no significant changes in the economic environment or projections, and no decline in fair value during the quarter.

The Company performed its annual goodwill impairment test as of October 31, 2023 using a quantitative 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. All in-place lease intangibles were fully amortized in 2023.

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, 2023, 2022 and 2021.

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 $8,704, $7,179 and $5,344 in 2023, 2022 and 2021, 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 tax effect of unrealized gains and losses on available-for-sale debt securities and derivative instruments designated as hedges is recorded to other comprehensive income and is not a component of income tax expense/(benefit).

GAAP does not permit the adjustment of tax amounts in AOCI for changes in tax rates; as a result the effects become "stranded" in AOCI. Stranded tax effects caused by the revaluation of deferred taxes are reclassified from AOCI to retained earnings in accordance with ASU 2018-02 *"Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income."*

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, 2023 and 2022, 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 $103, $22 and $126 of interest or penalties related to income tax for the years ended December 31, 2023, 2022 and 2021, 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 2020 and state income tax examinations for tax years prior to 2019.

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. Gains and losses on AFS debt securities are reclassified to net income as the gains or losses are realized upon sale of the securities. For securities transferred from AFS to the HTM classification, the remaining pre-tax gains and losses will be amortized over the remaining life of the securities, as an adjustment of yield on the transferred securities. For cash flow hedges, gains and losses on the derivative(s) are recorded in accumulated other comprehensive income and subsequently reclassified into interest income in the same period that the hedged transaction affects earnings. Comprehensive income is reported in the accompanying consolidated statements of comprehensive income.

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, 2023, 2022 and 2021.

	Year Ended December 31,		
	2023	**2022**	**2021**
Earnings (numerator)			
Net income	$ 108,261	$ 146,315	$ 139,584
Shares (denominator)			
Weighted average shares outstanding for basic EPS (thousands)	54,256	53,170	49,405
Dilutive effect of employee stock-based awards	340	782	947
Adjusted weighted average shares outstanding	$ 54,596	$ 53,952	$ 50,352
EPS:			
Basic	$ 2.00	$ 2.75	$ 2.83
Diluted	$ 1.98	$ 2.71	$ 2.77

For the year ended December 31, 2023, there were 1,268 antidilutive shares excluded from the diluted EPS weighted average shares, 604 of these relate to antidilutive RSUs and the remaining 664 relate to stock options excluded from the diluted EPS weighted average shares. For the year ended December 31, 2022, there were 177 antidilutive RSUs 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.

2. SUPPLEMENTAL STATEMENT OF CASH FLOWS

Other supplemental cash flow information is presented below:

	Year Ended December 31,		
	2023	2022	2021
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 294,539	$ 77,298	$ 37,139
Cash paid for income taxes	53,584	36,165	14,349
Supplemental Disclosures of Non-Cash Flow Information:			
Setup of ROU asset and lease liability	$ 7,492	$ —	$ 6,232
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
LHI transferred to LHFS	10,500	—	10,890

	Adjustments to Purchase Price Accounting Related to M&A Year Ended December 31,		
	2023	2022	2021
Noncash assets acquired[1]			
LHI	$ —	$ (681)	$ 29,338
Intangible assets, net	—	—	13,913
Goodwill	—	681	32,931
Other assets	—	—	690
Total assets	$ —	$ —	$ 76,872
Noncash liabilities assumed[1]			
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 NAC.

3. NEW ACCOUNTING PRONOUNCEMENTS

ASU 2023-06, *"Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative"* amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. ASU 2023-06 is not expected to have a significant impact on our financial statements.

ASU 2023-07, "*Segment Reporting - Improvement to Reportable Segment Disclosures"* amends the disclosure requirements related to segment reporting primarily through enhanced disclosure about significant segment expenses and by requiring disclosure of segment information on an annual and interim basis. ASU 2023-07 is effective January 1, 2024 and is not expected to have a significant impact on our financial statements.

ASU 2023-09, "*Income Taxes - Improvements to Income Tax Disclosures*" enhances the transparency and decision usefulness of income tax disclosures. ASU 2023-09 will require disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. Entities will also be required to disclose income/(loss) from continuing operations before income tax expense/(benefit) disaggregated between domestic and foreign, as well as income tax expense/(benefit) from continuing operations disaggregated by federal, state and foreign. ASU 2023-09 is effective January 1, 2025 and is not expected to have a significant impact on our financial statements.

4. SHARE TRANSACTIONS

The Company's Board 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 the expiration date of December 31, 2022. The shares were 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 have been terminated or amended by the Board at any time prior to its expiration. The Company did not repurchase any shares during the year ended December 31, 2023 or 2022.

In August 2022, the IRA was enacted. Among other things, the IRA imposed 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 $9,897 and $9,792 at December 31, 2023 and 2022, respectively. No gains or losses on equity securities with a readily determinable fair value were realized during the year ended December 31, 2023, 2022 or 2021.

The gross unrealized gain (loss) 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:

	2023	2022	2021
Unrealized gain (loss) recognized on equity securities with a readily determinable fair value	$ 105	$ (1,246)	$ (325)

Equity Securities Without a Readily Determinable Fair Value

The Company held equity securities without a readily determinable fair values and measured at cost of $11,624 and $10,072 at December 31, 2023 and 2022, respectively.

Securities purchased under agreements to resell

The Company held no securities purchased under agreements to resell as of December 31, 2023 and 2022. During the twelve months ended December 31, 2023, there was no interest income recorded in equity securities and other investments in the Company’s consolidated statements of income. During the twelve months ended December 31, 2022, interest income recorded in equity securities and other investments in the Company's consolidated statements of income was $1,386. 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, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
AFS					
Corporate bonds	$ 244,652	$ 1,034	$ 29,566	$ —	$ 216,120
Municipal securities	46,631	108	3,258	—	43,481
Mortgage-backed securities	194,486	4,430	13,465	—	185,451
Collateralized mortgage obligations	563,421	4,634	46,999	—	521,056
Asset-backed securities	47,738	1,045	2,130	—	46,653
Collateralized loan obligations	64,250	—	372	—	63,878
	$ 1,161,178	$ 11,251	$ 95,790	$ —	$ 1,076,639

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
HTM					
Mortgage-backed securities	$ 33,716	$ —	$ 6,037	$ —	$ 27,679
Collateralized mortgage obligations	34,483	—	4,567	—	29,916
Municipal securities	112,204	86	9,864	—	102,426
	$ 180,403	$ 86	$ 20,468	$ —	$ 160,021

	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
	$ 1,195,694	$ 1,760	$ 101,162	$ —	$ 1,096,292

	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
	$ 186,168	$ 6	$ 27,393	$ —	$ 158,781

The Company did not transfer any debt securities from AFS to HTM at fair value during the year ended December 31, 2023. For the year ended December 31, 2022, 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 retained in AOCI for securities transferred from AFS to HTM was $3,122 and $3,790 at December 31, 2023 and December 31, 2022, respectively.

The following tables disclose the Company's 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, 2023					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AFS						
Corporate bonds	$ 34,989	$ 5,970	$ 162,148	$ 23,596	$ 197,137	$ 29,566
Municipal securities	6,792	45	22,052	3,213	28,844	3,258
Mortgage-backed securities	—	—	104,486	13,465	104,486	13,465
Collateralized mortgage obligations	—	—	419,044	46,999	419,044	46,999
Asset-backed securities	9,011	1,559	8,847	571	17,858	2,130
Collateralized loan obligations	—	—	63,878	372	63,878	372
	$ 50,792	$ 7,574	$ 780,455	$ 88,216	$ 831,247	$ 95,790
HTM						
Mortgage-backed securities	$ —	$ —	$ 27,679	$ 6,037	$ 27,679	$ 6,037
Collateralized mortgage obligations	—	—	29,916	4,567	29,916	4,567
Municipal securities	7,845	270	79,713	9,594	87,558	9,864
	$ 7,845	$ 270	$ 137,308	$ 20,198	$ 145,153	$ 20,468

	December 31, 2022					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized 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
	$ 868,558	$ 72,521	$ 171,941	$ 28,641	$ 1,040,499	$ 101,162
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
	$ 111,760	$ 16,172	$ 42,944	$ 11,221	$ 154,704	$ 27,393

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 142 and 175 at December 31, 2023 and December 31, 2022, 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, 2023, 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 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, 2023			
	AFS		HTM	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,018	$ 1,906	$ —	$ —
Due from one year to five years	46,645	46,682	4,445	4,448
Due from five years to ten years	188,526	163,397	12,806	12,628
Due after ten years	54,094	47,616	94,953	85,350
	291,283	259,601	112,204	102,426
Mortgage-backed securities and collateralized mortgage obligations	757,907	706,507	68,199	57,595
Asset-backed securities	47,738	46,653	—	—
Collateralized loan obligations	64,250	63,878	—	—
	$ 1,161,178	$ 1,076,639	$ 180,403	$ 160,021

	December 31, 2022			
	AFS		HTM	
	Amortized Cost	Fair Value	Amortized Cost	Fair 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
	318,065	297,936	113,657	98,907
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	—	—
	$ 1,195,694	$ 1,096,292	$ 186,168	$ 158,781

Proceeds from sales of debt securities AFS and gross realized gains and losses for the years ended December 31, 2023, 2022 and 2021 were as follows:

	December 31,		
	2023	2022	2021
Proceeds from sales	$ 109,793	$ —	$ 13,300
Gross realized gains	—	—	—
Gross realized losses	5,321	—	188

As of December 31, 2023 and December 31, 2022, 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 stockholders' equity. As further explained in Note 11, Advances from the FHLB, there was a blanket floating lien on all debt securities to secure FHLB advances as of December 31, 2023 and December 31, 2022.

6. LHI AND ACL

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

	December 31,	
	2023	2022
LHI, carried at amortized cost:		
Real estate:		
Construction and land	$ 1,734,254	$ 1,787,400
Farmland	31,114	43,500
1 - 4 family residential	937,119	894,456
Multi-family residential	605,817	322,679
OOCRE	794,088	715,829
NOOCRE	2,350,725	2,341,379
Commercial	2,752,063	2,942,348
MW	377,796	446,227
Consumer	10,149	7,806
	9,593,125	9,501,624
Deferred loan fees, net	(8,785)	(18,973)
ACL	(109,816)	(91,052)
Total LHI, net	$ 9,474,524	$ 9,391,599

Included in the total LHI, net, as of December 31, 2023 and 2022 was an accretable discount related to purchased performing and PCD loans acquired in the approximate amounts of $5,334 and $8,260, 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, 2023 and 2022 is a discount on retained loans from sale of originated SBA and USDA loans of $7,629 and $5,238, respectively. During the year ended December 31, 2022, the Company purchased $223,924 in pooled residential real estate loans at a net discount, with a remaining balance of $162,632 as of December 31, 2023. The remaining net purchase discount of $3,231 and $4,135 related to these 1-4 family residential loans purchased is included in the total LHI, net as of December 31, 2023 and December 31, 2022, respectively. No additional pooled residential real estate loans were purchased during the twelve months ended December 31, 2023.

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 TLM. The activity in the ACL related to LHI is as follows:

	December 31, 2023									
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	MW	Consumer	Total
Balance at beginning of year	$ 13,120	$ 127	$ 9,533	$ 2,607	$ 8,707	$ 26,704	$ 30,142	$ —	$ 112	$ 91,052
Credit loss (benefit) expense non-PCD loans	7,958	(26)	26	2,467	2,352	13,706	15,458	260	159	42,360
Credit (benefit) loss expense PCD loans	(46)	—	(2)	—	48	618	(466)	—	—	152
Charge-offs	—	—	(21)	(192)	(855)	(13,649)	(10,413)	—	(236)	(25,366)
Recoveries	—	—	3	—	—	350	1,165	—	100	1,618
Ending Balance	$ 21,032	$ 101	$ 9,539	$ 4,882	$ 10,252	$ 27,729	$ 35,886	$ 260	$ 135	$ 109,816

	December 31, 2022									
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	MW	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 loss (expense) benefit 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	$ 13,120	$ 127	$ 9,533	$ 2,607	$ 8,707	$ 26,704	$ 30,142	$ —	$ 112	$ 91,052

	December 31, 2021									
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	MW	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	$ 7,293	$ 187	$ 5,982	$ 2,664	$ 9,215	$ 30,548	$ 21,632	$ —	$ 233	$ 77,754

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, 2023 and 2022.

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, 2023 and 2022 :

	December 31, 2023		December 31, 2022	
	Real Property	ACL Allocation	Real Property	ACL Allocation
OOCRE	$ 3,059	$ 47	$ 1,193	$ 129
NOOCRE	21,169	—	20,896	2,138
Commercial	20,711	3,339	1,240	396
Consumer	—	—	15	—
Total	$ 44,939	$ 3,386	$ 23,344	$ 2,663

Nonaccrual loans, aggregated by class of loans, as of December 31, 2023 and 2022, were as follows:

	December 31, 2023		December 31, 2022	
	Nonaccrual	Nonaccrual With No ACL	Nonaccrual	Nonaccrual With No ACL
Construction and land	$ 6,793	$ 6,793	$ —	$ —
1 - 4 family residential	1,965	1,965	862	862
OOCRE	9,719	9,493	9,737	8,545
NOOCRE	33,479	33,479	21,377	13,178
Commercial	40,868	10,610	11,397	2,521
Consumer	24	24	169	169
Total	$ 92,848	$ 62,364	$ 43,542	$ 25,275

There was $13,715 and $13,178 of PCD loans that are accounted for on a pooled basis included in nonaccrual loans at December 31, 2023 and 2022, respectively.

During the year ended December 31, 2023 and 2022, interest income not recognized on non-accrual loans was $6,470 and $6,567, respectively.

An age analysis of past due loans, aggregated by class of loans, as of December 31, 2023 and 2022 is as follows:

	December 31, 2023							
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due[(1)]	Total Current	PCD	Total Loans	Total 90 Days Past Due and Still Accruing[(2)]
Construction and land	$ 29,379	$ —	$ 6,793	$ 36,172	$ 1,698,082	$ —	$ 1,734,254	$ —
Farmland	—	—	—	—	31,114	—	31,114	—
1 - 4 family residential	4,359	2,535	3,691	10,585	925,404	1,130	937,119	1,726
Multi-family residential	15,095	—	—	15,095	590,722	—	605,817	—
OOCRE	916	114	10,185	11,215	764,703	18,170	794,088	466
NOOCRE	3,182	642	20,547	24,371	2,312,270	14,084	2,350,725	783
Commercial	3,485	1,394	8,446	13,325	2,735,830	2,908	2,752,063	—
MW	—	—	—	—	377,796	—	377,796	—
Consumer	76	—	—	76	10,060	13	10,149	—
	$ 56,492	$ 4,685	$ 49,662	$ 110,839	$ 9,445,981	$ 36,305	$ 9,593,125	$ 2,975

(1) Total past due loans includes $13,715 of pooled PCD loans as of December 31, 2023.
(2) Loans 90 days past due and still accruing excludes $676 of PCD loans of as of December 31, 2023.

	December 31, 2022							
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due[(1)]	Total Current	PCD	Total Loans	Total 90 Days Past Due and Still Accruing[(2)]
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	2,931,696	3,701	2,942,348	—
MW	—	—	—	—	446,227	—	446,227	—
Consumer	352	—	45	397	7,386	23	7,806	2
	$ 18,378	$ 5,614	$ 24,308	$ 48,300	$ 9,414,311	$ 39,013	$ 9,501,624	$ 125

(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 pooled PCD loans as of December 31, 2022.

Loans 90 days past due and still accruing interest 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.

Modifications to Borrowers Experiencing Financial Difficulty

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted during the twelve months ended December 31, 2023:

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	Interest Rate Reduction		
	Amortized Cost Basis	% of Loan Class	Financial Impact
1-4 Family Residential Rentals[1]	$ 41,066	4.4 %	Reduced weighted-average contractual interest rate from floating 7.5% to fixed 6.0%

[1] 1-4 Family Residential Rentals is included in the 1-4 family residential loan portfolio and is reported as such in accordance with Federal Financial Institutions Examination Council guidelines.

	Term Extension		
	Amortized Cost Basis	% of Loan Class	Financial Impact
NOOCRE	$ 23,624	1.0 %	Principal and interest deferred over three months
Commercial	24,733	0.9 %	Principal and interest deferred over three months
	$ 48,357		

No modifications to borrowers in financial difficulty had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months:

	Payment Status			
	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due
1-4 Family Residential Rentals	$ 41,066	$ —	$ —	$ —
NOOCRE	23,624	—	—	—
Commercial	23,346	—	—	1,387
Total	$ 88,036	$ —	$ —	$ 1,387

The Company has not committed to lend additional amounts to customers with outstanding loans classified as Troubled Loan Modifications as of December 31, 2023 or December 31, 2022.

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]								
As of December 31,	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Construction and land:									
Pass	$ 116,333	$ 740,244	$ 538,946	$ 109,017	$ 3,089	$ 3,661	$ 181,940	$ —	$ 1,693,230
Special mention	593	13,782	4,980	3,439	—	8,760	2,677	—	34,231
Substandard	—	6,547	—	246	—	—	—	—	6,793
Total construction and land	$ 116,926	$ 760,573	$ 543,926	$ 112,702	$ 3,089	$ 12,421	$ 184,617	$ —	$ 1,734,254
Construction and land gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Farmland:									
Pass	$ 2,531	$ 4,398	$ —	$ 17,999	$ 15	$ 4,944	$ 1,227	$ —	$ 31,114
Total farmland	$ 2,531	$ 4,398	$ —	$ 17,999	$ 15	$ 4,944	$ 1,227	$ —	$ 31,114
Farmland gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
1 - 4 family residential:									
Pass	$ 73,289	$ 140,824	$ 193,914	$ 79,767	$ 38,589	$ 270,193	$ 114,275	$ 17,255	$ 928,106
Special mention	3,732	531	—	—	—	238	—	—	4,501
Substandard	—	144	902	—	106	1,701	529	—	3,382
PCD	—	—	—	—	—	1,130	—	—	1,130
Total 1-4 family residential	$ 77,021	$ 141,499	$ 194,816	$ 79,767	$ 38,695	$ 273,262	$ 114,804	$ 17,255	$ 937,119
1-4 Family gross charge-offs	$ —	$ —	$ —	$ —	$ 21	$ —	$ —	$ —	$ 21
Multi-family residential:									
Pass	$ 9,441	$ 82,040	$ 257,714	$ 196,575	$ 8,054	$ 14,570	$ 10,627	$ —	$ 579,021
Special mention	—	—	—	—	—	11,701	—	—	11,701
Substandard	—	—	—	—	—	15,095	—	—	15,095
Total multi-family residential	$ 9,441	$ 82,040	$ 257,714	$ 196,575	$ 8,054	$ 41,366	$ 10,627	$ —	$ 605,817

Multifamily gross charge-offs	$ —	$ —	$ —	$ —	$ 192	$ —	$ —	$ —	$ 192
OOCRE:									
Pass	$ 129,463	$ 178,777	$ 113,207	$ 90,219	$ 39,876	$ 166,270	$ 4,618	$ —	$ 722,430
Special mention	5,481	—	2,479	1,019	1,961	14,775	210	—	25,925
Substandard	—	9,357	2,131	3,644	736	11,695	—	—	27,563
PCD	—	—	—	—	—	18,170	—	—	18,170
Total OOCRE	$ 134,944	$ 188,134	$ 117,817	$ 94,882	$ 42,573	$ 210,910	$ 4,828	$ —	$ 794,088
OOCRE gross charge-offs	$ —	$ —	$ —	$ 369	$ 5	$ 481	$ —	$ —	$ 855
NOOCRE:									
Pass	$ 33,525	$ 724,110	$ 500,354	$ 247,385	$ 148,046	$ 381,559	$ 30,524	$ 577	$ 2,066,080
Special mention	—	5,950	25,985	26,175	68,616	55,805	—	—	182,531
Substandard	—	3,858	2,774	364	2,620	78,414	—	—	88,030
PCD	—	—	—	—	—	14,084	—	—	14,084
Total NOOCRE	$ 33,525	$ 733,918	$ 529,113	$ 273,924	$ 219,282	$ 529,862	$ 30,524	$ 577	$ 2,350,725
NOOCRE gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 13,649	$ —	$ —	$ 13,649
Commercial:									
Pass	$ 314,939	$ 384,713	$ 86,757	$ 38,554	$ 43,535	$ 45,812	$ 1,725,663	$ 1,044	$ 2,641,017
Special mention	4,584	13,583	12,794	541	—	10,144	9,392	35	51,073
Substandard	640	16,974	3,978	545	3,767	15,843	15,244	74	57,065
PCD	—	—	—	—	—	2,908	—	—	2,908
Total commercial	$ 320,163	$ 415,270	$ 103,529	$ 39,640	$ 47,302	$ 74,707	$ 1,750,299	$ 1,153	$ 2,752,063
Commercial gross charge-offs	$ —	$ 2,158	$ —	$ 2,572	$ 1,083	$ 4,600	$ —	$ —	$ 10,413
MW:									
Pass	$ 1,905	$ —	$ —	$ —	$ —	$ —	$ 375,891	$ —	$ 377,796
Total MW	$ 1,905	$ —	$ —	$ —	$ —	$ —	$ 375,891	$ —	$ 377,796
MW gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer:									
Pass	$ 4,552	$ 1,045	$ 276	$ 604	$ 89	$ 1,678	$ 1,728	$ —	$ 9,972
Special mention	—	—	—	—	—	85	—	—	85
Substandard	—	—	4	—	12	63	—	—	79
PCD	—	—	—	—	—	13	—	—	13
Total consumer	$ 4,552	$ 1,045	$ 280	$ 604	$ 101	$ 1,839	$ 1,728	$ —	$ 10,149
Consumers gross charge-offs	$ —	$ 29	$ 2	$ —	$ —	$ 205	$ —	$ —	$ 236
Total Pass	$ 685,978	$ 2,256,151	$ 1,691,168	$ 780,120	$ 281,293	$ 888,687	$ 2,446,493	$ 18,876	$ 9,048,766
Total Special Mention	14,390	33,846	46,238	31,174	70,577	101,508	12,279	35	310,047
Total Substandard	640	36,880	9,789	4,799	7,241	122,811	15,773	74	198,007
Total PCD	—	—	—	—	—	36,305	—	—	36,305
Total	$ 701,008	$ 2,326,877	$ 1,747,195	$ 816,093	$ 359,111	$ 1,149,311	$ 2,474,545	$ 18,985	$ 9,593,125
Total gross charge-offs	$ —	$ 2,187	$ 2	$ 2,941	$ 1,301	$ 18,935	$ —	$ —	$ 25,366

Term loans amortized cost basis by origination year excludes $8,785 of deferred loan fees, net.

As of December 31,	Term Loans Amortized Cost Basis by Origination Year[1]								
	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
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	$ 135,006	$ 188,819	$ 87,861	$ 43,293	$ 41,960	$ 260,254	$ 136,537	$ 726	$ 894,456
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	$ 72,044	$ 80,793	$ 110,426	$ 10,356	$ 46,566	$ 2,494	$ —	$ —	$ 322,679
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	$ 191,044	$ 109,019	$ 85,639	$ 45,929	$ 72,692	$ 206,236	$ 5,225	$ 45	$ 715,829
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	— 0	— 0	— 0	1,310	7,659	46,201	—	—	55,170
PCD	—	—	—	—	12,697	51	—	—	12,748
Total NOOCRE	$ 752,476	$ 531,735	$ 237,850	$ 170,020	$ 229,054	$ 403,137	$ 16,642	$ 465	$ 2,341,379
Commercial:									
Pass	$ 473,084	$ 132,396	$ 90,543	$ 83,996	$ 40,030	$ 31,269	$ 1,906,074	$ 553	$ 2,757,945
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	$ 490,978	$ 137,120	$ 95,732	$ 92,734	$ 58,642	$ 39,699	$ 2,026,813	$ 630	$ 2,942,348
MW:									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 444,393	$ —	$ 444,393
Special mention	—	—	—	—	—	—	1,626	—	1,626
Substandard	—	—	—	—	46	162	—	—	208
Total MW	$ —	$ —	$ —	$ —	$ 46	$ 162	$ 446,019	$ —	$ 446,227

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	$ 1,965	$ 452	$ 872	$ 216	$ 135	$ 2,548	$ 1,618	$ —	$ 7,806
Total Pass	$ 1,976,020	$ 1,766,159	$ 985,767	$ 398,380	$ 391,505	$ 786,325	$ 2,677,207	$ 1,884	$ 8,983,247
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	$ 1,993,914	$ 1,792,050	$ 1,017,699	$ 431,810	$ 479,768	$ 935,168	$ 2,849,209	$ 2,006	$ 9,501,624

[1] Term loans amortized cost basis by origination year excludes $18,973 of deferred loan fees, net.

Servicing Assets

The Company was servicing loans of approximately $579,698 and $543,220 as of December 31, 2023 and 2022, respectively. A summary of the changes in the related servicing assets are as follows:

	Year Ended December 31,	
	2023	2022
Balance at beginning of year	$ 14,880	$ 17,705
Increase from loan sales	2,170	2,670
Servicing asset impairment, net of recoveries	919	(1,823)
Amortization charged as a reduction to income	(4,711)	(3,672)
Balance at year-end	$ 13,258	$ 14,880

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, 2023 and 2022 there was a valuation allowance of $1,532 and $2,451, 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, 2023 and 2022.

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

	Year Ended December 31,		
	2023	2022	2021
SBA LHFI principal sold	$ 16,608	$ 9,491	$ 40,001
Gain on sale of SBA LHFI	1,291	848	4,911
USDA LHFI principal sold	64,080	72,670	—
Gain on sale of USDA LHFI	9,797	10,731	—

LHFS

The following table reflects LHFS.

	December 31, 2023	December 31, 2022
SBA/USDA construction and land	$ 41,492	$ 12,296
1 - 4 family residential	788	866
SBA/USDA OOCRE	16,758	5,915
NOOCRE	10,500	—
SBA/USDA commercial	9,534	1,564
Total LHFS	$ 79,072	$ 20,641

7. PREMISES AND EQUIPMENT

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

	December 31,	
	2023	2022
Building and improvements	$ 55,911	$ 56,517
Site improvements	2,845	2,903
Tenant improvements	779	779
Leasehold improvements	8,432	7,497
Land	37,368	38,709
Furniture, fixtures and equipment	29,437	27,417
Construction in progress	2,348	1,579
	137,120	135,401
Less accumulated depreciation and amortization	31,393	26,577
	$ 105,727	$ 108,824

The Company recorded depreciation and amortization expense of approximately $4,816, $5,018 and $3,123 for the years ended December 31, 2023, 2022 and 2021, 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 nine 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, 2023, operating lease ROU assets and liabilities were $19,308 and $20,505, respectively. As of December 31, 2022, operating lease ROU assets and liabilities were $16,762 and $17,327, 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,	
	2023	2022
Operating lease cost	$ 5,432	$ 5,161
Variable lease cost	989	640
Net lease cost	$ 6,421	$ 5,801

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

	For the Year Ended December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 5,130	$ 4,781
Weighted-average remaining lease term - operating leases, in years	6.2 years	5.4 years
Weighted-average discount rate - operating leases	3.26 %	2.88 %

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, 2023
Lease payments due:	
Within one year	$ 5,299
After one but within two years	4,610
After two but within three years	3,287
After three but within four years	2,175
After four but within five years	1,978
After five years	5,759
Total undiscounted cash flows	23,108
Less: Discount on cash flows	(2,603)
Total lease liability	$ 20,505

There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the years ended December 31, 2023 and 2022. As of December 31, 2023, the Company did not have any leases that had not yet commenced, but will create significant rights and obligations for the Company.

9. GOODWILL AND INTANGIBLE ASSETS

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

	December 31, 2023	December 31, 2022
Balance at beginning of year	$ 404,452	$ 403,771
NAC acquisition[1]	—	681
Balance at end of year	$ 404,452	$ 404,452

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

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

December 31, 2023	Remaining Weighted Amortization Period	Gross Intangible Asset	Valuation Allowance	Accumulated Amortization	Net Intangible Asset
Core deposit intangibles	3.0 years	$ 81,769	$ —	$ 53,274	$ 28,495
Servicing asset	7.2 years	26,930	1,532	12,140	13,258
Intangible lease assets	0.0 years	4,779	—	4,779	—
		$ 113,478	$ 1,532	$ 70,193	$ 41,753

December 31, 2022	Remaining Weighted Amortization Period	Gross Intangible Asset	Valuation Allowance	Accumulated Amortization	Net Intangible Asset
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
		$ 111,308	$ 2,451	$ 55,644	$ 53,213

For the years ended December 31, 2023, 2022 and 2021, amortization expense related to intangible assets of approximately $14,549, $13,650 and $10,888, 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, 2023 and 2022, a valuation allowance related to intangible assets was $1,532 and $2,451, respectively. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2023 was as follows:

Year	Amount
2024	$ 11,595
2025	11,259
2026	10,640
2027	2,377
2028	1,844
Thereafter	4,038
	$ 41,753

10. DEPOSITS

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

	December 31, 2023	December 31, 2022
Noninterest-bearing demand accounts	$ 2,218,036	$ 2,640,617
Interest-bearing demand accounts	927,193	622,814
Savings accounts	136,868	118,293
Limited access money market accounts	3,864,361	3,654,868
Certificates of deposit, greater than $250	1,312,744	853,659
Certificates of deposit, less than $250	1,878,993	1,232,983
Total	$ 10,338,195	$ 9,123,234

As of December 31, 2023, the scheduled maturities of certificates of deposit were as follows:

Year	Amount
2024	$ 2,854,476
2025	322,311
2026	7,532
2027	3,638
2028	3,780
Total	$ 3,191,737

The aggregate amount of demand deposit overdrafts that have been reclassified as loans were $243 and $395 as of December 31, 2023 and 2022, respectively. Brokered deposits at December 31, 2023 and 2022 totaled approximately $2,031,413 and $1,307,996, respectively.

11. ADVANCES FROM FHLB

Advances from the FHLB totaled $100,000 and $1,175,000 at December 31, 2023 and 2022, respectively. As of December 31, 2023, the advances were collateralized by a blanket floating lien on certain debt securities and loans, had a weighted average rate of 5.54% and maturity dates of 2024. The Company had the availability to borrow additional funds of approximately $2,191,608 as of December 31, 2023.

Contractual maturities of FHLB advances at December 31, 2023 were as follows:

2024	$ 100,000
Total	$ 100,000

12. OTHER CREDIT EXTENSIONS

As of December 31, 2023 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 $125,000. As of December 31, 2022, 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, 2023 and 2022.

The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2023 and 2022, total available borrowing capacity of $2,191,608 and $787,324, respectively, was available under this arrangement with outstanding balances of $100,000 and $1,175,000, respectively, and a weighted average interest rate of 4.70% and 1.73% for the year ended December 31, 2023 and 2022, respectively. The FHLB has also issued standby letters of credit to the Company for $1,377,257 and $1,029,508 as of December 31, 2023 and 2022, respectively. Our current FHLB advances mature within 0.5 years. Other than FHLB borrowings, we had no other short-term borrowings at the dates indicated.

The FRB allows us to borrow funds through their discount window or their new BTFP. As of December 31, 2023 and 2022, the Company maintained a secured line of credit with the FRB with an availability to borrow approximately $2,927,549 and $1,138,661, respectively. Approximately $2,143,269 and $1,000,730 of commercial loans were pledged as collateral at December 31, 2023 and 2022, respectively. There were no borrowings under this line of credit as of December 31, 2023 and 2022. In addition, we had available borrowing capacity of $455,361 under the BTFP through the pledging of certain qualifying securities with no outstanding borrowings under this program as of December 31, 2023.

13. SUBORDINATED DEBENTURES AND SUBORDINATED NOTES

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

	December 31,	
	2023	2022
Junior subordinated debentures [1]	$ 30,908	$ 30,686
Subordinated notes [2]	198,875	198,089
	$ 229,783	$ 228,775

[1] Junior subordinated debentures are net of a discount of $2,960 and $3,182 as of December 31, 2023 and 2022, respectively.
[2] Subordinated notes include debt issuance costs of $1,125 and $1,911 as of December 31, 2023 and 2022, 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 SOFR 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, 2023 and 2022 was 7.50% and 6.62%, 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 SOFR plus 4.00%. Principal payments are due at maturity in July 2038. The effective rate as of December 31, 2023 and 2022 was 9.66% and 7.74%. 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 SOFR plus 1.85%. Principal payments are due at maturity in April 2036. The effective rate as of December 31, 2023 and 2022 was 7.51% and 5.93%. 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 SOFR plus 1.80%. Principal payments are due at maturity in September 2037. The effective rate as of December 31, 2023 and 2022 was 7.45% and 6.57%. 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.

14. INCOME TAXES

The provision for income taxes is summarized as follows:

	Year Ended December 31,		
	2023	2022	2021
Income tax expense (benefit):			
Current	$ 38,672	$ 45,981	$ 32,075
Deferred	(2,649)	(5,662)	4,647
Total income tax expense	$ 36,023	$ 40,319	$ 36,722

The table below reconciles income tax expense for the years ended December 31, 2023, 2022 and 2021 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,		
	2023	2022	2021
Federal income tax expense rate at 21% for December 31, 2023, 2022 and 2021	$ 30,300	$ 39,193	$ 37,024
Bank-owned life insurance	(663)	(448)	(852)
Non-deductible transaction costs	—	—	78
Tax exempt interest income	(899)	(579)	(545)
Deferred tax true up	4	54	24
162(m) Disallowance	512	1,183	504
State taxes, net of federal benefit	1,510	1,769	1,039
Excess benefit on share-based compensation	340	(1,056)	(838)
Valuation allowance on Thrive impairment	4,249	—	—
Other	670	203	288
Total income tax expense	$ 36,023	$ 40,319	$ 36,722
Effective tax rate	25.0 %	21.6 %	20.8 %

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,	
	2023	2022
Deferred tax assets:		
ACL	$ 25,449	$ 21,647
Equity compensation	4,669	4,286
Purchase premium/loan discounts	984	1,546
Lease liability	4,428	3,708
Net unrealized loss on debt securities AFS	16,870	17,204
Purchased securities	1,836	2,520
Investment in Thrive	5,156	—
Other	5,567	9,219
Total gross deferred tax assets	$ 64,959	$ 60,130
Valuation allowance on Thrive impairment	(4,249)	—
Total net deferred tax assets	$ 60,710	$ 60,130
Deferred tax liabilities:		
Intangibles	8,089	9,340
Bank premises and equipment	5,326	6,163
ROU asset	4,169	3,587
Other	2,885	3,214
Total deferred tax liabilities	20,469	22,304
Net deferred tax asset	$ 40,241	$ 37,826

Included within other assets in the Company's consolidated balance sheet as of December 31, 2023 is a current tax receivable of $19,131 and included within other assets is a net deferred tax asset of $40,241. Included within other assets in the Company's consolidated balance sheets as of December 31, 2022 is a current tax receivable of $1,741 and included in 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, 2023 and December 31, 2022 is a $34 and a $573 current state tax payable, respectively.

At December 31, 2023, we determined it was more likely than not that a portion of our deferred tax assets would not be realized in their entirety. Thus, the Company recorded a $4,249 valuation allowance in continuing operations relating to the impairment on our investment in Thrive as of December 31, 2023. The deferred tax asset is not realizable due to the capital loss that will not be recognized. There was no valuation allowance in the comparable period in 2022.

The following table provides a rollforward of the Company's gross federal and state unrecognized tax benefits for the years ending December 31, 2023, 2022 and 2021.

	December 31		
	2023	2022	2021
Unrecognized tax benefits at the beginning of the year:	$ 293	$ 503	$ 549
Gross increases, related to tax positions taken in a prior period	278	—	—
Gross decreases, related to tax positions taken in a prior period	—	(44)	(101)
Gross increases, related to tax positions taken in current period	133	75	55
Settlement with taxing authority	—	(241)	—
Expiration of statute of limitations	(25)	—	—
Unrecognized tax benefits at the end of the year	$ 679	$ 293	$ 503

The Company files income tax returns in the U.S. federal jurisdiction and U.S. state jurisdictions. As of December 31, 2023, the Company is no longer subject to U.S. federal income tax examinations for tax years prior to 2020 and state income tax examinations for tax years prior to 2019.

15. 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 11 "Advances from the FHLB", Note 13 "Borrowed Funds" and Note 17 "Off-Balance Sheet Loan Commitments" for further discussion on commitments.

16. 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.

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, 2023 and 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2023			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
AFS debt securities	$ —	$ 1,076,639	$ —	$ 1,076,639
Equity securities with a readily determinable fair value	9,897	—	—	9,897
LHFS[1]	—	67,784	—	67,784
Interest rate swaps designated as hedging instruments	—	18,814	—	18,814
Correspondent interest rate swaps not designated as hedging instruments	—	28,007	—	28,007
Customer interest rate swaps not designated as hedging instruments	—	2,118	—	2,118
Correspondent interest rate caps and collars not designated as hedging instruments	—	1,344	—	1,344
Financial Liabilities:				
Interest rate swaps designated as hedging instruments	$ —	$ 47,121	$ —	$ 47,121
Correspondent interest rate swaps not designated as hedging instruments	—	2,322	—	2,322
Customer interest rate swaps not designated as hedging instruments	—	27,288	—	27,288
Customer interest rate caps and collars not designated as hedging instruments	—	1,344	—	1,344

[1] Represents LHFS elected to be carried at fair value upon origination or acquisition.

	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
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.

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

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, 2023 and 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			
	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
As of December 31, 2023				
Assets:				
Collateral dependent loans with an ACL	$ —	$ —	$ 14,274	$ 14,274
Servicing assets with a valuation allowance	—	—	6,682	6,682
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

At December 31, 2023, collateral dependent loans with an ACL had a recorded investment of $17,660, with $3,386 specific allowance for credit loss allocated. 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, 2023, servicing assets of $8,214 had a valuation allowance totaling $1,532. At December 31, 2022, servicing assets of $13,435 had a valuation allowance totaling $2,451.

There were no liabilities measured at fair value on a non-recurring basis as of December 31, 2023 and 2022.

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).

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.

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.

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, 2023 and 2022.

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.

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, 2023 and 2022 were as follows:

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
December 31, 2023				
Financial assets:				
Cash and cash equivalents	$ 629,063	$ —	$ 629,063	$ —
HTM debt securities	180,403	—	160,021	—
LHFS[1]	11,288	—	11,288	—
LHI[2]	9,577,180	—	—	9,322,744
Accrued interest receivable	53,313	—	53,313	—
BOLI	84,833	—	84,833	—
Servicing asset	6,576	—	6,576	—
Equity securities without a readily determinable fair value	11,624	N/A	N/A	N/A
FHLB and FRB stock	53,699	N/A	N/A	N/A
Financial liabilities:				
Deposits	$ 10,338,195	$ —	$ 9,779,849	$ —
Advances from FHLB	100,000	—	141,999	—
Accrued interest payable	41,948	—	41,948	—
Subordinated debentures and subordinated notes	229,783	—	229,783	—
December 31, 2022				
Financial assets:				
Cash and cash equivalents	$ 436,077	$ —	$ 436,077	$ —
HTM debt securities	186,168	—	158,781	—
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 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	—

(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.

17. 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, 2023 and 2022:

	December 31,	
	2023	2022
Commitments to extend credit	$ 3,083,501	$ 4,511,671
MW commitments	803,704	1,088,558
Standby and commercial letters of credit	111,590	98,179
	$ 3,998,795	$ 5,698,408

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,	
	2023	2022
Beginning balance for ACL on unfunded commitments	$ 10,086	$ 9,266
(Benefit) provision for credit losses on unfunded commitments	(2,041)	820
Ending balance of ACL on unfunded commitments	$ 8,045	$ 10,086

18. 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, 2023 and December 31, 2022 were as shown in the table below.

	December 31, 2023			December 31, 2022		
		Estimated Fair Value			Estimated Fair Value	
	Notional Amount	Asset Derivative	Liability Derivative	Notional Amount	Asset Derivative	Liability Derivative
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate swap on money market deposit account payments	$ 250,000	$ 12,208	$ —	$ 250,000	$ 21,234	$ —
Interest rate swaps on fixed rate advances/brokered CDs	200,000	—	4,296	—	—	—
Interest rate swaps on customer loan interest payments	375,000	—	40,055	375,000	—	49,211
Interest rate collars on customer loan interest payments	450,000	2,304	2,770	450,000	3,267	4,960
Interest rate floor on customer loan interest payments	200,000	4,302	—	100,000	2,022	—
Total derivatives designated as hedging instruments	$ 1,475,000	$ 18,814	$ 47,121	$ 1,175,000	$ 26,523	$ 54,171
Derivatives not designated as hedging instruments:						
Financial institution counterparty:						
Interest rate swaps	$ 893,702	$ 28,007	$ 2,322	$ 805,311	$ 38,839	$ 1,126
Interest rate caps and collars	285,370	1,344	—	68,370	1,494	—
Commercial customer counterparty:						
Interest rate swaps	893,702	2,118	27,288	805,311	1,004	38,188
Interest rate caps and collars	285,370	—	1,344	68,370	—	1,494
Total derivatives not designated as hedging instruments	$ 2,358,144	$ 31,469	$ 30,954	$ 1,747,362	$ 41,337	$ 40,808
Offsetting derivative assets/liabilities	—	(29,463)	(29,463)	—	(30,982)	(30,982)
Total derivatives	$ 3,833,144	$ 20,820	$ 48,612	$ 2,922,362	$ 36,878	$ 63,997

Pre-tax gain (loss) included in the Company's consolidated statements of income and related to derivative instruments for the years ended December 31, 2023 and 2022 was as follows:

	For the Year Ended December 31, 2023			For the Year Ended December 31, 2022		
	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 (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
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate swap on borrowing advances	$ (4,386)	$ 4,386	Interest Expense	$ (3,569)	$ 3,569	Interest Expense
Interest rate swaps on money market deposit account and funding source payments	(13,322)	11,798	Interest Expense	16,693	3,208	Interest Expense
Interest rate swaps, collars and floor on customer loan interest payments	9,964	(19,196)	Interest Income	(54,623)	(1,757)	
Total	$ (7,744)	$ (3,012)		$ (41,499)	$ 5,020	

	Net Gain recognized in other noninterest income	Net Gain recognized in other noninterest income
Derivatives not designated as hedging instruments:		
Interest rate swaps, caps and collars	$ 1,633	$ 7,217

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 November 2023, the Company entered into an interest rate swap 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 USD-SOFR-OIS Compound rate on variable rate forecasted funding from November 2023 through October 2026.

In October 2023, the Company entered into an interest rate swap for a notional amount of $100,000 to hedge for the variability of cash flows, currently the benchmark of USD-SOFR-OIS Compound rate due to the rollover of its quarterly fixed-rate FHLB, brokered CDs, or other fixed rate advances every quarter from November 2023 through October 2026.

In February 2023, 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 February 2023 through February 2027.

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 of 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, 2023 was $4,386.

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, 2023 and December 31, 2022.

	December 31, 2023				
	Notional Amount	**Fixed Rate**	**Floating Rate**	**Maturity (Wtd. Avg.)**	**Fair Value**
Non-hedging derivative instruments:					
Customer interest rate derivative:					
Interest rate swaps - receive fixed/pay floating	$ 893,702	2.4% - 7.4%	LIBOR 1 month + 3.0% SOFR CME 1 month + 0.0%- 3.8% SOFR - NYFD 30 day average + 2.5% - 3.0%	4.1 years	$ (25,170)
Interest rate caps and collars	$ 285,370	3.5% - 7.5%	SOFR CME 1 month + 0.0% - 2.5% SOFR + 0.0%	0.8 years	$ (1,344)
Correspondent interest rate derivative:					
Interest rate swaps - pay fixed/receive floating	$ 893,702	2.4% - 7.4%	LIBOR 1 month + 3.0% SOFR CME 1 month + 0.0%- 3.8% SOFR - NYFD 30 day average + 2.5% - 3.0%	4.1 years	$ 25,685
Interest rate caps and collars	$ 285,370	3.5% - 7.5%	SOFR CME 1 month + 0.0% - 2.5% SOFR + 0.0%	0.8 years	$ 1,344

	December 31, 2022				
	Notional Amount	Fixed Rate	Floating Rate	Maturity (Wtd. Avg.)	Fair Value
Non-hedging derivative instruments:					
Customer interest rate derivative:					
Interest rate swaps - receive fixed/pay floating	$ 805,311	2.4% - 8.5%	LIBOR 1 month + 2.8% - 5.0%[1] SOFR CME 1 month + 0.0% - 3.8% SOFR - NYFD 30 day average + 2.5% - 3.0%	5.1 years	$ (37,183)
Interest rate caps and collars	$ 68,370	3.5%	LIBOR 1 month + 0.0%	1.8 years	$ (1,494)
Correspondent interest rate derivative:					
Interest rate swaps - pay fixed/receive floating	$ 805,311	2.4% - 8.5%	LIBOR 1 month + 2.8% - 5.0%[1] SOFR CME 1 month + 0.0% - 3.8% SOFR - NYFD 30 day average + 2.5% - 3.0%	5.1 years	$ 37,713
Interest rate caps and collars	$ 68,370	3.5%	LIBOR 1 month + 0.0%	1.8 years	$ 1,494

[1] The derivative utilizing LIBOR 1 month as of December 31, 2023 is utilizing the allowable fallback provision.

19. 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, 2023 and 2022, the company made matching contributions of $4,905 and $4,661, respectively.

20. 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, 2023, 2022 and 2021, 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, 2023, 2022 and 2021, 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, 2023, 2022 and 2021 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, 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	
Exercised	—	—		
Outstanding at December 31, 2022	1,000	$ 10.43	1.07 years	
Exercised	(1,000)	10.43		
Outstanding and exercisable at December 31, 2023	—	$ —	0.00 years	$ —

As of December 31, 2023, 2022, and 2021 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, 2023, 2022 and 2021 is presented below:

	Fair Value of Options Exercised or Restricted Stock Units Vested as of December 31,		
	2023	2022	2021
Nonperformance-based stock options exercised	$ 16	$ —	$ 568

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.

2023 Grants of Restricted Stock Units

In the year ended December 31, 2023, the Company granted RSUs and PSUs under the 2022 Equity Plan. The majority of the RSUs granted to employees during the year ended December 31, 2023 with annual graded vesting over a three year period from the grant date.

The PSUs granted in February 2023 are subject to a service, performance and market conditions. The performance and market condition determine the number of awards to vest. The service period is from February 1, 2023 to January 31, 2026, the performance conditions performance period is from January 1, 2023 to December 31, 2025 and the market condition performance period is from February 1, 2023 to January 31, 2026. 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 Omnibus Equity Incentive Plan (the "Veritex (Green) 2014 Plan") was as follows:

	Year ended December 31,	
	2023	2022
2022 Equity Plan	$ 10,200	$ 11,109
Veritex (Green) 2014 Plan	1,850	820

2022 Equity Plan

A summary of the status of the Company's stock options under the 2022 Equity Plan as of December 31, 2023, 2022 and 2021, 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, 2020	975,801	$ 24.26		
Granted	500	36.54		
Forfeited	(13,996)	25.93		
Exercised	(252,262)	23.87		
Outstanding at December 31, 2021	710,043	$ 24.38	6.91 years	
Granted	1,500	$ 31.26		
Exercised	(54,049)	23.51		
Outstanding at December 31, 2022	657,494	$ 24.47	5.58 years	
Forfeited	(1,666)	17.38		
Canceled	(35,970)	28.95		
Exercised	(17,285)	18.29		
Outstanding at December 31, 2023	602,573	$ 24.40	4.84 years	$ 779,874
Options exercisable at December 31, 2023	591,573	$ 24.45	4.84 years	$ 760,974
Weighted average fair value of options granted during the period		$ —		

As of December 31, 2023, 2022 and 2021 there was no, $172 and $803 of total unrecognized compensation expense related to stock options awarded under the 2022 Equity Plan, respectively.

A summary of the status of the Company's RSUs under the 2022 Equity Plan as of December 31, 2023, 2022 and 2021, 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, 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
Granted	293,086	27.17
Vested into shares	(269,144)	29.68
Forfeited	(30,533)	32.23
Outstanding at December 31, 2023	948,513	$ 27.52

A summary of the status of the Company's PSUs under the 2022 Equity Plan as of December 31, 2023, 2022 and 2021, 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, 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)	
Outstanding at December 31, 2022	126,707	$ 31.19
Granted	53,310	27.55
Vested into shares	(41,781)	26.42
Forfeited	(8,468)	30.90
Outstanding at December 31, 2023	129,768	$ 30.28

As of December 31, 2023, 2022, and 2021 there was $14,692, $17,160 and $10,413 of total unrecognized compensation expense related to RSUs and PSUs awarded under the 2022 Equity Plan, respectively. The unrecognized compensation expense at December 31, 2023 is expected to be recognized over the remaining weighted average requisite service period of 1.84 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, 2023, 2022 and 2021 is presented below:

	Fair Value of Options Exercised, RSUs and PSUs Vested as of December 31,		
	2023	2022	2021
Nonperformance-based stock options exercised	$ 66	$ 792	$ 9,214
RSUs vested	3,924	6,356	2,781
PSUs vested	1,070	4,040	—

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, 2023, 2022 and 2021 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, 2020	352,000	$ 19.99		
Forfeited	(7,245)	21.38		
Exercised	(126,951)	20.55		
Outstanding at December 31, 2021	217,804	$ 19.62	6.13 years	
Exercised	(62,592)	19.59		
Outstanding at December 31, 2022	155,212	$ 19.83	5.20 years	
Cancelled	(9,717)	21.38		
Exercised	(20,996)	20.95		
Outstanding at December 31, 2023	124,499	$ 22.00	3.70 years	$ 616
Options exercisable at December 31, 2023	124,499	$ 22.00	3.70 years	$ 616

As of December 31, 2023 and 2022 there was no unrecognized compensation expense related to options awarded under the Veritex (Green) 2014 Plan. As of December 31, 2021 there was $100 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, 2023, 2022 and 2021 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, 2020	156,187	$ 22.64
Granted	5,692	26.12
Vested into shares	(33,335)	21.38
Forfeited	(5,760)	23.62
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
Vested into shares	(19,282)	29.66
Forfeited	(2,232)	29.13
Outstanding at December 31, 2023	64,719	$ 18.26

A summary of the status of the Company's PSUs under the Veritex (Green) 2014 Plan as of December 31, 2023, 2022 and 2021 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, 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
Vested into shares	(8,531)	25.94
Outstanding at December 31, 2023	10,642	$ 31.93

As of December 31, 2023, 2022 and 2021, there was $1,781, $3,825 and $1,252, 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 0.85 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, 2023, 2022 and 2021 is presented below:

	Fair Value of Options Exercised or Restricted Stock Units Vested in the year ended December 31,		
	2023	2022	2021
Non-performance-based stock options exercised	$ 71	$ 1,157	$ 4,599
RSUs vested	2,384	1,312	713
PSUs vested	227	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, 2023, 2022 and 2021 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, 2020	131,083	$ 11.60		
Forfeited	(2,198)			
Exercised	(62,742)	10.51		
Outstanding at December 31, 2021	66,143	$ 12.56		
Canceled	(21,235)	11		
Exercised	(1,746)	13.20		
Outstanding at December 31, 2022	43,162	$ 13.11		
Exercised	(32,378)	13.26		
Outstanding and exercisable at December 31, 2023	10,784	$ 12.65	4.06 years	$ 115

A summary of the fair value of the Company’s stock options exercised under the Green 2010 Plan during the year ended December 31, 2023, 2022, and 2021 is presented below:

	Fair Value of Options Exercised in the year ended December 31,		
	2023	2022	2021
Non-performance-based stock options exercised	$ 379	$ 47	$ 1,838

21. 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.

22. 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 $30,132 and $35,005 as of December 31, 2023 and 2022, respectively. During the year ended December 31, 2023, new advances of approximately $6,648 were made to related parties with approximately $11,521 principal payments received. 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. There were $9,062 and $7,895 in unfunded commitments to related parties as of December 31, 2023 and 2022, respectively. At December 31, 2023, 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, 2023 and 2022 totaled approximately $349,567 and $275,807, respectively.

23. 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 RBC, 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 CET1 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 RBC ratios, and a banking organization with any RBC 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 CET1, Tier 1, and total capital ratios and Tier 1 leverage ratios as set forth in the table below.

As of December 31, 2023 and December 31, 2022, 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, 2023 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	
($ in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Total capital (to RWA)						
Company	$ 1,500,703	13.18 %	$ 910,897	8.0 %	n/a	n/a
Bank	1,467,960	12.90	910,363	8.0	$ 1,137,953	10.0 %
Tier 1 capital (to RWA)						
Company	1,202,252	10.56	683,098	6.0	n/a	n/a
Bank	1,368,384	12.03	682,486	6.0	909,981	8.0
CET1 (to RWA)						
Company	1,172,362	10.29	512,695	4.5	n/a	n/a
Bank	1,368,384	12.03	511,864	4.5	739,360	6.5
Tier 1 capital (to average assets)						
Company	1,202,252	10.03	479,462	4.0	n/a	n/a
Bank	1,368,384	11.43	478,875	4.0	598,593	5.0
As of December 31, 2022						
Total capital (to 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
CET1 (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

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 $60,000 and $35,000 were paid by the Bank to the Holdco during the years ended December 31, 2023 and 2022, respectively.

Dividends of $43,318, or $0.20 per outstanding share on the applicable record date, were paid by the Company during the year ended December 31, 2023. 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.

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 4.90% as of December 31, 2023.

24. 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,	
	2023	2022
Assets		
Cash and cash equivalents	$ 25,728	$ 18,278
Investment in subsidiaries	1,728,364	1,650,727
Other assets	17,088	13,043
Total assets	$ 1,771,180	$ 1,682,048
Liabilities and Stockholders' Equity		
Other liabilities	$ 10,074	$ 3,500
Other borrowings	229,783	228,775
Total liabilities	239,857	232,275
Stockholders' equity		
Common stock	$ 610	$ 607
Additional paid-in capital	1,317,516	1,306,852
Retained earnings	444,242	379,299
Accumulated other comprehensive income	(63,463)	(69,403)
Treasury stock	(167,582)	(167,582)
Total stockholders' equity	1,531,323	1,449,773
Total liabilities and stockholders' equity	$ 1,771,180	$ 1,682,048

Statements of Income

	Year Ended December 31,		
	2023	2022	2021
Cash dividends from subsidiary	$ 60,000	$ 35,000	$ 8,440
Excess of earnings over dividend from subsidiary	59,647	121,350	142,289
Other	79	43	43
	119,726	156,393	150,772
Interest on borrowings	12,352	11,156	12,426
Salaries and employee benefits	770	685	668
Other	1,364	891	1,057
	14,486	12,732	14,151
Earnings before income tax benefit	105,240	143,661	136,621
Income tax benefit	(3,021)	(2,654)	(2,963)
Net income	$ 108,261	$ 146,315	$ 139,584

Statements of Cash Flows

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	$ 108,261	$ 146,315	$ 139,584
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of debt discount and debt issuance costs, net	786	790	817
Equity in undistributed net income of Bank	(59,647)	(121,350)	(142,289)
(Increase) decrease in other assets	(5,552)	(7,801)	902
Decrease (increase) in other liabilities	8,303	504	(3,177)
Net cash provided by (used in) operating activities	52,151	18,458	(4,163)
Cash flows from investing activities:			
Advances to subsidiaries	—	(154,610)	—
Net cash used in investing activities	—	(154,610)	—
Cash flows from financing activities:			
Net proceeds from sale of common stock in public offering	—	154,415	—
Proceeds from exercise of stock warrants	—	—	165
Redemption of subordinated debt	—	—	(35,000)
Proceeds from exercise of employee stock options	924	1,160	6,313
Payments to tax authorities for stock-based compensation	(2,307)	(3,363)	(725)
Repurchase of treasury stock	—	—	(15,509)
Dividends paid	(43,318)	(42,289)	(36,543)
Net cash (used in) provided by financing activities	(44,701)	109,923	(81,299)
Net increase (decrease) in cash and cash equivalents	7,450	(26,229)	(85,462)
Cash and cash equivalents at beginning of year	18,278	44,507	129,969
Cash and cash equivalents at end of year	$ 25,728	$ 18,278	$ 44,507

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 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 2023 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, 2023, 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 COSO of the Treadway Commission. Based on the assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2023.

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, 2023. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2023, 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, 2023, 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, 2023, 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, 2023, and our report dated February 27, 2024 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 27, 2024

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information called for by this item is set forth in our Definitive Proxy Statement relating to the 2024 Annual Meeting of Shareholders (the "2024 Proxy Statement"), to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2023, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is set forth in our 2024 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 2024 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 2024 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 2024 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 Index

Exhibit Number	Description
2.1	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)
3.1	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)
3.2	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).
4.1	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)
4.2	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)
4.3	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)
4.4	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)
4.5	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)
4.6	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)
4.7	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).
4.8	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).
4.9	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).
4.10	Registrant's Description of Capital Stock
10.2†	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)
10.3†	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)
10.4†	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)
10.5	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)
10.6†	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)
10.11	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)
10.13†	2022 Amended and Restated Omnibus Incentive Plan
10.14	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)
10.15	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)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Grant Thornton LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97.1	Veritex Community Bank Compensation Recovery Policy
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 27, 2024	**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
/s/ C. Malcolm Holland, III C. Malcolm Holland, III	Chairman and Chief Executive Officer (Principal Executive Officer)	February 27, 2024
/s/ Terry S. Earley Terry S. Earley	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	February 27, 2024
/s/ Arcilia Acosta Arcilia Acosta	Director	February 27, 2024
/s/ Pat S. Bolin Pat S. Bolin	Director	February 27, 2024
/s/ April Box April Box	Director	February 27, 2024
/s/ Blake Bozman Blake Bozman	Director	February 27, 2024
/s/ William D. Ellis William D. Ellis	Director	February 27, 2024
/s/ William E. Fallon William E. Fallon	Director	February 27, 2024
/s/ Mark C. Griege Mark C. Griege	Director	February 27, 2024
/s/ Gordon Huddleston Gordon Huddleston	Director	February 27, 2024
/s/ Steven D. Lerner Steven D. Lerner	Director	February 27, 2024
/s/ Manuel J. Mehos Manuel J. Mehos	Director	February 27, 2024
/s/ Gregory B. Morrison Gregory B. Morrison	Director	February 27, 2024
/s/ John T. Sughrue John T. Sughrue	Director	February 27, 2024

Exhibit 21.1

Subsidiaries of the Registrant

The following is a list of the consolidated subsidiaries of Veritex Holdings, Inc., the names under which such subsidiaries do business and the state in which each was organized, as of December 31, 2023.

Name	Jurisdiction of Organization
Veritex Community Bank	Texas
Parkway National Capital Trust I	Texas
SovDallas Capital Trust I	Texas
Patriot Bancshares Capital Trust I	Texas
Patriot Bancshares Capital Trust II	Texas
8214 Westchester, LLC[1]	Texas
North Avenue Capital, LLC[1]	Georgia
Patriot Bank Mortgage, Inc.[1]	Texas
PKDAH, LLC[1]	Texas
VB Acquisition Sub No. 1, LLC[1]	Texas
VB Acquisition Sub No. 2, LLC[1]	Texas
VB Acquisition Sub No. 3, LLC[1]	Texas
VB Sub 5, LLC[1]	Texas
VB Sub 6, LLC[1]	Delaware

[1] Subsidiary of Veritex Community Bank.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports, dated February 27, 2024, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Veritex Holdings, Inc. on Form 10-K for the year ended December 31, 2023. We consent to the incorporation by reference of said reports in the Registration Statements of Veritex Holdings, Inc. on Form S-3 (File No. 333-250203) and Form S-8 (File Nos. 333-199223, 333-229124, and 333-231995).

/s/ GRANT THORNTON LLP

Dallas, Texas
February 27, 2024

CERTIFICATION

I, C. Malcolm Holland, III, certify that:

1. I have reviewed this Annual Report on Form 10-K of Veritex Holdings, Inc. for the period ended December 31, 2023;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2024

/s/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman of the Board & Chief Executive Officer

CERTIFICATION

I, Terry S. Earley, certify that:

1. I have reviewed this Annual Report on Form 10-K of Veritex Holdings, Inc. for the period ended December 31, 2023;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2024

/s/ Terry S. Earley
Terry S. Earley
Chief Financial Officer

CERTIFICATION

In connection with the Annual Report on Form 10-K of Veritex Holdings, Inc. (the “Company”) for the period ended December 31, 2023 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, C. Malcolm Holland, III, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman of the Board & Chief Executive Officer
Date: February 27, 2024

Exhibit 32.2

CERTIFICATION

In connection with the Annual Report on Form 10-K of Veritex Holdings, Inc. (the “Company”) for the period ended December 31, 2023 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Terry S. Earley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Terry S. Earley
Terry S. Earley
Chief Financial Officer
Date: February 27, 2024

VERITEX COMMUNITY BANK COMPENSATION RECOVERY POLICY

OVERVIEW

This Compensation Recovery Policy (this "Policy") of Veritex Holdings, Inc. (the "Company") is effective on and after March 17, 2023 (the "Effective Date") and was adopted in compliance with Rule 5608 of The Nasdaq Stock Market LLC Rules. Certain terms shall have the meanings set forth in "Section 3. Definitions" below.

SECTION 1. RECOVERY REQUIREMENT

Subject to Section 4 of this Policy, in the event the Company is required to prepare an Accounting Restatement, then the Board of Directors (the "Board") and the Compensation Committee (the "Committee") of the Board hereby direct the Company, to the fullest extent permitted by Applicable Law, to recover from each Executive Officer (i) the amount received by an Executive Officer, if any, of Erroneously Awarded Compensation, with such recovery occurring reasonably promptly after the Restatement Date relating to such Restatement and (ii) the amount of any Incentive-Based Compensation required to be repaid by an Executive Officer in accordance with any other Applicable Law, including, without limitation, any federal or state banking law. Any recovery pursuant to this Policy shall be made on a "no fault" basis, without regard to whether the Executive Officer engaged in any misconduct or whether the Executive Officer had any personal responsibility for, or involvement in, preparation of the financial statements relating to the Accounting Restatement.

The Board or the Committee may effect recovery in any manner consistent with Applicable Law including, but not limited to, (a) seeking reimbursement of all or part of Erroneously Awarded Compensation previously paid to an Executive Officer and to the extent that the Executive Officer does not reimburse such Erroneously Awarded Compensation, suing and enforcing recovery against the Executive Officer for repayment of the Erroneously Awarded Compensation, (b) cancelling prior grants of Incentive-Based Compensation, whether vested or unvested, restricted or deferred, or paid or unpaid, and the forfeiture of previously vested equity awards, (c) cancelling or setting-off against planned future grants of Incentive-Based Compensation, (d) deducting all or any portion of such Erroneously Awarded Compensation from any other remuneration payable by the Company to such Executive Officer, and (e) any other method authorized by Applicable Law or contract.

Recovery of Erroneously Awarded Compensation may include the cancellation of unvested, restricted, or deferred equity awards previously granted to an Executive Officer and the required forfeiture of previously vested equity awards to the extent they constitute Erroneously Awarded Compensation subject to recovery under this Policy. The Company's right to recovery pursuant to this Policy is not dependent on if or when the Accounting Restatement is filed with the Securities and Exchange Commission.

Without by implication limiting the foregoing, following a restatement of the Company's financial statements, the Company also shall be entitled to recover any compensation received by the Chief Executive Officer and Chief Financial Officer that is required to be recovered by Section 304 of the Sarbanes-Oxley Act of 2002.

SECTION 2. INCENTIVE-BASED COMPENSATION SUBJECT TO THIS POLICY

This Policy applies to all Incentive-Based Compensation received by each Executive Officer:

(i) if such Incentive-Based Compensation was received on and after the date such person became an Executive Officer of the Company;

(ii) if such Executive Officer served as an Executive Officer at any time during the performance period for that Incentive-Based Compensation;

(iii) while the Company has a class of securities listed on a national securities exchange or a national securities association; and

(iv) during the three completed fiscal years immediately preceding the date that the Company is required to prepare an Accounting Restatement (including any transition period that results from a change in the Company's fiscal year that is within or immediately following those three completed fiscal years; provided that a transition period of nine to 12 months is deemed to be a completed fiscal year); provided, further that notwithstanding clause (iv), this Policy applies only to Incentive-Based Compensation received by an Executive Officer on or after the Effective Date.

This Policy shall also apply to any bonus, incentive or equity compensation paid or granted to any employee, independent contractor or outside director of the Company who is not an Executive Officer to the extent that the applicable plan document or award agreement relating to such bonus, incentive or equity compensation provides that this Policy will apply (in which case, all references to Executive Officer in this Policy shall include such employee, independent contractor or outside director). This Policy shall apply and govern Incentive-Based Compensation received by any Executive Officer, notwithstanding any contrary or supplemental term or condition in any document, plan or agreement including without limitation any employment contract, indemnification agreement, equity agreement, or equity plan document.

SECTION 3. DEFINITIONS

For purposes of this Policy,

- **"Accounting Restatement"** means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error (i) in previously issued financial statements that is material to the previously issued financial statements (commonly referred to as a "Big R" restatement) or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (commonly referred to as a "little r" restatement).

- **"Applicable Law"** means all legal requirements relating to the payment of compensation to any employee, outside director or independent contractor under applicable corporate laws, applicable securities laws, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, any federal or state banking laws, and any other applicable law, rule or restriction.

- **"Erroneously Awarded Compensation"** means the amount of Incentive-Based Compensation received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received by the Executive Officer had it been determined based on the restated amounts (computed without regard to any taxes paid). For Incentive-Based Compensation based on stock price or total shareholder return ("TSR"), where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Accounting Restatement the Company shall: (i) base the calculation of the amount on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was received; and (ii) retain documentation of the determination of that reasonable estimate and provide such documentation to The Nasdaq Stock Market LLC or, if a class of securities of the Company are no longer listed on The Nasdaq Stock Market LLC, such other national securities exchange or national securities association on which a class of the Company's securities are then listed for trading ("Nasdaq").

- **"Executive Officer"** means the Company's Chief Executive Officer and President, Chief Financial Officer, Chief Credit Officer, Chief Operating Officer, Chief Banking Officer, Chief Risk Officer, Chief HR/Talent Officer, General Counsel, Dallas Ft. Worth President, Houston President, Operations, Technology & Service Delivery Managing Director, Executive Credit Administration Manager and any president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration or finance), or any other person who performs similar significant a policy-making function for the Company (including executive officers of a parent or subsidiary), including any executive officers identified pursuant to Item 401(b) of Regulation S-K, as determined by the Committee or the Board.

- **“Financial Reporting Measures”** means measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and TSR are also Financial Reporting Measures. A Financial Reporting Measure need not be presented within the Company’s financial statements or included in any of the Company’s filings with the Securities and Exchange Commission.

- **“Incentive-Based Compensation”** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure (including, without limitation, any cash bonuses, restricted stock awards or restricted stock unit awards that vest based on achievement of a Financial Reporting Measure). Equity awards that vest exclusively upon completion of a specified employment period, without any performance condition, and bonus awards that are discretionary or based on subjective goals or goals unrelated to Financial Reporting Measures, do not constitute Incentive-Based Compensation.

- **“received”**: An Executive Officer shall be deemed to have “received” Incentive-Based Compensation in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that fiscal period.

- **“Restatement Date”** means the earlier to occur of (i) the date the Board or the Committee (or an officer or officers of the Company authorized to take such action if Board action is not required)concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement and (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.

SECTION 4. EXCEPTIONS TO RECOVERY

Notwithstanding the foregoing, the Company is not required to recover Erroneously Awarded Compensation if the Committee has made a determination that recovery would be impracticable and that:

(i) after the Company has made a reasonable attempt to recover such Erroneously Awarded Compensation (which has been documented and such documentation has been provided to Nasdaq), the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered;

(ii) recovery would violate one or more laws of the Company’s home country that were adopted prior to November 28, 2022 (which determination shall be made after obtaining an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in a such a violation, and after providing such opinion to Nasdaq); or

(iii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

SECTION 5. RIGHT TO ADJUST UNVESTED INCENTIVE-BASED COMPENSATION

If the Board or the Committee, in its sole discretion, determines that the performance metrics of outstanding but unvested Incentive-Based Compensation were established using Financial Reporting Measures that were impacted by the Accounting Restatement, the Board or the Committee, in its sole discretion, may adjust such Financial Reporting Measures or modify such Incentive-Based Compensation, in such manner as the Board or the Committee determines, in its sole discretion, is appropriate.

SECTION 6. ADDITIONAL ACTIONS IN CASE OF MISCONDUCT/EXCESSIVE RISK TAKING/VIOLATION OF COMPANY POLICIES

If the Board or the Committee learns of any of the following actions or inactions by an Executive Officer or other employee, outside director or independent contractor of the Company or any of its subsidiaries, then the Board and the Committee shall take, and directs the Company to take, all such actions as they deem reasonably necessary to remedy the action or inaction, prevent its recurrence and, if appropriate, based on all relevant facts and circumstances, take remedial action against the wrongdoer:

(i) any misconduct by an Executive Officer or other employee, outside director, or independent contractor that contributed to the Company's having to restate its financial statements;

(ii) any conduct or other behavior by an Executive Officer, employee, outside director, or independent contractor in the performance of his or her duties for the Company or its subsidiaries that the Board or the Committee, in its sole discretion, has determined would constitute excessive-risk taking or that would expose the Company to inappropriate risks could lead to material financial loss (regardless of whether such material financial loss has yet occurred); or

(iii) any failure by an Executive Officer, employee, outside director, or independent contractor to comply with the Company's policies, procedures, and/or regulations (including, without limitation, the Company's Code of Business Conduct and Ethics) in such a manner that the Board or the Committee determines, in its sole discretion, that could lead to financial or reputational damage to the Company (regardless of whether such reputational damage has yet occurred).

In determining whether remedial action is appropriate, the Board or Committee shall take into account such factors as it deems relevant, including whether the misconduct, action, or failure to comply reflected negligence, excessive risk taking, recklessness or intentional wrongdoing. Remedial action may include dismissal and initiating legal action against the officer, termination of employment, and/or forfeiture of existing awards or clawback prior amounts paid or shares vested.

In determining what action to take or to require the Company to take, the Board and the Committee may consider, among other things, penalties or punishments imposed by third parties, such as law enforcement agencies, regulators or other authorities, the impact upon the Company in any related proceeding or investigation of taking remedial action against an officer, and the cost and likely outcome of taking remedial action. The Board's and the Committee's power to determine the appropriate remedial action is in addition to, and not in replacement of, remedies imposed by such authorities.

SECTION 7. NO RIGHT TO INDEMNIFICATION OR INSURANCE

The Company shall not indemnify any Executive Officer against the loss of Erroneously Awarded Compensation. In addition, the Company shall not pay, or reimburse any Executive Officer for, any premiums for a third-party insurance policy purchased by the Executive Officer or any other party that would fund any of the Executive Officer's potential recovery obligations under this Policy.

SECTION 8. AWARD AGREEMENTS AND PLAN DOCUMENTS

The Board further directs the Company to include clawback language in each of the Company's incentive compensation plans such that each individual who receives Incentive-Based Compensation under those plans understands and agrees that all or any portion of such Incentive-Based Compensation may be subject to recovery by the Company, and such individual may be required to repay all or any portion of such Incentive-Based Compensation, if (i) recovery of such Incentive-Based Compensation is required by this Policy, (ii) such Incentive-Based Compensation is determined to be based on materially inaccurate financial and/or performance information (which includes, but is not limited to, statements of earnings,revenues or gains); or (iii) repayment of such Incentive-Based Compensation is required by Applicable Law.

SECTION 9. INTERPRETATION AND AMENDMENT OF THIS POLICY

The Committee (or if applicable, the Board), in its discretion, shall have the sole authority to interpret and make any determinations regarding this Policy. Any interpretation, determination, or other action made or taken by the Committee (or, if applicable, the Board) shall be final, binding, and conclusive on all interested parties. The determination of the Committee (or, if applicable, the Board) need not be uniform with respect to one or more officers. This Policy may be amended from time to time in the discretion of the Committee (or, if applicable, the Board).

SECTION 10. FILING REQUIREMENT

The Company shall file this Policy as an exhibit to its Annual Report on Form 10-K.