

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2021

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 Number: 001-38280

CBTX, Inc.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of  
incorporation or organization)

20-8339782

(I.R.S. employer  
identification no.)

9 Greenway Plaza, Suite 110  
Houston, Texas 77046

(Address of principal executive offices)

(713) 210-7600

(Registrant's telephone number, including area code)

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

| Title of each class                      | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common stock, par value \$0.01 per share | CBTX              | The Nasdaq Global Select Market           |

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 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 26, 2021, there were 24,593,071 shares of the registrant's common stock outstanding, including 142,674 shares of unvested restricted stock.

CBTX, INC.

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**CBTX, INC. AND SUBSIDIARY**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
**(Dollars in thousands, except par value and share amounts)**

|   | <u>June 30, 2021</u> | <u>December 31, 2020</u> |
|---|----------------------|--------------------------|
| <b>Assets:</b>  |                      |                          |
| Cash and due from banks   | \$ 49,709            | \$ 46,814                |
| Interest-bearing deposits at other financial institutions   | 738,700              | 491,193                  |
| Total cash and cash equivalents   | 788,409              | 538,007                  |
| Securities  | 309,233              | 237,281                  |
| Equity investments  | 16,793               | 18,652                   |
| Loans held for sale   | 808                  | 2,673                    |
| Loans, net of allowance for credit losses of \$37,183 and \$40,637 at June 30, 2021 and December 31, 2020, respectively   | 2,692,313            | 2,883,480                |
| Premises and equipment, net of accumulated depreciation of \$37,460 and \$35,826 at June 30, 2021 and December 31, 2020, respectively   | 59,987               | 61,152                   |
| Goodwill  | 80,950               | 80,950                   |
| Other intangible assets, net of accumulated amortization of \$16,984 and \$16,607 at June 30, 2021 and December 31, 2020, respectively  | 3,846                | 4,171                    |
| Bank-owned life insurance   | 73,118               | 72,338                   |
| Operating lease right-to-use assets   | 12,514               | 13,285                   |
| Deferred tax assets, net  | 9,755                | 10,700                   |
| Other assets  | 18,808               | 26,528                   |
| Total assets  | <u>\$ 4,066,534</u>  | <u>\$ 3,949,217</u>      |
| <b>Liabilities:</b>   |                      |                          |
| Noninterest-bearing deposits  | \$ 1,556,784         | \$ 1,476,425             |
| Interest-bearing deposits   | 1,860,002            | 1,825,369                |
| Total deposits  | 3,416,786            | 3,301,794                |
| Federal Home Loan Bank advances   | 50,000               | 50,000                   |
| Operating lease liabilities   | 15,590               | 16,447                   |
| Other liabilities   | 27,931               | 34,525                   |
| Total liabilities   | <u>3,510,307</u>     | <u>3,402,766</u>         |
| Commitments and contingencies (Note 16)   |                      |                          |
| <b>Shareholders' equity:</b>  |                      |                          |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued   | —                    | —                        |
| Common stock, \$0.01 par value, 90,000,000 shares authorized, 25,296,385 and 25,458,816 shares issued at June 30, 2021 and December 31, 2020, respectively; 24,450,397 and 24,612,828 shares outstanding at June 30, 2021 and December 31, 2020, respectively | 253                  | 255                      |
| Additional paid-in capital  | 335,399              | 339,334                  |
| Retained earnings   | 229,785              | 214,456                  |
| Treasury stock, at cost, 845,988 shares held at both June 30, 2021 and December 31, 2020, respectively  | (14,369)             | (14,369)                 |
| Accumulated other comprehensive income, net of tax of \$1,371 and \$1,801 at June 30, 2021 and December 31, 2020, respectively  | 5,159                | 6,775                    |
| Total shareholders' equity  | <u>556,227</u>       | <u>546,451</u>           |
| Total liabilities and shareholders' equity  | <u>\$ 4,066,534</u>  | <u>\$ 3,949,217</u>      |

See accompanying notes to condensed consolidated financial statements.

**CBTX, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Income (Unaudited)**  
(Dollars in thousands, except per share amounts)

|  | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|--|-----------------------------|-----------------|---------------------------|-----------------|
|  | 2021                        | 2020            | 2021                      | 2020            |
| <b>Interest income:</b>  |                             |                 |                           |                 |
| Interest and fees on loans   | \$ 30,793                   | \$ 32,857       | \$ 63,958                 | \$ 66,474       |
| Securities   | 1,332                       | 1,228           | 2,505                     | 2,591           |
| Interest-bearing deposits at other financial institutions                | 223                         | 169             | 400                       | 1,224           |
| Equity investments   | 158                         | 171             | 304                       | 347             |
| Total interest income  | <u>32,506</u>               | <u>34,425</u>   | <u>67,167</u>             | <u>70,636</u>   |
| <b>Interest expense:</b>   |                             |                 |                           |                 |
| Deposits   | 1,267                       | 2,022           | 2,617                     | 5,788           |
| Federal Home Loan Bank advances  | 221                         | 240             | 442                       | 461             |
| Other interest-bearing liabilities                                       | —                           | 5               | —                         | 9               |
| Total interest expense   | <u>1,488</u>                | <u>2,267</u>    | <u>3,059</u>              | <u>6,258</u>    |
| <b>Net interest income</b>   | <u>31,018</u>               | <u>32,158</u>   | <u>64,108</u>             | <u>64,378</u>   |
| <b>Provision (recapture) for credit losses:</b>                          |                             |                 |                           |                 |
| Provision (recapture) for credit losses for loans                        | (4,190)                     | 8,537           | (3,904)                   | 13,276          |
| Provision (recapture) for credit losses for unfunded commitments         | (893)                       | 1,333           | (767)                     | 1,643           |
| Total provision (recapture) for credit losses                            | <u>(5,083)</u>              | <u>9,870</u>    | <u>(4,671)</u>            | <u>14,919</u>   |
| <b>Net interest income after provision (recapture) for credit losses</b> | <u>36,101</u>               | <u>22,288</u>   | <u>68,779</u>             | <u>49,459</u>   |
| <b>Noninterest income:</b>   |                             |                 |                           |                 |
| Deposit account service charges  | 1,167                       | 1,095           | 2,360                     | 2,580           |
| Card interchange fees  | 1,095                       | 915             | 2,071                     | 1,837           |
| Earnings on bank-owned life insurance                                    | 390                         | 412             | 780                       | 828             |
| Net gain on sales of assets  | 366                         | 139             | 558                       | 262             |
| Other  | 473                         | 348             | 833                       | 1,729           |
| Total noninterest income   | <u>3,491</u>                | <u>2,909</u>    | <u>6,602</u>              | <u>7,236</u>    |
| <b>Noninterest expense:</b>  |                             |                 |                           |                 |
| Salaries and employee benefits   | 14,734                      | 14,012          | 28,922                    | 28,235          |
| Occupancy expense  | 2,597                       | 2,558           | 5,118                     | 4,982           |
| Professional and director fees   | 2,441                       | 1,541           | 4,144                     | 2,693           |
| Data processing and software   | 1,661                       | 1,292           | 3,237                     | 2,514           |
| Regulatory fees  | 501                         | 476             | 1,057                     | 579             |
| Advertising, marketing and business development                          | 510                         | 269             | 795                       | 633             |
| Telephone and communications   | 550                         | 392             | 1,013                     | 811             |
| Security and protection expense  | 537                         | 351             | 927                       | 725             |
| Amortization of intangibles  | 186                         | 230             | 377                       | 451             |
| Other expenses   | 1,480                       | 1,374           | 2,892                     | 2,961           |
| Total noninterest expense  | <u>25,197</u>               | <u>22,495</u>   | <u>48,482</u>             | <u>44,584</u>   |
| <b>Net income before income tax expense</b>                              | <u>14,395</u>               | <u>2,702</u>    | <u>26,899</u>             | <u>12,111</u>   |
| <b>Income tax expense</b>  | <u>2,692</u>                | <u>539</u>      | <u>5,177</u>              | <u>2,407</u>    |
| <b>Net income</b>  | <u>\$ 11,703</u>            | <u>\$ 2,163</u> | <u>\$ 21,722</u>          | <u>\$ 9,704</u> |
| <b>Earnings per common share</b>   |                             |                 |                           |                 |
| Basic  | \$ 0.48                     | \$ 0.09         | \$ 0.89                   | \$ 0.39         |
| Diluted  | \$ 0.48                     | \$ 0.09         | \$ 0.88                   | \$ 0.39         |

See accompanying notes to condensed consolidated financial statements.

**CBTX, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**  
**(Dollars in thousands)**

|  | <u>Three Months Ended June 30,</u> |                 | <u>Six Months Ended June 30,</u> |                  |
|--|------------------------------------|-----------------|----------------------------------|------------------|
|  | <u>2021</u>                        | <u>2020</u>     | <u>2021</u>                      | <u>2020</u>      |
| Net income   | \$ 11,703                          | \$ 2,163        | \$ 21,722                        | \$ 9,704         |
| Change in unrealized gains (losses) on securities available for sale arising during the period | 2,292                              | 313             | (2,047)                          | 5,336            |
| Reclassification adjustments for net realized gains included in net income                     | —                                  | —               | —                                | 10               |
| Change in related deferred income tax  | (480)                              | (65)            | 431                              | (1,123)          |
| Other comprehensive income (loss), net of tax  | 1,812                              | 248             | (1,616)                          | 4,223            |
| <b>Total comprehensive income</b>  | <u>\$ 13,515</u>                   | <u>\$ 2,411</u> | <u>\$ 20,106</u>                 | <u>\$ 13,927</u> |

See accompanying notes to condensed consolidated financial statements.

**CBTX, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**  
(Dollars in thousands, except share amounts)

|  | Common Stock      |               | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury Stock   |                    | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total             |
|--|-------------------|---------------|----------------------------------|----------------------|------------------|--------------------|--|-------------------|
|  | Shares            | Amount        |                                  |                      | Shares           | Amount             |  |                   |
| <b>Six Months Ended June 30, 2020:</b>   |                   |               |                                  |                      |                  |                    |  |                   |
| <b>Balance at December 31, 2019</b>  | 25,837,048        | \$ 258        | \$ 346,559                       | \$ 201,080           | (857,346)        | \$ (14,562)        | \$ 2,386   | \$ 535,721        |
| Net income   | —                 | —             | —                                | 9,704                | —                | —                  | —  | 9,704             |
| Cumulative effect of accounting changes from adoption of CECL, net of deferred tax asset | —                 | —             | —                                | (3,045)              | —                | —                  | —  | (3,045)           |
| Dividends on common stock, \$0.20 per share  | —                 | —             | —                                | (4,985)              | —                | —                  | —  | (4,985)           |
| Stock-based compensation expense   | —                 | —             | 1,109                            | —                    | —                | —                  | —  | 1,109             |
| Vesting of restricted stock, net of shares withheld for employee tax liabilities         | 12,853            | —             | (44)                             | —                    | —                | —                  | —  | (44)              |
| Exercise of stock options, net of shares withheld for employee tax liabilities           | —                 | —             | (10)                             | —                    | 2,524            | 43                 | —  | 33                |
| Shares repurchased   | (240,445)         | (2)           | (5,358)                          | —                    | —                | —                  | —  | (5,360)           |
| Other comprehensive income, net of tax   | —                 | —             | —                                | —                    | —                | —                  | 4,223  | 4,223             |
| <b>Balance at June 30, 2020</b>  | <u>25,609,456</u> | <u>\$ 256</u> | <u>\$ 342,256</u>                | <u>\$ 202,754</u>    | <u>(854,822)</u> | <u>\$ (14,519)</u> | <u>\$ 6,609</u>  | <u>\$ 537,356</u> |
| <b>Six Months Ended June 30, 2021:</b>   |                   |               |                                  |                      |                  |                    |  |                   |
| <b>Balance at December 31, 2020</b>  | 25,458,816        | \$ 255        | \$ 339,334                       | \$ 214,456           | (845,988)        | \$ (14,369)        | \$ 6,775   | \$ 546,451        |
| Net income   | —                 | —             | —                                | 21,722               | —                | —                  | —  | 21,722            |
| Dividends on common stock, \$0.26 per share  | —                 | —             | —                                | (6,393)              | —                | —                  | —  | (6,393)           |
| Stock-based compensation expense   | —                 | —             | 1,115                            | —                    | —                | —                  | —  | 1,115             |
| Vesting of restricted stock, net of shares withheld for employee tax liabilities         | 18,658            | —             | (84)                             | —                    | —                | —                  | —  | (84)              |
| Shares repurchased   | (181,089)         | (2)           | (4,966)                          | —                    | —                | —                  | —  | (4,968)           |
| Other comprehensive income, net of tax   | —                 | —             | —                                | —                    | —                | —                  | (1,616)  | (1,616)           |
| <b>Balance at June 30, 2021</b>  | <u>25,296,385</u> | <u>\$ 253</u> | <u>\$ 335,399</u>                | <u>\$ 229,785</u>    | <u>(845,988)</u> | <u>\$ (14,369)</u> | <u>\$ 5,159</u>  | <u>\$ 556,227</u> |

See accompanying notes to condensed consolidated financial statements.

**CBTX, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Quarterly Changes in Shareholders' Equity (Unaudited)**  
(Dollars in thousands, except share amounts)

|  | Common Stock      |               | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury Stock   |                    | Accumulated<br>Other<br>Comprehensive<br>Income | Total             |
|--|-------------------|---------------|----------------------------------|----------------------|------------------|--------------------|---|-------------------|
|  | Shares            | Amount        |                                  |                      | Shares           | Amount             |   |                   |
| <b>Three Months Ended June 30, 2020:</b>   |                   |               |                                  |                      |                  |                    |   |                   |
| <b>Balance at March 31, 2020</b>   | 25,601,835        | \$ 256        | \$ 341,713                       | \$ 203,080           | (855,822)        | \$ (14,536)        | \$ 6,361  | \$ 536,874        |
| Net income   | —                 | —             | —                                | 2,163                | —                | —                  | —   | 2,163             |
| Dividends on common stock, \$0.10 per share                                      | —                 | —             | —                                | (2,489)              | —                | —                  | —   | (2,489)           |
| Stock-based compensation expense   | —                 | —             | 552                              | —                    | —                | —                  | —   | 552               |
| Vesting of restricted stock, net of shares withheld for employee tax liabilities | 7,621             | —             | (9)                              | —                    | —                | —                  | —   | (9)               |
| Exercise of stock options, net of shares withheld for employee tax liabilities   | —                 | —             | —                                | —                    | 1,000            | 17                 | —   | 17                |
| Shares repurchased   | —                 | —             | —                                | —                    | —                | —                  | —   | —                 |
| Other comprehensive loss, net of tax   | —                 | —             | —                                | —                    | —                | —                  | 248   | 248               |
| <b>Balance at June 30, 2020</b>  | <u>25,609,456</u> | <u>\$ 256</u> | <u>\$ 342,256</u>                | <u>\$ 202,754</u>    | <u>(854,822)</u> | <u>\$ (14,519)</u> | <u>\$ 6,609</u>                                 | <u>\$ 537,356</u> |
| <b>Three Months Ended June 30, 2021:</b>   |                   |               |                                  |                      |                  |                    |   |                   |
| <b>Balance at March 31, 2021</b>   | 25,288,454        | \$ 253        | \$ 334,839                       | \$ 221,279           | (845,988)        | \$ (14,369)        | \$ 3,347  | \$ 545,349        |
| Net income   | —                 | —             | —                                | 11,703               | —                | —                  | —   | 11,703            |
| Dividends on common stock, \$0.13 per share                                      | —                 | —             | —                                | (3,197)              | —                | —                  | —   | (3,197)           |
| Stock-based compensation expense   | —                 | —             | 574                              | —                    | —                | —                  | —   | 574               |
| Vesting of restricted stock, net of shares withheld for employee tax liabilities | 7,931             | —             | (14)                             | —                    | —                | —                  | —   | (14)              |
| Exercise of stock options, net of shares withheld for employee tax liabilities   | —                 | —             | —                                | —                    | —                | —                  | —   | —                 |
| Shares repurchased   | —                 | —             | —                                | —                    | —                | —                  | —   | —                 |
| Other comprehensive income, net of tax   | —                 | —             | —                                | —                    | —                | —                  | 1,812   | 1,812             |
| <b>Balance at June 30, 2021</b>  | <u>25,296,385</u> | <u>\$ 253</u> | <u>\$ 335,399</u>                | <u>\$ 229,785</u>    | <u>(845,988)</u> | <u>\$ (14,369)</u> | <u>\$ 5,159</u>                                 | <u>\$ 556,227</u> |

See accompanying notes to condensed consolidated financial statements.

**CBTX, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
(Dollars in thousands)

|  | Six Months Ended June 30, |                   |
|--|---------------------------|-------------------|
|  | 2021                      | 2020              |
| <b>Cash flows from operating activities:</b>   |                           |                   |
| Net income   | \$ 21,722                 | \$ 9,704          |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: |                           |                   |
| Provision (recapture) for credit losses  | (4,671)                   | 14,919            |
| Depreciation expense   | 1,731                     | 1,520             |
| Amortization of intangibles  | 377                       | 451               |
| Amortization of premiums on securities   | 805                       | 835               |
| Amortization of lease right-to-use assets  | 771                       | 743               |
| Accretion of lease liabilities   | 199                       | 249               |
| Earnings on bank-owned life insurance  | (780)                     | (828)             |
| Stock-based compensation expense   | 1,115                     | 1,109             |
| Deferred income tax provision  | 1,376                     | (4,321)           |
| Net gain on sales of assets  | (558)                     | (262)             |
| Net (earnings) loss on securities  | 9                         | (40)              |
| Change in operating assets and liabilities:  |                           |                   |
| Loans held for sale  | 2,390                     | 1,665             |
| Other assets   | 7,614                     | (11,390)          |
| Other liabilities  | (7,622)                   | 10,664            |
| Total adjustments  | 2,756                     | 15,314            |
| Net cash provided by operating activities  | 24,478                    | 25,018            |
| <b>Cash flows from investing activities:</b>   |                           |                   |
| Purchases of securities  | (412,971)                 | (329,452)         |
| Proceeds from sales, calls and maturities of securities  | 303,155                   | 303,005           |
| Principal repayments of securities   | 35,003                    | 26,832            |
| Net (increase) decrease in loans   | 193,049                   | (294,088)         |
| Net sales (purchases) of loan participations   | 22                        | (1,934)           |
| Proceeds from sales of Small Business Administration loans                                     | 2,000                     | 508               |
| Net contributions to equity investments  | 1,859                     | (1,659)           |
| Net purchases of premises and equipment  | (591)                     | (1,374)           |
| Proceeds from sales of repossessed real estate and other assets                                | 112                       | —                 |
| Net cash provided by (used) in investing activities  | 121,638                   | (298,162)         |
| <b>Cash flows from financing activities:</b>   |                           |                   |
| Net increase in noninterest-bearing deposits   | 80,359                    | 328,887           |
| Net increase in interest-bearing deposits  | 34,633                    | 72,928            |
| Net increase in securities sold under agreements to repurchase                                 | —                         | 2,015             |
| Dividends paid on common stock   | (5,654)                   | (4,979)           |
| Payments to tax authorities for stock-based compensation                                       | (84)                      | (44)              |
| Proceeds from exercise of stock options  | —                         | 33                |
| Repurchase of common stock   | (4,968)                   | (5,360)           |
| Net cash provided by financing activities  | 104,286                   | 393,480           |
| <b>Net increase in cash, cash equivalents and restricted cash</b>                              | <b>250,402</b>            | <b>120,336</b>    |
| <b>Cash, cash equivalents and restricted cash, beginning</b>                                   | <b>538,007</b>            | <b>372,064</b>    |
| <b>Cash, cash equivalents and restricted cash, ending</b>                                      | <b>\$ 788,409</b>         | <b>\$ 492,400</b> |

See accompanying notes to condensed consolidated financial statements.



**CBTX, INC. AND SUBSIDIARY**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations—CBTX, Inc., or the Company or CBTX, operates 35 branches, 19 in the Houston market area, 15 in the Beaumont/East Texas market area and one in Dallas, through its wholly-owned subsidiary, CommunityBank of Texas, N.A., or the Bank. The Bank provides relationship-driven commercial banking products and services primarily to small and mid-sized businesses and professionals with operations within the Bank’s markets.

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and the Bank. All material intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or GAAP, but do not include all the information and footnotes required for complete consolidated financial statements. In management’s opinion, these interim unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair statement of the Company’s consolidated financial position at June 30, 2021 and December 31, 2020, consolidated results of operations and consolidated shareholders’ equity for the three and six months ended June 30, 2021 and 2020 and consolidated cash flows for the six months ended June 30, 2021 and 2020.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end and the results for the interim periods shown in this report are not necessarily indicative of results to be expected for the full year due in part to global economic and financial market conditions, interest rates, access to sources of liquidity, market competition and interruptions of business processes. These interim unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2020 included within the Company’s Annual Report on Form 10-K.

Reclassification—Within interest expense for 2020, repurchase agreements and note payable and junior subordinated debt have been combined together under the caption “other interest-bearing liabilities”. These reclassifications were made to conform to the 2021 financial statement presentation in the condensed consolidated statements of income.

Share Repurchase Program—During the six months ended June 30, 2021, 181,089 shares were repurchased under the Company’s share repurchase program at an average price of \$27.44 per share. During the six months ended June 30, 2020, 240,445 shares were repurchased at an average price of \$22.29. Shares repurchased during 2021 and 2020 were retired and returned to the status of authorized but unissued shares.

Accounting Standards Recently Adopted—Accounting standards update, or ASU, 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate, or LIBOR, or another reference rate expected to be discontinued if certain criteria are met. LIBOR is used as an index rate for a majority of the Company’s interest-rate swaps and 7.5% of the Company’s loans as of June 30, 2021.

If reference rates are discontinued, the existing contracts will be modified to replace the discontinued rate with a replacement rate. For accounting purposes, such contract modifications would have to be evaluated to determine whether the modified contract is a new contract or a continuation of an existing contract. If they are considered new contracts, the previous contract would be extinguished resulting in the acceleration of previously deferred fees and costs. Under one of the optional expedients of ASU 2020-04, modifications of contracts within the scope of Topic 310, Receivables, and 470, Debt, will be accounted for by prospectively adjusting the effective interest rates and no such evaluation is required. When elected, the optional expedient for contract modifications must be applied consistently for all eligible contracts or eligible

transactions. The expedients and exceptions in this update are available to all entities starting March 12, 2020 through December 31, 2022. The Company began modifying LIBOR based loans during 2020 and applied the expedients and exceptions. The adoption of this ASU did not have a material effect on the Company, nor does the Company expect it to have a material effect in the future.

**Cash Flow Reporting**—Historically, the Bank has been required to maintain regulatory reserves with the Federal Reserve Bank of Dallas, or the Federal Reserve Bank. On March 15, 2020, the Board of Governors of the Federal Reserve System announced that it had reduced the required regulatory reserve balance to 0% effective on March 26, 2020 in reaction to the economic dislocation caused by the COVID-19 pandemic. As such, the Bank did not have any reserve requirement balances as of June 30, 2021 and December 31, 2020.

As of June 30, 2021 and December 31, 2020, the Company had \$4.3 million and \$8.4 million, respectively, in cash held as collateral on deposit with other financial institution counterparties related to interest rate swap transactions. Reserves maintained with the Federal Reserve Bank and cash held as collateral for interest rate swap transactions are considered restricted cash.

Supplemental disclosures of cash flow information were as follows for the periods indicated below:

| (Dollars in thousands)  | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2021                      | 2020     |
| Supplemental disclosures of cash flow information:                |                           |          |
| Cash paid for taxes   | \$ 2,059                  | \$ 3,707 |
| Cash paid for interest  | 3,198                     | 6,444    |
| Supplemental disclosures of non-cash flow information:            |                           |          |
| Operating lease right-to-use asset obtained in exchange for lease | —                         | 1,898    |
| Change in liability for dividends accrued                         | (739)                     | (6)      |

**NOTE 2: SECURITIES**

The amortized cost, related gross unrealized gains and losses and fair values of investments in securities as of the dates shown below were as follows:

| (Dollars in thousands)              | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value        |
|-------------------------------------|-------------------|------------------------|-------------------------|-------------------|
| <b>June 30, 2021</b>                |                   |                        |                         |                   |
| Debt securities available for sale: |                   |                        |                         |                   |
| State and municipal securities      | \$ 122,667        | \$ 4,543               | \$ (103)                | \$ 127,107        |
| U.S. Treasury securities            | 11,882            | 79                     | —                       | 11,961            |
| U.S. agency securities:             |                   |                        |                         |                   |
| Callable debentures                 | 3,000             | 2                      | —                       | 3,002             |
| Collateralized mortgage obligations | 34,740            | 165                    | (316)                   | 34,589            |
| Mortgage-backed securities          | 129,232           | 2,662                  | (502)                   | 131,392           |
| Equity securities                   | 1,183             | —                      | (1)                     | 1,182             |
| Total                               | <u>\$ 302,704</u> | <u>\$ 7,451</u>        | <u>\$ (922)</u>         | <u>\$ 309,233</u> |
| <b>December 31, 2020</b>            |                   |                        |                         |                   |
| Debt securities available for sale: |                   |                        |                         |                   |
| State and municipal securities      | \$ 88,741         | \$ 4,296               | \$ —                    | \$ 93,037         |
| U.S. agency securities:             |                   |                        |                         |                   |
| Collateralized mortgage obligations | 35,085            | 347                    | (30)                    | 35,402            |
| Mortgage-backed securities          | 103,686           | 3,963                  | —                       | 107,649           |
| Equity securities                   | 1,176             | 17                     | —                       | 1,193             |
| Total                               | <u>\$ 228,688</u> | <u>\$ 8,623</u>        | <u>\$ (30)</u>          | <u>\$ 237,281</u> |

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The amortized cost and estimated fair value of securities, by contractual maturities, as of the dates shown below were as follows:

| (Dollars in thousands)              | 1 Year or Less  | After 1 Year<br>to 5 Years | After 5 Years<br>to 10 Years | After 10 Years    | Total             |
|-------------------------------------|-----------------|----------------------------|------------------------------|-------------------|-------------------|
| <b>June 30, 2021</b>                |                 |                            |                              |                   |                   |
| Amortized cost:                     |                 |                            |                              |                   |                   |
| Debt securities available for sale: |                 |                            |                              |                   |                   |
| State and municipal securities      | \$ 986          | \$ —                       | \$ 9,405                     | \$ 112,276        | \$ 122,667        |
| U.S. Treasury securities            | —               | —                          | 11,882                       | —                 | 11,882            |
| U.S. agency securities:             |                 |                            |                              |                   |                   |
| Callable debentures                 | —               | —                          | 3,000                        | —                 | 3,000             |
| Collateralized mortgage obligations | —               | —                          | 4,559                        | 30,181            | 34,740            |
| Mortgage-backed securities          | 2               | 1,239                      | 1,577                        | 126,414           | 129,232           |
| Equity securities                   | 1,183           | —                          | —                            | —                 | 1,183             |
| <b>Total</b>                        | <b>\$ 2,171</b> | <b>\$ 1,239</b>            | <b>\$ 30,423</b>             | <b>\$ 268,871</b> | <b>\$ 302,704</b> |
| Fair value:                         |                 |                            |                              |                   |                   |
| Debt securities available for sale: |                 |                            |                              |                   |                   |
| State and municipal securities      | \$ 990          | \$ —                       | \$ 9,914                     | \$ 116,203        | \$ 127,107        |
| U.S. Treasury securities            | —               | —                          | 11,961                       | —                 | 11,961            |
| U.S. agency securities:             |                 |                            |                              |                   |                   |
| Callable debentures                 | —               | —                          | 3,002                        | —                 | 3,002             |
| Collateralized mortgage obligations | —               | —                          | 4,668                        | 29,921            | 34,589            |
| Mortgage-backed securities          | 2               | 1,305                      | 1,673                        | 128,412           | 131,392           |
| Equity securities                   | 1,182           | —                          | —                            | —                 | 1,182             |
| <b>Total</b>                        | <b>\$ 2,174</b> | <b>\$ 1,305</b>            | <b>\$ 31,218</b>             | <b>\$ 274,536</b> | <b>\$ 309,233</b> |

| (Dollars in thousands)              | 1 Year or Less  | After 1 Year<br>to 5 Years | After 5 Years<br>to 10 Years | After 10 Years    | Total             |
|-------------------------------------|-----------------|----------------------------|------------------------------|-------------------|-------------------|
| <b>December 31, 2020</b>            |                 |                            |                              |                   |                   |
| Amortized cost:                     |                 |                            |                              |                   |                   |
| Debt securities available for sale: |                 |                            |                              |                   |                   |
| State and municipal securities      | \$ 509          | \$ 1,292                   | \$ 9,154                     | \$ 77,786         | \$ 88,741         |
| U.S. agency securities:             |                 |                            |                              |                   |                   |
| Collateralized mortgage obligations | —               | —                          | 4,910                        | 30,175            | 35,085            |
| Mortgage-backed securities          | 33              | 1,485                      | 798                          | 101,370           | 103,686           |
| Equity securities                   | 1,176           | —                          | —                            | —                 | 1,176             |
| <b>Total</b>                        | <b>\$ 1,718</b> | <b>\$ 2,777</b>            | <b>\$ 14,862</b>             | <b>\$ 209,331</b> | <b>\$ 228,688</b> |
| Fair value:                         |                 |                            |                              |                   |                   |
| Debt securities available for sale: |                 |                            |                              |                   |                   |
| State and municipal securities      | \$ 512          | \$ 1,298                   | \$ 9,540                     | \$ 81,687         | \$ 93,037         |
| U.S. agency securities:             |                 |                            |                              |                   |                   |
| Collateralized mortgage obligations | —               | —                          | 5,075                        | 30,327            | 35,402            |
| Mortgage-backed securities          | 33              | 1,565                      | 829                          | 105,222           | 107,649           |
| Equity securities                   | 1,193           | —                          | —                            | —                 | 1,193             |
| <b>Total</b>                        | <b>\$ 1,738</b> | <b>\$ 2,863</b>            | <b>\$ 15,444</b>             | <b>\$ 217,236</b> | <b>\$ 237,281</b> |

Actual maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

No securities were sold in the six months ended June 30, 2021 and 2020. At June 30, 2021 and December 31, 2020, securities with a carrying amount of \$27.8 million and \$27.3 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The Company considers qualitative factors in determining if an allowance for credit losses, or ACL, is necessary for those securities where the amortized cost basis exceeds the fair value. These factors include, among other things: (i) the extent to which the fair value was less than the amortized cost basis of the security and the length of time; (ii) the structure of the payments and likelihood that the issuer has the ability to make future payments; (iii) adverse conditions related to the security, industry or geographic area; (iv) changes in any credit ratings or financial conditions of the issuer; (v) failure by the issuer to make previous payments; and (vi) past events related to the security, current economic conditions and reasonable and supportable forecasts. Management did not believe that any of the securities the Company held at June 30, 2021 or December 31, 2020 were impaired due to reasons of credit quality and believed any unrealized losses were temporary. No ACL for available for sale securities was recorded in the Company's condensed consolidated balance sheets at June 30, 2021 or during 2020.

Amortized costs, as defined by GAAP, include acquisition costs, applicable accrued interest and accretion or amortization of premiums and discounts. The Company made a policy election to exclude accrued interest from amortized costs in the determination of ACL. The Company continues its policy of reversing previously accrued interest when it has been deemed uncollectible. Accrued interest receivable for securities was \$1.4 million and \$1.2 million at June 30, 2021 and December 31, 2020, respectively, and is included in other assets in the condensed consolidated balance sheets.

The Company held 80 and 18 securities at June 30, 2021 and December 31, 2020, respectively, that were in a gross unrealized loss position. Securities with unrealized losses as of the dates shown below, aggregated by category and the length of time, were as follows:

| (Dollars in thousands)              | Less than Twelve Months |                         | Twelve Months or More |                         |
|-------------------------------------|-------------------------|-------------------------|-----------------------|-------------------------|
|                                     | Fair Value              | Gross Unrealized Losses | Fair Value            | Gross Unrealized Losses |
| <b>June 30, 2021</b>                |                         |                         |                       |                         |
| Debt securities available for sale: |                         |                         |                       |                         |
| State and municipal securities      | \$ 16,253               | \$ (103)                | \$ —                  | \$ —                    |
| U.S. Treasury securities            | —                       | —                       | —                     | —                       |
| U.S. agency securities:             |                         |                         |                       |                         |
| Callable debentures                 | —                       | —                       | —                     | —                       |
| Collateralized mortgage obligations | 20,184                  | (315)                   | 107                   | (1)                     |
| Mortgage-backed securities          | 40,748                  | (502)                   | —                     | —                       |
| Equity securities                   | 1,183                   | (1)                     | —                     | —                       |
|                                     | <u>\$ 78,368</u>        | <u>\$ (921)</u>         | <u>\$ 107</u>         | <u>\$ (1)</u>           |
| <b>December 31, 2020</b>            |                         |                         |                       |                         |
| Debt securities available for sale: |                         |                         |                       |                         |
| State and municipal securities      | \$ 263                  | \$ —                    | \$ —                  | \$ —                    |
| U.S. agency securities:             |                         |                         |                       |                         |
| Collateralized mortgage obligations | 6,913                   | (30)                    | —                     | —                       |
| Mortgage-backed securities          | —                       | —                       | —                     | —                       |
| Equity securities                   | —                       | —                       | —                     | —                       |
|                                     | <u>\$ 7,176</u>         | <u>\$ (30)</u>          | <u>\$ —</u>           | <u>\$ —</u>             |

**NOTE 3: EQUITY INVESTMENTS**

The Company's unconsolidated investments that are considered equity securities as they represent ownership interests, such as common or preferred stock, were as follows for the dates indicated below:

| <b>(Dollars in thousands)</b>                       | <b>June 30,</b>  | <b>December 31,</b> |
|---|------------------|---------------------|
|   | <b>2021</b>      | <b>2020</b>         |
| Federal Reserve Bank stock                          | \$ 9,271         | \$ 9,271            |
| Federal Home Loan Bank stock                        | 3,955            | 5,941               |
| The Independent Bankers Financial Corporation stock | 141              | 141                 |
| Community Reinvestment Act investments              | 3,426            | 3,299               |
|   | <u>\$ 16,793</u> | <u>\$ 18,652</u>    |

Banks that are members of the Federal Home Loan Bank are required to maintain a stock investment in the Federal Home Loan Bank calculated as a percentage of aggregate outstanding mortgages, outstanding Federal Home Loan Bank advances and other financial instruments. As a member of the Federal Reserve, the Bank is required to annually subscribe to Federal Reserve Bank stock in specific ratios to the Bank's equity. Although Federal Home Loan Bank and Federal Reserve Bank stock are considered equity securities, they do not have readily determinable fair values because ownership is restricted, and they lack a readily-available market. These investments can be sold back only at their par value of \$100 per share and can only be sold to the Federal Home Loan Banks or the Federal Reserve Banks or to another member institution. In addition, the equity ownership rights are more limited than would be the case for a public company because of the oversight role exercised by regulators in the process of budgeting and approving dividends. As a result, these investments are carried at cost and evaluated for impairment.

The Company also holds an investment in the stock of The Independent Bankers Financial Corporation, which has limited marketability. As a result, this investment is carried at cost and evaluated for impairment.

The Company has investments in investment funds and limited partnerships that are qualified Community Reinvestment Act, or CRA, investments and investments under the Small Business Investment Company program of the Small Business Administration, or SBA. There are limited to no observable price changes in orderly transactions for identical investments or similar investments from the same issuers that are actively traded and, as a result, these investments are stated at cost. At June 30, 2021 and December 31, 2020, the Company had \$4.2 million and \$4.4 million, respectively, in callable outstanding unfunded commitments to these funds.

The Company's equity investments are evaluated for impairment based on an assessment of qualitative indicators. Impairment indicators to be considered include, but are not limited to: (i) a significant deterioration in the earnings, performance, credit rating, asset quality or business prospects of the investee; (ii) a significant adverse change in the regulatory, economic or technological environment of the investee; (iii) a significant adverse change in the general market conditions of either the geographical area or the industry in which the investee operates; and (iv) a bona fide offer to purchase, an offer by the investee to sell, or completed auction process for the same or similar investment for an amount less than the carrying amount of the investment. There were no such qualitative indicators as of June 30, 2021.

**NOTE 4: LOANS**

Loans by loan class, or major loan category, as of the dates shown below were as follows:

| <b>(Dollars in thousands)</b>                  | <b>June 30, 2021</b> |               | <b>December 31, 2020</b> |               |
|--|----------------------|---------------|--------------------------|---------------|
| Commercial and industrial                      | \$ 658,733           | 24.0%         | \$ 742,957               | 25.3%         |
| <b>Real estate:</b>                            |                      |               |                          |               |
| Commercial real estate                         | 1,060,968            | 38.7%         | 1,041,998                | 35.5%         |
| Construction and development                   | 426,007              | 15.5%         | 522,705                  | 17.8%         |
| 1-4 family residential                         | 211,328              | 7.7%          | 239,872                  | 8.2%          |
| Multi-family residential                       | 265,252              | 9.7%          | 258,346                  | 8.8%          |
| Consumer                                       | 31,444               | 1.1%          | 33,884                   | 1.1%          |
| Agriculture                                    | 8,283                | 0.4%          | 8,670                    | 0.3%          |
| Other  | 78,607               | 2.9%          | 88,238                   | 3.0%          |
| <b>Total gross loans</b>                       | <b>2,740,622</b>     | <b>100.0%</b> | <b>2,936,670</b>         | <b>100.0%</b> |
| Less allowance for credit losses for loans     | (37,183)             |               | (40,637)                 |               |
| Less deferred loan fees and unearned discounts | (10,318)             |               | (9,880)                  |               |
| Less loans held for sale                       | (808)                |               | (2,673)                  |               |
| <b>Loans, net</b>                              | <b>\$ 2,692,313</b>  |               | <b>\$ 2,883,480</b>      |               |

Accrued interest receivable for loans was \$10.0 million and \$12.1 million at June 30, 2021 and December 31, 2020, respectively, and is included in other assets in the condensed consolidated balance sheets.

From time to time, the Company will acquire and dispose of interests in loans under participation agreements with other financial institutions. Loan participations purchased and sold during the six months ending June 30, 2021 and 2020, by loan class, were as follows:

| <b>(Dollars in thousands)</b> | <b>Participations<br/>Purchased</b> | <b>Participations<br/>Sold</b> |
|-------------------------------|-------------------------------------|--------------------------------|
| <b>June 30, 2021</b>          |                                     |                                |
| Construction and development  | \$ —                                | \$ 22                          |
| <b>June 30, 2020</b>          |                                     |                                |
| Commercial and industrial     | —                                   | 566                            |
| Commercial real estate        | 2,500                               | —                              |

The Company participates in the SBA loan program. When advantageous, the Company will sell the guaranteed portions of these loans with servicing retained. SBA loans that were sold with servicing retained during the six months ended June 30, 2021 and 2020, totaled \$2.0 million and \$508,000, respectively. The Company recognized gains on these sales of \$223,000 and \$41,000 for the six months ended June 30, 2021 and 2020, respectively.

**NOTE 5: LOAN PERFORMANCE**

The following is an aging analysis of the Company's past due loans, segregated by loan class, as of the dates shown below:

| (Dollars in thousands)       | 30 to 59 Days<br>Past Due | 60 to 89 Days<br>Past Due | 90 Days or<br>Greater<br>Past Due | Total<br>Past Due | Total<br>Current Loans | Total Loans         | 90 Days<br>Past Due and<br>Still Accruing |
|------------------------------|---------------------------|---------------------------|-----------------------------------|-------------------|------------------------|---------------------|---|
| <b>June 30, 2021</b>         |                           |                           |                                   |                   |                        |                     |   |
| Commercial and industrial    | \$ —                      | \$ —                      | \$ —                              | \$ —              | \$ 658,733             | \$ 658,733          | \$ —                                      |
| Real estate:                 |                           |                           |                                   |                   |                        |                     |   |
| Commercial real estate       | —                         | —                         | —                                 | —                 | 1,060,968              | 1,060,968           | —   |
| Construction and development | —                         | —                         | —                                 | —                 | 426,007                | 426,007             | —   |
| 1-4 family residential       | 17                        | —                         | 217                               | 234               | 211,094                | 211,328             | —   |
| Multi-family residential     | —                         | —                         | —                                 | —                 | 265,252                | 265,252             | —   |
| Consumer                     | 22                        | —                         | —                                 | 22                | 31,422                 | 31,444              | —   |
| Agriculture                  | —                         | —                         | —                                 | —                 | 8,283                  | 8,283               | —   |
| Other                        | —                         | —                         | —                                 | —                 | 78,607                 | 78,607              | —   |
| Total loans                  | <u>\$ 39</u>              | <u>\$ —</u>               | <u>\$ 217</u>                     | <u>\$ 256</u>     | <u>\$ 2,740,366</u>    | <u>\$ 2,740,622</u> | <u>\$ —</u>                               |
| <b>December 31, 2020</b>     |                           |                           |                                   |                   |                        |                     |   |
| Commercial and industrial    | \$ 51                     | \$ 2,055                  | \$ 2,269                          | \$ 4,375          | \$ 738,582             | \$ 742,957          | \$ —                                      |
| Real estate:                 |                           |                           |                                   |                   |                        |                     |   |
| Commercial real estate       | —                         | —                         | —                                 | —                 | 1,041,998              | 1,041,998           | —   |
| Construction and development | —                         | —                         | —                                 | —                 | 522,705                | 522,705             | —   |
| 1-4 family residential       | 1,357                     | 19                        | 106                               | 1,482             | 238,390                | 239,872             | —   |
| Multi-family residential     | —                         | —                         | —                                 | —                 | 258,346                | 258,346             | —   |
| Consumer                     | 5                         | —                         | —                                 | 5                 | 33,879                 | 33,884              | —   |
| Agriculture                  | 50                        | —                         | —                                 | 50                | 8,620                  | 8,670               | —   |
| Other                        | —                         | —                         | —                                 | —                 | 88,238                 | 88,238              | —   |
| Total loans                  | <u>\$ 1,463</u>           | <u>\$ 2,074</u>           | <u>\$ 2,375</u>                   | <u>\$ 5,912</u>   | <u>\$ 2,930,758</u>    | <u>\$ 2,936,670</u> | <u>\$ —</u>                               |

The Company places loans on nonaccrual status because of delinquency or because collection of principal or interest is doubtful. Nonaccrual loans, segregated by loan class, as of the dates shown below were as follows:

| (Dollars in thousands)       | June 30,<br>2021 | December 31,<br>2020 |
|------------------------------|------------------|----------------------|
| Commercial and industrial    | \$ 10,038        | \$ 12,588            |
| Real estate:                 |                  |                      |
| Commercial real estate       | 10,572           | 10,665               |
| Construction and development | —                | 238                  |
| 1-4 family residential       | 363              | 526                  |
| Total nonaccrual loans       | <u>\$ 20,973</u> | <u>\$ 24,017</u>     |

Interest income that would have been earned under the original terms of the nonaccrual loans was \$366,000 and \$121,000 for the six months ended June 30, 2021 and 2020, respectively.

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Loans restructured due to the borrower's financial difficulties, or troubled debt restructurings, during the six months ended June 30, 2021 and 2020, that remained outstanding as of the end of those periods were as follows:

| (Dollars in thousands)       | Number of Loans | Pre-modification Outstanding Recorded Investment | Post-modification Recorded Investment |                   |   |   |
|------------------------------|-----------------|--|---------------------------------------|-------------------|---|---|
|                              |                 |  | Restructured Payments                 | Extended Maturity | Extended Maturity and Restructured Payments | Extended Maturity, Restructured Payments and Adjusted Interest Rate |
| <b>June 30, 2021</b>         |                 |  |                                       |                   |   |   |
| Commercial and industrial    | 3               | \$ 3,256   | \$ 3,256                              | \$ —              | \$ —  | \$ —  |
| Real estate:                 |                 |  |                                       |                   |   |   |
| Commercial real estate       | 1               | 1,206  | 1,206                                 | —                 | —   | —   |
| 1-4 family residential       | 1               | 1,548  | 1,548                                 | —                 | —   | —   |
| Total                        | 5               | \$ 6,010   | \$ 6,010                              | \$ —              | \$ —  | \$ —  |
| <b>June 30, 2020</b>         |                 |  |                                       |                   |   |   |
| Commercial and industrial    | 17              | \$ 3,131   | \$ 2,899                              | \$ —              | \$ —  | \$ 232  |
| Real estate:                 |                 |  |                                       |                   |   |   |
| Commercial real estate       | 8               | 9,715  | 9,715                                 | —                 | —   | —   |
| Construction and development | 5               | 12,564   | 12,032                                | —                 | —   | 532   |
| 1-4 family residential       | 5               | 1,629  | 1,651                                 | —                 | —   | —   |
| Total                        | 35              | \$ 27,039  | \$ 26,297                             | \$ —              | \$ —  | \$ 764  |

Loan modifications related to a loan refinancing or restructuring other than a troubled debt restructuring are accounted for as a new loan if the terms provided to the borrower are at least as favorable to the Company as terms for comparable loans to other borrowers with similar collection risks that is not a loan refinancing or restructuring. If the loan refinancing or restructuring does not meet this condition or if only minor modifications are made to the original loan contract, it is not considered a new loan and is considered a renewal or modification of the original contract. Restructured or modified loans are not considered past due if they are performing under the terms of the modified or restructured payment schedule.

A troubled debt restructuring is considered in default when a payment in accordance with the terms of the restructuring is more than 30 days past due. All loans restructured in a troubled debt restructuring are individually evaluated based on the underlying collateral for the determination of an ACL. See Note 6: Allowance for Credit Losses for further discussions on specific reserves.

Troubled debt restructuring during the twelve months ended indicated below with payment defaults were as follows:

| (Dollars in thousands)       | June 30, 2021   |           | June 30, 2020   |         |
|------------------------------|-----------------|-----------|-----------------|---------|
|                              | Number of Loans | Balance   | Number of Loans | Balance |
| Commercial and industrial    | 3               | \$ 5,892  | —               | \$ —    |
| Real estate:                 |                 |           |                 |         |
| Commercial real estate       | 1               | 4,722     | —               | —       |
| Construction and development | —               | —         | 2               | 506     |
| Total                        | 4               | \$ 10,614 | 2               | \$ 506  |

At June 30, 2021 and December 31, 2020, the Company had an outstanding commitment to fund \$4.8 million and \$593,000, respectively, for loans that were previously restructured.



Loans individually evaluated for credit losses were as follows for the dates indicated below:

| (Dollars in thousands)       | Troubled Debt Restructurings |                  |                  | Other Non-Accrual | Other Accruing | Total Loans Individually Evaluated |
|------------------------------|------------------------------|------------------|------------------|-------------------|----------------|------------------------------------|
|                              | Accruing                     | Non-Accrual      | Total            |                   |                |                                    |
| <b>June 30, 2021</b>         |                              |                  |                  |                   |                |                                    |
| Commercial and industrial    | \$ 5,728                     | \$ 7,497         | \$ 13,225        | \$ 2,541          | \$ 746         | \$ 16,512                          |
| Real estate:                 |                              |                  |                  |                   |                |                                    |
| Commercial real estate       | 7,192                        | 10,512           | 17,704           | 60                | —              | 17,764                             |
| Construction and development | 12,323                       | —                | 12,323           | —                 | —              | 12,323                             |
| 1-4 family residential       | 3,142                        | 187              | 3,329            | 176               | —              | 3,505                              |
| Consumer                     | —                            | —                | —                | —                 | 90             | 90                                 |
| Other                        | 3,404                        | —                | 3,404            | —                 | —              | 3,404                              |
| <b>Total</b>                 | <b>\$ 31,789</b>             | <b>\$ 18,196</b> | <b>\$ 49,985</b> | <b>\$ 2,777</b>   | <b>\$ 836</b>  | <b>\$ 53,598</b>                   |
| <b>December 31, 2020</b>     |                              |                  |                  |                   |                |                                    |
| Commercial and industrial    | \$ 2,594                     | \$ 8,228         | \$ 10,822        | \$ 4,360          | \$ 746         | \$ 15,928                          |
| Real estate:                 |                              |                  |                  |                   |                |                                    |
| Commercial real estate       | 8,103                        | 10,601           | 18,704           | 64                | —              | 18,768                             |
| Construction and development | 12,648                       | 238              | 12,886           | —                 | —              | 12,886                             |
| 1-4 family residential       | 1,684                        | 106              | 1,790            | 420               | —              | 2,210                              |
| Other                        | 7,851                        | —                | 7,851            | —                 | —              | 7,851                              |
| <b>Total</b>                 | <b>\$ 32,880</b>             | <b>\$ 19,173</b> | <b>\$ 52,053</b> | <b>\$ 4,844</b>   | <b>\$ 746</b>  | <b>\$ 57,643</b>                   |

#### NOTE 6: ALLOWANCE FOR CREDIT LOSSES

The Company primarily manages credit quality and credit risk associated with its loan portfolio based on the risk grading assigned to each individual loan within the loan class. Each loan class is a grouping of loan receivables within the portfolio based on risk characteristics and the method for monitoring and assessing the associated credit risks. The Company's ACL for the loan portfolio has two main components: (i) a reserve based on expected losses on collectively evaluated loans with similar risk characteristics, or general reserve, utilizing an age-based vintage model; and (ii) an ACL for individually evaluated loans that do not share similar risk characteristics with other loans, or specific reserve. To determine the specific ACL, the Company utilizes various methods including discounted cash flow analysis and appraisal valuation on collateral to determine any expected credit losses requiring an ACL.

The Company excludes accrued interest and deferred fees and costs in the determination of an ACL and reverses previously accrued interest when it has been deemed uncollectible. Loans held for sale are excluded from the computation of expected credit losses as they are carried at the lower of cost or market value.

At June 30, 2021 and December 31, 2020, the ratio of the ACL for loans to loans excluding loans held for sale was 1.36% and 1.39%, respectively. The decrease in the ACL from December 31, 2020 to June 30, 2021 was primarily due to improvements in the national economy and economic forecasts, the reduction in the loan portfolio and an improvement in loan quality. The improvements in the national economic forecasts resulted from the recovery from the impact of the COVID-19 pandemic. The total of the Company's qualitative and quantitative factors ranged from 0.90% to 2.63% and 0.92% to 2.48% at June 30, 2021 and December 31, 2020, respectively. All factors are reassessed at the end of each quarter.

The review of the appropriateness of the ACL, which includes evaluation of historical loss trends, qualitative adjustments and forecasted economic conditions applied to general reserves, is performed by executive management and presented to the Board of Directors for its review on a quarterly basis. The ACL at June 30, 2021, reflects the Company's assessment based on the information available at that time.

Loans by risk grades, loan class and vintage, at June 30, 2021 were as follows:

| (Dollars in thousands)                    | 2021              | 2020              | 2019              | 2018              | 2017              | Prior             | Revolving<br>Loans | Converted<br>Revolving<br>Loans | Total               |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|---------------------------------|---------------------|
| <b>Commercial and industrial:</b>         |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | \$ 201,597        | \$ 108,681        | \$ 71,587         | \$ 30,328         | \$ 10,764         | \$ 8,500          | \$ 199,757         | \$ 5,806                        | \$ 637,020          |
| Special mention                           | —                 | —                 | —                 | 24                | —                 | —                 | 3,256              | —                               | 3,280               |
| Substandard                               | —                 | 1,000             | 2,102             | 7,310             | 5                 | 426               | 1,531              | 6,059                           | 18,433              |
| <b>Total commercial and industrial</b>    | <b>201,597</b>    | <b>109,681</b>    | <b>73,689</b>     | <b>37,662</b>     | <b>10,769</b>     | <b>8,926</b>      | <b>204,544</b>     | <b>11,865</b>                   | <b>658,733</b>      |
| <b>Commercial real estate:</b>            |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 81,102            | 234,312           | 246,001           | 193,682           | 102,879           | 113,556           | 34,626             | 4,504                           | 1,010,662           |
| Special mention                           | —                 | 1,844             | 879               | —                 | —                 | 1,915             | 4,834              | —                               | 9,472               |
| Substandard                               | —                 | 1,317             | 11,349            | 14,751            | 359               | 2,208             | 10,850             | —                               | 40,834              |
| <b>Total commercial real estate</b>       | <b>81,102</b>     | <b>237,473</b>    | <b>258,229</b>    | <b>208,433</b>    | <b>103,238</b>    | <b>117,679</b>    | <b>50,310</b>      | <b>4,504</b>                    | <b>1,060,968</b>    |
| <b>Construction and development:</b>      |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 67,028            | 124,652           | 89,754            | 38,963            | 18,892            | 3,313             | 70,596             | 486                             | 413,684             |
| Substandard                               | —                 | —                 | —                 | 1,500             | 10,207            | 616               | —                  | —                               | 12,323              |
| <b>Total construction and development</b> | <b>67,028</b>     | <b>124,652</b>    | <b>89,754</b>     | <b>40,463</b>     | <b>29,099</b>     | <b>3,929</b>      | <b>70,596</b>      | <b>486</b>                      | <b>426,007</b>      |
| <b>1-4 family residential:</b>            |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 14,385            | 22,825            | 29,942            | 38,592            | 25,978            | 66,800            | 5,024              | 973                             | 204,519             |
| Special mention                           | —                 | —                 | —                 | —                 | —                 | 1,524             | —                  | —                               | 1,524               |
| Substandard                               | —                 | 1,547             | 525               | 912               | 165               | 630               | —                  | 1,506                           | 5,285               |
| <b>Total 1-4 family residential</b>       | <b>14,385</b>     | <b>24,372</b>     | <b>30,467</b>     | <b>39,504</b>     | <b>26,143</b>     | <b>68,954</b>     | <b>5,024</b>       | <b>2,479</b>                    | <b>211,328</b>      |
| <b>Multi-family residential:</b>          |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 10,280            | 20,490            | 2,370             | 51,712            | 10,236            | 168,587           | 1,577              | —                               | 265,252             |
| <b>Total multi-family residential</b>     | <b>10,280</b>     | <b>20,490</b>     | <b>2,370</b>      | <b>51,712</b>     | <b>10,236</b>     | <b>168,587</b>    | <b>1,577</b>       | <b>—</b>                        | <b>265,252</b>      |
| <b>Consumer:</b>                          |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 4,915             | 5,441             | 2,045             | 1,325             | 1,532             | 68                | 15,444             | 484                             | 31,254              |
| Substandard                               | —                 | —                 | —                 | —                 | —                 | —                 | 190                | —                               | 190                 |
| <b>Total consumer</b>                     | <b>4,915</b>      | <b>5,441</b>      | <b>2,045</b>      | <b>1,325</b>      | <b>1,532</b>      | <b>68</b>         | <b>15,634</b>      | <b>484</b>                      | <b>31,444</b>       |
| <b>Agriculture:</b>                       |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 2,979             | 1,063             | 54                | 111               | 72                | 12                | 3,736              | 191                             | 8,218               |
| Substandard                               | —                 | —                 | —                 | —                 | —                 | 21                | 44                 | —                               | 65                  |
| <b>Total agriculture</b>                  | <b>2,979</b>      | <b>1,063</b>      | <b>54</b>         | <b>111</b>        | <b>72</b>         | <b>33</b>         | <b>3,780</b>       | <b>191</b>                      | <b>8,283</b>        |
| <b>Other:</b>                             |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 10,798            | 7,439             | 1,393             | 1,850             | 16                | 1,243             | 52,463             | —                               | 75,202              |
| Substandard                               | —                 | 977               | —                 | —                 | —                 | 1,214             | 1,214              | —                               | 3,405               |
| <b>Total other</b>                        | <b>10,798</b>     | <b>8,416</b>      | <b>1,393</b>      | <b>1,850</b>      | <b>16</b>         | <b>2,457</b>      | <b>53,677</b>      | <b>—</b>                        | <b>78,607</b>       |
| <b>Total</b>                              |                   |                   |                   |                   |                   |                   |                    |                                 |                     |
| Pass                                      | 393,084           | 524,903           | 443,146           | 356,563           | 170,369           | 362,079           | 383,223            | 12,444                          | 2,645,811           |
| Special mention                           | —                 | 1,844             | 879               | 24                | —                 | 3,439             | 8,090              | —                               | 14,276              |
| Substandard                               | —                 | 4,841             | 13,976            | 24,473            | 10,736            | 5,115             | 13,829             | 7,565                           | 80,535              |
| <b>Total</b>                              | <b>\$ 393,084</b> | <b>\$ 531,588</b> | <b>\$ 458,001</b> | <b>\$ 381,060</b> | <b>\$ 181,105</b> | <b>\$ 370,633</b> | <b>\$ 405,142</b>  | <b>\$ 20,009</b>                | <b>\$ 2,740,622</b> |

Loans by risk grades, loan class and vintage, at December 31, 2020 were as follows:

| <b>(Dollars in thousands)</b>             | <b>2020</b>       | <b>2019</b>       | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       | <b>Prior</b>      | <b>Revolving<br/>Loans</b> | <b>Converted<br/>Revolving<br/>Loans</b> | <b>Total</b>        |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------------|--|---------------------|
| <b>Commercial and industrial:</b>         |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | \$ 349,697        | \$ 81,131         | \$ 46,973         | \$ 13,161         | \$ 8,349          | \$ 3,432          | \$ 214,160                 | \$ 3,562                                 | \$ 720,465          |
| Special mention                           | —                 | —                 | 33                | —                 | —                 | —                 | 3,371                      | —  | 3,404               |
| Substandard                               | 1,001             | 2,633             | 6,177             | 15                | 20                | 2,021             | 779                        | 6,442                                    | 19,088              |
| <b>Total commercial and industrial</b>    | <b>350,698</b>    | <b>83,764</b>     | <b>53,183</b>     | <b>13,176</b>     | <b>8,369</b>      | <b>5,453</b>      | <b>218,310</b>             | <b>10,004</b>                            | <b>742,957</b>      |
| <b>Commercial real estate:</b>            |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 262,072           | 210,954           | 196,630           | 138,424           | 68,468            | 84,453            | 30,020                     | 9,482                                    | 1,000,503           |
| Special mention                           | —                 | 1,224             | —                 | —                 | —                 | 1,390             | —                          | 4,905                                    | 7,519               |
| Substandard                               | —                 | 11,532            | 9,599             | 476               | 1,059             | 1,985             | 9,325                      | —  | 33,976              |
| <b>Total commercial real estate</b>       | <b>262,072</b>    | <b>223,710</b>    | <b>206,229</b>    | <b>138,900</b>    | <b>69,527</b>     | <b>87,828</b>     | <b>39,345</b>              | <b>14,387</b>                            | <b>1,041,998</b>    |
| <b>Construction and development:</b>      |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 165,894           | 163,658           | 92,455            | 20,146            | 6,707             | 273               | 53,800                     | —  | 502,933             |
| Substandard                               | —                 | 238               | 8,386             | 10,532            | —                 | 616               | —                          | —  | 19,772              |
| <b>Total construction and development</b> | <b>165,894</b>    | <b>163,896</b>    | <b>100,841</b>    | <b>30,678</b>     | <b>6,707</b>      | <b>889</b>        | <b>53,800</b>              | <b>—</b>                                 | <b>522,705</b>      |
| <b>1-4 family residential:</b>            |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 27,002            | 30,978            | 48,561            | 34,970            | 24,386            | 57,122            | 7,004                      | 631                                      | 230,654             |
| Special mention                           | 1,548             | —                 | —                 | —                 | 1,617             | —                 | —                          | —  | 3,165               |
| Substandard                               | —                 | 534               | 1,211             | 1,571             | 15                | 1,215             | —                          | 1,507                                    | 6,053               |
| <b>Total 1-4 family residential</b>       | <b>28,550</b>     | <b>31,512</b>     | <b>49,772</b>     | <b>36,541</b>     | <b>26,018</b>     | <b>58,337</b>     | <b>7,004</b>               | <b>2,138</b>                             | <b>239,872</b>      |
| <b>Multi-family residential:</b>          |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 20,823            | 3,119             | 36,971            | 10,655            | 2,153             | 184,539           | 86                         | —  | 258,346             |
| <b>Total multi-family residential</b>     | <b>20,823</b>     | <b>3,119</b>      | <b>36,971</b>     | <b>10,655</b>     | <b>2,153</b>      | <b>184,539</b>    | <b>86</b>                  | <b>—</b>                                 | <b>258,346</b>      |
| <b>Consumer:</b>                          |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 8,937             | 3,073             | 1,855             | 1,875             | 146               | 23                | 17,573                     | 402                                      | 33,884              |
| <b>Total consumer</b>                     | <b>8,937</b>      | <b>3,073</b>      | <b>1,855</b>      | <b>1,875</b>      | <b>146</b>        | <b>23</b>         | <b>17,573</b>              | <b>402</b>                               | <b>33,884</b>       |
| <b>Agriculture:</b>                       |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 3,937             | 105               | 338               | 86                | 16                | —                 | 4,108                      | 7  | 8,597               |
| Substandard                               | —                 | —                 | —                 | —                 | —                 | 23                | 50                         | —  | 73                  |
| <b>Total agriculture</b>                  | <b>3,937</b>      | <b>105</b>        | <b>338</b>        | <b>86</b>         | <b>16</b>         | <b>23</b>         | <b>4,158</b>               | <b>7</b>                                 | <b>8,670</b>        |
| <b>Other:</b>                             |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 14,624            | 3,239             | 3,562             | 24                | 84                | 1,250             | 57,603                     | —  | 80,386              |
| Substandard                               | 1,211             | —                 | —                 | —                 | 1,232             | —                 | 5,409                      | —  | 7,852               |
| <b>Total other</b>                        | <b>15,835</b>     | <b>3,239</b>      | <b>3,562</b>      | <b>24</b>         | <b>1,316</b>      | <b>1,250</b>      | <b>63,012</b>              | <b>—</b>                                 | <b>88,238</b>       |
| <b>Total</b>                              |                   |                   |                   |                   |                   |                   |                            |  |                     |
| Pass                                      | 852,986           | 496,257           | 427,345           | 219,341           | 110,309           | 331,092           | 384,354                    | 14,084                                   | 2,835,768           |
| Special mention                           | 1,548             | 1,224             | 33                | —                 | 1,617             | 1,390             | 3,371                      | 4,905                                    | 14,088              |
| Substandard                               | 2,212             | 14,937            | 25,373            | 12,594            | 2,326             | 5,860             | 15,563                     | 7,949                                    | 86,814              |
| <b>Total</b>                              | <b>\$ 856,746</b> | <b>\$ 512,418</b> | <b>\$ 452,751</b> | <b>\$ 231,935</b> | <b>\$ 114,252</b> | <b>\$ 338,342</b> | <b>\$ 403,288</b>          | <b>\$ 26,938</b>                         | <b>\$ 2,936,670</b> |

Loans by risk grades and loan class as of the dates shown below were as follows:

| (Dollars in thousands)       | Pass                | Special Mention  | Substandard      | Total Loans         |
|------------------------------|---------------------|------------------|------------------|---------------------|
| <b>June 30, 2021</b>         |                     |                  |                  |                     |
| Commercial and industrial    | \$ 637,020          | \$ 3,280         | \$ 18,433        | \$ 658,733          |
| Real estate:                 |                     |                  |                  |                     |
| Commercial real estate       | 1,010,662           | 9,472            | 40,834           | 1,060,968           |
| Construction and development | 413,684             | —                | 12,323           | 426,007             |
| 1-4 family residential       | 204,519             | 1,524            | 5,285            | 211,328             |
| Multi-family residential     | 265,252             | —                | —                | 265,252             |
| Consumer                     | 31,254              | —                | 190              | 31,444              |
| Agriculture                  | 8,218               | —                | 65               | 8,283               |
| Other                        | 75,202              | —                | 3,405            | 78,607              |
| Total loans                  | <u>\$ 2,645,811</u> | <u>\$ 14,276</u> | <u>\$ 80,535</u> | <u>\$ 2,740,622</u> |
| <b>December 31, 2020</b>     |                     |                  |                  |                     |
| Commercial and industrial    | \$ 720,465          | \$ 3,404         | \$ 19,088        | \$ 742,957          |
| Real estate:                 |                     |                  |                  |                     |
| Commercial real estate       | 1,000,503           | 7,519            | 33,976           | 1,041,998           |
| Construction and development | 502,933             | —                | 19,772           | 522,705             |
| 1-4 family residential       | 230,654             | 3,165            | 6,053            | 239,872             |
| Multi-family residential     | 258,346             | —                | —                | 258,346             |
| Consumer                     | 33,884              | —                | —                | 33,884              |
| Agriculture                  | 8,597               | —                | 73               | 8,670               |
| Other                        | 80,386              | —                | 7,852            | 88,238              |
| Total loans                  | <u>\$ 2,835,768</u> | <u>\$ 14,088</u> | <u>\$ 86,814</u> | <u>\$ 2,936,670</u> |

Loans individually evaluated and collectively evaluated as of the dates shown below were as follows:

| (Dollars in thousands)       | June 30, 2021                |                              |                     | December 31, 2020            |                              |                     |
|------------------------------|------------------------------|------------------------------|---------------------|------------------------------|------------------------------|---------------------|
|                              | Individually Evaluated Loans | Collectively Evaluated Loans | Total Loans         | Individually Evaluated Loans | Collectively Evaluated Loans | Total Loans         |
| Commercial and industrial    | \$ 16,512                    | \$ 642,221                   | \$ 658,733          | \$ 15,928                    | \$ 727,029                   | \$ 742,957          |
| Real estate:                 |                              |                              |                     |                              |                              |                     |
| Commercial real estate       | 17,764                       | 1,043,204                    | 1,060,968           | 18,768                       | 1,023,230                    | 1,041,998           |
| Construction and development | 12,323                       | 413,684                      | 426,007             | 12,886                       | 509,819                      | 522,705             |
| 1-4 family residential       | 3,505                        | 207,823                      | 211,328             | 2,210                        | 237,662                      | 239,872             |
| Multi-family residential     | —                            | 265,252                      | 265,252             | —                            | 258,346                      | 258,346             |
| Consumer                     | 90                           | 31,354                       | 31,444              | —                            | 33,884                       | 33,884              |
| Agriculture                  | —                            | 8,283                        | 8,283               | —                            | 8,670                        | 8,670               |
| Other                        | 3,404                        | 75,203                       | 78,607              | 7,851                        | 80,387                       | 88,238              |
| Total                        | <u>\$ 53,598</u>             | <u>\$ 2,687,024</u>          | <u>\$ 2,740,622</u> | <u>\$ 57,643</u>             | <u>\$ 2,879,027</u>          | <u>\$ 2,936,670</u> |

Nonaccrual loans are included in individually evaluated loans and \$8.8 million and \$11.2 million of nonaccrual loans had no related ACL at June 30, 2021 and December 31, 2020, respectively.

The Company had collateral dependent loans totaling \$105,000 pending foreclosure at June 30, 2021.

Activity in the ACL for loans, segregated by loan class for the six months ended June 30, 2021 and 2020, was as follows:

| (Dollars in thousands)          | Commercial and Industrial | Real Estate            |                              |                        |                          | Consumer | Agriculture | Other    | Total     |
|---------------------------------|---------------------------|------------------------|------------------------------|------------------------|--------------------------|----------|-------------|----------|-----------|
|                                 |                           | Commercial Real Estate | Construction and Development | 1-4 Family Residential | Multi-family Residential |          |             |          |           |
| <b>June 30, 2021</b>            |                           |                        |                              |                        |                          |          |             |          |           |
| Beginning balance               | \$ 13,035                 | \$ 13,798              | \$ 6,089                     | \$ 2,578               | \$ 2,513                 | \$ 440   | \$ 137      | \$ 2,047 | \$ 40,637 |
| Provision (recapture)           | (1,083)                   | (538)                  | (1,636)                      | (406)                  | (131)                    | (46)     | (64)        | —        | (3,904)   |
| Charge-offs                     | (495)                     | —                      | —                            | —                      | —                        | (3)      | —           | —        | (498)     |
| Recoveries                      | 803                       | —                      | —                            | —                      | —                        | 103      | 42          | —        | 948       |
| Net recoveries                  | 308                       | —                      | —                            | —                      | —                        | 100      | 42          | —        | 450       |
| Ending balance                  | \$ 12,260                 | \$ 13,260              | \$ 4,453                     | \$ 2,172               | \$ 2,382                 | \$ 494   | \$ 115      | \$ 2,047 | \$ 37,183 |
| Period-end amount allocated to: |                           |                        |                              |                        |                          |          |             |          |           |
| Specific reserve                | \$ 4,803                  | \$ 252                 | \$ —                         | \$ —                   | \$ —                     | \$ 90    | \$ —        | \$ 536   | \$ 5,681  |
| General reserve                 | 7,457                     | 13,008                 | 4,453                        | 2,172                  | 2,382                    | 404      | 115         | 1,511    | 31,502    |
| Total                           | \$ 12,260                 | \$ 13,260              | \$ 4,453                     | \$ 2,172               | \$ 2,382                 | \$ 494   | \$ 115      | \$ 2,047 | \$ 37,183 |
| <b>June 30, 2020</b>            |                           |                        |                              |                        |                          |          |             |          |           |
| Beginning balance               | \$ 7,671                  | \$ 7,975               | \$ 4,446                     | \$ 2,257               | \$ 1,699                 | \$ 388   | \$ 74       | \$ 770   | \$ 25,280 |
| Impact of CECL adoption         | 852                       | (140)                  | 100                          | (275)                  | 294                      | (25)     | 64          | 4        | 874       |
| Provision (recapture)           | 3,169                     | 4,613                  | 2,504                        | 1,256                  | 887                      | 258      | (16)        | 605      | 13,276    |
| Charge-offs                     | (79)                      | (24)                   | —                            | (66)                   | —                        | (103)    | —           | —        | (272)     |
| Recoveries                      | 495                       | —                      | —                            | 1                      | —                        | 11       | 12          | 1        | 520       |
| Net (charge-offs) recoveries    | 416                       | (24)                   | —                            | (65)                   | —                        | (92)     | 12          | 1        | 248       |
| Ending balance                  | \$ 12,108                 | \$ 12,424              | \$ 7,050                     | \$ 3,173               | \$ 2,880                 | \$ 529   | \$ 134      | \$ 1,380 | \$ 39,678 |
| Period-end amount allocated to: |                           |                        |                              |                        |                          |          |             |          |           |
| Specific reserve                | \$ 2,403                  | \$ —                   | \$ —                         | \$ —                   | \$ —                     | \$ —     | \$ —        | \$ 468   | \$ 2,871  |
| General reserve                 | 9,705                     | 12,424                 | 7,050                        | 3,173                  | 2,880                    | 529      | 134         | 912      | 36,807    |
| Total                           | \$ 12,108                 | \$ 12,424              | \$ 7,050                     | \$ 3,173               | \$ 2,880                 | \$ 529   | \$ 134      | \$ 1,380 | \$ 39,678 |

The ACL for loans by loan class as of the periods indicated was as follows:

| (Dollars in thousands)                               | June 30, 2021 |         | December 31, 2020 |         |
|--|---------------|---------|-------------------|---------|
|  | Amount        | Percent | Amount            | Percent |
| Commercial and industrial                            | \$ 12,260     | 33.0 %  | \$ 13,035         | 32.1 %  |
| Real estate:   |               |         |                   |         |
| Commercial real estate                               | 13,260        | 35.7 %  | 13,798            | 34.0 %  |
| Construction and development                         | 4,453         | 12.0 %  | 6,089             | 15.0 %  |
| 1-4 family residential                               | 2,172         | 5.8 %   | 2,578             | 6.3 %   |
| Multi-family residential                             | 2,382         | 6.4 %   | 2,513             | 6.2 %   |
| Consumer   | 494           | 1.3 %   | 440               | 1.1 %   |
| Agriculture  | 115           | 0.3 %   | 137               | 0.3 %   |
| Other  | 2,047         | 5.5 %   | 2,047             | 5.0 %   |
| Total allowance for credit losses for loans          | \$ 37,183     | 100.0 % | \$ 40,637         | 100.0 % |
| Loans excluding loans held for sale                  | 2,729,496     |         | 2,924,117         |         |
| ACL for loans to loans excluding loans held for sale | 1.36%         |         | 1.39%             |         |

Allocation of a portion of the ACL to one class of loans above does not preclude its availability to absorb losses in other classes.

Charge-offs and recoveries by loan class and vintage for the six months ended June 30, 2021 were as follows:

| (Dollars in thousands)            | 2021 | 2020 | 2019     | 2018     | 2017  | Prior  | Revolving<br>Loans | Converted<br>Revolving<br>Loans | Total    |
|-----------------------------------|------|------|----------|----------|-------|--------|--------------------|---------------------------------|----------|
| <b>Commercial and industrial:</b> |      |      |          |          |       |        |                    |                                 |          |
| Charge-off                        | \$ — | \$ — | \$ (191) | \$ (260) | \$ —  | \$ —   | \$ —               | \$ (44)                         | \$ (495) |
| Recovery                          | —    | —    | 3        | 29       | 40    | 703    | —                  | 28                              | 803      |
| Total commercial and industrial   | —    | —    | (188)    | (231)    | 40    | 703    | —                  | (16)                            | 308      |
| <b>Consumer:</b>                  |      |      |          |          |       |        |                    |                                 |          |
| Charge-off                        | —    | —    | (3)      | —        | —     | —      | —                  | —                               | (3)      |
| Recovery                          | 2    | —    | —        | 2        | —     | 99     | —                  | —                               | 103      |
| Total consumer                    | 2    | —    | (3)      | 2        | —     | 99     | —                  | —                               | 100      |
| <b>Agriculture:</b>               |      |      |          |          |       |        |                    |                                 |          |
| Recovery                          | —    | —    | —        | —        | —     | 42     | —                  | —                               | 42       |
| Total agriculture                 | —    | —    | —        | —        | —     | 42     | —                  | —                               | 42       |
| <b>Total:</b>                     |      |      |          |          |       |        |                    |                                 |          |
| Charge-off                        | —    | —    | (194)    | (260)    | —     | —      | —                  | (44)                            | (498)    |
| Recovery                          | 2    | —    | 3        | 31       | 40    | 844    | —                  | 28                              | 948      |
| Total                             | \$ 2 | \$ — | \$ (191) | \$ (229) | \$ 40 | \$ 844 | \$ —               | \$ (16)                         | \$ 450   |

Charge-offs and recoveries by loan class and vintage for the six months ended June 30, 2020 were as follows:

| (Dollars in thousands)            | 2020  | 2019    | 2018  | 2017    | 2016    | Prior  | Revolving<br>Loans | Total   |
|-----------------------------------|-------|---------|-------|---------|---------|--------|--------------------|---------|
| <b>Commercial and industrial:</b> |       |         |       |         |         |        |                    |         |
| Charge-off                        | \$ —  | \$ —    | \$ —  | \$ (36) | \$ (42) | \$ —   | \$ (1)             | \$ (79) |
| Recovery                          | —     | 2       | 92    | 33      | 19      | 155    | 194                | 495     |
| Total commercial and industrial   | —     | 2       | 92    | (3)     | (23)    | 155    | 193                | 416     |
| <b>Commercial real estate:</b>    |       |         |       |         |         |        |                    |         |
| Charge-off                        | —     | —       | —     | —       | —       | (24)   | —                  | (24)    |
| Total commercial real estate      | —     | —       | —     | —       | —       | (24)   | —                  | (24)    |
| <b>1-4 family residential:</b>    |       |         |       |         |         |        |                    |         |
| Charge-off                        | —     | (65)    | —     | —       | —       | (1)    | —                  | (66)    |
| Recovery                          | —     | —       | —     | —       | —       | 1      | —                  | 1       |
| Total 1-4 family residential      | —     | (65)    | —     | —       | —       | —      | —                  | (65)    |
| <b>Consumer:</b>                  |       |         |       |         |         |        |                    |         |
| Charge-off                        | —     | —       | (8)   | (95)    | —       | —      | —                  | (103)   |
| Recovery                          | 10    | —       | —     | —       | —       | 1      | —                  | 11      |
| Total consumer                    | 10    | —       | (8)   | (95)    | —       | 1      | —                  | (92)    |
| <b>Agriculture:</b>               |       |         |       |         |         |        |                    |         |
| Recovery                          | —     | —       | —     | —       | 12      | —      | —                  | 12      |
| Total agriculture                 | —     | —       | —     | —       | 12      | —      | —                  | 12      |
| <b>Other:</b>                     |       |         |       |         |         |        |                    |         |
| Recovery                          | —     | —       | —     | 1       | —       | —      | —                  | 1       |
| Total other                       | —     | —       | —     | 1       | —       | —      | —                  | 1       |
| <b>Total:</b>                     |       |         |       |         |         |        |                    |         |
| Charge-off                        | —     | (65)    | (8)   | (131)   | (42)    | (25)   | (1)                | (272)   |
| Recovery                          | 10    | 2       | 92    | 34      | 31      | 157    | 194                | 520     |
| Total                             | \$ 10 | \$ (63) | \$ 84 | \$ (97) | \$ (11) | \$ 132 | \$ 193             | \$ 248  |

The Company has unfunded commitments, comprised of letters of credit and commitments to extend credit that are not unconditionally cancellable by the Company. See Note 16: Commitments and Contingencies and Financial Instruments with Off-Balance-Sheet Risk. Unfunded commitments have similar characteristics as loans and their ACL was determined using the model and methodology for loans noted above as well as historical and expected utilization levels.

Activity in the ACL for unfunded commitments for the six months ended June 30, 2021 and 2020, was as follows:

| (Dollars in thousands)  | June 30,        |                 |
|-------------------------|-----------------|-----------------|
|                         | 2021            | 2020            |
| Beginning balance       | \$ 4,177        | \$ 378          |
| Impact of CECL adoption | —               | 2,981           |
| Provision (recapture)   | (767)           | 1,643           |
| Ending balance          | <u>\$ 3,410</u> | <u>\$ 5,002</u> |

**NOTE 7: PREMISES AND EQUIPMENT**

The components of premises and equipment as of the dates shown below were as follows:

| (Dollars in thousands)               | June 30,<br>2021 | December 31,<br>2020 |
|--------------------------------------|------------------|----------------------|
| Land                                 | \$ 15,484        | \$ 15,484            |
| Buildings and leasehold improvements | 64,120           | 64,113               |
| Furniture and equipment              | 17,014           | 16,777               |
| Vehicles                             | 248              | 216                  |
| Construction in progress             | 581              | 388                  |
|                                      | <u>97,447</u>    | <u>96,978</u>        |
| Less accumulated depreciation        | (37,460)         | (35,826)             |
| Premises and equipment, net          | <u>\$ 59,987</u> | <u>\$ 61,152</u>     |

Depreciation expense was \$1.7 million and \$1.5 million for the six months ended June 30, 2021 and 2020, respectively, and \$868,000 and \$745,000 for the three months ended June 30, 2021 and 2020, respectively. Depreciation expense is included in net occupancy expense in the Company's condensed consolidated statements of income.

**NOTE 8: GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill was \$81.0 million at June 30, 2021 and December 31, 2020 and there were no changes in goodwill during the six months ended June 30, 2021 or the year ended December 31, 2020. During the six months ended June 30, 2021, the Company continued to evaluate potential triggering events, including the economic disruption and uncertainties related to the COVID-19 pandemic and the sustained instability in the oil and gas industry, that could be indicators of impairment. Based on the results of the Company's evaluation, management does not believe any triggering events occurred that would indicate there was a potential impairment of goodwill or other intangible assets at June 30, 2021.

Other intangibles were as follows as of the dates shown below:

| (Dollars in thousands)             | Weighted-Average Remaining Amortization Period | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets |
|------------------------------------|--|-------------------------|--------------------------|-----------------------|
| <b>June 30, 2021</b>               |  |                         |                          |                       |
| Core deposits                      | 2.8 years                                      | \$ 13,750               | \$ (13,433)              | \$ 317                |
| Customer relationships             | 7.5 years                                      | 6,629                   | (3,314)                  | 3,315                 |
| Servicing assets                   | 11.4 years                                     | 451                     | (237)                    | 214                   |
| Total other intangible assets, net |  | <u>\$ 20,830</u>        | <u>\$ (16,984)</u>       | <u>\$ 3,846</u>       |
| <b>December 31, 2020</b>           |  |                         |                          |                       |
| Core deposits                      | 3.2 years                                      | \$ 13,750               | \$ (13,305)              | \$ 445                |
| Customer relationships             | 8.0 years                                      | 6,629                   | (3,093)                  | 3,536                 |
| Servicing assets                   | 10.4 years                                     | 399                     | (209)                    | 190                   |
| Total other intangible assets, net |  | <u>\$ 20,778</u>        | <u>\$ (16,607)</u>       | <u>\$ 4,171</u>       |

*Servicing Assets*

Changes in servicing assets as of the dates indicated below were as follows:

| (Dollars in thousands)                              | June 30,      |               |
|---|---------------|---------------|
|   | 2021          | 2020          |
| Balance at beginning of year                        | \$ 190        | \$ 189        |
| Increase from loan sales                            | 53            | 9             |
| Decrease from serviced loans paid off or foreclosed | (1)           | —             |
| Amortization  | (28)          | (55)          |
| Balance at end of period                            | <u>\$ 214</u> | <u>\$ 143</u> |

**NOTE 9: BANK-OWNED LIFE INSURANCE**

Bank-owned life insurance policies and the net change in cash surrender value during the periods shown below were as follows:

| (Dollars in thousands)             | June 30,         |                  |
|------------------------------------|------------------|------------------|
|                                    | 2021             | 2020             |
| Balance at beginning of period     | \$ 72,338        | \$ 71,881        |
| Net change in cash surrender value | 780              | 828              |
| Balance at end of period           | <u>\$ 73,118</u> | <u>\$ 72,709</u> |

**NOTE 10: DEPOSITS**

Deposits as of the dates shown below were as follows:

| (Dollars in thousands)                                     | June 30,            | December 31,        |
|--|---------------------|---------------------|
|  | 2021                | 2020                |
| Interest-bearing demand accounts                           | \$ 375,543          | \$ 380,175          |
| Money market accounts                                      | 1,101,091           | 1,039,617           |
| Savings accounts   | 115,823             | 108,167             |
| Certificates and other time deposits, \$100,000 or greater | 142,343             | 152,592             |
| Certificates and other time deposits, less than \$100,000  | 125,202             | 144,818             |
| Total interest-bearing deposits                            | 1,860,002           | 1,825,369           |
| Noninterest-bearing deposits                               | 1,556,784           | 1,476,425           |
| Total deposits   | <u>\$ 3,416,786</u> | <u>\$ 3,301,794</u> |

At June 30, 2021 and December 31, 2020, the Company had \$34.5 million and \$29.3 million in deposits from public entities and brokered deposits of \$69.9 million and \$88.0 million, respectively. At June 30, 2021 and December 31, 2020, overdrafts of \$293,000 and \$336,000, respectively, were reclassified to loans. Accrued interest payable for deposits was \$186,000 and \$324,000 at June 30, 2021 and December 31, 2020, respectively, and is included in other liabilities in the condensed consolidated balance sheets. The Company had no major concentrations of deposits at June 30, 2021 or December 31, 2020 from any single or related groups of depositors. At June 30, 2021, \$72.1 million of certificates of deposits or other time deposits were uninsured. Securities pledged and the letter of credit issued under the Company's Federal Home Loan blanket lien arrangement which secure public deposits were not considered in determining the amount of uninsured time deposits.



**NOTE 11: LINES OF CREDIT*****Frost Line of Credit***

The Company has entered into a loan agreement with another financial institution, or Loan Agreement, which has been periodically amended and provides for a \$30.0 million revolving line of credit. At June 30, 2021, there were no outstanding borrowings on this line of credit and the Company did not draw on this line of credit during 2021 or 2020. The Company can make draws on the line of credit for a period of 24 months, which began on December 13, 2019, after which the Company will not be permitted to make further draws and the outstanding balance will amortize over a period of 60 months. Interest accrues on outstanding borrowings at a rate equal to the maximum “Latest” U.S. prime rate of interest per annum and payable quarterly over 24 months beginning December 13, 2019, and thereafter, quarterly principal and interest payments are required over a term of 60 months. The entire outstanding balance and unpaid interest is payable in full on December 13, 2026.

The Company may prepay the principal amount of the line of credit without premium or penalty. The obligations of the Company under the Loan Agreement are secured by a valid and perfected first priority lien on all of the issued and outstanding shares of capital stock of the Bank.

Covenants made under the Loan Agreement include, among other things, the Company maintaining tangible net worth of not less than \$300.0 million, the Company maintaining a free cash flow coverage ratio of not less than 1.25 to 1.00, the Bank’s Texas Ratio (as defined in the Loan Agreement) not to exceed 15%, the Bank’s Total Capital Ratio (as defined under the Loan Agreement) of not less than 12% and restrictions on the ability of the Company and its subsidiaries to incur certain additional debt. The Company was in compliance with these covenants at June 30, 2021.

***Additional Lines of Credit***

The Federal Home Loan Bank allows the Company to borrow on a blanket floating lien status collateralized by certain loans and the blanket lien amount was \$1.1 billion at both June 30, 2021 and December 31, 2020. Federal Home Loan Bank advances outstanding totaled \$50.0 million at both June 30, 2021 and December 31, 2020, and these borrowings were on a long-term basis. See maturity information below. At December 31, 2020, there was a \$10.8 million letter of credit outstanding that was issued under this agreement and used as collateral to secure certain public deposits. After considering the outstanding advances and letter of credit, the net capacity available under the Federal Home Loan Bank facility was \$1.1 billion at June 30, 2021 and \$1.0 billion at December 31, 2020.

During the six months ended June 30, 2020, the Company also borrowed under this agreement on a short-term basis but did not during the six months ended June 30, 2021. The average outstanding balance for Federal Home Loan Bank advances for the six months ended June 30, 2021 and 2020 was \$50.0 million and \$60.4 million, respectively, and the weighted-average interest rate for the same periods was 1.78% and 1.54%, respectively.

The scheduled maturities of Federal Home Loan Bank advances as of the date shown below were as follows:

| <b>(Dollars in thousands)</b> | <b>June 30, 2021</b> |
|-------------------------------|----------------------|
| 2021                          | \$ —                 |
| 2022                          | 10,000               |
| 2023                          | 20,000               |
| 2024                          | 20,000               |
| 2025                          | —                    |
| Thereafter                    | —                    |
| Total                         | <u>\$ 50,000</u>     |

At June 30, 2021 and December 31, 2020, the Company maintained federal funds lines of credit with commercial banks that provided for the availability to borrow up to an aggregate of \$65.0 million. There were no funds under these lines of credit outstanding at June 30, 2021 or December 31, 2020.

## NOTE 12: RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company, through the Bank, has and expects to continue to conduct routine banking business with related parties, including its executive officers and directors. Related parties also include shareholders and their affiliates who directly or indirectly have 5% or more beneficial ownership in the Company.

Loans—In the opinion of management, loans to related parties were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the Company. The Company had approximately \$149.2 million and \$167.6 million in loans to related parties at June 30, 2021 and December 31, 2020, respectively. At June 30, 2021 and December 31, 2020, there were no loans made to related parties deemed nonaccrual, past due, restructured in a troubled debt restructuring or classified as potential problem loans.

Unfunded Commitments—At June 30, 2021 and December 31, 2020, the Company had approximately \$44.8 million and \$47.3 million in unfunded loan commitments to related parties, respectively.

Deposits—The Company held related party deposits of approximately \$219.5 million and \$210.1 million at June 30, 2021 and December 31, 2020, respectively.

## NOTE 13: FAIR VALUE DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction occurring 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. In estimating fair value, the Company uses valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques refer to the assumptions used in pricing the asset or liability. Valuation inputs are categorized in a three-level hierarchy, 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 and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs—Other observable inputs that may 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 or other inputs that are observable for the asset or liability such as interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates or inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs—Unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

During the six months ended June 30, 2021 and the year ended December 31, 2020, there were no transfers of assets or liabilities within the levels of the fair value hierarchy.

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 models that primarily use observable market-based parameters as inputs. Valuation adjustments may be made to ensure that assets and liabilities are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. 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 could result in different estimates of fair value. Fair value estimates are based on judgments regarding current economic conditions, risk characteristics of the various instruments and other factors. These estimates

are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision.

*Financial Instruments Measured at Fair Value on a Recurring Basis*

The Company's assets and liabilities measured at fair value on a recurring basis include the following:

**Debt Securities Available for Sale**—Debt securities classified as available for sale are recorded at fair value. For those debt securities classified as Level 1 and 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, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things. The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies for reasonableness.

**Equity Securities Available for Sale**—Equity securities are classified as available for sale and are recorded at fair value. The fair value measurements are based on observable data obtained from a third-party pricing service. The Company reviews the prices supplied by the service against publicly available information. The equity securities are mutual funds publicly traded on the National Association of Securities Dealers Automated Quotations and the fair value is determined by using unadjusted quoted market prices which are considered Level 1 inputs.

**Interest Rate Swaps**—The Company obtains fair value measurements for its interest rate swaps from an independent pricing service which uses the income approach. The income approach calls for the utilization of valuation techniques to convert future cash flows as due to be exchanged per the terms of the financial instrument, into a single present value amount. Measurement is based on the value indicated by the market expectations about those future amounts as of the measurement date. The proprietary curves of the independent pricing service utilize pricing models derived from industry standard analytic tools, considering both Level 1 and Level 2 inputs. Interest rate swaps are classified as Level 2.

Financial assets and financial liabilities measured at fair value on a recurring basis as of the dates shown below were as follows:

| <b>(Dollars in thousands)</b>                                 | <b>June 30,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|---|--------------------------|------------------------------|
| <b>Fair value of financial assets:</b>                        |                          |                              |
| <b>Level 1 inputs:</b>  |                          |                              |
| Equity securities   | \$ 1,182                 | \$ 1,193                     |
| Debt securities available for sale - U.S. Treasury securities | 11,961                   | —                            |
| <b>Level 2 inputs:</b>  |                          |                              |
| <b>Debt securities available for sale:</b>                    |                          |                              |
| State and municipal securities                                | 127,107                  | 93,037                       |
| U.S. agency securities:                                       |                          |                              |
| Callable debentures   | 3,002                    | —                            |
| Collateralized mortgage obligations                           | 34,589                   | 35,402                       |
| Mortgage-backed securities                                    | 131,392                  | 107,649                      |
| Interest rate swaps   | 5,064                    | 8,618                        |
| <b>Level 3 inputs:</b>  |                          |                              |
| Credit risk participation agreement                           | 17                       | 40                           |
| <b>Total fair value of financial assets</b>                   | <b>\$ 314,314</b>        | <b>\$ 245,939</b>            |
| <b>Fair value of financial liabilities:</b>                   |                          |                              |
| <b>Level 2 inputs:</b>  |                          |                              |
| Interest rate swaps   | \$ 5,064                 | \$ 8,618                     |
| <b>Total fair value of financial liabilities</b>              | <b>\$ 5,064</b>          | <b>\$ 8,618</b>              |

*Financial Instruments Measured at Fair Value on a Non-recurring Basis*

A portion of financial instruments are measured at fair value on a non-recurring basis and are subject to fair value adjustments in certain circumstances. Financial assets measured at fair value on a non-recurring basis during the dates shown below include certain loans reported at the fair value of the underlying collateral if repayment is expected solely

from the collateral or a discounted cash flow method if not. Prior to foreclosure, estimated fair values for collateral is estimated based on Level 3 inputs based on customized discounting criteria. The Company's financial assets measured at fair value on a non-recurring basis are certain individually evaluated loans and as of the dates shown below were as follows:

| (Dollars in thousands)       | June 30, 2021       |                 |                  | December 31, 2020   |                 |                  |
|------------------------------|---------------------|-----------------|------------------|---------------------|-----------------|------------------|
|                              | Recorded Investment | Specific ACL    | Net              | Recorded Investment | Specific ACL    | Net              |
| Level 3 inputs:              |                     |                 |                  |                     |                 |                  |
| Loans evaluated individually |                     |                 |                  |                     |                 |                  |
| Commercial and industrial    | \$ 9,860            | \$ 4,803        | \$ 5,057         | \$ 10,509           | \$ 5,004        | \$ 5,505         |
| Commercial real estate       | 5,705               | 252             | 5,453            | 5,727               | 323             | 5,404            |
| Consumer                     | 90                  | 90              | —                | —                   | —               | —                |
| Other                        | 2,190               | 536             | 1,654            | 1,232               | 205             | 1,027            |
| <b>Total</b>                 | <b>\$ 17,845</b>    | <b>\$ 5,681</b> | <b>\$ 12,164</b> | <b>\$ 17,468</b>    | <b>\$ 5,532</b> | <b>\$ 11,936</b> |

*Non-Financial Assets and Non-Financial Liabilities Measured at Fair Value on a Non-recurring Basis*

The Company's non-financial assets measured at fair value on a non-recurring basis for the periods reported are foreclosed assets (upon initial recognition or subsequent impairment). The Company's other non-financial assets whose fair value may be measured on a non-recurring basis when there is evidence of impairment and may be subject to impairment adjustments include goodwill and intangible assets, among other assets.

The fair value of foreclosed assets may be estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria less estimated selling costs. There were no write-downs of foreclosed assets for fair value remeasurement subsequent to initial foreclosure during the six months ended June 30, 2021 or during 2020. There were no outstanding foreclosed assets at June 30, 2021 or December 31, 2020.

*Financial Instruments Reported at Amortized Cost*

Fair market values and carrying amounts of financial instruments that are reported at cost as of the dates shown below were as follows:

| (Dollars in thousands)              | June 30, 2021       |                     | December 31, 2020   |                     |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                     | Fair Value          | Carrying Amount     | Fair Value          | Carrying Amount     |
| Financial assets:                   |                     |                     |                     |                     |
| Level 1 inputs:                     |                     |                     |                     |                     |
| Cash and due from banks             | \$ 788,409          | \$ 788,409          | \$ 538,007          | \$ 538,007          |
| Level 2 inputs:                     |                     |                     |                     |                     |
| Bank-owned life insurance           | 73,118              | 73,118              | 72,338              | 72,338              |
| Accrued interest receivable         | 11,509              | 11,509              | 13,350              | 13,350              |
| Servicing asset                     | 214                 | 214                 | 190                 | 190                 |
| Level 3 inputs:                     |                     |                     |                     |                     |
| Loans, including held for sale, net | 2,723,450           | 2,693,121           | 2,919,854           | 2,886,153           |
| Other investments                   | 16,793              | 16,793              | 18,652              | 18,652              |
| <b>Total financial assets</b>       | <b>\$ 3,613,493</b> | <b>\$ 3,583,164</b> | <b>\$ 3,562,391</b> | <b>\$ 3,528,690</b> |
| Financial liabilities:              |                     |                     |                     |                     |
| Level 1 inputs:                     |                     |                     |                     |                     |
| Noninterest-bearing deposits        | \$ 1,556,784        | \$ 1,556,784        | \$ 1,476,425        | \$ 1,476,425        |
| Level 2 inputs:                     |                     |                     |                     |                     |
| Interest-bearing deposits           | 1,896,430           | 1,860,002           | 1,894,558           | 1,825,369           |
| Federal Home Loan Bank advances     | 51,222              | 50,000              | 51,726              | 50,000              |
| Accrued interest payable            | 260                 | 260                 | 398                 | 398                 |
| <b>Total financial liabilities</b>  | <b>\$ 3,504,696</b> | <b>\$ 3,467,046</b> | <b>\$ 3,423,107</b> | <b>\$ 3,352,192</b> |

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 the estimates of fair value and as such the fair values shown above are not necessarily indicative of the amounts the Company will realize. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**NOTE 14: DERIVATIVE FINANCIAL INSTRUMENTS**

The Company has outstanding interest rate swap contracts with certain customers and equal and offsetting interest rate swaps with other financial institutions entered into at the same time. These interest rate swap contracts are not designated as hedging instruments for mitigating interest rate risk. The objective of the transactions is to allow customers to effectively convert a variable rate loan to a fixed rate.

In connection with each swap transaction, the Company agreed to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, the Company agreed to pay a third-party financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts are designed to offset each other and do not significantly impact the Company's operating results except in certain situations where there is a significant deterioration in the customer's credit worthiness or that of the counterparties. At June 30, 2021 and December 31, 2020, management determined there was no such deterioration.

At June 30, 2021 and December 31, 2020, the Company had 22 and 23 interest rate swap agreements outstanding with borrowers and financial institutions, respectively. These derivative instruments are not designated as accounting hedges and changes in the net fair value are recognized in other noninterest income. Fair value amounts are included in other assets and other liabilities.

The Company has a credit risk participation agreement with another financial institution that is associated with an interest rate swap related to a loan for which the Company is the lead agent bank and the other financial institution provides credit protection to the Company should the borrower fail to perform under the terms of the interest rate swap agreement. The fair value of the agreement is determined based on the market value of the underlying interest rate swap adjusted for credit spreads and recovery rates.

Derivative instruments outstanding as of the dates shown below were as follows:

| <u>(Dollars in thousands)</u>                                  | <u>Classification</u> | <u>Notional<br/>Amounts</u> | <u>Fair<br/>Value</u> | <u>Fixed Rate</u> | <u>Floating Rate</u>        | <u>Weighted<br/>Average<br/>Maturity<br/>(Years)</u> |
|--|-----------------------|-----------------------------|-----------------------|-------------------|-----------------------------|--|
| <b>June 30, 2021</b>   |                       |                             |                       |                   |                             |  |
| Interest rate swaps with customers                             | Other assets          | \$ 99,006                   | \$ 4,453              | 3.25% -<br>5.89%  | LIBOR 1M + 2.50% -<br>3.00% | 4.42   |
| Interest rate swaps with financial institutions                | Other assets          | 36,862                      | 321                   | 3.50%             | LIBOR 1M + 2.50%            | 8.75   |
| Interest rate swaps with customers                             | Other assets          | 5,196                       | 290                   | 4.99%             | U.S. Prime                  | 6.46   |
| Interest rate swaps with financial institutions                | Other liabilities     | 5,196                       | (290)                 | 4.99%             | U.S. Prime                  | 6.46   |
| Interest rate swaps with financial institutions                | Other liabilities     | 99,006                      | (4,453)               | 3.25% -<br>5.89%  | LIBOR 1M + 2.50% -<br>3.00% | 4.42   |
| Interest rate swaps with customers                             | Other liabilities     | 36,862                      | (321)                 | 3.50%             | LIBOR 1M + 2.50%            | 8.75   |
| Credit risk participation agreement with financial institution | Other assets          | 13,823                      | 17                    | 3.50%             | LIBOR 1M + 2.50%            | 8.75   |
| Total derivatives  |                       | <u>\$ 295,951</u>           | <u>\$ 17</u>          |                   |                             |  |
| <b>December 31, 2020</b>                                       |                       |                             |                       |                   |                             |  |
| Interest rate swaps with customers                             | Other assets          | \$ 141,241                  | \$ 8,146              | 3.25% -<br>5.89%  | LIBOR 1M + 2.50% -<br>3.00% | 6.14   |
| Interest rate swaps with customers                             | Other assets          | 5,250                       | 472                   | 4.99%             | U.S. Prime                  | 6.96   |
| Interest rate swaps with financial institutions                | Other liabilities     | 5,250                       | (472)                 | 4.99%             | U.S. Prime                  | 6.96   |
| Interest rate swaps with financial institutions                | Other liabilities     | 141,241                     | (8,146)               | 3.25% -<br>5.89%  | LIBOR 1M + 2.50% -<br>3.00% | 6.14   |
| Credit risk participation agreement with financial institution | Other assets          | 14,084                      | 40                    | 3.50%             | LIBOR 1M + 2.50%            | 9.24   |
| Total derivatives  |                       | <u>\$ 307,066</u>           | <u>\$ 40</u>          |                   |                             |  |

**NOTE 15: OPERATING LEASES**

The Company leases certain office space, stand-alone buildings and land, which are recognized as operating lease right-of-use assets in the consolidated balance sheets and operating lease liabilities in the consolidated balance sheets represent the Company's liability to make lease payments under these operating leases, on a discounted basis. The Company excludes short-term leases, defined as lease terms of 12 months or less from its operating lease right-of-use assets and operating lease liabilities.

Lease costs for the period shown below were as follows:

| <u>(Dollars in thousands)</u> | <u>Six Months Ended June 30,</u> |               |
|-------------------------------|----------------------------------|---------------|
|                               | <u>2021</u>                      | <u>2020</u>   |
| Operating lease cost          | \$ 970                           | \$ 993        |
| Short-term lease cost         | 9                                | 28            |
| Sublease income               | (314)                            | (63)          |
| Total lease cost              | <u>\$ 665</u>                    | <u>\$ 958</u> |

Other information related to operating leases for the periods shown below was as follows:

| <u>(Dollars in thousands)</u>  | <u>Six Months Ended June 30,</u> |             |
|--|----------------------------------|-------------|
|  | <u>2021</u>                      | <u>2020</u> |
| Amortization of lease right-to-use asset                               | \$ 771                           | \$ 743      |
| Accretion of lease liabilities   | 199                              | 249         |
| Cash paid for amounts included in the measurement of lease liabilities | 1,055                            | 1,143       |
| Weighted-average discount rate   | 2.64%                            | 2.70%       |
| Weighted-average remaining lease term in years                         | 10.7                             | 11.3        |

A maturity analysis of operating lease liabilities as of the date shown below was as follows:

| <b>(Dollars in thousands)</b>      | <b>June 30, 2021</b> |         |
|------------------------------------|----------------------|---------|
| 2021                               | \$                   | 2,021   |
| 2022                               |                      | 2,241   |
| 2023                               |                      | 2,138   |
| 2024                               |                      | 1,798   |
| 2025                               |                      | 1,786   |
| Thereafter                         |                      | 8,476   |
| Total undiscounted lease liability |                      | 18,460  |
| Less:                              |                      |         |
| Discount on cash flows             |                      | (2,870) |
| Total operating lease liability    | \$                   | 15,590  |

**NOTE 16: COMMITMENTS AND CONTINGENCIES AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

*Financial Instruments with Off-Balance-Sheet Risk*

The Company enters into commitments to extend credit and standby letters of credit to meet customer financing needs and, in accordance with GAAP, these commitments are not reflected as liabilities in the consolidated balance sheets. Due to the nature of these commitments, the amounts disclosed in the tables below do not necessarily represent future cash requirements.

Commitments to extend credit and standby letters of credit as of the dates shown below were as follows:

| <b>(Dollars in thousands)</b>                        | <b>June 30,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|--|--------------------------|------------------------------|
| Commitments to extend credit, variable interest rate | \$ 625,824               | \$ 659,385                   |
| Commitments to extend credit, fixed interest rate    | 66,757                   | 80,346                       |
| Total commitments                                    | \$ 692,581               | \$ 739,731                   |
| Standby letters of credit                            | \$ 23,022                | \$ 26,078                    |

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, generally have fixed expiration dates or other termination clauses and may expire without being fully drawn upon.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to the Company's customers.

*Litigation*

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position or results of operations of the Company.

## **NOTE 17: EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION ARRANGEMENTS**

### *Employee Benefit Plans*

The Company maintains a 401(k) employee benefit plan and substantially all employees that complete three months of service may participate. The Company matches a portion of each employee's contribution and may, at its discretion, make additional contributions. During the six months ended June 30, 2021 and 2020, the Company contributed \$1.2 million and \$1.2 million to the plan, respectively.

### *Executive Deferred Compensation Arrangements*

The Company established an executive incentive compensation arrangement with several officers of the Bank, in which these officers are eligible for performance-based incentive bonus compensation. As part of this compensation arrangement, the Company contributes one-fourth of the incentive bonus amount into a deferred compensation account. The deferred amounts accrue at a market rate of interest and are payable to the employees upon separation from the Bank provided vesting arrangements have been met. At June 30, 2021 and December 31, 2020, the amount payable, including interest, for this deferred plan was approximately \$1.7 million and \$2.0 million, respectively, which is included in other liabilities in the condensed consolidated balance sheets.

### *Salary Continuation Agreements*

The Company entered into a salary continuation arrangement in 2008 with the Company's then President and Chief Executive Officer, or CEO, that calls for payments of \$100,000 per year for a period of 10 years commencing at age 65. Payments under the plan began during 2014. The Company's liability was \$200,000 and \$246,000 at June 30, 2021 and December 31, 2020, respectively, which is included in other liabilities in the condensed consolidated balance sheets and equals the present value of the benefits expected to be provided.

In October 2017, the Company entered into a salary continuation arrangement with the Company's President and CEO that calls for payments of \$200,000 per year payable for a period of 10 years commencing at age 70. Payments under the plan will begin in 2024. The Company's liability was \$778,000 and \$640,000 at June 30, 2021 and December 31, 2020, respectively, which is included in other liabilities in the condensed consolidated balance sheets. The liability will continue to accrue over the remaining period until payments commence such that the accrued amount at the eligibility date will equal the present value of all the future benefits expected to be paid.

## **NOTE 18: STOCK-BASED COMPENSATION**

The Company acquired a stock option plan which originated under VB Texas, Inc. as a part of a merger of the two companies, or the 2006 Plan. At the merger date, all outstanding options under this plan became fully vested and exercisable. The plan expired in 2016 and no additional options may be granted under its terms. As of June 30, 2021, there were options outstanding to acquire 45,720 shares of the Company's common stock under the 2006 Plan, all of which will expire in 2022 if not exercised.

In 2014, the Company adopted the 2014 Stock Option Plan, or the 2014 Plan, which was approved by the Company's shareholders and limits the number of shares that may be optioned to 1,127,200. The 2014 Plan provides that no options may be granted after May 20, 2024. Options granted under the 2014 Plan expire 10 years from the date of grant and become exercisable in installments over a period of one to five years, beginning on the first anniversary of the date of grant. As of June 30, 2021, 963,200 shares were available for future grant. No options have been issued under the 2014 Plan since 2017.

In 2017, the Company adopted the 2017 Omnibus Incentive Plan, or the 2017 Plan. The 2017 Plan authorizes the Company to grant options, performance-based and non-performance based restricted stock awards as well as various other types of stock-based awards and other awards that are not stock-based to eligible employees, consultants and non-employee directors up to an aggregate of 600,000 shares of common stock. As of June 30, 2021, 279,156 shares were available for future grant under the 2017 Plan.



Stock option activity for the periods shown below was as follows:

|                                    | Six Months Ended June 30,           |                                 |                                     |                                 |
|------------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
|                                    | 2021                                |                                 | 2020                                |                                 |
|                                    | Number of Shares Underlying Options | Weighted Average Exercise Price | Number of Shares Underlying Options | Weighted Average Exercise Price |
| Outstanding at beginning of period | 201,720                             | \$ 17.22                        | 213,078                             | \$ 16.92                        |
| Granted                            | —                                   | —                               | —                                   | —                               |
| Exercised                          | —                                   | —                               | (2,524)                             | 12.90                           |
| Forfeited/expired                  | —                                   | —                               | —                                   | —                               |
| Outstanding at end of period       | <u>201,720</u>                      | <u>\$ 17.22</u>                 | <u>210,554</u>                      | <u>\$ 16.97</u>                 |

A summary of stock options as of the date shown below was as follows:

| Stock Options                                       | June 30, 2021 |          |             |
|---|---------------|----------|-------------|
|   | Exercisable   | Unvested | Outstanding |
| Number of shares underlying options                 | 179,721       | 21,999   | 201,720     |
| Weighted-average exercise price per share           | \$ 16.76      | 21.00    | 17.22       |
| Aggregate intrinsic value (in thousands)            | \$ 1,896      | 139      | 2,035       |
| Weighted-average remaining contractual term (years) | 3.9           | 6.0      | 4.1         |

The fair value of the Company's restricted stock awards is estimated based on the market value of the Company's common stock at the date of grant. Restricted stock shares are considered fully issued at the time of the grant and the grantee becomes the record owner of the restricted stock and has voting, dividend and other shareholder rights. The shares of restricted stock are non-transferable and subject to forfeiture until the restricted stock vests and any dividends with respect to the restricted stock are subject to the same restrictions, including the risk of forfeiture.

Non-performance based restricted stock grants vest over the service period in equal increments over a period of two to five years, beginning on the first anniversary of the date of grant.

The number of shares earned under the Company's performance-based restricted stock award agreements is based on the achievement of certain branch production goals. Compensation expense for performance-based restricted stock is recognized for the probable award level over the period estimated to achieve the performance conditions and other goals, on a straight-line basis. If the probable award level and/or the period estimated to be achieved change, compensation expense will be adjusted via a cumulative catch-up adjustment to reflect these changes. The performance conditions and goals must be achieved within five years or the awards expire. The number of performance-based shares granted presented in the table below is based upon the attainment of the maximum number of shares possible to be earned.

Restricted stock activity for the periods shown below was as follows:

|                                  | Non-performance Based |  | Performance-based |  |
|----------------------------------|-----------------------|--|-------------------|--|
|                                  | Number of Shares      | Weighted Average Grant Date Fair Value | Number of Shares  | Weighted Average Grant Date Fair Value |
| Outstanding at December 31, 2019 | 161,443               | \$ 28.20                               | 18,000            | \$ 34.46                               |
| Granted                          | 40,594                | 28.55                                  | —                 | —                                      |
| Vested                           | (14,550)              | 31.71                                  | —                 | —                                      |
| Forfeited                        | (8,656)               | 27.22                                  | (750)             | 31.79                                  |
| Outstanding at June 30, 2020     | <u>178,831</u>        | <u>\$ 28.04</u>                        | <u>17,250</u>     | <u>\$ 34.57</u>                        |
| Outstanding at December 31, 2020 | 129,667               | 28.22                                  | 2,250             | 34.40                                  |
| Granted                          | 33,285                | 26.32                                  | —                 | —                                      |
| Vested                           | (21,749)              | 30.71                                  | —                 | —                                      |
| Forfeited                        | (493)                 | 28.80                                  | —                 | —                                      |
| Outstanding at June 30, 2021     | <u>140,710</u>        | <u>\$ 27.39</u>                        | <u>2,250</u>      | <u>\$ 34.40</u>                        |

A summary of restricted stock as of the date shown below was as follows:

| Restricted Stock                                  | June 30, 2021         |                   |
|---|-----------------------|-------------------|
|   | Non-performance Based | Performance-based |
| Number of shares underlying restricted stock      | 140,710               | 2,250             |
| Weighted-average grant date fair value per share  | \$ 27.39              | \$ 34.40          |
| Aggregate fair value (in thousands)               | \$ 3,843              | \$ 61             |
| Weighted-average remaining vesting period (years) | 1.7                   | 2.3               |

The Company's stock compensation plans allow employees to elect to have shares withheld to satisfy their tax liabilities related to options exercised or restricted stock vested or to pay the exercise price of the options. During the periods shown below, the shares of stock subject to options exercised, restricted stock vested, shares withheld, and shares issued were as follows:

|  | Exercised/Vested | Shares Withheld | Shares Issued |
|--|------------------|-----------------|---------------|
| <b>Six Months Ended June 30, 2021</b>  |                  |                 |               |
| Stock options                          | —                | —               | —             |
| Non-performance based restricted stock | 21,749           | (3,091)         | 18,658        |
| <b>Six Months Ended June 30, 2020</b>  |                  |                 |               |
| Stock options                          | 2,524            | —               | 2,524         |
| Non-performance based restricted stock | 14,550           | (1,697)         | 12,853        |

For the six months ended June 30, 2021 and 2020, stock compensation expense was \$1.1 million and \$1.1 million, respectively, and for the three months ended June 30, 2021 and 2020, stock compensation expense was \$574,000 and \$552,000, respectively. As of June 30, 2021, there was approximately \$2.8 million of total unrecognized compensation expense related to the unvested stock options, non-performance based restricted stock and performance-based restricted stock, which is expected to be recognized in the Company's consolidated statements of income over a weighted-average period of 1.6 years.

**NOTE 19: REGULATORY MATTERS**

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Company and the Bank's Common Equity Tier 1 capital includes common stock and related capital surplus, net of treasury stock, and retained earnings. In connection with the adoption of the Basel III Capital Rules, the Company and the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for both the Company and the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities.

The Basel III Capital Rules require the Company and the Bank to maintain: (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have any current applicability to the Company and the Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

In November 2019, the federal bank regulatory agencies published a final rule, the Community Bank Leverage Ratio Framework, or the Framework, to simplify capital calculations for community banks. The Framework provides for a simple measure of capital adequacy for certain community banking organizations. The Framework is optional and is designed to reduce burden by removing requirements for calculating and reporting risk-based capital ratios. Depository institutions and depository institution holding companies that have less than \$10.0 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9.0%, are considered qualifying community banking organizations and are eligible to opt into the Framework. A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a Tier 1 capital-to-adjusted total assets ratio, or leverage capital ratio, of greater than 9.0% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III Capital Rules and, if applicable, is considered to have met the “well capitalized” ratio requirements for purposes of its primary federal regulator’s prompt corrective action rules. The final rule became effective January 1, 2020, and organizations that opt into the Framework and meet the criteria established by the rule can use the Framework for regulatory reports for the year ended December 31, 2020. In April 2020, the federal bank regulatory agencies announced two interim final rules to provide relief associated with Section 4012 of the Coronavirus Aid Relief and Economic Security Act, or CARES Act. For institutions that elect the Framework, the interim rules temporarily lowered the leverage ratio requirement to 8.0% for the second quarter of 2020 through the end of calendar year 2020 and to 8.5% for the 2021 calendar year. An institution will have until January 1, 2022 before the 9.0% leverage ratio requirement is re-established. The Company determined not to opt into the Framework and will continue to compute regulatory capital ratios based on the Basel III Capital Rules discussed above.

In September 2020, the federal bank regulatory agencies finalized an interim final rule that allows banking organizations to mitigate the effects of CECL on their regulatory capital computations. The rule permits banking organizations that were required to adopt CECL for purposes of GAAP (as in effect January 1, 2020) for a fiscal year beginning during the calendar year 2020, the option to delay for up to two years an estimate of CECL’s effect on regulatory capital, followed by a three-year transition period (i.e., a transition period of five years in total). The Company determined not to use the transition provision and has reported the full effect of CECL upon adoption and for each reporting period thereafter in its regulatory capital calculation and ratios.

The Company is subject to the regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and, for the Bank, those administered by the Office of Comptroller of Currency, or OCC. Regulatory authorities can initiate certain mandatory actions if the Company or the Bank fail to meet the minimum capital requirements, which could have a direct material effect on the Company’s financial statements. Management believes, as of June 30, 2021 and December 31, 2020, that the Company and the Bank met all capital adequacy requirements to which they were subject.

On June 18, 2020, the Bank and the OCC entered into a formal agreement, or the Agreement, with regard to Bank Secrecy Act, or BSA, and anti-money laundering, or AML, compliance matters. The Agreement generally requires that the Bank enhance its policies and procedures to comply with BSA/AML laws and regulations. Specifically, the Agreement requires the Bank to take certain actions, including, but not limited to: (i) establishing a Compliance Committee to oversee the Bank’s compliance with the Agreement; (ii) ensuring that the BSA/AML staff has sufficient authority and resources to fulfill its responsibilities; (iii) developing, implementing, and adhering to a written program of policies and procedures to provide for compliance with the BSA, including with respect to model risk management for automated monitoring systems; (iv) establishing policies and procedures for performing customer due diligence/enhanced due diligence and customer risk identification processes; (v) adopting and adhering to an independent BSA/AML audit program; (vi) developing, implementing, and adhering to a comprehensive training program for all appropriate Bank employees to ensure their awareness of their responsibility for compliance with the requirements of the BSA, the Bank’s relevant policies, procedures, and processes, and of relevant examples of red flags for money laundering, terrorist

financing, and suspicious activity; and (vii) performing a review of account and transaction activity for certain time periods.

The Board of Directors and management are committed to taking the necessary actions to fully address the provisions of the Agreement. The Bank has appointed a Compliance Committee to oversee the Bank's compliance with the Agreement and is working to promptly address the requirements of the Agreement. Numerous actions have already been taken or commenced by the Bank to strengthen its BSA/AML compliance practices, policies, procedures and controls and comply with the terms of the Agreement. The Bank has hired and may continue to hire third-party consultants and advisors to assist in complying with the Agreement. While subject to the Agreement, the Company expects that management and the Board of Directors will be required to focus considerable time and attention on taking corrective actions to comply with its terms.

If the Bank does not successfully address the OCC's concerns in the Agreement or fully comply with the provisions of the Agreement, the Bank could be subject to further regulatory scrutiny, civil monetary penalties, further regulatory sanctions and/or other enforcement actions. The Company or the Bank may also become subject to formal or informal enforcement actions by other regulatory agencies. Any of those events could have a material adverse impact on the Company's future operations, financial condition, growth, or other aspects.

At June 30, 2021 and December 31, 2020, the Company and the Bank were “well capitalized” based on the ratios presented below. Actual and required capital ratios for the Company and the Bank were as follows for the dates presented:

| (Dollars in thousands)                        | Actual     |        | Minimum Capital Required Basel III |        | Required to be Considered Well Capitalized |        |
|---|------------|--------|------------------------------------|--------|--|--------|
|   | Amount     | Ratio  | Amount                             | Ratio  | Amount                                     | Ratio  |
| <b>June 30, 2021</b>                          |            |        |                                    |        |  |        |
| Common Equity Tier 1 to Risk-Weighted Assets: |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 467,035 | 16.46% | \$ 198,581                         | 7.00%  | N/A  | N/A    |
| Bank Only                                     | \$ 438,337 | 15.45% | \$ 198,565                         | 7.00%  | \$ 184,382                                 | 6.50%  |
| Tier 1 Capital to Risk-Weighted Assets:       |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 467,035 | 16.46% | \$ 241,134                         | 8.50%  | N/A  | N/A    |
| Bank Only                                     | \$ 438,337 | 15.45% | \$ 241,114                         | 8.50%  | \$ 226,931                                 | 8.00%  |
| Total Capital to Risk-Weighted Assets:        |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 502,559 | 17.72% | \$ 297,872                         | 10.50% | N/A  | N/A    |
| Bank Only                                     | \$ 473,858 | 16.70% | \$ 297,847                         | 10.50% | \$ 283,664                                 | 10.00% |
| Tier 1 Leverage Capital to Average Assets:    |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 467,035 | 11.63% | \$ 160,747                         | 4.00%  | N/A  | N/A    |
| Bank Only                                     | \$ 438,337 | 10.91% | \$ 160,664                         | 4.00%  | \$ 200,830                                 | 5.00%  |
| <b>December 31, 2020</b>                      |            |        |                                    |        |  |        |
| Common Equity Tier 1 to Risk-Weighted Assets: |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 455,391 | 15.45% | \$ 206,296                         | 7.00%  | N/A  | N/A    |
| Bank Only                                     | \$ 421,952 | 14.32% | \$ 206,281                         | 7.00%  | \$ 191,547                                 | 6.50%  |
| Tier 1 Capital to Risk-Weighted Assets:       |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 455,391 | 15.45% | \$ 250,502                         | 8.50%  | N/A  | N/A    |
| Bank Only                                     | \$ 421,952 | 14.32% | \$ 250,484                         | 8.50%  | \$ 235,750                                 | 8.00%  |
| Total Capital to Risk-Weighted Assets:        |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 492,328 | 16.71% | \$ 309,444                         | 10.50% | N/A  | N/A    |
| Bank Only                                     | \$ 458,886 | 15.57% | \$ 309,421                         | 10.50% | \$ 294,687                                 | 10.00% |
| Tier 1 Leverage Capital to Average Assets:    |            |        |                                    |        |  |        |
| Consolidated                                  | \$ 455,391 | 12.00% | \$ 151,797                         | 4.00%  | N/A  | N/A    |
| Bank Only                                     | \$ 421,952 | 11.12% | \$ 151,772                         | 4.00%  | \$ 189,715                                 | 5.00%  |

*Dividend Restrictions*

In the ordinary course of business, the Company may be dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

**NOTE 20: INCOME TAXES**

The provision for income tax expense and effective tax rates for the periods shown below were as follows:

| <b>(Dollars in thousands)</b> | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                               | <b>2021</b>                        | <b>2020</b> | <b>2021</b>                      | <b>2020</b> |
| Income tax expense            | \$ 2,692                           | \$ 539      | \$ 5,177                         | \$ 2,407    |
| Effective tax rate            | 18.70%                             | 19.95%      | 19.25%                           | 19.87%      |

The differences between the federal statutory rate of 21% and the effective tax rates presented in the table above were largely attributable to permanent differences primarily related to tax exempt interest income and bank-owned life insurance related earnings.

**NOTE 21: EARNINGS PER SHARE**

The computation of basic and diluted earnings per share for the periods shown below was as follows:

| <b>(Dollars in thousands, except per share data)</b>                              | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | <b>2021</b>                        | <b>2020</b> | <b>2021</b>                      | <b>2020</b> |
| Net income for common shareholders  | \$ 11,703                          | \$ 2,163    | \$ 21,722                        | \$ 9,704    |
| Weighted-average shares (thousands)   |                                    |             |                                  |             |
| Basic weighted-average shares outstanding   | 24,447                             | 24,752      | 24,477                           | 24,839      |
| Dilutive effect of outstanding stock options and unvested restricted stock awards | 124                                | 28          | 114                              | 46          |
| Diluted weighted-average shares outstanding                                       | 24,571                             | 24,780      | 24,591                           | 24,885      |
| Earnings per share:   |                                    |             |                                  |             |
| Basic   | \$ 0.48                            | \$ 0.09     | \$ 0.89                          | \$ 0.39     |
| Diluted   | \$ 0.48                            | \$ 0.09     | \$ 0.88                          | \$ 0.39     |

For the six months ended June 30, 2021, the Company excluded the impact of 1,800 shares of unvested restricted stock from diluted weighted-average shares as they were anti-dilutive. For the three and six months ended June 30, 2020, the Company excluded the impact of 80,000 stock options as they were anti-dilutive. The Company also excluded the impact of the performance based restricted stock awards for all periods as they are contingently issuable and the performance conditions for these issuances have not been met.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements reflect the Company's current views with respect to, among other things, future events and the Company's financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond the Company's control. Accordingly, the Company cautions that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause the Company's actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the risks described in "Part I—Item 1A.—Risk Factors" in the Company's Annual Report on Form 10-K, this Quarterly Report on Form 10-Q and the following:

- natural disasters and adverse weather on the Company's market area, acts of terrorism, pandemics, an outbreak of hostilities or other international or domestic calamities and other matters beyond the Company's control;
- the Company's ability to manage the economic risks related to the impact of the COVID-19 pandemic (including risks related to its customers' credit quality, deferrals and modifications to loans);
- the geographic concentration of the Company's markets in Houston and Beaumont, Texas;
- the Company's ability to manage changes and the continued health or availability of management personnel;
- the amount of nonperforming and classified assets that the Company holds and the time and effort necessary to resolve nonperforming assets;
- deterioration of asset quality;
- interest rate risk associated with the Company's business;
- national business and economic conditions in general, in the financial services industry and within the Company's primary markets;
- sustained instability of the oil and gas industry in general and within Texas;
- the composition of the Company's loan portfolio, including the identity of the Company's borrowers and the concentration of loans in specialized industries;
- changes in the value of collateral securing the Company's loans;
- the Company's ability to maintain important deposit customer relationships and its reputation;
- the Company's ability to maintain effective internal control over financial reporting;
- the Company's ability to pursue available remedies in the event of a loan default for Paycheck Protection Program, or PPP, loans and the risk of holding such loans at unfavorable interest rates and on terms that are less favorable than those with customers to whom the Company would have otherwise lent;
- volatility and direction of market interest rates;
- liquidity risks associated with the Company's business;
- systems failures, interruptions or breaches involving the Company's information technology and telecommunications systems or third-party servicers;
- the failure of certain third-party vendors to perform;
- the institution and outcome of litigation and other legal proceedings against the Company or to which it may become subject;

- the operational risks associated with the Company's business;
- the costs, effects and results of regulatory examinations, investigations, including the ongoing investigation by the Financial Crimes Enforcement Network of the U.S. Department of Treasury, or FinCEN, or reviews or the ability to obtain required regulatory approvals;
- the Company's ability to meet the requirements of the Agreement with the OCC, and the risk that such Agreement may have a negative impact on the Company's financial performance and results of operations;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- governmental or regulatory responses to the COVID-19 pandemic that may impact the Company's loan portfolio and forbearance practice;
- further government intervention in the U.S. financial system that may impact how the Company achieves its performance goals; and
- other risks, uncertainties, and factors that are discussed from time to time in the Company's reports and documents filed with the SEC.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Quarterly Report on Form 10-Q. If one or more events related to these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, actual results may differ materially from what is anticipated. Additionally, many of these risks and uncertainties have been elevated by and may continue to be elevated by the COVID-19 pandemic and the sustained instability of the oil and gas industry. Undue reliance should not be placed on any such forward-looking statements. Any forward-looking statement speaks only as of the date made, and the Company does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible to predict which will arise. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The following discussion and analysis presents what the Company believes is the material information relevant to and assessment of its financial condition and results of operations for the periods presented and should be read in conjunction with the Company's condensed consolidated financial statements and the accompanying notes included in "Part I—Item 1—Financial Statements" of this Quarterly Report on Form 10-Q, as well as the Company's consolidated financial statements and the accompanying notes for the year ended December 31, 2020, included in the Company's Annual Report on Form 10-K.

## **Overview**

The Company operates through one segment. The Company's primary source of funds is deposits and its primary use of funds is loans. Most of the Company's revenue is generated from interest on loans and investments. The Company incurs interest expense on deposits and other borrowed funds as well as noninterest expense, such as salaries and employee benefits and occupancy expenses.

The Company's operating results depend primarily on 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. Changes in market interest rates and the interest rates earned on interest-earning assets or paid on interest-bearing liabilities, as well as in the volume and types of interest-earning assets and interest-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 the Company's loan portfolio are affected by, among other factors, economic and competitive conditions in Texas, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within the Company's target markets and throughout the state of Texas. The Company maintains diversity in its loan portfolio as a means of managing risk associated



with fluctuations in economic conditions. The Company's focus on lending to small to medium-sized businesses and professionals in its market areas has resulted in a diverse loan portfolio comprised primarily of core relationships. The Company carefully monitors exposure to certain asset classes to minimize the impact of a downturn in the value of such assets.

The Company seeks to remain competitive with respect to interest rates on loans and deposits, as well as prices on fee-based services, which are typically significant competitive factors within the banking and financial services industry. Many of the Company's competitors are much larger financial institutions that have greater financial resources and compete aggressively for market share. Through the Company's relationship-driven, community banking strategy, a significant portion of its growth has been through referral business from its existing customers and professionals in the Company's markets including attorneys, accountants and other professional service providers.

The Bank is the subject of an investigation by FinCEN regarding the Bank's compliance with the Bank Secrecy Act and anti-money laundering laws and regulations, or BSA/AML. The Bank is cooperating with this investigation. The costs to respond to and cooperate with FinCEN's investigation have been material over the course of the period of the investigation, and the Bank may continue to incur material fees and expenses regarding this matter at least through the completion of FinCEN's investigation.

On June 18, 2020, the Bank and the OCC entered into an Agreement with regard to BSA/AML compliance matters. The Agreement generally requires that the Bank enhance its policies and procedures to comply with BSA/AML laws and regulations. Specifically, the Agreement requires the Bank to take certain actions, including, but not limited to: (i) establishing a Compliance Committee to oversee the Bank's compliance with the Agreement; (ii) ensuring that the BSA/AML staff has sufficient authority and resources to fulfill its responsibilities; (iii) developing, implementing, and adhering to a written program of policies and procedures to provide for compliance with the BSA, including with respect to model risk management for automated monitoring systems; (iv) establishing policies and procedures for performing customer due diligence/enhanced due diligence and customer risk identification processes; (v) adopting and adhering to an independent BSA/AML audit program; (vi) developing, implementing, and adhering to a comprehensive training program for all appropriate Bank employees to ensure their awareness of their responsibility for compliance with the requirements of the BSA, the Bank's relevant policies, procedures, and processes, and of relevant examples of red flags for money laundering, terrorist financing, and suspicious activity; and (vii) performing a review of account and transaction activity for certain time periods.

The Bank's Board of Directors and management are committed to taking the necessary actions to fully address the provisions of the Agreement within the timeframes identified in the Agreement. Numerous actions have already been taken or commenced by the Bank to strengthen its BSA/AML compliance practices, policies, procedures and controls. However, a finding by the OCC that the Bank failed to comply with the Agreement could result in additional regulatory scrutiny, further constraints on the Bank's business, or a further enforcement action, including civil money penalties. Any of those events could have a material adverse impact on the Company's future operations, financial condition, growth or other aspects of its business. Further, the Bank has hired and expects to continue to hire third-party consultants and advisors to assist in complying with the Agreement, which will increase non-interest expense and reduce earnings.

### **Information Regarding COVID-19 Impact and Uncertain Economic Outlook**

The COVID-19 pandemic and actions taken in response to it, combined with the sustained instability in the oil and gas industry, negatively impacted the global economy and financial markets. The Company's markets, including its primary markets in Houston and Beaumont are particularly subject to the financial impact of the sustained instability in the oil and gas industry. As a result of these factors and the impact on the loan portfolio, the Company increased the ACL and provision for credit losses during 2020, which negatively impacted the Company's net income. As a result of improvements in the national economy and economic forecasts, reduction of the loan portfolio and an improvement in loan quality, the Company reduced the ACL in the second quarter of 2021. The future impact of the COVID-19 pandemic is uncertain but could materially affect the Company's future financial and operational results. See "Part II—Item 1A.—Risk Factors."

The risk grades of the Company's loan portfolio, past due loans, loans individually evaluated and nonperforming loans, or loan performance indicators, as of the dates indicated below were as follows:

| (Dollars in thousands)                   | June 30,<br>2021    | March 31,<br>2021   | December 31,<br>2020 | September 30,<br>2020 | June 30,<br>2020    |
|--|---------------------|---------------------|----------------------|-----------------------|---------------------|
| <b>Risk grades:</b>                      |                     |                     |                      |                       |                     |
| Pass                                     | \$ 2,645,811        | \$ 2,810,248        | \$ 2,835,768         | \$ 2,883,026          | \$ 2,874,412        |
| Special mention                          | 14,276              | 10,508              | 14,088               | 5,953                 | 3,245               |
| Substandard                              | 80,535              | 83,032              | 86,814               | 89,348                | 70,110              |
| Gross loans                              | <u>\$ 2,740,622</u> | <u>\$ 2,903,788</u> | <u>\$ 2,936,670</u>  | <u>\$ 2,978,327</u>   | <u>\$ 2,947,767</u> |
| <b>Past due loans:</b>                   |                     |                     |                      |                       |                     |
| 30 to 59 days past due                   | \$ 39               | \$ 1,377            | \$ 1,463             | \$ 14,629             | \$ 5,329            |
| 60 to 89 days past due                   | —                   | 495                 | 2,074                | 7,464                 | —                   |
| 90 days or greater past due              | 217                 | 4,019               | 2,375                | 5,103                 | 57                  |
| Total past due loans                     | <u>\$ 256</u>       | <u>\$ 5,891</u>     | <u>\$ 5,912</u>      | <u>\$ 27,196</u>      | <u>\$ 5,386</u>     |
| <b>Loans individually evaluated:</b>     |                     |                     |                      |                       |                     |
| Accruing troubled debt restructurings    | \$ 31,789           | \$ 27,709           | \$ 32,880            | \$ 35,494             | \$ 33,781           |
| Non-accrual troubled debt restructurings | 18,196              | 18,913              | 19,173               | 10,123                | 1,019               |
| Total troubled debt restructurings       | <u>49,985</u>       | <u>46,622</u>       | <u>52,053</u>        | <u>45,617</u>         | <u>34,800</u>       |
| Other non-accrual                        | 2,777               | 4,595               | 4,844                | 5,453                 | 10,149              |
| Other accruing                           | 836                 | 836                 | 746                  | 9,844                 | 2,458               |
| Total loans individually evaluated       | <u>\$ 53,598</u>    | <u>\$ 52,053</u>    | <u>\$ 57,643</u>     | <u>\$ 60,914</u>      | <u>\$ 47,407</u>    |
| <b>Nonperforming assets:</b>             |                     |                     |                      |                       |                     |
| Nonaccrual loans                         | \$ 20,973           | \$ 23,508           | \$ 24,017            | \$ 15,576             | \$ 11,168           |
| Accruing loans 90 or more days past due  | —                   | —                   | —                    | —                     | —                   |
| Total nonperforming loans                | <u>20,973</u>       | <u>23,508</u>       | <u>24,017</u>        | <u>15,576</u>         | <u>11,168</u>       |
| Foreclosed assets                        | —                   | 106                 | —                    | —                     | —                   |
| Total nonperforming assets               | <u>\$ 20,973</u>    | <u>\$ 23,614</u>    | <u>\$ 24,017</u>     | <u>\$ 15,576</u>      | <u>\$ 11,168</u>    |

The table above shows the trend of loan performance indicators over the past five reporting periods. Loan performance indicators reflected worsening loan performance during 2020, primarily as a result of the impact of the COVID-19 pandemic and sustained instability in the oil and gas industry on the Company's borrowers. All of the loan performance indicators have shown improvement in the six months ended June 30, 2021. The impact of the COVID-19 pandemic is ongoing and the oil and gas industry is still experiencing instability. If loan performance indicators worsen in the future this could result in the need to increase the ACL through additional provisions for credit losses which would negatively impact net income.

In support of customers impacted by the COVID-19 pandemic, the Company offered relief through payment deferrals during 2020 and the first six months of 2021. As of June 30, 2021, the Company had 9 loans subject to such deferral arrangements with total outstanding principal balances of \$20.5 million, compared to 16 loans totaling \$34.3 million at March 31, 2021 and 689 loans totaling \$545.0 million at June 30, 2020.

The Company participated in PPP lending under the CARES Act, which facilitates loans to small businesses. See "Part I—Item 2.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio."

## Results of Operations

The increase in net income during the three and six months ended June 30, 2021, compared to the three and six months ended June 30, 2020, were primarily due to fluctuations in the provision (recapture) for credit losses, partially offset by the decrease in net interest income and an increase in noninterest expense. See further analysis of the material fluctuations in the related discussions that follow.

| (Dollars in thousands)                  | Three Months Ended June 30, |                 |                     |          | Six Months Ended June 30, |                 |                     |          |
|---|-----------------------------|-----------------|---------------------|----------|---------------------------|-----------------|---------------------|----------|
|   | 2021                        | 2020            | Increase (Decrease) |          | 2021                      | 2020            | Increase (Decrease) |          |
| Interest income                         | \$ 32,506                   | \$ 34,425       | \$ (1,919)          | (5.6)%   | \$ 67,167                 | \$ 70,636       | \$ (3,469)          | (4.9)%   |
| Interest expense                        | 1,488                       | 2,267           | (779)               | (34.4)%  | 3,059                     | 6,258           | (3,199)             | (51.1)%  |
| Net interest income                     | 31,018                      | 32,158          | (1,140)             | (3.5)%   | 64,108                    | 64,378          | (270)               | (0.4)%   |
| Provision (recapture) for credit losses | (5,083)                     | 9,870           | (14,953)            | (151.5)% | (4,671)                   | 14,919          | (19,590)            | (131.3)% |
| Noninterest income                      | 3,491                       | 2,909           | 582                 | 20.0%    | 6,602                     | 7,236           | (634)               | (8.8)%   |
| Noninterest expense                     | 25,197                      | 22,495          | 2,702               | 12.0%    | 48,482                    | 44,584          | 3,898               | 8.7%     |
| Income before income taxes              | 14,395                      | 2,702           | 11,693              | 432.8%   | 26,899                    | 12,111          | 14,788              | 122.1%   |
| Income tax expense                      | 2,692                       | 539             | 2,153               | 399.4%   | 5,177                     | 2,407           | 2,770               | 115.1%   |
| Net income                              | <u>\$ 11,703</u>            | <u>\$ 2,163</u> | <u>\$ 9,540</u>     | 441.1%   | <u>\$ 21,722</u>          | <u>\$ 9,704</u> | <u>\$ 12,018</u>    | 123.8%   |

### *Net Interest Income for the Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020*

Net interest income decreased \$270,000 during the six months ended June 30, 2021, compared to the six months ended June 30, 2020, primarily due to lower rates on interest-earning assets, partially offset by lower rates on deposits and higher average loans and securities.

The yield on interest-earning assets was 3.62% for the six months ended June 30, 2021, compared to 4.22% for the six months ended June 30, 2020. The cost of interest-bearing liabilities was 0.33% for the six months ended June 30, 2021 and 0.73% for the six months ended June 30, 2020. Yields on interest-earning assets decreased and the costs of interest-bearing liabilities did not decrease to the same extent, which caused compression of the Company's net interest margin on a tax equivalent basis to 3.49% for the six months ended June 30, 2021, compared to 3.87% for the six months ended June 30, 2020.

Although competitive pressures have caused the costs of interest-bearing deposits to not drop in tandem with decreases in market rates for interest-earning assets, they remain a low-cost source of funds, as compared to other sources of funds.

The following table presents for the periods indicated, average outstanding balances for each major category of interest-earning assets and interest-bearing liabilities, the interest income or interest expense and the average yield or rate for the periods indicated.

| (Dollars in thousands)                                    | Six Months Ended June 30,   |                                |                                    |                             |                                |                                    |
|---|-----------------------------|--------------------------------|------------------------------------|-----------------------------|--------------------------------|------------------------------------|
|   | 2021                        |                                |                                    | 2020                        |                                |                                    |
|   | Average Outstanding Balance | Interest Earned/ Interest Paid | Average Yield/ Rate <sup>(1)</sup> | Average Outstanding Balance | Interest Earned/ Interest Paid | Average Yield/ Rate <sup>(1)</sup> |
| <b>Assets</b>   |                             |                                |                                    |                             |                                |                                    |
| Interest-earning assets:                                  |                             |                                |                                    |                             |                                |                                    |
| Total loans <sup>(2)</sup>                                | \$ 2,868,463                | \$ 63,958                      | 4.50%                              | \$ 2,771,355                | \$ 66,474                      | 4.82%                              |
| Securities  | 281,196                     | 2,505                          | 1.80%                              | 237,130                     | 2,591                          | 4.20%                              |
| Interest-bearing deposits at other financial institutions | 573,433                     | 400                            | 0.14%                              | 346,753                     | 1,224                          | 0.71%                              |
| Equity investments  | 15,346                      | 304                            | 3.99%                              | 14,404                      | 347                            | 4.84%                              |
| Total interest-earning assets                             | 3,738,438                   | \$ 67,167                      | 3.62%                              | 3,369,642                   | \$ 70,636                      | 4.22%                              |
| Allowance for credit losses for loans                     | (40,941)                    |                                |                                    | (28,637)                    |                                |                                    |
| Noninterest-earning assets                                | 318,520                     |                                |                                    | 301,281                     |                                |                                    |
| Total assets  | \$ 4,016,017                |                                |                                    | \$ 3,642,286                |                                |                                    |
| <b>Liabilities and Shareholders' Equity</b>               |                             |                                |                                    |                             |                                |                                    |
| Interest-bearing liabilities:                             |                             |                                |                                    |                             |                                |                                    |
| Interest-bearing deposits                                 | \$ 1,821,098                | \$ 2,617                       | 0.29%                              | \$ 1,669,031                | \$ 5,788                       | 0.70%                              |
| Federal Home Loan Bank advances                           | 50,000                      | 442                            | 1.78%                              | 60,385                      | 461                            | 1.54%                              |
| Other interest-bearing liabilities                        | —                           | —                              | —                                  | 1,432                       | 9                              | 1.26%                              |
| Total interest-bearing liabilities                        | 1,871,098                   | \$ 3,059                       | 0.33%                              | 1,730,848                   | \$ 6,258                       | 0.73%                              |
| Noninterest-bearing liabilities:                          |                             |                                |                                    |                             |                                |                                    |
| Noninterest-bearing deposits                              | 1,545,242                   |                                |                                    | 1,323,520                   |                                |                                    |
| Other liabilities   | 48,503                      |                                |                                    | 45,595                      |                                |                                    |
| Total noninterest-bearing liabilities                     | 1,593,745                   |                                |                                    | 1,369,115                   |                                |                                    |
| Shareholders' equity                                      | 551,174                     |                                |                                    | 542,323                     |                                |                                    |
| Total liabilities and shareholders' equity                | \$ 4,016,017                |                                |                                    | \$ 3,642,286                |                                |                                    |
| Net interest income                                       |                             | \$ 64,108                      |                                    | \$ 64,378                   |                                |                                    |
| Net interest spread <sup>(3)</sup>                        |                             |                                | 3.29%                              |                             |                                | 3.49%                              |
| Net interest margin <sup>(4)</sup>                        |                             |                                | 3.46%                              |                             |                                | 3.84%                              |
| Net interest margin - tax equivalent <sup>(5)</sup>       |                             |                                | 3.49%                              |                             |                                | 3.87%                              |

(1) Annualized.

(2) Includes average outstanding balances related to loans held for sale.

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

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

(5) Tax equivalent adjustments of \$621,000 and \$496,000 for the six months ended June 30, 2021 and 2020, respectively, were computed using a federal income tax rate of 21%.

The following table presents information regarding 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 in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

| (Dollars in thousands)                                    | Six Months Ended June 30, 2021,<br>Compared to Six Months Ended June 30, 2020 |                 |                 |                 |
|---|---|-----------------|-----------------|-----------------|
|   | Increase (Decrease) due to  |                 |                 | Total           |
|   | Rate  | Volume          | Days            |                 |
| <b>Interest-earning assets:</b>                           |   |                 |                 |                 |
| Total loans   | \$ (4,478)  | \$ 2,328        | \$ (366)        | \$ (2,516)      |
| Securities  | (554)   | 482             | (14)            | (86)            |
| Interest-bearing deposits at other financial institutions | (1,618)   | 800             | (6)             | (824)           |
| Equity investments  | (64)  | 23              | (2)             | (43)            |
| Total increase (decrease) in interest income              | <u>(6,714)</u>  | <u>3,633</u>    | <u>(388)</u>    | <u>(3,469)</u>  |
| <b>Interest-bearing liabilities:</b>                      |   |                 |                 |                 |
| Interest-bearing deposits                                 | (3,669)   | 529             | (31)            | (3,171)         |
| Federal Home Loan Bank advances                           | 64  | (80)            | (3)             | (19)            |
| Other interest-bearing liabilities                        | —   | (9)             | —               | (9)             |
| Total increase (decrease) in interest expense             | <u>(3,605)</u>  | <u>440</u>      | <u>(34)</u>     | <u>(3,199)</u>  |
| Increase (decrease) in net interest income                | <u>\$ (3,109)</u>   | <u>\$ 3,193</u> | <u>\$ (354)</u> | <u>\$ (270)</u> |

*Net Interest Income for the Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020*

Net interest income decreased \$1.1 million during the second quarter of 2021, compared to the second quarter of 2020, primarily due to lower rates on interest-earning assets, lower average loans and higher average interest-bearing deposits, partially offset by lower rates on interest-bearing deposits and higher average securities and other interest-earning assets.

The yield on interest-earning assets was 3.41% for the second quarter of 2021, compared to 3.91% for the second quarter of 2020. The cost of interest-bearing liabilities was 0.32% for the second quarter of 2021 and 0.52% for the second quarter of 2020. Yields on interest-earning assets decreased and the costs of interest-bearing liabilities did not decrease to the same extent, which caused compression of the Company's net interest margin on a tax equivalent basis to 3.29% for the second quarter of 2021, compared to 3.68% for the second quarter of 2020.

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The following table presents for the periods indicated, average outstanding balances for each major category of interest-earning assets and interest-bearing liabilities, the interest income or interest expense and the average yield or rate for the periods indicated.

| (Dollars in thousands)                                    | Three Months Ended June 30, |                                |                                    |                             |                                |                                    |
|---|-----------------------------|--------------------------------|------------------------------------|-----------------------------|--------------------------------|------------------------------------|
|   | 2021                        |                                |                                    | 2020                        |                                |                                    |
|   | Average Outstanding Balance | Interest Earned/ Interest Paid | Average Yield/ Rate <sup>(1)</sup> | Average Outstanding Balance | Interest Earned/ Interest Paid | Average Yield/ Rate <sup>(1)</sup> |
| <b>Assets</b>   |                             |                                |                                    |                             |                                |                                    |
| Interest-earning assets:                                  |                             |                                |                                    |                             |                                |                                    |
| Total loans <sup>(2)</sup>                                | \$ 2,835,995                | \$ 30,793                      | 4.36%                              | \$ 2,908,204                | \$ 32,857                      | 4.54%                              |
| Securities  | 302,808                     | 1,332                          | 1.76%                              | 240,343                     | 1,228                          | 2.05%                              |
| Interest-bearing deposits at other financial institutions | 670,508                     | 223                            | 0.13%                              | 378,405                     | 169                            | 0.18%                              |
| Equity investments  | 15,338                      | 158                            | 4.13%                              | 15,147                      | 171                            | 4.54%                              |
| Total interest-earning assets                             | 3,824,649                   | \$ 32,506                      | 3.41%                              | 3,542,099                   | \$ 34,425                      | 3.91%                              |
| Allowance for credit losses for loans                     | (40,806)                    |                                |                                    | (31,443)                    |                                |                                    |
| Noninterest-earning assets                                | 317,115                     |                                |                                    | 305,821                     |                                |                                    |
| Total assets  | <u>\$ 4,100,958</u>         |                                |                                    | <u>\$ 3,816,477</u>         |                                |                                    |
| <b>Liabilities and Shareholders' Equity</b>               |                             |                                |                                    |                             |                                |                                    |
| Interest-bearing liabilities:                             |                             |                                |                                    |                             |                                |                                    |
| Interest-bearing deposits                                 | \$ 1,839,812                | \$ 1,267                       | 0.28%                              | \$ 1,687,991                | \$ 2,022                       | 0.48%                              |
| Federal Home Loan Bank advances                           | 50,000                      | 221                            | 1.77%                              | 70,769                      | 240                            | 1.36%                              |
| Other interest-bearing liabilities                        | —                           | —                              | —                                  | 2,101                       | 5                              | 0.96%                              |
| Total interest-bearing liabilities                        | 1,889,812                   | \$ 1,488                       | 0.32%                              | 1,760,861                   | \$ 2,267                       | 0.52%                              |
| Noninterest-bearing liabilities:                          |                             |                                |                                    |                             |                                |                                    |
| Noninterest-bearing deposits                              | 1,611,565                   |                                |                                    | 1,462,271                   |                                |                                    |
| Other liabilities   | 46,774                      |                                |                                    | 49,958                      |                                |                                    |
| Total noninterest-bearing liabilities                     | 1,658,339                   |                                |                                    | 1,512,229                   |                                |                                    |
| Shareholders' equity                                      | 552,807                     |                                |                                    | 543,387                     |                                |                                    |
| Total liabilities and shareholders' equity                | <u>\$ 4,100,958</u>         |                                |                                    | <u>\$ 3,816,477</u>         |                                |                                    |
| Net interest income                                       |                             | <u>\$ 31,018</u>               |                                    |                             | <u>\$ 32,158</u>               |                                    |
| Net interest spread <sup>(3)</sup>                        |                             |                                | 3.09%                              |                             |                                | 3.39%                              |
| Net interest margin <sup>(4)</sup>                        |                             |                                | 3.25%                              |                             |                                | 3.65%                              |
| Net interest margin - tax equivalent <sup>(5)</sup>       |                             |                                | 3.29%                              |                             |                                | 3.68%                              |

(1) Annualized.

(2) Includes average outstanding balances related to loans held for sale.

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

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

(5) Tax equivalent adjustments of \$321,000 and \$247,000 for the three months ended June 30, 2021 and 2020, respectively, were computed using a federal income tax rate of 21%.

The following table presents information regarding 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 in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

| (Dollars in thousands)                                    | Three Months Ended June 30, 2021,<br>Compared to Three Months Ended June 30, 2020 |                 |             |                   |
|---|---|-----------------|-------------|-------------------|
|   | Increase (Decrease) due to  |                 |             |                   |
|   | Rate  | Volume          | Days        | Total             |
| Interest-earning assets:                                  |   |                 |             |                   |
| Total loans   | \$ (1,249)  | \$ (815)        | \$ —        | \$ (2,064)        |
| Securities  | (214)   | 318             | —           | 104               |
| Interest-bearing deposits at other financial institutions | (77)  | 131             | —           | 54                |
| Equity investments  | (15)  | 2               | —           | (13)              |
| Total decrease in interest income                         | <u>(1,555)</u>  | <u>(364)</u>    | <u>—</u>    | <u>(1,919)</u>    |
| Interest-bearing liabilities:                             |   |                 |             |                   |
| Interest-bearing deposits                                 | (936)   | 181             | —           | (755)             |
| Federal Home Loan Bank advances                           | 51  | (70)            | —           | (19)              |
| Other interest-bearing liabilities                        | (5)   | —               | —           | (5)               |
| Total increase (decrease) in interest expense             | <u>(890)</u>  | <u>111</u>      | <u>—</u>    | <u>(779)</u>      |
| Decrease in net interest income                           | <u>\$ (665)</u>   | <u>\$ (475)</u> | <u>\$ —</u> | <u>\$ (1,140)</u> |

#### *Provision (Recapture) for Credit Losses*

The provision for credit losses was a recapture of credit losses of \$4.7 million for the six months ended June 30, 2021, compared to a provision for credit losses of \$14.9 million for the six months ended June 30, 2020 and the provision for credit losses was a recapture of credit losses of \$5.1 million for the second quarter of 2021, compared to a provision for credit losses of \$9.9 million for the second quarter of 2020.

The recapture of credit losses for the three and six months ended June 30, 2021 were primarily the result of certain qualitative factor adjustments made on the ACL. Due to the continued improvements in the national economy, economic forecasts and improved loan quality, the Company adjusted its economic forecasts and certain loan quality factors. A decrease in the Company's collectively evaluated loan portfolio also resulted in a decrease in the ACL.

The provisions for credit losses for the three and six months ended June 30, 2020 were impacted by the uncertainties associated with the COVID-19 pandemic, instability in the oil and gas industry, resultant economic conditions and the impact on the Company's loan portfolio.

### Noninterest Income

The following table presents components of noninterest income for the second quarters of 2021 and 2020, the six months ended June 30, 2021 and 2020 and the period-over-period changes in the categories of noninterest income:

| (Dollars in thousands)                | Three Months Ended June 30, |                 |                     |        | Six Months Ended June 30, |                 |                     |         |
|---------------------------------------|-----------------------------|-----------------|---------------------|--------|---------------------------|-----------------|---------------------|---------|
|                                       | 2021                        | 2020            | Increase (Decrease) |        | 2021                      | 2020            | Increase (Decrease) |         |
| Deposit account service charges       | \$ 1,167                    | \$ 1,095        | \$ 72               | 6.6%   | \$ 2,360                  | \$ 2,580        | \$ (220)            | (8.5)%  |
| Card interchange fees                 | 1,095                       | 915             | 180                 | 19.7%  | 2,071                     | 1,837           | 234                 | 12.7%   |
| Earnings on bank-owned life insurance | 390                         | 412             | (22)                | (5.3)% | 780                       | 828             | (48)                | (5.8)%  |
| Net gain on sales of assets           | 366                         | 139             | 227                 | 163.3% | 558                       | 262             | 296                 | 113.0%  |
| Other                                 | 473                         | 348             | 125                 | 35.9%  | 833                       | 1,729           | (896)               | (51.8)% |
| Total noninterest income              | <u>\$ 3,491</u>             | <u>\$ 2,909</u> | <u>\$ 582</u>       | 20.0%  | <u>\$ 6,602</u>           | <u>\$ 7,236</u> | <u>\$ (634)</u>     | (8.8)%  |

The decrease in noninterest income of \$634,000 during the six months ended June 30, 2021, compared to the six months ended June 30, 2020, was primarily due to swap fee income recognized in the six months ended June 30, 2020 based on the volume of such transactions in that period.

Noninterest income increased \$582,000 during the second quarter of 2021, compared to the second quarter of 2020 primarily due to gains on sales of assets and higher card interchange fees during 2021.

### Noninterest Expense

Generally, noninterest expense is composed of employee expenses and costs associated with operating facilities, obtaining and retaining customer relationships and providing bank services. See further analysis of these changes in the related discussions that follow.

| (Dollars in thousands)                          | Three Months Ended June 30, |                  |                     |         | Six Months Ended June 30, |                  |                     |         |
|---|-----------------------------|------------------|---------------------|---------|---------------------------|------------------|---------------------|---------|
|   | 2021                        | 2020             | Increase (Decrease) |         | 2021                      | 2020             | Increase (Decrease) |         |
| Salaries and employee benefits                  | \$ 14,734                   | \$ 14,012        | \$ 722              | 5.2%    | \$ 28,922                 | \$ 28,235        | \$ 687              | 2.4%    |
| Occupancy expense                               | 2,597                       | 2,558            | 39                  | 1.5%    | 5,118                     | 4,982            | 136                 | 2.7%    |
| Professional and director fees                  | 2,441                       | 1,541            | 900                 | 58.4%   | 4,144                     | 2,693            | 1,451               | 53.9%   |
| Data processing and software                    | 1,661                       | 1,292            | 369                 | 28.6%   | 3,237                     | 2,514            | 723                 | 28.8%   |
| Regulatory fees                                 | 501                         | 476              | 25                  | 5.3%    | 1,057                     | 579              | 478                 | 82.6%   |
| Advertising, marketing and business development | 510                         | 269              | 241                 | 89.6%   | 795                       | 633              | 162                 | 25.6%   |
| Telephone and communications                    | 550                         | 392              | 158                 | 40.3%   | 1,013                     | 811              | 202                 | 24.9%   |
| Security and protection expense                 | 537                         | 351              | 186                 | 53.0%   | 927                       | 725              | 202                 | 27.9%   |
| Amortization of intangibles                     | 186                         | 230              | (44)                | (19.1)% | 377                       | 451              | (74)                | (16.4)% |
| Other expenses                                  | 1,480                       | 1,374            | 106                 | 7.7%    | 2,892                     | 2,961            | (69)                | (2.3)%  |
| Total noninterest expense                       | <u>\$ 25,197</u>            | <u>\$ 22,495</u> | <u>\$ 2,702</u>     | 12.0%   | <u>\$ 48,482</u>          | <u>\$ 44,584</u> | <u>\$ 3,898</u>     | 8.7%    |

The increase in noninterest expense of \$3.9 million for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, was primarily due to a \$1.5 million increase in professional and director fees, a \$687,000 increase in salaries and employee benefits, a \$723,000 increase in data processing and software and a \$478,000 increase in regulatory fees. The increase in professional and director fees in the second quarter of 2021 was due mainly to consulting and legal fees related to BSA/AML compliance matters. Consulting fees associated with BSA/AML compliance matters were \$1.5 million for the six months ended June 30, 2021 and \$214,000 for the six months ended June 30, 2020. Legal fees related to the BSA/AML compliance matters were \$546,000 for the six months ended June 30, 2021 and \$592,000 for the six months ended June 30, 2020.

The increase in noninterest expense of \$2.7 million for the second quarter of 2021, compared to the second quarter of 2020, was primarily due to a \$900,000 increase in professional and director fees, a \$722,000 increase in salaries and employee benefits, a \$369,000 increase in data processing and software, a \$241,000 increase in advertising, marketing and business development expense and a \$186,000 increase in security and protection expense. The increase in professional and director fees in the second quarter of 2021 was mainly related to consulting and legal fees related to



BSA/AML compliance matters. Consulting fees associated with BSA/AML compliance matters were \$796,000 for the second quarter of 2021 and \$214,000 in the second quarter of 2020. Legal fees related to the BSA/AML compliance matters were \$592,000 for the second quarter of 2021 and \$290,000 for the second quarter of 2020.

#### Income Tax Expense

The amount of income tax expense is impacted by the amounts of pre-tax income, tax-exempt income and other nondeductible expenses. Income tax expense and effective tax rates for the periods shown below were as follows:

| (Dollars in thousands) | Three Months Ended June 30, |        | Six Months Ended June 30, |          |
|------------------------|-----------------------------|--------|---------------------------|----------|
|                        | 2021                        | 2020   | 2021                      | 2020     |
| Income tax expense     | \$ 2,692                    | \$ 539 | \$ 5,177                  | \$ 2,407 |
| Effective tax rate     | 18.70%                      | 19.95% | 19.25%                    | 19.87%   |

The differences between the federal statutory rate of 21% and the effective tax rates presented in the table above were primarily related to tax exempt interest income and bank-owned life insurance.

#### Financial Condition

Total assets were \$4.1 billion as of June 30, 2021, compared to \$3.9 billion as of December 31, 2020. The increase of \$117.3 million, or 3.0%, was primarily due to a \$250.4 million increase in cash and cash equivalents and a \$72.0 million increase in securities, partially offset by a \$191.2 million decrease in loans. Total liabilities were \$3.5 billion as of June 30, 2021, compared to \$3.4 billion as of December 31, 2020, an increase of \$107.5 million primarily due to an increase in deposits of \$115.0 million. See further analysis in the related discussions that follow.

| (Dollars in thousands)                     | June 30,<br>2021 | December 31,<br>2020 | Increase (Decrease) |         |
|--|------------------|----------------------|---------------------|---------|
| <b>Assets:</b>                             |                  |                      |                     |         |
| Loans excluding loans held for sale        | \$ 2,729,496     | \$ 2,924,117         | \$ (194,621)        | (6.7)%  |
| Allowance for credit losses                | (37,183)         | (40,637)             | (3,454)             | (8.5)%  |
| Loans, net                                 | 2,692,313        | 2,883,480            | (191,167)           | (6.6)%  |
| Cash and equivalents                       | 788,409          | 538,007              | 250,402             | 46.5%   |
| Securities                                 | 309,233          | 237,281              | 71,952              | 30.3%   |
| Premises and equipment, net                | 59,987           | 61,152               | (1,165)             | (1.9)%  |
| Goodwill                                   | 80,950           | 80,950               | —                   | —       |
| Other intangibles                          | 3,846            | 4,171                | (325)               | (7.8)%  |
| Loans held for sale                        | 808              | 2,673                | (1,865)             | (69.8)% |
| Operating lease right-to-use asset         | 12,514           | 13,285               | (771)               | (5.8)%  |
| Other assets                               | 118,474          | 128,218              | (9,744)             | (7.6)%  |
| Total assets                               | \$ 4,066,534     | \$ 3,949,217         | \$ 117,317          | 3.0%    |
| <b>Liabilities:</b>                        |                  |                      |                     |         |
| Deposits                                   | \$ 3,416,786     | \$ 3,301,794         | \$ 114,992          | 3.5%    |
| Federal Home Loan Bank advances            | 50,000           | 50,000               | —                   | —       |
| Operating lease liabilities                | 15,590           | 16,447               | (857)               | (5.2)%  |
| Other liabilities                          | 27,931           | 34,525               | (6,594)             | (19.1)% |
| Total liabilities                          | 3,510,307        | 3,402,766            | 107,541             | 3.2%    |
| <b>Shareholders' equity</b>                |                  |                      |                     |         |
| Total liabilities and shareholders' equity | \$ 4,066,534     | \$ 3,949,217         | \$ 117,317          | 3.0%    |

### Loan Portfolio

The loan portfolio by loan class as of the dates indicated was as follows:

| (Dollars in thousands)                     | June 30,<br>2021    | December 31,<br>2020 | Increase (Decrease) |               |
|--|---------------------|----------------------|---------------------|---------------|
| Commercial and industrial                  | \$ 658,733          | \$ 742,957           | \$ (84,224)         | (11.3)%       |
| Real estate:                               |                     |                      |                     |               |
| Commercial real estate                     | 1,060,968           | 1,041,998            | 18,970              | 1.8%          |
| Construction and development               | 426,007             | 522,705              | (96,698)            | (18.5)%       |
| 1-4 family residential                     | 211,328             | 239,872              | (28,544)            | (11.9)%       |
| Multi-family residential                   | 265,252             | 258,346              | 6,906               | 2.7%          |
| Consumer                                   | 31,444              | 33,884               | (2,440)             | (7.2)%        |
| Agriculture                                | 8,283               | 8,670                | (387)               | (4.5)%        |
| Other                                      | 78,607              | 88,238               | (9,631)             | (10.9)%       |
| Gross loans                                | 2,740,622           | 2,936,670            | (196,048)           | (6.7)%        |
| Less deferred fees and unearned discount   | (10,318)            | (9,880)              | 438                 | 4.4%          |
| Less loans held for sale                   | (808)               | (2,673)              | (1,865)             | 69.8%         |
| Loans excluding loans held for sale        | 2,729,496           | 2,924,117            | (194,621)           | (6.7)%        |
| Less allowance for credit losses for loans | (37,183)            | (40,637)             | (3,454)             | (8.5)%        |
| Loans, net                                 | <u>\$ 2,692,313</u> | <u>\$ 2,883,480</u>  | <u>\$ (191,167)</u> | <u>(6.6)%</u> |

As of June 30, 2021, loans excluding loans held for sale were \$2.7 billion, a decrease of \$194.6 million, or 6.7%, compared to December 31, 2020, primarily due to paydowns during the six months ended June 30, 2021 of \$955.1 million, partially offset by originations and line of credit drawdowns of \$759.4 million during the same period.

At June 30, 2021, the Company had 1,426 PPP loans totaling \$179.1 million, net of deferred loan fees and unearned discounts, and at December 31, 2020, the Company had 1,766 PPP loans totaling \$271.2 million, net of deferred loan fees and unearned discounts. The Company recognized a net yield of 4.94% during the six months ended June 30, 2021 on PPP loans, including \$4.7 million of origination fee income. During the six months ended June 30, 2021, payments for PPP loans totaled \$233.8 million and PPP loans originated totaled \$142.7 million.

PPP loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit the Company's ability to pursue all available remedies in the event of a loan default. If the borrower under the PPP loan fails to qualify for loan forgiveness, the Company is at heightened risk of holding these loans at unfavorable interest rates and underwriting standards as compared to the loans to customers to whom the Company would have otherwise lent.

The contractual maturity ranges of loans in the loan portfolio and the amount of such loans with fixed and variable interest rates in each maturity range as of the date indicated were as follows:

| (Dollars in thousands)               | 1 Year or Less    | 1 Year<br>Through 5 Years | 5 Years<br>Through 15 Years | After<br>15 years | Total               |
|--------------------------------------|-------------------|---------------------------|-----------------------------|-------------------|---------------------|
| <b>June 30, 2021</b>                 |                   |                           |                             |                   |                     |
| <b>Commercial and industrial:</b>    |                   |                           |                             |                   |                     |
| Fixed rate                           | \$ 112,259        | \$ 262,268                | \$ 4,515                    | \$ —              | \$ 379,042          |
| Variable rate                        | 179,744           | 85,706                    | 13,736                      | 505               | 279,691             |
|                                      | <u>292,003</u>    | <u>347,974</u>            | <u>18,251</u>               | <u>505</u>        | <u>658,733</u>      |
| <b>Real estate:</b>                  |                   |                           |                             |                   |                     |
| <b>Commercial real estate:</b>       |                   |                           |                             |                   |                     |
| Fixed rate                           | 55,857            | 438,062                   | 9,464                       | —                 | 503,383             |
| Variable rate                        | 83,887            | 300,337                   | 149,851                     | 23,510            | 557,585             |
|                                      | <u>139,744</u>    | <u>738,399</u>            | <u>159,315</u>              | <u>23,510</u>     | <u>1,060,968</u>    |
| <b>Construction and development:</b> |                   |                           |                             |                   |                     |
| Fixed rate                           | 54,030            | 64,848                    | 9,690                       | —                 | 128,568             |
| Variable rate                        | 99,993            | 179,585                   | 6,396                       | 11,465            | 297,439             |
|                                      | <u>154,023</u>    | <u>244,433</u>            | <u>16,086</u>               | <u>11,465</u>     | <u>426,007</u>      |
| <b>1-4 family residential:</b>       |                   |                           |                             |                   |                     |
| Fixed rate                           | 6,134             | 34,509                    | 20,659                      | 14,494            | 75,796              |
| Variable rate                        | 3,231             | 3,604                     | 13,766                      | 114,931           | 135,532             |
|                                      | <u>9,365</u>      | <u>38,113</u>             | <u>34,425</u>               | <u>129,425</u>    | <u>211,328</u>      |
| <b>Multi-family residential:</b>     |                   |                           |                             |                   |                     |
| Fixed rate                           | 2,218             | 5,150                     | 178,532                     | 2,793             | 188,693             |
| Variable rate                        | 45,576            | 30,983                    | —                           | —                 | 76,559              |
|                                      | <u>47,794</u>     | <u>36,133</u>             | <u>178,532</u>              | <u>2,793</u>      | <u>265,252</u>      |
| <b>Consumer:</b>                     |                   |                           |                             |                   |                     |
| Fixed rate                           | 7,748             | 9,826                     | 91                          | —                 | 17,665              |
| Variable rate                        | 11,672            | 2,107                     | —                           | —                 | 13,779              |
|                                      | <u>19,420</u>     | <u>11,933</u>             | <u>91</u>                   | <u>—</u>          | <u>31,444</u>       |
| <b>Agriculture:</b>                  |                   |                           |                             |                   |                     |
| Fixed rate                           | 5,104             | 827                       | —                           | —                 | 5,931               |
| Variable rate                        | 2,306             | 46                        | —                           | —                 | 2,352               |
|                                      | <u>7,410</u>      | <u>873</u>                | <u>—</u>                    | <u>—</u>          | <u>8,283</u>        |
| <b>Other:</b>                        |                   |                           |                             |                   |                     |
| Fixed rate                           | 1,894             | 2,248                     | 675                         | —                 | 4,817               |
| Variable rate                        | 20,272            | 53,518                    | —                           | —                 | 73,790              |
|                                      | <u>22,166</u>     | <u>55,766</u>             | <u>675</u>                  | <u>—</u>          | <u>78,607</u>       |
| <b>Total:</b>                        |                   |                           |                             |                   |                     |
| Fixed rate loans                     | 245,244           | 817,738                   | 223,626                     | 17,287            | 1,303,895           |
| Variable rate loans                  | 446,681           | 655,886                   | 183,749                     | 150,411           | 1,436,727           |
|                                      | <u>\$ 691,925</u> | <u>\$ 1,473,624</u>       | <u>\$ 407,375</u>           | <u>\$ 167,698</u> | <u>\$ 2,740,622</u> |

### Nonperforming Assets

Nonperforming assets include nonaccrual loans, loans that are accruing over 90 days past due and foreclosed assets. Generally, loans are placed on nonaccrual status when they become more than 90 days past due and/or the collection of principal or interest is in doubt. The components of nonperforming assets as of the dates indicated were as follows:

| (Dollars in thousands)                                     | June 30,<br>2021 | December 31,<br>2020 |
|--|------------------|----------------------|
| Nonaccrual loans   | \$ 20,973        | \$ 24,017            |
| Accruing loans 90 or more days past due                    | —                | —                    |
| Total nonperforming loans                                  | 20,973           | 24,017               |
| Foreclosed assets  | —                | —                    |
| Total nonperforming assets                                 | \$ 20,973        | \$ 24,017            |
| Total assets   | \$ 4,066,534     | \$ 3,949,217         |
| Loans excluding loans held for sale                        | 2,729,496        | 2,924,117            |
| Allowance for credit losses for loans                      | 37,183           | 40,637               |
| Allowance for credit losses for loans to nonaccrual loans  | 177.29%          | 169.20%              |
| Nonperforming loans to loans excluding loans held for sale | 0.77%            | 0.82%                |
| Nonperforming assets to total assets                       | 0.52%            | 0.61%                |

Nonperforming assets remain relatively low at \$21.0 million, or 0.52% of total assets, at June 30, 2021 and \$24.0 million, or 0.61% of total assets, at December 31, 2020. The nonperforming assets decreased \$3.0 million during the first six months of 2021 primarily due to repayments.

### Troubled Debt Restructurings

Loans restructured due to the borrower's financial difficulties, or troubled debt restructurings, during the six months ended June 30, 2021 and 2020, which remained outstanding as of the end of those periods were as follows:

| (Dollars in thousands)       | Number of Loans | Pre-modification Outstanding Recorded Investment | Post-modification Recorded Investment |                   |   |   |
|------------------------------|-----------------|--|---------------------------------------|-------------------|---|---|
|                              |                 |  | Restructured Payments                 | Extended Maturity | Extended Maturity and Restructured Payments | Extended Maturity, Restructured Payments and Adjusted Interest Rate |
| <b>June 30, 2021</b>         |                 |  |                                       |                   |   |   |
| Commercial and industrial    | 3               | \$ 3,256   | \$ 3,256                              | \$ —              | \$ —  | \$ —  |
| Real estate:                 |                 |  |                                       |                   |   |   |
| Commercial real estate       | 1               | 1,206  | 1,206                                 | —                 | —   | —   |
| 1-4 family residential       | 1               | 1,548  | 1,548                                 | —                 | —   | —   |
| Total                        | 5               | \$ 6,010   | \$ 6,010                              | \$ —              | \$ —  | \$ —  |
| <b>June 30, 2020</b>         |                 |  |                                       |                   |   |   |
| Commercial and industrial    | 17              | \$ 3,131   | \$ 2,899                              | \$ —              | \$ —  | \$ 232  |
| Real estate:                 |                 |  |                                       |                   |   |   |
| Commercial real estate       | 8               | 9,715  | 9,715                                 | —                 | —   | —   |
| Construction and development | 5               | 12,564   | 12,032                                | —                 | —   | 532   |
| 1-4 family residential       | 5               | 1,629  | 1,651                                 | —                 | —   | —   |
| Total                        | 35              | \$ 27,039  | \$ 26,297                             | \$ —              | \$ —  | \$ 764  |

### Risk Gradings

As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the ACL, management assigns and tracks risk gradings as described below that are used as credit quality indicators.



The internal ratings of loans as of the dates indicated were as follows:

| <u>(Dollars in thousands)</u> | <u>Pass</u>         | <u>Special<br/>Mention</u> | <u>Substandard</u> | <u>Total</u>        |
|-------------------------------|---------------------|----------------------------|--------------------|---------------------|
| <b>June 30, 2021</b>          |                     |                            |                    |                     |
| Commercial and industrial     | \$ 637,020          | \$ 3,280                   | \$ 18,433          | \$ 658,733          |
| Real estate:                  |                     |                            |                    |                     |
| Commercial real estate        | 1,010,662           | 9,472                      | 40,834             | 1,060,968           |
| Construction and development  | 413,684             | —                          | 12,323             | 426,007             |
| 1-4 family residential        | 204,519             | 1,524                      | 5,285              | 211,328             |
| Multi-family residential      | 265,252             | —                          | —                  | 265,252             |
| Consumer                      | 31,254              | —                          | 190                | 31,444              |
| Agriculture                   | 8,218               | —                          | 65                 | 8,283               |
| Other                         | 75,202              | —                          | 3,405              | 78,607              |
| Gross loans                   | <u>\$ 2,645,811</u> | <u>\$ 14,276</u>           | <u>\$ 80,535</u>   | <u>\$ 2,740,622</u> |

| <u>(Dollars in thousands)</u> | <u>Pass</u>         | <u>Special<br/>Mention</u> | <u>Substandard</u> | <u>Total</u>        |
|-------------------------------|---------------------|----------------------------|--------------------|---------------------|
| <b>December 31, 2020</b>      |                     |                            |                    |                     |
| Commercial and industrial     | \$ 720,465          | \$ 3,404                   | \$ 19,088          | \$ 742,957          |
| Real estate:                  |                     |                            |                    |                     |
| Commercial real estate        | 1,000,503           | 7,519                      | 33,976             | 1,041,998           |
| Construction and development  | 502,933             | —                          | 19,772             | 522,705             |
| 1-4 family residential        | 230,654             | 3,165                      | 6,053              | 239,872             |
| Multi-family residential      | 258,346             | —                          | —                  | 258,346             |
| Consumer                      | 33,884              | —                          | —                  | 33,884              |
| Agriculture                   | 8,597               | —                          | 73                 | 8,670               |
| Other                         | 80,386              | —                          | 7,852              | 88,238              |
| Gross loans                   | <u>\$ 2,835,768</u> | <u>\$ 14,088</u>           | <u>\$ 86,814</u>   | <u>\$ 2,936,670</u> |

During the first six months of 2021, loans with an internal rating of pass decreased \$190.0 million primarily due to loan payoffs and payments collected. Loans with an internal rating of special mention increased \$188,000 and loans with an internal rating of substandard decreased \$6.3 million during the same period, primarily due to loan payoffs and payments collected.

*Allowance for Credit Losses*

The Company maintains an ACL that represents management’s best estimate of the expected credit losses and risks inherent in the loan portfolio. The amount of the ACLs should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts. In determining the ACL, the Company estimates losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the ACL is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current and forecasted economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. Please refer to “Part I—Item 1.—Financial Statements—Note 6.”

The ACL by loan category as of the dates indicated was as follows:

| (Dollars in thousands)                               | June 30, 2021 |         | December 31, 2020 |         |
|--|---------------|---------|-------------------|---------|
|  | Amount        | Percent | Amount            | Percent |
| Commercial and industrial                            | \$ 12,260     | 33.0 %  | \$ 13,035         | 32.1 %  |
| Real estate:   |               |         |                   |         |
| Commercial real estate                               | 13,260        | 35.7 %  | 13,798            | 34.0 %  |
| Construction and development                         | 4,453         | 12.0 %  | 6,089             | 15.0 %  |
| 1-4 family residential                               | 2,172         | 5.8 %   | 2,578             | 6.3 %   |
| Multi-family residential                             | 2,382         | 6.4 %   | 2,513             | 6.2 %   |
| Consumer   | 494           | 1.3 %   | 440               | 1.1 %   |
| Agriculture  | 115           | 0.3 %   | 137               | 0.3 %   |
| Other  | 2,047         | 5.5 %   | 2,047             | 5.0 %   |
| Total allowance for credit losses for loans          | \$ 37,183     | 100.0 % | \$ 40,637         | 100.0 % |
| Loans excluding loans held for sale                  | 2,729,496     |         | 2,924,117         |         |
| ACL for loans to loans excluding loans held for sale | 1.36%         |         | 1.39%             |         |

The ACL for loans was \$37.2 million, or 1.36% of loans excluding loans held for sale, at June 30, 2021, compared to \$40.6 million, or 1.39% of loans excluding loans held for sale, at December 31, 2020. The ACL was reduced during the six months ended June 30, 2021 due to improvements in the national economy and economic forecasts, the reduction of the loan portfolio and an improvement in loan quality.

The ACL for unfunded commitments was \$3.4 million at June 30, 2021 and \$4.2 million at December 31, 2020. The decrease in the ACL for unfunded commitments was primarily due to the reduction in unfunded commitments from \$765.8 million at December 31, 2020 to \$715.6 million at June 30, 2021.

Activity in the ACL for loans for the periods indicated was as follows:

| (Dollars in thousands)   | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2021                      | 2020      |
| Beginning balance  | \$ 40,637                 | \$ 25,280 |
| Impact of CECL adoption  | —                         | 874       |
| Provision (recapture):   |                           |           |
| Commercial and industrial                                      | (1,083)                   | 3,169     |
| Real estate:   |                           |           |
| Commercial real estate   | (538)                     | 4,613     |
| Construction and development                                   | (1,636)                   | 2,504     |
| 1-4 family residential   | (406)                     | 1,256     |
| Multi-family residential                                       | (131)                     | 887       |
| Consumer   | (46)                      | 258       |
| Agriculture  | (64)                      | (16)      |
| Other  | —                         | 605       |
| Total provision (recapture)                                    | (3,904)                   | 13,276    |
| Net (charge-offs) recoveries:                                  |                           |           |
| Commercial and industrial                                      | 308                       | 416       |
| Real estate:   |                           |           |
| Commercial real estate   | —                         | (24)      |
| Construction and development                                   | —                         | —         |
| 1-4 family residential   | —                         | (65)      |
| Multi-family residential                                       | —                         | —         |
| Consumer   | 100                       | (92)      |
| Agriculture  | 42                        | 12        |
| Other  | —                         | 1         |
| Total net (charge-offs) recoveries                             | 450                       | 248       |
| Ending balance   | \$ 37,183                 | \$ 39,678 |
| Total average loans  | 2,868,463                 | 2,771,355 |
| Annualized net charge-offs (recoveries) to total average loans | (0.03)%                   | (0.02)%   |

Annualized net charge-off recoveries to average loans by loan category for the periods shown below were as follows:

| (Dollars in thousands)       | Six Months Ended June 30, |         |
|------------------------------|---------------------------|---------|
|                              | 2021                      | 2020    |
| Commercial and industrial    | (0.09)%                   | (0.12)% |
| Real estate:                 |                           |         |
| Commercial real estate       | —                         | (0.01)% |
| Construction and development | —                         | —       |
| 1-4 family residential       | —                         | (0.05)% |
| Multi-family residential     | —                         | —       |
| Consumer                     | (0.62)%                   | (0.51)% |
| Agriculture                  | (1.00)%                   | 0.27%   |
| Other                        | —                         | —       |



### Securities

The amortized cost, related gross unrealized gains and losses and fair values of investments in securities as of the dates shown below were as follows:

| (Dollars in thousands)              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------|
| <b>June 30, 2021</b>                |                   |                              |                               |                   |
| Debt securities available for sale: |                   |                              |                               |                   |
| State and municipal securities      | \$ 122,667        | \$ 4,543                     | \$ (103)                      | \$ 127,107        |
| U.S. Treasury securities            | 11,882            | 79                           | —                             | 11,961            |
| U.S. agency securities:             |                   |                              |                               |                   |
| Callable debentures                 | 3,000             | 2                            | —                             | 3,002             |
| Collateralized mortgage obligations | 34,740            | 165                          | (316)                         | 34,589            |
| Mortgage-backed securities          | 129,232           | 2,662                        | (502)                         | 131,392           |
| Equity securities                   | 1,183             | —                            | (1)                           | 1,182             |
| Total                               | <u>\$ 302,704</u> | <u>\$ 7,451</u>              | <u>\$ (922)</u>               | <u>\$ 309,233</u> |
| <b>December 31, 2020</b>            |                   |                              |                               |                   |
| Debt securities available for sale: |                   |                              |                               |                   |
| State and municipal securities      | \$ 88,741         | \$ 4,296                     | \$ —                          | \$ 93,037         |
| U.S. agency securities:             |                   |                              |                               |                   |
| Collateralized mortgage obligations | 35,085            | 347                          | (30)                          | 35,402            |
| Mortgage-backed securities          | 103,686           | 3,963                        | —                             | 107,649           |
| Equity securities                   | 1,176             | 17                           | —                             | 1,193             |
| Total                               | <u>\$ 228,688</u> | <u>\$ 8,623</u>              | <u>\$ (30)</u>                | <u>\$ 237,281</u> |

As of June 30, 2021, the fair value of the Company's securities totaled \$309.2 million, compared to \$237.3 million as of December 31, 2020, an increase of \$72.0 million. Amortized cost increased \$74.0 million during 2021, primarily as a result of purchases totaling \$413.0 million outpacing maturities, sales, calls and paydowns totaling \$338.2 million. Net unrealized gains on the securities portfolio were \$6.5 million at June 30, 2021, compared to \$8.6 million at December 31, 2020. This decrease of \$2.1 million was due to a reduction in fair value as a result of market fluctuations.

The Company's mortgage-backed securities at June 30, 2021 and December 31, 2020, were agency securities. The Company does not hold any Federal National Mortgage Loan Association, or Fannie Mae, or Federal Home Mortgage Corporation, or Freddie Mac, preferred stock, corporate equity, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt-A or second lien elements in the securities portfolio.

The weighted-average life of the securities portfolio was 5.4 years with an estimated modified duration of 4.9 years as of June 30, 2021. See "Part I—Item 1.—Financial Statements—Note 2" for securities by contractual maturity.

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Weighted-average yields by security type and maturity based on estimated annual income divided by the average amortized cost of the Company's available for sale securities portfolio as of the date indicated was as follows:

| (Dollars in thousands)              | 1 Year or Less | After 1 Year to 5<br>Years | After 5 Years to<br>10 Years | After 10 Years | Total |
|-------------------------------------|----------------|----------------------------|------------------------------|----------------|-------|
| <b>June 30, 2021</b>                |                |                            |                              |                |       |
| Debt securities:                    |                |                            |                              |                |       |
| State and municipal securities      | 2.48%          | —                          | 2.71%                        | 2.27%          | 2.31% |
| U.S. Treasury securities            | —              | —                          | 1.13%                        | —              | 1.13% |
| U.S. agency securities:             |                |                            |                              |                |       |
| Callable debentures                 | —              | —                          | 1.37%                        | —              | 1.37% |
| Collateralized mortgage obligations | —              | —                          | 2.28%                        | 1.10%          | 1.25% |
| Mortgage-backed securities          | 2.74%          | 3.52%                      | 2.87%                        | 1.87%          | 1.90% |
| Equity securities:                  | 1.36%          | —                          | —                            | —              | 1.36% |
| Total securities                    | 1.87%          | 3.52%                      | 1.90%                        | 1.95%          | 1.95% |

At June 30, 2021 and December 31, 2020, securities with a carrying amount of approximately \$27.8 million and \$27.3 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

*Deposits*

Total deposits as of June 30, 2021 were \$3.4 billion, an increase of \$115.0 million, or 3.5%, compared to December 31, 2020. Noninterest-bearing deposits as of June 30, 2021 were \$1.6 billion, an increase of \$80.4 million, or 5.4%, compared to December 31, 2020. Total interest-bearing account balances as of June 30, 2021 were \$1.9 billion, an increase of \$34.6 million, or 1.9%, from December 31, 2020, primarily due to increases in noninterest-bearing deposits and money market accounts, partially offset by decreases in certificates and other time deposits.

The components of deposits as of the dates shown below were as follows:

| (Dollars in thousands)                                     | June 30, 2021 | December 31, 2020 | Increase (Decrease) |         |
|--|---------------|-------------------|---------------------|---------|
| Interest-bearing demand accounts                           | \$ 375,543    | \$ 380,175        | \$ (4,632)          | (1.2)%  |
| Money market accounts                                      | 1,101,091     | 1,039,617         | 61,474              | 5.9%    |
| Savings accounts   | 115,823       | 108,167           | 7,656               | 7.1%    |
| Certificates and other time deposits, \$100,000 or greater | 142,343       | 152,592           | (10,249)            | (6.7)%  |
| Certificates and other time deposits, less than \$100,000  | 125,202       | 144,818           | (19,616)            | (13.5)% |
| Total interest-bearing deposits                            | 1,860,002     | 1,825,369         | 34,633              | 1.9%    |
| Noninterest-bearing deposits                               | 1,556,784     | 1,476,425         | 80,359              | 5.4%    |
| Total deposits   | \$ 3,416,786  | \$ 3,301,794      | \$ 114,992          | 3.5%    |

The scheduled maturities of uninsured certificates of deposit or other time deposits as of the date indicated were as follows:

| <u>(Dollars in thousands)</u>        | <u>June 30, 2021</u> |
|--------------------------------------|----------------------|
| Three months or less                 | \$ 15,716            |
| Over three months through six months | 14,426               |
| Over six months through 12 months    | 8,135                |
| Over 12 months                       | 33,853               |
| Total                                | <u>\$ 72,130</u>     |

Securities pledged which secure certain public deposits were not considered in determining the amount of uninsured deposits.

#### *Cash and Equivalents*

Cash and equivalents increased \$250.4 million during the six months ended June 30, 2021, primarily due to loan payments received and net deposit inflows.

#### *Other Assets*

Other assets decreased \$9.7 million from December 31, 2020 to June 30, 2021, primarily due to a reduction in the fair value of the Company's interest rate swap contracts of \$3.6 million and a decrease in interest receivable of \$1.8 million. See "Part I—Item 1.—Financial Statements—Note 14" for further discussion of the Company's interest rate swap contracts.

#### *Other Liabilities*

Other liabilities decreased \$6.6 million from December 31, 2020 to June 30, 2021, primarily due to a reduction in the fair value of the Company's interest rate swap contracts of \$3.6 million. See "Part I—Item 1.—Financial Statements—Note 14" for further discussion of the Company's interest rate swap contracts.

### **Liquidity and Capital Resources**

The Company monitors its liquidity and may seek to obtain additional financing to further support its business if necessary. The Company's primary source of funds has been customer deposits and the primary use of funds has been funding of loans.

At June 30, 2021, the Company had \$788.4 million in cash and cash equivalents and \$309.2 million of securities, which are considered to be liquid assets, compared to \$538.0 million in cash and cash equivalents and \$237.3 million of securities at December 31, 2020. This increase in liquid assets of \$322.4 million during the first six months of 2021 was primarily due to a \$115.0 million increase in deposits and a decrease of \$194.6 million in loans excluding loans held for sale.

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Historically, the cost of the Company's deposits has been lower than other sources of funds available. Average balances and average rates paid on deposits for the periods indicated are shown in the table below. Average rates paid for the six months ended June 30, 2021 were computed on an annualized basis.

| (Dollars in thousands)                                     | Six Months Ended<br>June 30, 2021 |                 | Year Ended<br>December 31, 2020 |                 |
|--|-----------------------------------|-----------------|---------------------------------|-----------------|
|  | Average<br>Balance                | Average<br>Rate | Average<br>Balance              | Average<br>Rate |
| Interest-bearing demand accounts                           | \$ 373,832                        | 0.05 %          | \$ 363,014                      | 0.10 %          |
| Money market accounts                                      | 1,051,525                         | 0.27 %          | 868,915                         | 0.42 %          |
| Savings accounts   | 111,830                           | 0.03 %          | 97,982                          | 0.04 %          |
| Certificates and other time deposits, \$100,000 or greater | 147,000                           | 0.49 %          | 192,268                         | 1.27 %          |
| Certificates and other time deposits, less than \$100,000  | 136,911                           | 1.13 %          | 181,364                         | 1.50 %          |
| Total interest-bearing deposits                            | 1,821,098                         | 0.29 %          | 1,703,543                       | 0.54 %          |
| Noninterest-bearing deposits                               | 1,545,242                         | —               | 1,404,027                       | —               |
| Total deposits   | \$ 3,366,340                      | 0.16 %          | \$ 3,107,570                    | 0.30 %          |

The ratio of average noninterest-bearing deposits to average total deposits was 45.9% for the six months ended June 30, 2021 and 45.2% for the year ended December 31, 2020.

In addition to the liquid assets discussed above, the Company had \$1.2 billion and \$1.1 billion of available funds under various borrowing arrangements at June 30, 2021 and December 31, 2020, respectively. See "Part I—Item 1.—Financial Statements—Note 11" for additional details of these arrangements. At June 30, 2021, the capacity, amounts outstanding and availability under these arrangements were as follows:

| (Dollars in thousands)          | Capacity     | Outstanding | Availability |
|---------------------------------|--------------|-------------|--------------|
| Federal Home Loan Bank Facility | \$ 1,125,858 | \$ (50,000) | \$ 1,075,858 |
| Frost Facility                  | 30,000       | —           | 30,000       |
| Federal Funds                   | 65,000       | —           | 65,000       |
| Total                           | \$ 1,220,858 | \$ (50,000) | \$ 1,170,858 |

The composition of funding sources and uses as a percentage of average total assets for the periods indicated was as follows:

|   | June 30,<br>2021 | December 31,<br>2020 |
|---|------------------|----------------------|
| Sources of funds:   |                  |                      |
| Deposits:   |                  |                      |
| Interest-bearing  | 45.4 %           | 45.3 %               |
| Noninterest-bearing                                       | 38.5 %           | 37.4 %               |
| Federal Home Loan Bank advances                           | 1.2 %            | 1.5 %                |
| Other interest-bearing liabilities                        | — %              | — %                  |
| Other liabilities   | 1.2 %            | 1.3 %                |
| Shareholders' equity                                      | 13.7 %           | 14.5 %               |
| Total sources   | 100.0 %          | 100.0 %              |
| Uses of funds:  |                  |                      |
| Loans   | 71.4 %           | 76.2 %               |
| Securities  | 7.0 %            | 6.3 %                |
| Interest-bearing deposits at other financial institutions | 14.3 %           | 9.7 %                |
| Equity securities   | 0.4 %            | 0.4 %                |
| Other noninterest-earning assets                          | 6.9 %            | 7.4 %                |
| Total uses  | 100.0 %          | 100.0 %              |
| Average loans to average deposits                         | 85.2 %           | 92.1 %               |

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A portion of the Company’s liquidity capacity will be used for contractual obligations entered into in the normal course of business, such as obligations for operating leases, certificates of deposits and borrowings. Future cash payments associated with the Company’s contractual obligations, as of the dates indicated were as follows:

| (Dollars in thousands)                  | Less than<br>1 Year | 1 Year to<br>3 Years | Greater<br>than 3 Years | Total             |
|---|---------------------|----------------------|-------------------------|-------------------|
| <b>June 30, 2021</b>                    |                     |                      |                         |                   |
| Federal Home Loan Bank advances         | \$ —                | \$ 40,000            | \$ 10,000               | \$ 50,000         |
| Non-cancellable future operating leases | 2,021               | 4,379                | 12,060                  | 18,460            |
| Certificates of deposit                 | 184,906             | 61,447               | 21,192                  | 267,545           |
| Total                                   | <u>\$ 186,927</u>   | <u>\$ 105,826</u>    | <u>\$ 43,252</u>        | <u>\$ 336,005</u> |
| <b>December 31, 2020</b>                |                     |                      |                         |                   |
| Federal Home Loan Bank advances         | \$ —                | \$ 30,000            | \$ 20,000               | \$ 50,000         |
| Non-cancellable future operating leases | 1,968               | 4,452                | 13,092                  | 19,512            |
| Certificates of deposit                 | 204,165             | 74,708               | 18,537                  | 297,410           |
| Total                                   | <u>\$ 206,133</u>   | <u>\$ 109,160</u>    | <u>\$ 51,629</u>        | <u>\$ 366,922</u> |

As of June 30, 2021, the Company had no exposure to future cash requirements associated with known uncertainties or capital expenditure of a material nature.

The Company also enters into commitments to extend credit and standby letters of credit to meet customer financing needs and, in accordance with GAAP, these commitments are not reflected as liabilities in the consolidated balance sheets. Due to the nature of these commitments, the amounts disclosed in the table below do not necessarily represent future cash requirements.

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, generally have fixed expiration dates or other termination clauses and may expire without being fully drawn upon.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third-party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to the Company’s customers.

Commitments to extend credit and standby letters of credit expiring by period as of the dates indicated were as follows:

| (Dollars in thousands)       | Less than<br>1 Year | 1 Year to<br>3 Years | Greater<br>than 3 Years | Total             |
|------------------------------|---------------------|----------------------|-------------------------|-------------------|
| <b>June 30, 2021</b>         |                     |                      |                         |                   |
| Commitments to extend credit | \$ 318,673          | \$ 340,123           | \$ 33,785               | \$ 692,581        |
| Standby letters of credit    | 15,660              | 7,362                | —                       | 23,022            |
| Total                        | <u>\$ 334,333</u>   | <u>\$ 347,485</u>    | <u>\$ 33,785</u>        | <u>\$ 715,603</u> |
| <b>December 31, 2020</b>     |                     |                      |                         |                   |
| Commitments to extend credit | \$ 498,238          | \$ 177,710           | \$ 63,783               | \$ 739,731        |
| Standby letters of credit    | 18,713              | 7,365                | —                       | 26,078            |
| Total                        | <u>\$ 516,951</u>   | <u>\$ 185,075</u>    | <u>\$ 63,783</u>        | <u>\$ 765,809</u> |

As a general matter, Federal Deposit Insurance Corporation, or 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 Company and the Bank are both subject to regulatory capital requirements. At June 30, 2021 and December 31, 2020, the Company and the Bank were in compliance with all applicable regulatory capital requirements at the bank holding company and bank levels, and the Bank was classified as “well capitalized” for purposes of the FDIC’s prompt corrective action regulations. The OCC or the FDIC may require the Bank to maintain capital ratios above the required minimums and the Federal Reserve may require the Company to maintain capital ratios above the required minimums. See “Part I—Item 1.—Financial Statements—Note 19.”

## **Interest Rate Sensitivity and Market Risk**

Market risk refers to the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates and prices. As a financial institution, the Company's primary component of market risk is interest rate risk due to future interest rate changes. Fluctuations in interest rates impact both income and expense recorded on most of the Company's 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 period.

The Company manages exposure to interest rates by structuring its balance sheet in the ordinary course of business. The Company does not enter into instruments such as leveraged derivatives, financial options, financial future contracts or forward delivery contracts to reduce interest rate risk. The Company enters into interest rate swaps as an accommodation to customers. The Company is not subject to foreign exchange or commodity price risk and does not own any trading assets.

The Company has asset, liability and funds management policies that provide the guidelines for effective funds management and has established a measurement system for monitoring the net interest rate sensitivity position. The Company's exposure to interest rate risk is managed by the Funds Management Committee of the Bank. The committee formulates strategies based on appropriate levels of interest rate risk with consideration of 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 relationships between interest-earning assets and interest-bearing liabilities, 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.

The Company uses interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of non-maturity deposit accounts are based on standard regulatory decay assumptions and are incorporated into the model. The assumptions used are inherently uncertain and 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 may 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.

On a quarterly basis, two simulation models are run, including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. The results from these models are impacted by the behavior of interest-rate sensitive assets and liabilities as well as the mixture of those assets and liabilities. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rate changes over a 12-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. The Company's 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 10.0% for a 100 basis-point shift, 20.0% for a 200-basis point shift and 30.0% for a 300-basis point shift.

Simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated below were as follows:

| Change in Interest Rates (Basis Points) | June 30, 2021                         |                                     | December 31, 2020                     |                                     |
|---|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
|   | Percent Change in Net Interest Income | Percent Change Fair Value of Equity | Percent Change in Net Interest Income | Percent Change Fair Value of Equity |
| + 300                                   | 26.6 %                                | 23.8 %                              | 21.5 %                                | 35.7 %                              |
| + 200                                   | 17.4 %                                | 23.4 %                              | 14.1 %                                | 32.8 %                              |
| + 100                                   | 7.9 %                                 | 15.6 %                              | 6.5 %                                 | 21.0 %                              |
| Base                                    | — %                                   | — %                                 | — %                                   | — %                                 |
| -100                                    | (1.6)%                                | (37.4)%                             | (1.5)%                                | (37.0)%                             |

The model simulation as of June 30, 2021 indicates that the Company's projected balance sheet was more asset sensitive in comparison to December 31, 2020. The percent change increases in net interest income compared to December 31, 2020 was primarily due to the decrease of \$92.1 million in lower yielding PPP loans. The percent change decrease in the fair values of equity were primarily due to an increase in interest-bearing deposits held at other financial institutions of \$247.5 million and an increase in securities of \$72.0 million compared to December 31, 2020. The increase of \$80.4 million in noninterest-bearing deposits contributed to the increase in interest-earning assets during 2021, which had the effect of creating a higher economic value of equity. Subsequent rate shocks due to the change in interest rates result in differing percentages given the level of economic equity.

#### *LIBOR Transition*

LIBOR was used as an index rate for a majority of the Company's interest-rate swaps and approximately 7.5% of the Company's loans at June 30, 2021. In March 2021, the UK Financial Conduct authority formally confirmed that a number of U.S. dollar LIBOR rates will be available until the end of June 2023 to support the rundown of legacy contracts. The Company's transition away from LIBOR for its interest-rates swaps and loans using LIBOR as an index rate may span several reporting periods through 2022.

#### **Non-GAAP Financial Measures**

The Company's accounting and reporting policies conform to GAAP and the prevailing practices in the banking industry. However, the Company also evaluates its performance based on certain additional non-GAAP financial measures. The Company classifies 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 not included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP in the statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating, other statistical measures or ratios calculated using exclusively financial measures calculated in accordance with GAAP. Non-GAAP financial measures 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 way the Company calculates non-GAAP financial measures may differ from that of other companies reporting measures with similar names.

The Company calculates tangible equity as total shareholders' equity, less goodwill and other intangible assets, net of accumulated amortization, and tangible book value per share as tangible equity divided by shares of common stock outstanding at the end of the relevant period. The most directly comparable GAAP financial measure for tangible book value per share is book value per share. The Company calculates tangible assets as total assets less goodwill and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible equity to tangible assets is total shareholders' equity to total assets. The Company believes that tangible book value per share and tangible equity to tangible assets are measures that are important to many investors in the marketplace who are interested in book value per share and total shareholders' equity to total assets, exclusive of change in intangible assets.

The following table reconciles, as of the dates set forth below, total shareholders' equity to tangible equity, total assets to tangible assets and presents book value per share, tangible book value per share, total shareholders' equity to total assets and tangible equity to tangible assets:

| <b>(Dollars in thousands, except per share data)</b> | <b>June 30,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|--|--------------------------|------------------------------|
| <b>Tangible Equity</b>                               |                          |                              |
| Total shareholders' equity                           | \$ 556,227               | \$ 546,451                   |
| Adjustments:   |                          |                              |
| Goodwill   | 80,950                   | 80,950                       |
| Other intangibles                                    | 3,846                    | 4,171                        |
| Tangible equity                                      | <u>\$ 471,431</u>        | <u>\$ 461,330</u>            |
| <b>Tangible Assets</b>                               |                          |                              |
| Total assets   | \$ 4,066,534             | \$ 3,949,217                 |
| Adjustments:   |                          |                              |
| Goodwill   | 80,950                   | 80,950                       |
| Other intangibles                                    | 3,846                    | 4,171                        |
| Tangible assets                                      | <u>\$ 3,981,738</u>      | <u>\$ 3,864,096</u>          |
| Common shares outstanding                            | 24,450                   | 24,613                       |
| Book value per share                                 | \$ 22.75                 | \$ 22.20                     |
| Tangible book value per share                        | \$ 19.28                 | \$ 18.74                     |
| Total shareholders' equity to total assets           | 13.68%                   | 13.84%                       |
| Tangible equity to tangible assets                   | 11.84%                   | 11.94%                       |

### **Critical Accounting Policies**

The Company's accounting policies are described in "Part II—Item 8.—Financial Statements and Supplementary Data—Note 1" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The Company's accounting policies that it considers critical because they involve a higher degree of judgment and complexity are described in "Part II—Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

#### *Emerging Growth Company*

The Jump Start Our Business Start-ups, or JOBS Act, permits an "emerging growth company" to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. The Company decided not to take advantage of this provision and is complying with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies. The decision to opt out of the extended transition period under the JOBS Act is irrevocable.

### **Recently Issued Accounting Pronouncements**

See "Part I—Item 1.—Financial Statements—Note 1."

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

See "Part I—Item 2.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity and Market Risk" for a discussion of how the Company manages market risk.

### **Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures*—As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer



concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

*Changes in internal control over financial reporting*—There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is not currently subject to any material legal proceedings. The Company is from time to time subject to claims and litigation arising in the ordinary course of business.

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 the Company's results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against the Company 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 and adversely affect the Company's reputation, even if resolved in the Company's favor.

### **Item 1A. Risk Factors**

None.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### **Unregistered Sales of Equity Securities**

None.

#### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In 2020, the Company's Board of Directors authorized a share repurchase program, or the 2020 Repurchase Program, under which the Company may repurchase up to \$40.0 million of the Company's common stock starting October 1, 2020 through September 30, 2021. Repurchases under the 2020 Repurchase Program may be made from time to time at the Company's discretion in open market transactions, through block trades, in privately negotiated transactions, and pursuant to any trading plan that may be adopted by the Company's management in accordance with Rule 10b5-1 of the Exchange Act or otherwise. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The repurchase program does not obligate the Company to acquire a specific dollar amount or number of shares and may be modified, suspended or discontinued at any time.

The following table provides information with respect to purchases of shares of the Company's common stock during the three months ended June 30, 2021 that the Company made or were made on behalf of the Company or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act.

| <b>Period</b>                  | <b>Total Number of Shares Purchased<sup>(1)</sup></b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plan<sup>(2)</sup></b> | <b>Maximum Number of Shares That May Yet be Purchased Under the Plan<sup>(3)</sup></b> |
|--------------------------------|---|-------------------------------------|--|--|
| April 1, 2021 - April 30, 2021 | —   | —                                   | —  | 1,028,530  |
| May 1, 2021 - May 31, 2021     | 449   | \$ 29.29                            | —  | 1,086,559  |
| June 1, 2021 - June 30, 2021   | —   | —                                   | —  | 1,177,669  |

- (1) Represents shares employees have elected to have withheld to satisfy their tax liabilities related to options exercised or restricted stock vested or to pay the exercise price of the options as allowed under the Company's stock compensation plans. When this settlement method is elected by the employee, the Company repurchases the shares withheld upon vesting of the award stock.
- (2) Purchased under the 2020 Repurchase Program described above.
- (3) Computed based on the closing share price of the Company's common stock as of the end of each period shown above and reflects the additional shares that may be repurchased at the end of the designated period based on the 2020 Repurchase Program.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not Applicable.

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit<br>Number | Description of Exhibit   |
|-------------------|--|
| 3.1               | <a href="#">First Amended and Restated Certificate of Formation of CBTX, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the Commission on October 13, 2017, File No. 333-220930)</a>  |
| 3.2               | <a href="#">Second Amended and Restated Bylaws of CBTX, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the Commission on October 13, 2017, File No. 333-220930)</a>   |
| 4.1               | <a href="#">Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed with the Commission on October 13, 2017, File No. 333-220930)</a>  |
| 31.1*             | <a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934</a>  |
| 31.2*             | <a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934</a>  |
| 32.1**            | <a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</a>  |
| 32.2**            | <a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350</a>  |
| 101*              | The following materials from CBTX's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, formatted in Inline XBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (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 with this Quarterly Report on Form 10-Q

\*\* Furnished with this Quarterly Report on Form 10-Q

**SIGNATURES**

Pursuant to the requirements 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.

**CBTX, INC.**  
(Registrant)

Date: July 28, 2021

/s/ Robert R. Franklin, Jr.  
Robert R. Franklin, Jr.  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Date: July 28, 2021

/s/ Robert T. Pigott, Jr.  
Senior Executive Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Robert R. Franklin, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CBTX, Inc. for the quarter ended June 30, 2021;
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: July 28, 2021

/s/ Robert R. Franklin, Jr.

Robert R. Franklin, Jr.

Chairman, President and Chief Executive Officer

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## CERTIFICATION

I, Robert T. Pigott, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CBTX, Inc. for the quarter ended June 30, 2021;
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: July 28, 2021

/s/ Robert T. Pigott, Jr.  
Robert T. Pigott, Jr.  
Senior Executive Vice President and  
Chief Financial Officer

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**CERTIFICATION**

In connection with the Quarterly Report on Form 10-Q of CBTX, Inc. (the "Company") for the quarter ended June 30, 2021 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Robert R. Franklin, Jr., Chairman, President 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/ Robert R. Franklin, Jr.

Robert R. Franklin, Jr.

Chairman, President and Chief Executive Officer

Date: July 28, 2021

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**CERTIFICATION**

In connection with the Quarterly Report on Form 10-Q of CBTX, Inc. (the "Company") for the quarter ended June 30, 2021 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Robert T. Pigott, Jr., 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/ Robert T. Pigott, Jr.

Robert T. Pigott, Jr.

Senior Executive Vice President and

Chief Financial Officer

Date: July 28, 2021

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