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# DELTA REPORT

## 10-Q

STEL - STELLAR BANCORP, INC.  
10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	1771
CHANGES	307
DELETIONS	879
ADDITIONS	585

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

**S** QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED **MARCH 31, JUNE 30, 2024**  
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

**Stellar Bancorp, 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, including zip code)  
**(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	STEL	New York Stock Exchange

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

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 **S** 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 **S** No **£**

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

Large accelerated filer	<b>S</b>	Accelerated filer	<b>£</b>
Non-accelerated filer	<b>£</b>	Smaller reporting company	<b>£</b>
		Emerging growth company	<b>£</b>

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 **S**

As of **April 24, 2024** **July 24, 2024**, the registrant had **53,556,949** **53,574,833** shares common stock, \$0.01 par value per share, outstanding.

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STELLAR BANCORP, INC.  
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**March 31, June 30, 2024**

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## PART I—FINANCIAL INFORMATION

### ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### STELLAR BANCORP, INC. CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023

(In thousands, except shares and  
par value)

ASSETS
Cash and due from banks
Cash and due from banks
Cash and due from banks
Interest-bearing deposits at other financial institutions
Total cash and cash equivalents
Available for sale securities, at fair value
Loans held for investment
Less: allowance for credit losses on loans
Loans, net
Accrued interest receivable
Premises and equipment, net

Federal Home Loan Bank stock		
Bank-owned life insurance		
Goodwill		
Core deposit intangibles, net		
Other assets		
TOTAL ASSETS		
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
LIABILITIES:		
LIABILITIES:		
Deposits:		
Deposits:		
Deposits:		
Noninterest-bearing		
Noninterest-bearing		
Noninterest-bearing		
Interest-bearing		
Demand		
Demand		
Demand		
Money market and savings		
Certificates and other time		
Total interest-bearing deposits		
Total deposits		
Accrued interest payable		
Borrowed funds		
Subordinated debt		
Other liabilities		
Total liabilities		
COMMITMENTS AND CONTINGENCIES (See Note 13)	COMMITMENTS AND CONTINGENCIES (See Note 13)	COMMITMENTS AND CONTINGENCIES (See Note 13)
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding at March 31, 2024 and December 31, 2023		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding at March 31, 2024 and December 31, 2023		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding at March 31, 2024 and December 31, 2023		
Common stock, \$0.01 par value; 140,000,000 shares authorized; 53,550,820 shares issued and outstanding at March 31, 2024 and 53,291,079 shares issued and outstanding at December 31, 2023		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2024 and December 31, 2023		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2024 and December 31, 2023		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2024 and December 31, 2023		
Common stock, \$0.01 par value; 140,000,000 shares authorized; 53,564,116 shares issued and outstanding at June 30, 2024 and 53,291,079 shares issued and outstanding at December 31, 2023		
Capital surplus		
Retained earnings		
Accumulated other comprehensive loss		
Total shareholders' equity		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		

See condensed notes to interim consolidated financial statements.

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**STELLAR BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,			
	2024	2024	2023		2024	2023	2024	2023
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
<b>INTEREST INCOME:</b>								
Loans, including fees								
Loans, including fees								
Loans, including fees								
<b>Securities:</b>								
Taxable								
Taxable								
Taxable								
Tax-exempt								
Deposits in other financial institutions								
Total interest income								
<b>INTEREST EXPENSE:</b>								
Demand, money market and savings deposits								
Demand, money market and savings deposits								
Demand, money market and savings deposits								
Certificates and other time deposits								
Borrowed funds								
Subordinated debt								
Total interest expense								
<b>NET INTEREST INCOME</b>								
Provision for credit losses								
(Reversal of) provision for credit losses								
Net interest income after provision for credit losses								
<b>NONINTEREST INCOME:</b>								
Service charges on deposit accounts								
Service charges on deposit accounts								
Service charges on deposit accounts								
Gain on sale of assets								
(Loss) gain on sale of assets								
Bank-owned life insurance income								
Debit card and ATM income								
Other								
Total noninterest income								
<b>NONINTEREST EXPENSE:</b>								
Salaries and employee benefits								
Salaries and employee benefits								
Salaries and employee benefits								
Net occupancy and equipment								
Depreciation								
Data processing and software amortization								
Professional fees								
Regulatory assessments and FDIC insurance								

Amortization of intangibles
Communications
Advertising
Acquisition and merger-related expenses
Other
Total noninterest expense
INCOME BEFORE INCOME TAXES
Provision for income taxes
NET INCOME
EARNINGS PER SHARE:
Basic
Basic
Basic
Diluted
DIVIDENDS PER SHARE

See condensed notes to interim consolidated financial statements.

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**STELLAR BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net income	\$ 26,147	\$ 37,148
Other comprehensive (loss) income:		
Unrealized (loss) gain on securities:		
Change in unrealized holding (loss) gain on available for sale securities during the period	(15,330)	37,965
Reclassification of gain realized on securities	—	(234)
Total other comprehensive (loss) income	(15,330)	37,731
Deferred tax benefit (expense) related to other comprehensive loss	3,228	(7,751)
Other comprehensive (loss) income, net of tax	(12,102)	29,980
Comprehensive income	\$ 14,045	\$ 67,128

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(In thousands)			
Net income	\$ 29,753	\$ 35,175	\$ 55,900	\$ 72,323
Other comprehensive income (loss):				
Unrealized gain (loss) on securities:				
Change in unrealized holding gain (loss) on available for sale securities during the period	11,418	(23,717)	(3,912)	14,249
Reclassification of gain realized on securities	—	—	—	(234)
Total other comprehensive income (loss)	11,418	(23,717)	(3,912)	14,015
Deferred tax (expense) benefit related to other comprehensive (income) loss	(2,395)	4,994	833	(2,758)
Other comprehensive income (loss), net of tax	9,023	(18,723)	(3,079)	11,257
Comprehensive (income) loss	\$ 38,776	\$ 16,452	\$ 52,821	\$ 83,580

See condensed notes to interim consolidated financial statements.

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**STELLAR BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Unaudited)

	Common Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares										
	(Dollars in thousands, except per share data)										
	(Dollars in thousands, except per share data)										
	(Dollars in thousands, except per share data)										
BALANCE AT MARCH 31, 2023											
Net income											
Other comprehensive loss											
Cash dividends declared, \$0.13 per share											
Common stock issued in connection with the exercise of stock options and restricted stock awards											
Stock-based compensation expense											
BALANCE AT JUNE 30, 2023											
BALANCE AT MARCH 31, 2024											
BALANCE AT MARCH 31, 2024											
BALANCE AT MARCH 31, 2024											
Net income											
Other comprehensive income											
Cash dividends declared, \$0.13 per share											
Common stock issued in connection with the exercise of stock options and restricted stock awards											
Stock-based compensation expense											
BALANCE AT JUNE 30, 2024											
BALANCE AT DECEMBER 31, 2022											
BALANCE AT DECEMBER 31, 2022											
BALANCE AT DECEMBER 31, 2022											
Net income											
Other comprehensive income											
Cash dividends declared \$0.13 per share											
Cash dividends declared \$0.26 per share											
Common stock issued in connection with the exercise of stock options and restricted stock awards											
Stock-based compensation expense											
BALANCE AT MARCH 31, 2023											
BALANCE AT JUNE 30, 2023											
BALANCE AT DECEMBER 31, 2023											
BALANCE AT DECEMBER 31, 2023											
BALANCE AT DECEMBER 31, 2023											
Net income											
Other comprehensive loss											
Cash dividends declared \$0.13 per share											
Cash dividends declared \$0.26 per share											
Common stock issued in connection with the exercise of stock options and restricted stock awards											

Stock-based compensation expense
Stock-based compensation expense
Stock-based compensation expense
BALANCE AT MARCH 31, 2024
BALANCE AT JUNE 30, 2024

See condensed notes to interim consolidated financial statements.

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STELLAR BANCORP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)				
	Three Months Ended		Six Months Ended June 30,	
	March 31,			
	2024	2023	2024	2023
	(In thousands)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:	CASH FLOWS FROM OPERATING ACTIVITIES:		CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income				
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and intangibles amortization				
Depreciation and intangibles amortization				
Depreciation and intangibles amortization				
Net accretion of discount on loans				
Net amortization of premium (discount) on securities				
Net accretion on loans				
Net amortization of premium on securities				
Provision for credit losses				
Deferred income tax expense				
Stock based compensation expense				
Stock-based compensation expense				
Net change in operating leases				
Bank owned life insurance income				
Bank-owned life insurance income				
Federal Home Loan Bank stock dividends				
Gain on sale of assets				
Excess tax benefit from stock based compensation				
Excess tax benefit from stock based compensation				
Excess tax benefit from stock based compensation				
Decrease in accrued interest receivable and other assets				
Decrease in accrued interest payable and other liabilities				
Net cash provided by operating activities				
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of available for sale securities				
Purchase of available for sale securities				
Purchase of available for sale securities				
Proceeds from maturities and principal paydowns of available for sale securities				
Proceeds from sales and calls of available for sale securities				
Net change in total loans				



Purchase of bank premises and equipment
Proceeds from sale of bank premises, equipment and other real estate
Net redemptions (purchases) of Federal Home Loan Bank stock
Net cash (used in) provided by investing activities
CASH FLOWS FROM FINANCING ACTIVITIES:
Net decrease in noninterest-bearing deposits
Net decrease in noninterest-bearing deposits
Net decrease in noninterest-bearing deposits
Net increase (decrease) in interest-bearing deposits
Net increase in interest-bearing deposits
Net change in borrowed funds
Dividends paid to common shareholders
Dividends paid to common shareholders
Dividends paid to common shareholders
(Payments made) proceeds from the issuance of restricted stock and stock option exercises
Proceeds from the issuance of restricted stock and stock option exercises
Net cash provided by (used in) financing activities
Net cash provided by (used in) financing activities
Net cash provided by (used in) financing activities
NET CHANGE IN CASH AND CASH EQUIVALENTS
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD
CASH AND CASH EQUIVALENTS, END OF PERIOD
SUPPLEMENTAL CASH FLOW INFORMATION:
Interest paid
Interest paid
Income taxes paid
Income taxes paid
Income taxes paid
Interest paid
Cash paid for operating lease liabilities
SUPPLEMENTAL NONCASH DISCLOSURE:
Loans transferred to other real estate
Loans transferred to other real estate
Loans transferred to other real estate
Branch assets transferred to assets held for sale

See condensed notes to interim consolidated financial statements.

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**STELLAR BANCORP, INC.**  
**CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, June 30, 2024**  
**(Unaudited)**

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

**Nature of Operations**—Stellar Bancorp, Inc. (“Stellar”) through its wholly-owned subsidiary, Stellar Bank (the “Bank”), and together with Stellar, collectively referred to herein as “we,” “us,” “our” and the “Company”), provides a diversified range of commercial banking services primarily to small- to medium-sized businesses. Stellar derives substantially all of its revenues and income from the operation of the Bank.



impairment has occurred, it proceeds to the quantitative impairment test, whereby it calculates the fair value of the reporting unit and compares it with its carrying amount, including goodwill. In its performance of impairment testing, the Company has the unconditional option to proceed directly to the quantitative impairment test, bypassing the qualitative assessment. If the carrying amount of the reporting unit exceeds the fair value, the amount by which the carrying amount exceeds fair value, up to the carrying value of goodwill, is recorded through earnings as an impairment charge. If the results of the qualitative assessment indicate that it is not more likely than not that an impairment has occurred, or if the quantitative impairment test results in a fair value of the reporting unit that is greater than the carrying amount, then no impairment charge is recorded.

The estimated aggregate future amortization expense for core deposit intangible assets remaining as of **March 31, 2024** **June 30, 2024** is as follows (in thousands):

Remaining 2024
2025
2026
2027
Thereafter
Total

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### 3. SECURITIES

The amortized cost and fair value of securities available for sale were as follows:

March 31, 2024			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)			June 30, 2024
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

(In thousands)	
<b>Available for Sale</b>	
U.S. government and agency securities	
U.S. government and agency securities	
U.S. government and agency securities	
Municipal securities	
Agency mortgage-backed pass-through securities	
Agency collateralized mortgage obligations	
Corporate bonds and other	
Total	

December 31, 2023			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)			
<b>Available for Sale</b>			
U.S. government and agency securities	\$ 307,529	\$ 90	\$ (10,201) \$ 297,418
Municipal securities	229,615	1,615	(27,171) 204,059
Agency mortgage-backed pass-through securities	424,664	370	(37,161) 387,873
Agency collateralized mortgage obligations	462,498	172	(64,553) 398,117
Corporate bonds and other	120,824	56	(12,667) 108,213
Total	\$ 1,545,130	\$ 2,303	\$ (151,753) \$ 1,395,680

As of **March 31, 2024** **June 30, 2024**, no allowance for credit losses has been recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This belief is based upon our analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available for sale securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, management does not have the intent to sell any of the securities

classified as available for sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

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The amortized cost and fair value of investment securities at **March 31, 2024** **June 30, 2024**, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations at any time with or without call or prepayment penalties.

	Amortized Cost	Amortized Cost	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			(In thousands)		
Due in one year or less						
Due after one year through five years						
Due after five years through ten years						
Due after ten years						
Subtotal						
Agency mortgage-backed pass-through securities and collateralized mortgage obligations						
Total						

Securities with unrealized losses segregated by length of time in a continuous loss position were as follows:

March 31, 2024							
Less than 12 Months		More than 12 Months		Total			
Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses		
(In thousands)						June 30, 2024	
Less than 12 Months		More than 12 Months		Total			
Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses		
(In thousands)							

<b>Available for Sale</b>
U.S. government and agency securities
U.S. government and agency securities
U.S. government and agency securities
Municipal securities
Agency mortgage-backed pass-through securities
Agency collateralized mortgage obligations
Corporate bonds and other
Total

December 31, 2023					
Less than 12 Months		More than 12 Months		Total	
Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
(In thousands)					

Available for Sale												
U.S. government and agency securities	\$	110,038	\$	(2,208)	\$	154,145	\$	(7,993)	\$	264,183	\$	(10,201)

Municipal securities	1,303	(14)	177,957	(27,157)	179,260	(27,171)
Agency mortgage-backed pass-through securities	80,208	(1,444)	257,779	(35,717)	337,987	(37,161)
Agency collateralized mortgage obligations	23,051	(621)	348,854	(63,932)	371,905	(64,553)
Corporate bonds and other	11,279	(1,452)	85,285	(11,215)	96,564	(12,667)
Total	\$ 225,879	\$ (5,739)	\$ 1,024,020	\$ (146,014)	\$ 1,249,899	\$ (151,753)

During the **three six** months ended **March 31, 2024** **June 30, 2024**, the Company had sales and calls of securities of **\$5.1 million of securities**. **\$6.9 million**. During the **three six** months ended **March 31, 2023** **June 30, 2023**, the Company had sales and calls of securities of \$320.7 million and recorded gross gains of

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gains of \$234 **\$234** thousand. At **March 31, 2024** **June 30, 2024** and December 31, 2023, the Company did not own securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of consolidated shareholders' equity at such respective dates.

The carrying value of pledged securities was **\$601.9 million** **\$612.9 million** at **March 31, 2024** **June 30, 2024** and \$607.5 million at December 31, 2023. The majority of the securities in each case were pledged to collateralize public fund deposits.

#### 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The loan portfolio balances, net of unearned income and fees, consist of various types of loans primarily made to borrowers located within Texas, and segregated by class of loan were as follows:

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023
	(In thousands)	

Commercial and industrial
Paycheck Protection Program (PPP)
Real estate:
Commercial real estate (including multi-family residential)
Commercial real estate (including multi-family residential)
Commercial real estate (including multi-family residential)
Commercial real estate construction and land development
1-4 family residential (including home equity)
Residential construction
Consumer and other
Total loans
Allowance for credit losses on loans
Loans, net

#### Nonaccrual and Past Due Loans

An aging analysis of **the recorded investment in** past due loans, segregated by class of loans, is included below. **The Company defines recorded investment as the outstanding loan balances including net deferred loan fees, and excluding accrued interest receivable of \$37.9 million and \$37.4 million as of March 31, 2024 and December 31, 2023, respectively, due to immateriality.**

	March 31, 2024			
	Loans Past Due and Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
	June 30, 2024			
	Loans Past Due and Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
	(In thousands)			
	(In thousands)			
Commercial and industrial				
Paycheck Protection Program (PPP)				
Real estate:				

Commercial real estate (including multi-family residential)

Commercial real estate (including multi-family residential)

Commercial real estate (including multi-family residential)

Commercial real estate construction and land development

1-4 family residential (including home equity)

Residential construction

Consumer and other

Total loans

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December 31, 2023

	Loans Past Due and Still Accruing					
	30-89	90 or More	Total Past	Nonaccrual	Current	Total
	Days	Days	Due Loans	Loans	Loans	Loans
	(In thousands)					
Commercial and industrial	\$ 6,096	\$ —	\$ 6,096	\$ 5,048	\$ 1,397,858	\$ 1,409,002
Paycheck Protection Program (PPP)	375	—	375	—	4,725	5,100
Real estate:						
Commercial real estate (including multi-family residential)	9,600	—	9,600	16,699	4,045,508	4,071,807
Commercial real estate construction and land development	7,341	—	7,341	5,043	1,048,022	1,060,406
1-4 family residential (including home equity)	3,492	—	3,492	8,874	1,034,808	1,047,174
Residential construction	498	—	498	3,288	263,571	267,357
Consumer and other	64	—	64	239	63,984	64,287
Total loans	\$ 27,466	\$ —	\$ 27,466	\$ 39,191	\$ 7,858,476	\$ 7,925,133

#### Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt. The Company utilizes a risk rating matrix to assign a risk rating to each of its loans. Risk ratings are updated on an ongoing basis and are subject to change by continuous loan monitoring processes including lending management monitoring, executive management and board committee oversight, and independent credit review. As part of the ongoing monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for credit losses, management assigns and tracks certain risk ratings to be used as credit quality indicators including trends related to (1) the weighted-average risk grade of loans, (2) the level of classified loans, (3) the delinquency status of loans, (4) nonperforming loans and (5) the general economic conditions in our market. Individual bankers, under the oversight of credit administration, review updated financial information for all pass grade commercial loans to reassess the risk grade on at least an annual basis. When a loan reaches a set of internally designated criteria, including Substandard or higher, a special assets officer will be involved in the monitoring of the loan on an on-going basis.

The following is a general description of the risk ratings used by the Company:

**Pass**—Credits in this category contain an acceptable amount of risk.

**Special Mention**—Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Substandard**—Loans classified as substandard have well-defined weaknesses on a continuing basis and are inadequately protected by the current net worth and paying capacity of the borrower, declining collateral values, or a continuing downturn in their industry which is reducing their profits to below zero and having a significantly negative impact on their cash flow. These loans so classified are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful**—Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values, highly questionable and improbable.

**Loss**—Loans classified as loss are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

The following table presents risk ratings by category and the gross charge-offs by primary loan type and year of origination or renewal. Generally, current period renewals of credit are re-underwritten at the point of renewal and considered current period

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originations for purposes of the table below. The following summarizes the amortized cost basis of loans by year of origination/renewal and credit quality indicator by class of loan as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

	March 31, 2024			December 31, 2023	
	Term Loans Amortized Cost Basis by Origination Year	Revolving Loans	Revolving Loans Converted to Term Loans	Total	Total
	June 30, 2024			December 31, 2023	
	Term Loans Amortized Cost Basis by Origination Year	Revolving Loans	Revolving Loans Converted to Term Loans	Total	Total

(In thousands)					
(In thousands)					
Commercial and industrial					
Pass					
Pass					
Pass					
Special Mention					
Substandard					
Doubtful					
Total commercial and industrial loans					
Current period gross charge-offs					
Current period gross charge-offs					
Current period gross charge-offs					
Paycheck Protection Program (PPP)					
Paycheck Protection Program (PPP)					
Paycheck Protection Program (PPP)					
Pass					
Pass					
Pass					
Special Mention					
Substandard					
Doubtful					
Total PPP loans					
Current period gross charge-offs					
Current period gross charge-offs					
Current period gross charge-offs					
Commercial real estate (including multi-family residential)					
Commercial real estate (including multi-family residential)					
Commercial real estate (including multi-family residential)					
Pass					
Pass					
Pass					

Special Mention
Substandard
Doubtful
Total commercial real estate (including multi-family residential) loans
Current period gross charge-offs
Current period gross charge-offs
Current period gross charge-offs
Commercial real estate construction and land development
Commercial real estate construction and land development
Commercial real estate construction and land development
Pass
Pass
Pass
Special Mention
Substandard
Doubtful
Total commercial real estate construction and land development
Current period gross charge-offs
Current period gross charge-offs
Current period gross charge-offs

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March 31, 2024							December 31, 2023								
June 30, 2024							December 31, 2023								
2024	2023	2022	2021	2020	Prior		Total	Total	2023	2022	2021	2020	Prior	Total	Total
(In thousands)															
1-4 family residential (including home equity)															
Pass															
Pass															
Pass															
Special Mention															
Substandard															
Doubtful															
Total 1-4 family residential (including home equity)															
Current period gross charge-offs															
Current period gross charge-offs															
Current period gross charge-offs															
Residential construction															
Residential construction															
Residential construction															
Pass															
Pass															
Pass															
Special Mention															
Substandard															



Doubtful
Total residential construction
Current period gross charge-offs
Current period gross charge-offs
Current period gross charge-offs
Consumer and other
Consumer and other
Consumer and other
Pass
Pass
Pass
Special Mention
Substandard
Doubtful
Total consumer and other
Current period gross charge-offs
Current period gross charge-offs
Current period gross charge-offs
Total loans
Total loans
Total loans
Pass
Pass
Pass
Special Mention
Substandard
Doubtful
Total loans
Current period gross charge-offs
Current period gross charge-offs
Current period gross charge-offs

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The following table presents the activity in the allowance for credit losses on loans by portfolio type for the three and six months ended March 31, 2024 June 30, 2024 and 2023:																
	Commercial and industrial	Commercial and industrial	Paycheck Protection Program (PPP)	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)		Residential construction	Consumer and other	Total	Commercial and industrial	Paycheck Protection Program (PPP)	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)	Residential construction and
	(In thousands)					Commercial and industrial	(In thousands)									
Allowance for credit losses on loans:																
Three Months Ended																
Three Months Ended																
Three Months Ended																
Balance March 31, 2024																
Balance March 31, 2024																
Balance March 31, 2024																

Provision  
for credit  
losses  
on loans

Charge-  
offs

Recoveries

Net  
recoveries

Balance  
June 30,  
2024

Six Months  
Ended

Balance December 31,  
2023

Balance December 31,  
2023

Balance December 31,  
2023

Provision  
for credit  
losses  
on loans

Charge-  
offs

Recoveries

Net  
charge-offs

Balance  
March 31,  
2024

Balance  
June 30,  
2024

Three Months Ended

Three Months Ended

Three Months Ended

Balance March 31,  
2023

Balance March 31,  
2023

Balance March 31,  
2023

Provision  
for credit  
losses  
on loans

Charge-  
offs

Recoveries

Net  
charge-offs

Balance  
June 30,  
2023

Six Months  
Ended

Balance December 31,  
2022

Balance December 31,
2022
Balance December 31,
2022
Provision
for credit
losses
on loans
Charge-
offs
Recoveries
Net
charge-offs
Balance
March 31,
2023
Balance
June 30,
2023

**Allowance for Credit Losses on Unfunded Commitments**

In addition to the allowance for credit losses on loans, the Company has established an allowance for credit losses on unfunded commitments, classified in other liabilities and adjusted as a provision for credit loss expense. The allowance represents estimates of expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate of commitments expected to fund is informed by historical analysis looking at utilization rates. The expected credit loss rates applied to the commitments expected to fund is informed by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. The allowance for credit losses on unfunded commitments as of **March 31, 2024** **June 30, 2024** and December 31, 2023 was **\$10.1** **\$9.7** million and \$11.3 million, respectively. This reserve is maintained at a level management believes to be sufficient to

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absorb losses arising from unfunded loan commitments. The Company recorded a reversal of provision of **\$1.2 million provision** on unfunded commitments of **\$421 thousand** during the three months ended **March 31, 2024** **June 30, 2024** compared to a reversal of provision on unfunded commitments of **\$466 thousand** **\$2.3 million** for the three months ended **March 31, 2023** **June 30, 2023** and a reversal of provision on unfunded commitments of **\$1.6 million** for the six months ended **June 30, 2024** compared to a **\$1.9 million reversal of provision** on unfunded commitments for the six months ended **June 30, 2023**.

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**Collateral Dependent Loans**

Collateral dependent loans are secured by real estate assets, accounts receivable, inventory and equipment. For a collateral dependent loan, the Company's evaluation process includes a valuation by appraisal or other collateral analysis adjusted for selling costs, when appropriate. This valuation is compared to the remaining outstanding principal balance of the loan. If a loss is determined to be probable, the loss is included in the allowance for credit losses on loans as a specific allocation.

The following tables present the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

	March 31, 2024					June 30, 2024			
	Real Estate	Real Estate	Business Assets	Other	Total	Real Estate	Business Assets	Other	Total
(In thousands)									
Commercial and industrial									
Real estate:									
Commercial real estate (including multi-family residential)									
Commercial real estate (including multi-family residential)									
Commercial real estate (including multi-family residential)									
Commercial real estate construction and land development									
1-4 family residential (including home equity)									
Residential construction									

## Consumer and other

Total

December 31, 2023				
	Real Estate	Business Assets	Other	Total
(In thousands)				
Commercial and industrial	\$ —	\$ 70	\$ —	\$ 70
Real estate:				
Commercial real estate (including multi-family residential)	5,548	—	—	5,548
Commercial real estate construction and land development	437	—	—	437
1-4 family residential (including home equity)	424	—	—	424
Residential construction	—	—	—	—
Consumer and other	—	—	—	—
Total	\$ 6,409	\$ 70	\$ —	\$ 6,479

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## Nonaccrual Loans

The following tables present additional information regarding nonaccrual loans. No interest income was recognized on nonaccrual loans as of **March 31, 2024** **June 30, 2024** and December 31, 2023.

March 31, 2024				June 30, 2024		
Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans
(In thousands)						
Commercial and industrial						
Paycheck Protection Program (PPP)						
Paycheck Protection Program (PPP)						
Paycheck Protection Program (PPP)						
Real estate:						
Commercial real estate (including multi-family residential)						
Commercial real estate (including multi-family residential)						
Commercial real estate (including multi-family residential)						
Commercial real estate construction and land development						
1-4 family residential (including home equity)						
Residential construction						
Consumer and other						
Total loans						

	December 31, 2023		
	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans
	(In thousands)		
Commercial and industrial	\$ 1,616	\$ 3,432	\$ 5,048
Paycheck Protection Program (PPP)	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	11,844	4,855	16,699

Commercial real estate construction and land development	5,043	—	5,043
1-4 family residential (including home equity)	7,400	1,474	8,874
Residential construction	3,288	—	3,288
Consumer and other	54	185	239
Total loans	\$ 29,245	\$ 9,946	\$ 39,191

#### Loan Modifications

Effective January 1, 2023, under ASU 2022-02, loan modifications are reported if concessions have been granted to borrowers that are experiencing financial difficulty. Information on these loan modifications originated after the effective date is presented according to the new accounting guidance. The percentage of loans modified comprised less than 1% of their respective classes of loan portfolios at **March 31, 2024** **June 30, 2024**.

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The following tables present information regarding loans that were modified due to the borrowers experiencing financial difficulty during the three **and six** months ended **March 31, 2024** **June 30, 2024** and 2023:

Three Months Ended March 31, 2024									
Interest Rate Reduction	Interest Rate Reduction	Term Extension	Payment Delay	Principal forgiveness	Combination Term Extension and Principal Forgiveness			Combination Term Extension and Payment Delay	
(In thousands)									
Commercial and industrial									
Commercial and industrial									
Commercial and industrial									
Real estate:									
Commercial real estate (including multi-family residential)									
Commercial real estate (including multi-family residential)									
Commercial real estate (including multi-family residential)									
Commercial real estate construction and land development									
1-4 family residential (including home equity)									
Residential construction									
Consumer and other									
Total									
Three Months Ended March 31, 2023									
Three Months Ended March 31, 2023									
Three Months Ended March 31, 2023									
Six Months Ended June 30, 2024									

Interest Rate Reduction	Interest Rate Reduction	Term Extension	Payment Delay	Principal forgiveness	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Payment Delay	Total	Interest Rate Reduction	Term Extension	Payment Delay	Principal Forgiveness
(In thousands)											

#### Commercial and industrial

#### Real estate:

Commercial real estate (including multi-family residential)							
Commercial real estate (including multi-family residential)							
Commercial real estate (including multi-family residential)			1,768		1,496	3,264	
Commercial real estate construction and land development							
Commercial real estate construction and land development		2,068			2,269	4,337	
1-4 family residential (including home equity)			1,797		281	2,078	
1-4 family residential (including home equity)							
Residential construction		55			55		
Residential construction							
Consumer and other							
Consumer and other							
Total							

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	Three Months Ended June 30, 2023							
					Combination Term			
					Extension and		Combination Term	
	Interest Rate		Payment Delay		Principal		Extension and	
	Reduction	Term Extension		Forgiveness	Forgiveness	Payment Delay	Total	
	(In thousands)							
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 260	\$ 260
Real estate:								
Commercial real estate (including multi-family residential)	—	—	—	—	—	—	1,710	1,710
Commercial real estate construction and land development	—	6,950	—	—	—	—	—	6,950
1-4 family residential (including home equity)	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Consumer and other	—	96	—	—	—	—	—	96
Total	\$ —	\$ 7,046	\$ —	\$ —	\$ —	\$ —	\$ 1,970	\$ 9,016
	Six Months Ended June 30, 2023							

	Interest Rate Reduction	Term Extension	Payment Delay	Principal Forgiveness	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Payment Delay	Total
(In thousands)							
Commercial and industrial	\$ 92	\$ 2,251	\$ —	\$ —	\$ —	\$ 260	\$ 2,603
Real estate:							
Commercial real estate (including multi-family residential)	—	—	790	—	—	1,710	2,500
Commercial real estate construction and land development	—	6,950	—	—	—	—	6,950
1-4 family residential (including home equity)	—	721	—	—	—	—	721
Residential construction	—	—	—	—	—	—	—
Consumer and other	—	96	—	—	—	—	96
Total	\$ 92	\$ 10,018	\$ 790	\$ —	\$ —	\$ 1,970	\$ 12,870

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The following table summarizes, by loan portfolio, the financial effect of the Company's Company's loan modifications for the periods indicated:

		Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
		Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension
		Three Months Ended June 30, 2024		Three Months Ended June 30, 2023	
		Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction
(months)					
Commercial and industrial	Commercial and industrial	— %	4	— %	29
Commercial and industrial	Commercial and industrial	— %	4	— %	29
Real estate:					
Commercial real estate (including multi-family residential)	Commercial real estate (including multi-family residential)	— %	—	— %	6
Commercial real estate (including multi-family residential)	Commercial real estate (including multi-family residential)	— %	—	— %	6
Commercial real estate (including multi-family residential)	Commercial real estate (including multi-family residential)	— %	—	— %	6
Commercial real estate construction and land development	Commercial real estate construction and land development	— %	5	— %	—
1-4 family residential (including home equity)	1-4 family residential (including home equity)	— %	—	— %	12
Residential construction	Residential construction	— %	6	— %	—
Consumer and other	Consumer and other	— %	—	— %	—
		Six Months Ended June 30, 2024		Six Months Ended June 30, 2023	
		Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction
		(months)		(months)	
Commercial and industrial		4	0.0 %	12	2.0 %





	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023

Operating lease right-of-use asset classified as premises and equipment						
Operating lease right-of-use asset classified as premises and equipment						
Operating lease right-of-use asset classified as premises and equipment		\$ 19,193	\$ 20,746			
Operating lease liability classified as other liabilities	Operating lease liability classified as other liabilities	\$ 19,658	\$ 20,659			
Weighted average lease term, in years	Weighted average lease term, in years	7.63	7.67	Weighted average lease term, in years	7.53	7.67
Weighted average discount rate	Weighted average discount rate	4.21 %	4.17 %	Weighted average discount rate	4.24 %	4.17 %

	Three Months Ended March 31,			
2024				
2024				
2024				
(In thousands)				
(In thousands)				
(In thousands)				
	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(In thousands)			

Operating lease cost
Operating lease cost
Operating lease cost
Short-term lease cost
Short-term lease cost
Short-term lease cost
Total operating lease costs
Total operating lease costs
Total operating lease costs

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023
		(In thousands)

25/97

REFINITIV 

After three but within four years
After four but within five years
After five years
Total lease payments
Less: discount on cash flows
Total lease liability

6. FAIR VALUE

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value represents the estimated exchange price that would be received from selling an asset or paid to transfer a liability, otherwise known as an "exit price," in the principal or most advantageous market available to the entity in an orderly transaction between market participants on the measurement date.

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1—Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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- Level 2—Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Significant unobservable inputs that reflect management's judgment and assumptions that market participants would use in pricing an asset or liability that are supported by little or no market activity.

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The carrying amounts and estimated fair values of financial instruments that are reported on the balance sheet were as follows:

March 31, 2024					
Carrying Amount	Estimated Fair Value			Total	
	Level 1	Level 2	Level 3		
(In thousands)					June 30, 2024
Carrying Amount	Estimated Fair Value			Total	
	Level 1	Level 2	Level 3		
(In thousands)					
Financial assets					
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents					
Available for sale securities					
Loans held for investment, net of allowance					
Accrued interest receivable					
Financial liabilities					
Deposits					
Deposits					
Deposits					
Accrued interest payable					
Borrowed funds					
Subordinated debt					

	December 31, 2023				
	Carrying Amount	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
	(In thousands)				
Financial assets					
Cash and cash equivalents	\$ 399,237	\$ 399,237	\$ —	\$ —	\$ 399,237
Available for sale securities	1,395,680	—	1,395,680	—	1,395,680
Loans held for investment, net of allowance	7,833,449	—	—	7,627,962	7,627,962
Accrued interest receivable	44,244	118	6,716	37,410	44,244
Financial liabilities					
Deposits	\$ 8,873,467	\$ —	\$ 8,866,645	\$ —	\$ 8,866,645
Accrued interest payable	11,288	—	11,288	—	11,288
Borrowed funds	50,000	—	50,000	—	50,000
Subordinated debt	109,765	—	109,390	—	109,390

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The following tables present fair values for assets and liabilities measured at fair value on a recurring basis.

March 31, 2024			
Level 1	Level 2	Level 3	Total
(In thousands)			June 30, 2024
Level 1	Level 2	Level 3	Total
(In thousands)			
Financial assets			
Available for sale securities:			
Available for sale securities:			
Available for sale securities:			
U.S. government and agency securities			
U.S. government and agency securities			
U.S. government and agency securities			
Municipal securities			
Agency mortgage-backed pass-through securities			
Agency collateralized mortgage obligations			
Corporate bonds and other			
Interest rate swaps			
Credit risk participation agreements			
Total fair value of financial assets			
Financial liabilities			
Interest rate swaps			
Interest rate swaps			
Interest rate swaps			
Total fair value of financial liabilities			

December 31, 2023			
Level 1	Level 2	Level 3	Total
(In thousands)			
Financial assets			
Available for sale securities:			
U.S. government and agency securities	\$ —	\$ 297,418	\$ —
Municipal securities	—	204,059	—

Agency mortgage-backed pass-through securities	—	387,873	—	387,873
Agency collateralized mortgage obligations	—	398,117	—	398,117
Corporate bonds and other	—	108,213	—	108,213
Interest rate swaps	—	6,692	—	6,692
Credit risk participation agreements	—	—	20	20
Total fair value of financial assets	\$ —	\$ 1,402,372	\$ 20	\$ 1,402,392
Financial liabilities				
Interest rate swaps	\$ —	\$ 6,692	\$ —	\$ 6,692
Total fair value of financial liabilities	\$ —	\$ 6,692	\$ —	\$ 6,692

There were no transfers between levels during the **three** **six** months ended **March 31, 2024** **June 30, 2024** or 2023.

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Certain assets, including purchase credit deteriorated and individually evaluated loans with allowances for credit losses and branch assets held for sale, are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances such as impairment. There were no liabilities

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measured at fair value on a nonrecurring basis at **March 31, 2024** **June 30, 2024** and December 31, 2023. Assets measured on a nonrecurring basis for the periods noted are summarized in the table below.

	March 31, 2024			June 30, 2024		
	Level 1		Level 2		Level 3	
	(In thousands)					
Loans:						
Commercial and industrial	\$	—	\$	—	\$	18,69117,415
Commercial real estate (including multi-family residential)		—		—		7,3735,302
Commercial real estate construction and land development		—		—		8,7082,094
1-4 family residential (including home equity)		—		—		4,9976,287
Residential construction		—		—		1,192—
Consumer and other		—		—		85102
	\$	—	\$	—	\$	41,04631,200
	December 31, 2023					
	Level 1		Level 2		Level 3	
	(In thousands)					
Loans:						
Commercial and industrial	\$	—	\$	—	\$	10,084
Commercial real estate (including multi-family residential)		—		—		7,134
Commercial real estate construction and land development		—		—		6,654
1-4 family residential (including home equity)		—		—		3,892
Consumer and other		—		—		106
Branch assets held for sale <sup>(1)</sup>		2,033		—		—
	\$	2,033	\$	—	\$	27,870

(1) Branch assets held for sale are banking centers that **have** closed and **are were** for sale.

## 7. DEPOSITS

Time deposits that met or exceeded the Federal Deposit Insurance Corporation ("FDIC" ("FDIC") insurance limit of \$250,000 at **March 31, 2024** **June 30, 2024** and December 31, 2023 were **\$542.3 million** **\$531.3 million** and \$548.4 million, respectively.

Scheduled maturities of time deposits for the next five years are as of June 30, 2024 were as follows (in thousands):

Within one year	\$	1,538,006
After one but within two years		60,069
Over three years		93,464
Total	\$	1,691,539

  

2024	\$	961,610
2025		541,579
2026		56,779
2027		42,710
Thereafter		36,748
Total	\$	1,639,426

The Company had \$786.6 million \$741.3 million and \$615.9 million of brokered deposits as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively. There were no concentrations of deposits with any one depositor at March 31, 2024 June 30, 2024 and December 31, 2023.

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## 8. DERIVATIVE 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.

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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 March 31, 2024 June 30, 2024, management determined there was no such deterioration.

At March 31, 2024 June 30, 2024 and December 31, 2023, the Company had 14 nine and 15 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.

At March 31, 2024 June 30, 2024 and December 31, 2023 the Company had three credit risk participation agreements with another financial institution that are associated with interest rate swaps related to loans 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 agreements. The fair value of the agreements is determined based on the market value of the underlying interest rate swaps adjusted for credit spreads and recovery rates.

Derivative instruments not designated as hedges outstanding as of the periods indicated below were as follows (dollars in thousands):

		March 31, 2024									
		Notional					Fair				
		June 30, 2024									
		Classification		Classification	Amounts	Value	Fixed Rate	Floating Rate	(Years)		
Interest rate swaps:											
	Financial institutions										
	Financial institutions										

Financial institutions	Other assets	\$	103,805	\$	7,011	8856	8856	3.25% - 5.58%	SOFR CME 1M + 2.50% - 3.00%	4.26	Other assets
Financial institutions	Other assets		4,880	359	359	-8856	-8856	4.99%	U.S. Prime	3.71	Financial institutions
Customers	Other liabilities		4,880	(359)	(359)	2	2	4.99%	U.S. Prime	3.71	Customers
Customers	Other liabilities		103,805	(7,011)	(7,011)	25	25	3.25% - 5.58%	SOFR CME 1M + 2.50% - 3.00%	4.26	Customers

**Credit risk participation agreements:**

Financial institutions	Other assets	\$	20,557	\$	13	3.50% - 5.40%	3.50% - 5.40%	SOFR CME 1M + 2.50%	7.07	Other assets
------------------------	--------------	----	--------	----	----	---------------	---------------	---------------------	------	--------------

December 31, 2023								Weighted Average Maturity
	Classification	Notional Amounts	Fair Value	Fixed Rate	Floating Rate		(Years)	
Interest rate swaps:								
Financial institutions	Other assets	\$ 104,930	\$ 6,367	3.25% - 5.58%	SOFR CME 1M + 2.50% - 3.00%		4.51	
Financial institutions	Other assets	4,911	295	4.99%	U.S. Prime		3.96	
Customers	Other assets	4,875	30	6.25%	SOFR CME 1M + 2.50%		4.04	
Financial institutions	Other liabilities	4,875	(30)	6.25%	SOFR CME 1M + 2.50%		4.04	
Customers	Other liabilities	4,911	(295)	4.99%	U.S. Prime		3.96	
Customers	Other liabilities	104,930	(6,367)	3.25% - 5.58%	SOFR CME 1M + 2.50% - 3.00%		4.51	
Credit risk participation agreements:								
Financial institutions	Other assets	\$ 20,758	\$ 20	3.50% - 5.40%	SOFR CME 1M + 2.50%		7.33	

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	December 31, 2023					
						Weighted Average Maturity (Years)
	Classification	Notional Amounts	Fair Value	Fixed Rate	Floating Rate	
Interest rate swaps:						
Financial institutions	Other assets	\$ 104,930	\$ 6,367	3.25% - 5.58%	SOFR 1M + 2.50% - 3.00%	4.51
Financial institutions	Other assets	4,911	295	4.99%	U.S. Prime	3.96
Customers	Other assets	4,875	30	6.25%	SOFR 1M + 2.50%	4.04
Financial institutions	Other liabilities	4,875	(30)	6.25%	SOFR 1M + 2.50%	4.04
Customers	Other liabilities	4,911	(295)	4.99%	U.S. Prime	3.96
Customers	Other liabilities	104,930	(6,367)	3.25% - 5.58%	SOFR 1M + 2.50% - 3.00%	4.51
Credit risk participation agreements:						
Financial institutions	Other assets	\$ 20,758	\$ 20	3.50% - 5.40%	SOFR 1M + 2.50%	7.33

**9. BORROWINGS AND BORROWING CAPACITY**

The Company has an available line of credit with the Federal Home Loan Bank ("FHLB") of Dallas, which allows the Company to borrow on a collateralized basis. FHLB advances are used to manage liquidity as needed. The advances are secured by a blanket lien on certain loans. Maturing advances are replaced by drawing on available cash, making additional borrowings or through increased customer deposits. At **March 31, 2024** **June 30, 2024**, the Company had a total borrowing capacity of **\$3.52 billion** **\$3.08 billion**, of which **\$2.14 billion** **\$1.86 billion** was available under this agreement and **\$1.38 billion** **\$1.23 billion** was outstanding pursuant to FHLB advances and letters of credit. There were **\$215.0 million** **\$240.0 million** of FHLB short-term advances outstanding at **March 31, 2024** **June 30, 2024** at a weighted-average rate of **5.60%** **5.67%**.

Letters At **June 30, 2024**, FHLB letters of credit were **\$1.17 billion** at **March 31, 2024** pledged as collateral for public and will other deposits of state and local government agencies totaled **\$986.0 million**, which expire in the following periods (in thousands):

2024
2025
2026
2027
Thereafter
Total

On December 13, 2022, the Company Stellar entered into a loan agreement with another financial institution or the ("Loan (the "Loan Agreement") that provides for a \$75.0 million revolving line of credit. At **March 31, 2024** **June 30, 2024**, there were no outstanding borrowings on this line of credit and the Company did not draw no draws were taken on this line of credit during **2024** or **2023**. The Company the six months ended **June 30, 2024**. Draws can make draws be made on the line of credit for a period of 24 months, which began on will end December 13, **2022**, **024**, after which the Company will not be permitted to make no further draws are permitted and the outstanding balance will amortize over a period of 60 months. Interest accrues on outstanding borrowings at a per annum rate equal to the prime rate quoted by The Wall Street Journal and with a floor rate of 3.50% calculated in accordance with the terms of the revolving promissory note and payable quarterly through the first 24 months. The entire outstanding balance and unpaid interest is payable in full on **December 13, 2024**.

The Company may prepay the principal amount of the line of credit without premium or penalty. The obligations of the Company Stellar under the Loan Agreement are secured by a pledge of all the issued and outstanding shares of capital stock of Stellar the Bank.

Covenants made under the Loan Agreement include, among other things, while there are obligations outstanding under Loan Agreement, the Company shall maintain a cash flow to debt service (as defined in the Loan Agreement) of not less than 1.25, the Bank's Texas Ratio (as defined in the Loan Agreement) not to exceed 25.0% and the Bank shall maintain a Tier 1 Leverage Ratio (as defined under the Loan Agreement) of at least 7.0% and restrictions on the ability of the Company Stellar and its subsidiaries to incur certain additional debt. As of **March 31, 2024** **June 30, 2024**, the Company believes it was in compliance with all such debt covenants and had not been made aware of any noncompliance by the lender.

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10. SUBORDINATED DEBT

Junior Subordinated Debentures

In connection with the acquisition of F&M Bancshares, Inc. in 2015, the Company Stellar assumed Farmers & Merchants Capital Trust II and Farmers & Merchants Capital Trust III. Each of the trusts is a capital or statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company's Stellar's junior subordinated debentures. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Company Stellar. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company Stellar making payment on the related junior subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of the Company's present and future senior indebtedness. The Company Stellar has fully and unconditionally guaranteed each trust's obligations under the trust securities issued by each trust to the extent not paid or made by such trust, provided such trust has funds available for such obligations. The trust preferred securities bear a floating rate of interest equal to 3-Month SOFR plus a spread adjustment. The junior subordinated debentures are included in Tier 1 capital under current regulatory guidelines and interpretations. Under the provisions of each issue of the debentures, the Company Stellar has the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on

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either issue of the debentures are deferred, the distributions on the applicable trust preferred securities and common securities will also be deferred.

A summary of pertinent information related to the Company's Stellar's junior subordinated debentures outstanding at **March 31, 2024** **June 30, 2024** is set forth in the table below:

Description	Description	Issuance Date	Trust Preferred Securities Outstanding	Junior Subordinated Debt Owed to Trusts	Maturity Date <sup>(1)</sup>	Description	Issuance Date	Trust Preferred Securities Outstanding	Junior Subordinated Debt Owed to Trusts
-------------	-------------	---------------	--	---	------------------------------	-------------	---------------	--	---

(Dollars in thousands)	(Dollars in thousands)				(Dollars in thousands)			
Farmers & Merchants Capital Trust II	Farmers & Merchants Capital Trust II	November 13, 2003	\$ 7,500	\$	November 8, 2033	November 8, 2033	Farmers & Merchants Capital Trust II	November 13, 2003
								\$7,500
Farmers & Merchants Capital Trust III	Farmers & Merchants Capital Trust III	June 30, 2005	3,500	3,609	July 7, 2035	July 7, 2035	Farmers & Merchants Capital Trust III	June 30, 2005
								3,500

(1) All junior subordinated debentures were callable at March 31, 2024.

(1) All junior subordinated debentures were callable at March 31, 2024.

(1) All junior subordinated debentures were callable at March 31, 2024.

(1) All junior subordinated debentures were callable at June 30, 2024.

(1) All junior subordinated debentures were callable at June 30, 2024.

(1) All junior subordinated debentures were callable at June 30, 2024.

#### Subordinated Notes

In December 2017, the Bank issued \$40.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Bank Notes") due December 15, 2027. The Bank Notes bear a floating rate of interest equal to 3-Month SOFR plus a spread adjustment until the Bank Notes mature on December 15, 2027, or such earlier redemption date, payable quarterly in arrears. The Bank Notes are redeemable by the Bank, in whole or **in part or in whole but not** in part, upon the occurrence of certain specified tax events, capital events or investment company events. Any redemption will be at a redemption price equal to 100% of the principal amount of Bank Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Bank Notes are not subject to redemption at the option of the holders. The Bank Notes are eligible for Tier 2 capital treatment, however, during the last five years of the instrument, the amount eligible must be reduced by 20% of the original amount annually and that no amount of the instrument is eligible for inclusion in Tier 2 capital when the remaining maturity of the instrument is less than one year. As the Bank Notes are within five years of maturity, only 60% of the notes are eligible for Tier 2 capital treatment at **March 31, 2024** **June 30, 2024**.

In September 2019, **the Company Stellar** issued \$60.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Company Notes") due October 1, 2029. The Company Notes bear a fixed interest rate of 4.70% per annum until (but excluding) October 1, 2024, payable semi-annually in arrears on April 1 and October 1, commencing on April 1, 2020. Thereafter, from October 1, 2024 through the maturity date, October 1, 2029, or earlier redemption date, the Company Notes will bear interest at a floating rate equal to 3-Month SOFR, plus 3.13%, for each quarterly interest period, payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year. Any redemption will be at a redemption price equal to 100% of the principal amount of Company Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Company Notes are not subject to redemption at the option of the holders.

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## 11. INCOME TAXES

The amount of the Company's income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other nondeductible items.

	Three Months Ended	Three Months Ended	Six Months Ended
	Three Months Ended		
	Three Months Ended		
	March 31, 2024		
	March 31, 2024		
	March 31, 2024		
Income tax expense			
Income tax expense			
	June 30, 2024	June 30, 2023	June 30, 2024
Income tax expense			June 30, 2023
Effective income tax rate	Effective income tax rate	20.8 %	17.5 %
			20.7 %
			19.4 %



Effective income tax rate
Effective income tax rate

Interest and penalties related to tax positions are recognized in the period in which they begin accruing or when the entity claims the position that does not meet the minimum statutory thresholds. The Company does not have any uncertain tax positions and does not have any interest or penalties recorded in the income statement for the three and six months ended March 31, 2024, June 30, 2024 and 2023.

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## 12. STOCK BASED COMPENSATION

Under the 2022 Omnibus Incentive Plan (the “2022 Plan”) the Company is authorized to issue a maximum aggregate of 2,000,000 shares of common stock. All restricted stock and performance share awards outstanding at March 31, 2024 June 30, 2024 were issued under the 2022 Plan. At March 31, 2024 June 30, 2024, there were 770,505 786,851 shares reserved and available for issuance under the 2022 Plan.

The Company accounts for stock based employee compensation plans using the fair value-based method of accounting. The Company recognized total stock based compensation expense of \$2.8 million and \$2.6 million \$2.8 million for both of the three months ended March 31, 2024 June 30, 2024 and 2023 and \$5.6 million and \$5.4 million for the six months ended June 30, 2024 and 2023, respectively.

### Stock Options

Stock options outstanding at March 31, 2024, June 30, 2024 were issued under equity compensation plans that are no longer active and no active. No additional shares may be issued under these compensation plans.

Stock option activity during the three six months ended March 31, 2024 June 30, 2024 was as follows:

	Number of Options	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)	(In thousands)		(In years)	(In thousands)	(In thousands)		(In years)	(In thousands)
Options outstanding, January 1, 2024									
Options granted									
Options exercised									
Options exercised									
Options exercised									
Options forfeited									
Options forfeited									
Options forfeited									
Options outstanding, March 31, 2024									
Options outstanding, March 31, 2024									
Options outstanding, March 31, 2024									
Options vested and exercisable, March 31, 2024									
Options outstanding, June 30, 2024									
Options outstanding, June 30, 2024									
Options outstanding, June 30, 2024									
Options vested and exercisable, June 30, 2024									

### Restricted Stock Awards

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, which is the closing price of the Company's common stock on the day before the grant date. The shares of restricted stock granted during 2024 generally vest over a period of two or three years from the date of grant and the Company accounts for shares of restricted stock by recording the fair value of the grant on the award date as compensation expense over the vesting period.

Shares of restricted stock are considered outstanding at the date of issuance as 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 awards vest and any dividends with respect to the restricted stock awards are subject to the same restrictions, including the risk of forfeiture.

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Nonvested shares of restricted stock activity during the three six months ended March 31, 2024 June 30, 2024 was as follows:

	Number of Shares	Number of Shares	Weighted- Average Grant Date Fair Value	Number of Shares	Weighted- Average Grant Date Fair Value
	(In thousands)				
Nonvested share awards outstanding, January 1, 2024					
Nonvested share awards outstanding, January 1, 2024					
Nonvested share awards outstanding, January 1, 2024					
Share awards granted					
Share awards vested					
Unvested share awards forfeited or cancelled					
Nonvested share awards outstanding, March 31, 2024					
Nonvested share awards outstanding, June 30, 2024					

As of **March 31, 2024** **June 30, 2024**, there was **\$16.1 million** **\$11.6 million** of unrecognized compensation expense related to restricted stock awards which is expected to be recognized over a weighted-average period of **2.04** **1.87** years.

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### Performance Share Awards ("PSAs")

PSAs are generally earned subject to certain performance goals being met after the two-year performance period and will be settled in shares of Company common stock following a one-year service period. There were 77,624 PSAs awarded during the three six months ended March 31, 2024 June 30, 2024. The grant date fair value of the PSAs is based on the probable outcome of the applicable performance conditions and is calculated at target based on a combination of the closing market price of our common stock on the grant date and a Monte Carlo simulated fair value in accordance with ASC accounting standards codification ("ASC") 718. At March 31, 2024 June 30, 2024, there was \$2.2 million \$3.6 million of unrecognized compensation expense related to the PSAs, which is expected to be recognized over a weighted-average period of 2.14 2.08 years.

### 13. OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with accounting principles generally accepted in the United States are not included in the Company's consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

The contractual amounts of financial instruments with off-balance sheet risk are as follows:

The contractual amounts of financial instruments with an interest rate risk are as follows:										
March 31, 2024					December 31, 2023					
June 30, 2024					December 31, 2023					
Fixed Rate		Fixed Rate	Variable Rate		Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
(In thousands)										

Commitments to extend credit	
Standby letters of credit	
Total	

At **March 31, 2024**, **June 30, 2024** and December 31, 2023, the Company had FHLB letters of credit in the amount of **\$1.17 billion**, **\$986.0 million** and \$1.82 billion, respectively, pledged as collateral for public and other deposits of state and local government agencies. For more information on FHLB borrowings, see Note 9 – Borrowings and Borrowing Capacity.

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### Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed do not necessarily represent future cash funding requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses. The amount and type of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Commitments to make loans are generally made for an approval period of 120 days or less. As of **March 31, 2024** **June 30, 2024**, the fixed rate loan commitments had interest rates ranging from **1.80%** **2.10%** to 13.50% with a weighted average maturity of **2.28** **2.23** years and a weighted-average rate of **6.59%** **6.95%**.

#### Standby Letters of Credit

Standby letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has the rights to the underlying collateral. The credit risk to the Company in issuing letters of credit is substantially similar to that involved in extending loan facilities to its customers. The Company's policy for obtaining collateral, and the nature of such collateral, is substantially similar to that involved in making commitments to extend credit.

#### Litigation

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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.

### 14. REGULATORY CAPITAL MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines, and 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 weightings and other factors. Failure to meet minimum capital requirements can initiate actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Management believes as of **March 31, 2024** **June 30, 2024** and December 31, 2023, the Company and the Bank met all capital adequacy requirements to which they were then subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If less than well capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

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Based on the ratios presented below, the Company's and the Bank's capital ratios as of **March 31, 2024** **June 30, 2024** exceed the minimum levels necessary to be considered "well-capitalized" under the prompt corrective action regulatory framework.

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The following is a summary of the Company's and the Bank's actual and required capital ratios as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

	Capital and Liquidity Ratios								To Be Categorized As Well-Capitalized Under Prompt Corrective Action Provisions		
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer						
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio			
	(Dollars in thousands)										
STELLAR BANCORP, INC.											
(Consolidated)											
March 31, 2024											
Total Capital (to risk-weighted assets)	\$	1,252,365	14.62 %	\$	685,412	8.00 %	\$	899,603	10.50 %	N/A	N/A
Common Equity Tier 1 Capital (to risk-weighted assets)		1,053,055	12.29 %		385,544	4.50 %		599,735	7.00 %	N/A	N/A
Tier 1 Capital (to risk-weighted assets)		1,062,953	12.41 %		514,059	6.00 %		728,250	8.50 %	N/A	N/A
Tier 1 Leverage (to average tangible assets)		1,062,953	10.41 %		408,273	4.00 %		408,273	4.00 %	N/A	N/A
December 31, 2023											
Total Capital (to risk-weighted assets)	\$	1,221,060	14.02 %	\$	696,529	8.00 %	\$	914,195	10.50 %	N/A	N/A

Common Equity Tier 1 Capital (to risk-weighted assets)	1,025,076	11.77 %	391,798	4.50 %	604,463	7.00 %	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	1,034,974	11.89 %	522,397	6.00 %	740,062	8.50 %	N/A	N/A
Tier 1 Leverage (to average tangible assets)	1,034,974	10.18 %	406,859	4.00 %	406,859	4.00 %	N/A	N/A
<b>STELLAR BANK</b>								
<b>March 31, 2024</b>								
Total Capital (to risk-weighted assets)	\$ 1,208,772	14.13 %	\$ 684,604	8.00 %	\$ 898,542	10.50 %	\$ 855,755	10.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)	1,079,360	12.61 %	385,090	4.50 %	599,028	7.00 %	556,240	6.50 %
Tier 1 Capital (to risk-weighted assets)	1,079,360	12.61 %	513,453	6.00 %	727,391	8.50 %	684,604	8.00 %
Tier 1 Leverage (to average tangible assets)	1,079,360	10.59 %	407,853	4.00 %	407,853	4.00 %	509,816	5.00 %
<b>December 31, 2023</b>								
Total Capital (to risk-weighted assets)	\$ 1,186,710	13.65 %	\$ 695,746	8.00 %	\$ 913,167	10.50 %	\$ 869,683	10.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)	1,060,624	12.20 %	391,357	4.50 %	608,778	7.00 %	565,294	6.50 %
Tier 1 Capital (to risk-weighted assets)	1,060,624	12.20 %	521,810	6.00 %	739,231	8.50 %	695,746	8.00 %
Tier 1 Leverage (to average tangible assets)	1,060,624	10.44 %	406,453	4.00 %	406,453	4.00 %	508,066	5.00 %

	To Be Categorized As Well-Capitalized Under Prompt Corrective Action Provisions							
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)								
<b>STELLAR BANCORP, INC. (Consolidated)</b>								
<b>June 30, 2024</b>								
Total Capital (to risk-weighted assets)	\$ 1,283,125	15.34 %	\$ 669,072	8.00 %	\$ 878,157	10.50 %	N/A	N/A
Common Equity Tier 1 Capital (to risk-weighted assets)	1,085,328	12.98 %	376,353	4.50 %	585,438	7.00 %	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	1,095,226	13.10 %	501,804	6.00 %	710,889	8.50 %	N/A	N/A
Tier 1 Leverage (to average tangible assets)	1,095,226	10.93 %	400,889	4.00 %	400,889	4.00 %	N/A	N/A
<b>December 31, 2023</b>								
Total Capital (to risk-weighted assets)	\$ 1,221,060	14.02 %	\$ 696,529	8.00 %	\$ 914,195	10.50 %	N/A	N/A
Common Equity Tier 1 Capital (to risk-weighted assets)	1,025,076	11.77 %	391,798	4.50 %	604,463	7.00 %	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	1,034,974	11.89 %	522,397	6.00 %	740,062	8.50 %	N/A	N/A
Tier 1 Leverage (to average tangible assets)	1,034,974	10.18 %	406,859	4.00 %	406,859	4.00 %	N/A	N/A
<b>STELLAR BANK</b>								
<b>June 30, 2024</b>								
Total Capital (to risk-weighted assets)	\$ 1,223,208	14.65 %	\$ 668,098	8.00 %	\$ 876,879	10.50 %	\$ 835,123	10.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)	1,095,348	13.12 %	375,805	4.50 %	584,586	7.00 %	542,830	6.50 %
Tier 1 Capital (to risk-weighted assets)	1,095,348	13.12 %	501,074	6.00 %	709,854	8.50 %	668,098	8.00 %
Tier 1 Leverage (to average tangible assets)	1,095,348	10.94 %	400,435	4.00 %	400,435	4.00 %	500,543	5.00 %
<b>December 31, 2023</b>								
Total Capital (to risk-weighted assets)	\$ 1,186,710	13.65 %	\$ 695,746	8.00 %	\$ 913,167	10.50 %	\$ 869,683	10.00 %
Common Equity Tier 1 Capital (to risk-weighted assets)	1,060,624	12.20 %	391,357	4.50 %	608,778	7.00 %	565,294	6.50 %
Tier 1 Capital (to risk-weighted assets)	1,060,624	12.20 %	521,810	6.00 %	739,231	8.50 %	695,746	8.00 %
Tier 1 Leverage (to average tangible assets)	1,060,624	10.44 %	406,453	4.00 %	406,453	4.00 %	508,066	5.00 %

Dividend Restrictions

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. In addition, the Company's credit agreement with another financial institution also limits its ability to pay dividends. Under applicable banking regulations, the amount of dividends that may be paid by the Bank in any calendar year is limited to the current year's net profits combined with the retained net profits of the preceding two years, subject to the capital requirements described above.

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15. EARNINGS PER COMMON SHARE

Diluted earnings per common share is computed using the weighted-average number of common shares determined for the basic earnings per common share computation plus the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares. Restricted shares and performance share awards are considered outstanding at the date of grant, accounted for as participating securities and included in basic and diluted weighted average common shares outstanding.

	Three Months Ended March 31,									
	Three Months Ended March 31,									
	Three Months Ended March 31,									
	2024									
	2024									
			Three Months Ended June 30,		Six Months Ended June 30,					
			2024		2024		2023	2024		2023
			Amount		Per Share Amount		Per Share Amount	Amount	Per Share Amount	Per Share Amount
			Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
			Amount							
			Amount							
			(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)					
			(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)					
			(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)					
Net income attributable to shareholders										
Net income attributable to shareholders										
Net income attributable to shareholders										
Basic:										
Basic:										
Basic:										
Weighted average shares outstanding										
Weighted average shares outstanding										
Weighted average shares outstanding										
Diluted:										
Diluted:										
Diluted:										
Add incremental shares for:										
Add incremental shares for:										
Add incremental shares for:										
Dilutive effect of stock option exercises and performance share units										
Dilutive effect of stock option exercises and performance share units										
Dilutive effect of stock option exercises and performance share units										
Total										
Total										
Total										

There were 101,166 and 6,807 30,074 antidilutive shares as of March 31, 2024 June 30, 2024 and 2023, respectively.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except where the context otherwise requires or where otherwise indicated in this Quarterly Report on Form 10-Q, the term "Stellar" refers to Stellar Bancorp, Inc., the terms "we," "us," "our," "Company" and "our business" refer to Stellar Bancorp, Inc. and our wholly owned banking subsidiary, Stellar Bank, a Texas banking association.

### Cautionary Notice 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 for the year ended December 31, 2023 and the following:

- disruptions to the economy and the U.S. banking system caused by recent bank failures;
- risks associated with uninsured deposits and responsive measures by federal or state governments or banking regulators, including increases in our deposit insurance assessments and other actions of the Board of Governors of the Federal Reserve System, FDIC and Texas Department of Banking and legislative and regulatory actions and reforms;
- the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- inflation, interest rate, capital and securities markets and monetary fluctuations;
- changes in the interest rate environment, the value of the Company's assets and obligations and the availability of capital and liquidity;
- general competitive, economic, political and market conditions and other factors that may affect future results of the Company including changes in asset quality and credit risk;
- local, regional, national and international economic conditions and the impact they may have on the Company and our customers and the Company's assessment of that impact;
- the inability to sustain revenue and earnings growth;
- impairment of the Company's goodwill or other intangible assets;
- the composition of the Company's loan portfolio and the concentration of loans in commercial real estate and commercial real estate construction;
- the geographic concentration of the Company's market;
- the accuracy and sufficiency of the assumptions and estimates the Company makes in establishing reserves for potential loan losses and other estimates;
- 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;
- customer borrowing, repayment, investment and deposit practices;
- the ability to maintain important deposit customer relationships;
- changes in the value of collateral securing the Company's loans;

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- the risk that the anticipated benefits from the Merger may not be fully realized or may take longer than anticipated to be realized;
- the amount of the costs, fees, expenses and charges related to the Merger and the integration;
- natural disasters (including hurricanes) and adverse weather in the Company's market area;
- the potential impact of climate change;
- the impact of pandemics, epidemics or any other health-related crisis;

- acts of terrorism, an outbreak of hostilities, such as the conflicts in Ukraine or the Middle East, or other international or domestic calamities;
- the ability to maintain effective internal control over financial reporting;
- the cost and effects of cyber incidents or other failures, interruptions or security breaches of the Company's Company's systems or those of the Company's customers or third-party providers;
- the failure of certain third- or fourth-party vendors to perform;
- the impact, extent and timing of technological changes;
- the institution and outcome of litigation and other legal proceedings against the Company or to which it may become subject;
- the costs, effects and results of regulatory examinations, investigations, or reviews or the ability to obtain required regulatory approvals or meet conditions associated with the same;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; 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. 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.

## Overview

We generate most of our income from interest income on loans, interest income from investments in securities and service charges on customer accounts. We incur interest expense on deposits and other borrowed funds and noninterest expenses such as salaries and employee benefits and occupancy expenses. Net interest income is the difference between interest income on earning assets such as loans and securities and interest expense on liabilities such as deposits and borrowings that are used to fund those assets. Net interest income is our largest source of revenue. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the interest expenses of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a "volume change." Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and specifically in our market, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our market and throughout the state of Texas.

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Our net interest income is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and borrowed funds, referred to as a "rate change." 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.

## Critical Accounting Policies

Certain of our accounting estimates are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances that could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Management believes that determining the allowance for credit losses is its most critical accounting estimate. Our accounting policies are discussed in detail in Note 1— Nature of Operations and Summary of Significant Accounting and Reporting Policies in our Annual Report on Form 10-K for the year ended December 31, 2023.

### Allowance for Credit Losses

The allowance for credit losses is a valuation account which represents management's best estimate of lifetime expected losses based on reasonable and supportable forecasts, historical loss experience, and other qualitative considerations. Management considers the policies related to the allowance for credit losses as the most critical to the financial statement presentation. The Company bases its estimates of credit losses on three primary components: (1) estimates of expected losses that exist in various segments of performing loans over the remaining life of the loan portfolio using a reasonable and supportable economic forecast, (2) specifically identified losses in individually analyzed credits which are collateral-dependent, which generally include nonaccrual loans and purchased credit deteriorated ("PCD") loans and (3) qualitative factors related to economic conditions, portfolio concentrations, regulatory policy updates, and other relevant factors that address estimates of expected losses. Estimating the timing and amounts of future losses is subject to management's judgment as these projected cash flows rely upon the estimates discussed above and factors that are reflective of current or future expected conditions using analytical and forecasting models and tools. Volatility in certain credit metrics and differences between expected and actual outcomes are to be expected. For example, customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance.

Loans with similar risk characteristics are aggregated into homogenous pools and are collectively evaluated by applying reserve factors, such as historical lifetime loss, concentration risk, volume, growth and composition of the loan portfolio, current and forecasted economic conditions to amortized cost balances over the remaining contractual life of the collectively evaluated portfolio. Historical lifetime loss is determined by utilizing an open-pool ("cumulative loss rate") methodology, adjusted for credit risk characteristics and current and forecasted economic conditions. Losses are predicted over a reasonable and supportable period of one year for all loan pools, followed by an immediate reversion to long-term historical averages. The reasonable and supportable period and reversion period are re-evaluated as needed by the Company and are dependent on the current economic environment among other factors.

Loans that no longer share risk characteristics with the collectively evaluated loan pools are evaluated on an individual basis and are excluded from the collectively evaluated pools. In order to assess which loans are to be individually evaluated, the Company follows a loan review program to evaluate the credit risk in the total loan portfolio and assigns risk grades to each loan. Individual credit loss estimates are typically performed for nonaccrual loans, modified loans classified as troubled loan modifications and all other loans identified by management. All loans deemed as being individually evaluated are reviewed on a quarterly basis in order to determine whether a specific reserve is required. The Company considers certain loans to be collateral dependent if the borrower is experiencing financial difficulty and management expects repayment for the loan to be substantially through the operation or sale of the collateral. For collateral dependent loans, loss estimates are based on the fair value of collateral, less estimated cost to sell (if applicable). Collateral values supporting individually evaluated loans are assessed quarterly and appraisals are typically obtained at least annually. The Company allocates a specific loan loss reserve on an individual loan basis primarily based on the value of the collateral securing the individually evaluated loan. Through this loan review process, the Company assesses the overall quality of the loan portfolio and the adequacy of the allowance for credit losses on loans while considering risk elements attributable to particular loan types in assessing the quality of individual loans. In addition, for each category of loans, the Company considers secondary sources of income and the financial strength and credit history of the borrower and any guarantors.

A change in the allowance for credit losses on loans can be attributable to several factors, most notably historical lifetime loss, specific reserves for individually evaluated loans and changes in qualitative factors and growth within the loan portfolio. The estimated loan losses for all loan pools are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully

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accounted for, including adjustments for foresight risk, input imprecision and model imprecision. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management, but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan portfolios. These adjustments are based upon quarterly trend assessments in portfolio concentrations, changes in lending policies and procedures, policy exceptions, independent loan review results, internal risk ratings and peer group credit quality trends. Additional qualitative considerations are made for any identified risk which did not exist within our portfolio historically and therefore may not be adequately addressed through evaluation of such risk factors based on historical portfolio trends. Qualitative adjustments also include current and forecasted economic conditions primarily measured by local and national economic metrics, such as GDP, unemployment rates, interest rates and oil and gas prices based on historical and forecasted economic research scenarios provided by industry-leading financial intelligence and analytical solutions, which the Company has subscribed to. The qualitative allowance allocation is increased or decreased for each loan pool based on the assessment of these various qualitative factors. Management recognizes the sensitivity of various assumptions made in the quantitative modeling of expected losses and may adjust reserves depending upon the level of uncertainty that currently exists in one or more assumptions.

As of **March 31, 2024** **June 30, 2024**, based on sensitivity analyses across all segments of the performing loan portfolio, a 5% increase in historical loss rates would have **had an impact of \$1.9 million increase to increased funded reserves. reserves by \$1.8 million.** On the other hand, a 5% increase in each qualitative risk factor across all segments (where assigned) would have **an impact increased funded reserves by \$3.1 million. An increase of \$3.2 million increase in funded reserves. Increasing 5 basis points to the** estimated loss rates (i.e., quantitative and qualitative) **by 5 basis points** would have a **\$3.8 million \$3.7 million** impact.

The allowance for credit losses could be affected by significant downturns in circumstances relating to loan quality and economic conditions and as such may not be sufficient to cover expected losses in the loan portfolio which could necessitate additional provisions or a reduction in the allowance for credit losses if our assumption prove to be incorrect. Unanticipated changes and events could have a significant impact on the financial performance of borrowers and their ability to perform as agreed. We may experience significant credit losses if borrowers experience financial difficulties, which could have a material adverse effect on our operating results.

#### **Goodwill**

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired in a business combination. During the measurement period, the Company may record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date.

Goodwill is subject to impairment testing, which must be conducted at least annually or upon the occurrence of a triggering event. Goodwill is recorded and evaluated for impairment at its reporting unit, the Company. The **Company's Company's** policy is to test goodwill for impairment at least annually as of October 1st, or on an interim basis if an event triggering an impairment assessment is determined to have occurred. Various factors, such as the Company's results of operations, the trading price of the Company's common stock relative to the book value per share, macroeconomic conditions and conditions in the banking sector, inform whether a triggering event for an interim goodwill impairment test has occurred. The impairment test compares the estimated fair value of each reporting unit with its net book value. If the unit's fair value is less than its carrying value, an impairment loss is recognized in our results of operations in the periods in which they become known in an amount equal to this excess.

During 2023, economic uncertainty and market volatility resulting from the rising interest rate environment and **the recent banking bank** failures resulted in a decrease in the **Company's Company's** stock price and market capitalization. Management believed the collective events met the requirements of a triggering event and an interim goodwill impairment quantitative analysis was performed as of September 30, 2023. The Company engaged an independent third-party service provider to assist management with the determination of the fair value of the Company as of September 30, 2023. A weighted combination of the guideline public company method and income approach method was employed.



In performing the discount cash flow analysis, the Company utilized multi-year cash projections that rely on internal forecasts of loan and deposit growth, bond mix, financing composition, market pricing of securities, credit performance, forward interest rates, future returns driven by net interest margin, fee generation and expense incurrence, industry and economic trends, and other relevant considerations.

The discount rate was calculated as the cost of equity capital using the modified capital asset pricing model, which includes variables including the risk-free interest rate, beta, equity risk premium, size premium, and company-specific risk premium.

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The market approach considers a combination of price to book value and price to earnings, adjusted based on companies similar to the reporting unit and adjusted for selected multiples, along with a control premium based on a review of transactions in the banking industry in order to calculate the indicated value of the Company's equity on a control, marketable basis. The analysis resulted in the Company's fair value exceeding its carrying value resulting in no impairment charge for the period.

A significant amount of judgment is involved in the determination of the fair value of a reporting unit. Future events could cause the Company to conclude that the Company's goodwill has become impaired, which would result in recording an impairment loss. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. Management will continue evaluating the economic conditions at future reporting periods for triggering events.

See Note 2 – Goodwill and Other Intangible Assets to the consolidated financial statements for additional information on the Company's goodwill and intangibles.

#### Recently Issued Accounting Pronouncements

We have evaluated new accounting pronouncements that have recently been issued. Refer to Note 1 of the Company's consolidated financial statements for a discussion of recent accounting pronouncements that have been adopted by the Company or that will require enhanced disclosures in the Company's financial statements in future periods.

#### Results of Operations

Net income was \$26.1 million \$29.8 million, or \$0.49 \$0.56 per diluted share, for the first quarter 2024 three months ended June 30, 2024 compared to \$37.1 million \$35.2 million, or \$0.70 \$0.66 per diluted share, for the first quarter 2023, three months ended June 30, 2023. The decrease in net income was primarily due to a \$13.7 million \$6.9 million decrease in net interest income and a \$1.2 million decrease \$2.0 million increase in noninterest income, expense, partially offset by a \$1.2 million decrease in noninterest expense and a \$3.2 million \$3.9 million decrease in the provision for income taxes, credit losses.

Annualized returns on average assets, returns on average equity and efficiency ratios were 0.98% 1.13%, 6.88% 7.78% and 66.18% 66.63%, for the three months ended March 31, 2024 June 30, 2024, respectively, compared to 1.38% 1.31%, 10.62% 9.67% and 58.96% 60.83% for the three months ended March 31, 2023 June 30, 2023, respectively. The efficiency ratio is calculated by dividing total noninterest expense by the sum of net interest income plus noninterest income, excluding net gains and losses on the sale of loans, securities and assets. Additionally, taxes and provision for loan losses are not part of the efficiency ratio calculation.

Net income was \$55.9 million, or \$1.04 per diluted share, for the six months ended June 30, 2024 compared to \$72.3 million, or \$1.36 per diluted share, for the six months ended June 30, 2023. The decrease in net income was primarily due to a \$20.6 million decrease in net interest income and a \$1.3 million decrease in noninterest income, partially offset by a \$3.4 million decrease in the provision for credit losses and a \$2.8 million decrease in the provision for income taxes.

Annualized returns on average assets, returns on average equity and efficiency ratios were 1.06%, 7.33% and 66.40%, respectively, for the six months ended June 30, 2024, respectively, compared to 1.35%, 10.14% and 59.86%, respectively, for the six months ended June 30, 2023.

#### Net Interest Income

Three months ended March 31, 2024 June 30, 2024 compared with three months ended March 31, 2023 June 30, 2023. Net interest income before the provision for credit losses for the three months ended March 31, 2024 June 30, 2024 was \$102.1 million \$101.4 million compared with \$115.8 million \$108.3 million for the three months ended March 31, 2023 June 30, 2023, a decrease of \$13.7 million \$6.9 million, or 11.8% 6.3%, primarily due to the increase in the cost of funds and average interest-bearing liabilities more than offsetting the increase in interest income.

Interest income was \$148.4 million \$152.2 million for the three months ended March 31, 2024 June 30, 2024, an increase of \$8.0 million \$5.2 million, or 5.7% 3.6%, compared with \$140.4 million \$147.0 million for the three months ended March 31, 2023 June 30, 2023, primarily due to higher-yielding loans and increased average loans outstanding, securities. Average interest-earning assets decreased \$170.3 million \$76.7 million, or 1.7% 0.8%, for the three months ended March 31, 2024 June 30, 2024 compared with the three months ended March 31, 2023 June 30, 2023, primarily due to the decrease in average loans, partially offset by increases in securities and deposits in other financial institutions, partially offset by the increase in average loans, institutions. Average loans to average interest earning assets increased decreased to 82.3% 81.2% for the three months ended March 31, 2024 June 30, 2024 compared to 79.9% 82.3% for the same period in the prior year. Additionally, interest income from purchase accounting adjustments was \$8.6 million for the three months ended March 31, 2024, compared to \$10.1 million for the three months ended March 31, 2023.

Interest expense was \$46.3 million June 30, 2024 compared to \$12.6 million for the three months ended March 31, 2024, an increase June 30, 2023.

#### [Table of \\$21.7 million, or 88.3%, compared with \\$24.6 million Contents](#)

Interest expense was \$50.8 million for the three months ended March 31, 2023 June 30, 2024, an increase of \$12.1 million, or 31.3%, compared with \$38.7 million for the three months ended June 30, 2023. This increase was primarily due to higher funding costs on interest-bearing deposits due to higher interest rates and an increase in average

interest-bearing liabilities, deposits liabilities, partially offset by a decrease in average borrowed funds. The cost of average interest-bearing liabilities increased to 3.36% 3.59% for the three months ended March 31, 2024 June 30, 2024 compared to 1.91% 2.86% for the same period in 2023. Average interest-bearing liabilities increased \$318.9 million \$265.5 million for the three months ended March 31, 2024 June 30, 2024 compared to the three months ended March 31, 2023 June 30, 2023, primarily due to an increase increases in certificates and other time deposits and interest-bearing demand deposits partially offset by a decrease in average money market and savings deposits, borrowed funds.

Tax equivalent net interest margin, defined as net interest income adjusted for tax-free income divided by average interest-earning assets, for the three months ended March 31, 2024 June 30, 2024 was 4.26% 4.24%, a decrease of 54 25 basis points compared to 4.80% 4.49% for the three months ended March 31, 2023 June 30, 2023. The decrease in the net interest margin on a tax equivalent basis was primarily due to increased

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funding costs. The average rate paid on interest-bearing liabilities of 3.36% 3.59% and the average yield on interest-earning assets of 6.19% 6.36% for the first quarter of 2024 three months ended June 30, 2024 increased by 145 73 basis points and 39 28 basis points, respectively, over the same period in 2023. Tax equivalent adjustments to net interest margin are the result of increasing income from tax-free securities and loans by an amount equal to the taxes that would have been paid if the income were fully taxable based on a 21% federal tax rate for the three months ended March 31, 2024 June 30, 2024 and 2023, thus making tax-exempt yields comparable to taxable asset yields.

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The following table presents, for the periods indicated, the total dollar amount of average balances, interest income from average interest-earning assets and the annualized resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Average loans include loans on nonaccrual status carrying a zero yield.

Three Months Ended March 31,											
2024				2024				2023			
Average Balance		Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate		Average Balance		Interest Earned/ Interest Paid			Y
(Dollars in thousands)											
Assets	Assets							Assets			
Interest-earning Assets:	Interest-earning Assets:							Interest-earning Assets:			
Loans	Loans	\$7,938,824	\$	\$134,685	6.82	6.82 %	\$7,847,011	\$	\$125,729	6.50	6.50 %
Securities	Securities	1,441,814	10,111	10,111	2.82	2.82 %	1,604,011	10,915	10,915	2.76	2.76 %
Deposits in other financial institutions	Deposits in other financial institutions	264,906	3,627	3,627	5.51	5.51 %	364,781	3,771	3,771	4.19	4.19 %
Total interest-earning assets	Total interest-earning assets	9,645,544	\$	\$148,423	6.19	6.19 %	9,815,803	\$	\$140,415	5.80	5.80 %
Allowance for credit losses on loans											
Noninterest-earning assets											
Noninterest-earning assets											
Noninterest-earning assets											
Total assets											
Total assets											
Total assets											
Liabilities and Shareholders' Equity											
Liabilities and Shareholders' Equity											

Liabilities and Shareholders' Equity

Interest-bearing Liabilities:

Interest-bearing Liabilities:

Interest-bearing Liabilities:

Interest-bearing demand deposits

Interest-bearing demand deposits

Interest-bearing demand deposits

Money market and savings deposits

Certificates and other time deposits

Borrowed funds

Subordinated debt

Total interest-bearing liabilities

Noninterest-bearing Liabilities:

Noninterest-bearing Liabilities:

Noninterest-bearing Liabilities:

Noninterest-bearing demand deposits

Noninterest-bearing demand deposits

Noninterest-bearing demand deposits

Other liabilities

Other liabilities

Other liabilities

Total liabilities

Total liabilities

Total liabilities

Shareholders' equity

Shareholders' equity

Shareholders' equity

Shareholders' equity

Shareholders' equity

Shareholders' equity

Total liabilities and shareholders' equity

Total liabilities and shareholders' equity

Total liabilities and shareholders' equity

Net interest rate spread

Net interest rate spread

		\$1,697,211	\$		\$ 12,278	2.91	2.91 %		\$1,650,273	\$	\$	8,382	2.06	2.06 %	\$
Money market and savings deposits	Money market and savings deposits	2,150,805	15,252	15,252	2.85	2.85 %		2,490,889	9,655			9,655	1.57	1.57 %	
Certificates and other time deposits	Certificates and other time deposits	1,444,048	15,084	15,084	4.20	4.20 %		861,595	3,307			3,307	1.56	1.56 %	
Borrowed funds	Borrowed funds	134,400	1,774	1,774	5.31	5.31 %		105,191	1,317			1,317	5.08	5.08 %	
Subordinated debt	Subordinated debt	109,808	1,917	1,917	7.02	7.02 %		109,415	1,927			1,927	7.14	7.14 %	
Total interest-bearing liabilities	Total interest-bearing liabilities	5,536,272	\$	\$ 46,305	3.36	3.36 %		5,217,363	\$	\$	24,588	1.91	1.91 %		To

Net interest rate spread						2.83 %				
Net interest income and margin <sup>(1)</sup>										
Net interest income and margin <sup>(1)</sup>										
Net interest income and margin <sup>(1)</sup>			\$102,118	4.26		4.26 %		\$115,827	4.79	
Net interest income and margin (tax equivalent) <sup>(2)</sup>										
Net interest income and margin (tax equivalent) <sup>(2)</sup>										
Net interest income and margin (tax equivalent) <sup>(2)</sup>			\$102,207	4.26		4.26 %		\$116,119	4.80	
Cost of funds										
Cost of funds										
Cost of funds						2.06 %				
Cost of deposits	Cost of deposits					1.94 %				

- (1) The net interest margin is equal to annualized net interest income divided by average interest-earning assets.
- (2) Tax-equivalent adjustments have been computed using a federal income tax rate of 21% for the three months ended **March 31, 2024** June 30, 2024 and 2023.

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*Six months ended June 30, 2024 compared with six months ended June 30, 2023.* Net interest income before the provision for credit losses for the six months ended June 30, 2024 was \$203.5 million compared with \$224.1 million for the six months ended June 30, 2023, a decrease of \$20.6 million, or 9.2%, primarily due to the increase in the cost of funds and average interest-bearing liabilities more than offsetting the increase in interest income.

Interest income was \$300.6 million for the six months ended June 30, 2024, an increase of \$13.2 million, or 4.6%, compared with \$287.4 million for the six months ended June 30, 2023, primarily due to higher-yielding loans. Average interest-earning assets decreased \$123.1 million, or 1.3%, for the six months ended June 30, 2024 compared with the six months ended June 30, 2023 primarily due decreases in securities and loans. Additionally, interest income from purchase accounting adjustments was \$18.6 million for the six months ended June 30, 2024 compared to \$22.7 million for the six months ended June 30, 2023.

Interest expense was \$97.1 million for the six months ended June 30, 2024, an increase of \$33.8 million, or 53.4%, compared with \$63.3 million for the six months ended June 30, 2023. This increase was primarily due to higher funding costs on interest-bearing deposits due to higher interest rates on interest-bearing deposits and an increase in average interest-bearing liabilities. The cost of average interest-bearing liabilities increased to 3.48% for the six months ended June 30, 2024 compared to 2.40% for the same period in 2023. Average interest-bearing liabilities increased \$291.6 million for the six months ended June 30, 2024 compared to the six months ended June 30, 2023, primarily due to an increase in certificates and other time deposits and interest-bearing demand deposits, partially offset by a decrease in average money market and savings deposits and borrowed funds.

Tax equivalent net interest margin, defined as net interest income adjusted for tax-free income divided by average interest-earning assets, for the six months ended June 30, 2024 was 4.25%, a decrease of 39 basis points compared to 4.64% for the six months ended June 30, 2023. The decrease in the net interest margin on a tax equivalent basis was primarily due to increased funding costs. The average rate paid on interest-bearing liabilities of 3.48% and the average yield on interest-earning assets of 6.28% for the six months ended June 30, 2024 increased by 108 basis points and 34 basis points, respectively, over the same period in 2023. Tax equivalent adjustments to net interest margin are the result of increasing income from tax-free securities and loans by an amount equal to the taxes that would have been paid if the income were fully taxable based on a 21% federal tax rate for the six months ended June 30, 2024 and 2023, thus making tax-exempt yields comparable to taxable asset yields.

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The following table presents, for the periods indicated, the total dollar amount of average balances, interest income from average interest-earning assets and the annualized resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Average loans include loans on nonaccrual status carrying a zero yield.

Six Months Ended June 30,	
2024	2023

	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
(Dollars in thousands)						
<b>Assets</b>						
Interest-earning Assets:						
Loans	\$ 7,873,572	\$ 270,570	6.91 %	\$ 7,914,303	\$ 259,660	6.62 %
Securities	1,495,726	22,850	3.07 %	1,553,200	21,077	2.74 %
Deposits in other financial institutions	261,911	7,182	5.52 %	286,823	6,636	4.67 %
Total interest-earning assets	9,631,209	\$ 300,602	6.28 %	9,754,326	\$ 287,373	5.94 %
Allowance for credit losses on loans	(93,959)			(94,881)		
Noninterest-earning assets	1,118,077			1,151,497		
Total assets	\$ 10,655,327			\$ 10,810,942		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing Liabilities:						
Interest-bearing demand deposits	\$ 1,621,154	\$ 24,491	3.04 %	\$ 1,518,213	\$ 17,725	2.35 %
Money market and savings deposits	2,189,099	31,438	2.89 %	2,355,112	21,020	1.80 %
Certificates and other time deposits	1,569,292	33,842	4.34 %	1,044,721	12,929	2.50 %
Borrowed funds	123,293	3,474	5.67 %	293,578	7,852	5.39 %
Subordinated debt	109,859	3,829	7.01 %	109,458	3,739	6.89 %
Total interest-bearing liabilities	5,612,697	\$ 97,074	3.48 %	5,321,082	\$ 63,265	2.40 %
Noninterest-bearing Liabilities:						
Noninterest-bearing demand deposits	3,417,196			3,971,862		
Other liabilities	92,223			79,609		
Total liabilities	9,122,116			9,372,553		
Shareholders' equity	1,533,211			1,438,389		
Total liabilities and shareholders' equity	\$ 10,655,327			\$ 10,810,942		
Net interest rate spread			2.80 %			3.54 %
Net interest income and margin <sup>(1)</sup>		\$ 203,528	4.25 %		\$ 224,108	4.63 %
Net interest income and margin (tax equivalent) <sup>(2)</sup>		\$ 203,688	4.25 %		\$ 224,628	4.64 %
Cost of funds			2.16 %			1.37 %
Cost of deposits			2.05 %			1.17 %

(1) The net interest margin is equal to annualized net interest income divided by average interest-earning assets.

(2) Tax-equivalent adjustments have been computed using a federal income tax rate of 21% for the six months ended June 30, 2024 and 2023.

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The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earnings 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.

This table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.		
	Three Months Ended March 31,	
	Three Months Ended March 31,	
	Three Months Ended March 31,	
	Three Months Ended June 30,	Six Months Ended June 30,

[illegible]

Decrease in net interest income
Decrease in net interest income

Provision for Credit Losses

Our allowance for credit losses is established through charges to income in the form of the provision in order to bring our allowance for credit losses for various types of financial instruments including loans, unfunded commitments and securities to a level deemed appropriate by management. We recorded a reversal of provision for credit losses of \$4.1 million \$1.9 million and \$3.7 million a provision for credit losses of \$1.9 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively. For the six months ended June 30, 2024 and 2023, we recorded a provision for credit losses of \$2.2 million and \$5.6 million, respectively. The reversal of provision for credit losses for the three months ended March 31, 2024 June 30, 2024 was primarily due to the decrease in loan growth. The provision for credit losses for the six months ended June 30, 2024 primarily resulted from changes to the specific reserves within the allowance for credit losses model, among other things.

We recorded net charge-offs things, partially offset by the decrease in loan growth. See further discussion of \$714 thousand the allowance for the three months ended March 31, 2024 compared to net charge-offs of \$192 thousand during the three months ended March 31, 2023. credit losses in "Financial Condition-Asset Quality."

Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, debit card and ATM income and income earned on bank-owned life insurance. Noninterest income does not include loan origination fees which are recognized over the life of the related loan as an adjustment to yield using the interest method.

Three months ended March 31, 2024 June 30, 2024 compared with three months ended March 31, 2023 June 30, 2023. Noninterest income totaled \$6.3 million \$5.4 million for the three months ended March 31, 2024 June 30, 2024 compared with \$7.5 million \$5.5 million for the same period in 2023, a decrease of \$1.2 million, \$67 thousand, or 16.0% 1.2%, primarily due to decreased debt card and ATM income due the impact of the Durbin Amendment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Durbin Amendment") along .

Six months ended June 30, 2024 compared with six months ended June 30, 2023. Noninterest income totaled \$11.7 million for the six months ended June 30, 2024 compared with \$13.0 million for the same period in 2023, a decision made by decrease of \$1.3 million, or 9.8%, primarily due to decreased debt card and ATM income due the Company to no longer charge NSF fees. impact of the Durbin Amendment.

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The following table presents, for the periods indicated, the major categories of noninterest income:				
	Three Months Ended June 30,	Increase (Decrease)	Six Months Ended June 30,	Increase (Decrease)
	(In thousands)		(In thousands)	
Service charges on deposit accounts				
Gain on sale of assets				
Gain on sale of assets				
Gain on sale of assets				
Bank-owned life insurance income				
Bank-owned life insurance income				
(Loss) gain on sale of assets				
Bank-owned life insurance income				
Debit card and ATM income				
Debit card and ATM income				
Debit card and ATM income				
Other(1)				
Other(1)				
Other(1)				
Total noninterest income				
Total noninterest income				
Total noninterest income				

(1) Other includes wire transfer and letter of credit fees, among other items.

Noninterest Expense

Three months ended **March 31, 2024** **June 30, 2024** compared with three months ended **March 31, 2023** **June 30, 2023**. Noninterest expense was **\$71.4 million** **\$71.2 million** for the three months ended **March 31, 2024** **June 30, 2024** compared to **\$72.6 million** **\$69.2 million** for the three months ended **March 31, 2023** **June 30, 2023**, a decrease an increase of **\$1.2 million** **\$2.0 million**, or **1.6%** **2.9%**, primarily due to an increase of \$1.8 million in salaries and employee benefits and a \$2.4 million increase other noninterest expenses, partially offset by decreased acquisition and merger-related expenses of \$2.9 million.

Six months ended **June 30, 2024** compared with six months ended **June 30, 2023**. Noninterest expense was \$142.6 million for the six months ended June 30, 2024 compared to \$141.8 million for the six months ended June 30, 2023, an increase of \$821 thousand, or 0.6%, primarily due to a \$3.4 million increase in salaries and employee benefits, a \$1.2 million increase in professional fees and a \$4.4 million increase in other noninterest expenses, partially offset by a \$9.1 million decrease in acquisition and merger-related expenses, partially offset by increased salaries and employee benefits, professional fees and other noninterest expenses.

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

	Three Months Ended June 30,	Increase (Decrease)	Six Months Ended June 30,	Increase (Decrease)
	(In thousands)		(In thousands)	
Salaries and employee benefits <sup>(1)</sup>				
Net occupancy and equipment				
Net occupancy and equipment				
Net occupancy and equipment				
Depreciation				
Depreciation				
Depreciation				
Data processing and software amortization				
Data processing and software amortization				
Data processing and software amortization				
Professional fees				
Professional fees				
Professional fees				
Regulatory assessments and FDIC insurance				
Regulatory assessments and FDIC insurance				
Regulatory assessments and FDIC insurance				
Amortization of intangibles				
Amortization of intangibles				
Amortization of intangibles				
Communications				
Communications				
Communications				
Advertising				
Advertising				
Advertising				
Acquisition and merger-related expenses				
Acquisition and merger-related expenses				
Acquisition and merger-related expenses				
Other				
Other				
Other				
Total noninterest expense				
Total noninterest expense				
Total noninterest expense				

- (1) Total salaries and employee benefits includes \$2.8 million and \$2.6 million for each of the three months ended **March 31, 2024** **June 30, 2024** and 2023 and \$5.6 million and \$5.4 million for the six months ended **June 30, 2024** and 2023, respectively, of stock based stock-based compensation expense.

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Salaries and employee benefits. Salaries and benefits increased \$1.6 million, or 4.0%, for \$1.8 million in the three months ended March 31, 2024 June 30, 2024 and \$3.4 million in the six months ended June 30, 2024, compared to the three months ended March 31, 2023 same periods in 2023 primarily due to annual salary increases.

Acquisition increases, increases in full-time equivalent employees and merger-related expenses. Acquisition and merger-related expenses of \$6.2 million incurred during the three months ended March 31, 2023, were primarily related to compensation, legal and advisory fees associated with the 2022 Merger between Allegiance and CBTX. No acquisition and merger-related expenses were incurred severance expense recorded in the first quarter of 2024.

Professional fees. Professional fees increased to \$2.7 million for \$56 thousand during the three months ended March 31, 2024 June 30, 2024 and \$1.2 million during the six months ended June 30, 2024, compared to \$1.5 million for the three months ended March 31, 2023 same periods in 2023, primarily due to increased consulting fees d forue to various projects, some of which related to the Company's assets crossing the \$10 billion threshold.

Table Acquisition and merger-related expenses. Acquisition and merger-related expenses of Contents \$2.9 million and \$9.1 million incurred during the three months and six months ended June 30, 2023, respectively, were primarily related to compensation, legal and advisory fees associated with the Merger. No acquisition and merger-related expenses were incurred during the three and six months ended June 30, 2024.

Efficiency Ratio

The efficiency ratio is a supplemental financial measure utilized in management's internal evaluation of our performance. We calculate our efficiency ratio by dividing total noninterest expense by the sum of net interest income and noninterest income, excluding net gains and losses on the sale of loans, securities and assets. Additionally, taxes and provision for credit losses are not part of this calculation. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources. Our efficiency ratio was 66.18% 66.63% for the three months ended March 31, 2024 June 30, 2024 compared to 58.96% 60.83% for the three months ended March 31, 2023 June 30, 2023 and 66.40% for the six months ended June 30, 2024 compared to 59.86% for the six months ended June 30, 2023, respectively.

We monitor the efficiency ratio in comparison with changes in our total assets and loans, and we believe that maintaining or reducing the efficiency ratio during periods of growth demonstrates the scalability of our operating platform. We expect to continue to benefit from our scalable platform in future periods as we continue to monitor overhead expenses necessary to support our growth.

Income Taxes

The amount of federal and state income tax expense is influenced by the amount of pre-tax income, tax-exempt income and other nondeductible expenses. Income tax expense decreased \$3.2 million increased \$325 thousand for the three months ended March 31, 2024 June 30, 2024 and decreased \$2.8 million for the six months ended June 30, 2024 compared with the same period in 2023 primarily due to the decrease in pre-tax net income. Our effective tax rate was 20.5% 20.8% and 21.1% 17.5% for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and 20.7% and 19.4% for the six months ended June 30, 2024 and 2023, respectively.

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Financial Condition

Loan Portfolio

At March 31, 2024 June 30, 2024, total loans were \$7.91 billion \$7.71 billion, a decrease of \$17.0 million \$211.2 million, or 0.2% 2.7%, compared with December 31, 2023. Total loans as a percentage of deposits were 89.9% 88.4% and 89.3% as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively. Total loans as a percentage of assets were 73.7% 71.9% and 74.4% as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively.

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

	(Dollars in thousands)	(Dollars in thousands)
Commercial and industrial		
Paycheck Protection Program (PPP)		
Paycheck Protection Program (PPP)		
Paycheck Protection Program (PPP)		
Real estate:		
Real estate:		
Real estate:		
Commercial real estate (including multi-family residential)		
Commercial real estate (including multi-family residential)		
Commercial real estate (including multi-family residential)		
Commercial real estate construction and land development		

Commercial real estate construction and land development
Commercial real estate construction and land development
1-4 family residential (including home equity)
1-4 family residential (including home equity)
1-4 family residential (including home equity)
Residential construction
Residential construction
Residential construction
Consumer and other
Consumer and other
Consumer and other
Total loans
Total loans
Total loans
Allowance for credit losses on loans
Allowance for credit losses on loans
Allowance for credit losses on loans
Loans, net
Loans, net
Loans, net

Our lending activities originate from the efforts of our bankers with an emphasis on lending to individuals, professionals, small- to medium-sized businesses and commercial companies generally located in our market. Our strategy for credit risk management generally includes well-defined, centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for credit exposures. The strategy generally emphasizes regular credit examinations and management reviews of loans. We have certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. We maintain an independent loan review which includes third-party loan review services to review the credit risk on a periodic basis. The internal loan review department focuses on credits not reviewed by the third-party loan reviewer to ensure more complete coverage of credit risk. Results of these reviews are presented to management and the risk committee of the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by bankers and credit personnel and contained in our policies and procedures.

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The principal categories of our loan portfolio are discussed below:

**Commercial and Industrial.** We make commercial and industrial loans in our market area that are underwritten on the basis of the borrower’s ability to service the debt from income. In general, commercial loans involve more credit risk than residential mortgage loans and commercial mortgage loans and therefore typically yield a higher return. The increased risk in commercial loans derives from the expectation that commercial and industrial loans generally are serviced principally from the operations of the business, which may not be successful and from the type of collateral securing these loans. As a result, commercial and industrial loans require more extensive underwriting and servicing than other types of loans. Our commercial and industrial loan portfolio **increased** **decreased** by **\$42.5 million** **\$16.6 million**, or **3.0%** **1.2%**, to **\$1.45 billion** **\$1.39 billion** as of **March 31, 2024** **June 30, 2024** from \$1.41 billion as of December 31, 2023.

**Paycheck Protection Program (“PPP”).** The balance of PPP loans decreased **\$807 thousand** **\$1.5 million** to **\$4.3 million** **\$3.6 million** as of **March 31, 2024** **June 30, 2024** from \$5.1 million as of December 31, 2023 due to loan forgiveness.

**Commercial Real Estate (Including Multi-Family Residential).** We make loans collateralized by owner-occupied, nonowner-occupied and multi-family real estate to finance the purchase or ownership of real estate. **Our commercial real estate loan portfolio decreased \$42.1 million, or 1.0%, to \$4.03 billion as of June 30, 2024 from \$4.07 billion as of December 31, 2023.** As of **both March 31, 2024** **June 30, 2024** and December 31, 2023, **47.5% and 46.6%, respectively,** of our commercial real estate loans were owner-occupied. Our commercial real estate **loan** portfolio decreased **\$21.9 million, or 0.5%, to \$4.05 billion as includes \$423.3 million of March 31, 2024 from \$4.07 billion as of December 31, 2023.** **Included in our commercial real estate portfolio are multi-family residential loans.** **Our multi-family** loans as of **March 31, 2024** decreased to **\$452.2 million from June 30, 2024** and **\$488.8 million as of December 31, 2023.** We had **236** **227** multi-family **residential** loans with an average loan size of **\$2.0 million** **\$1.9 million** as of **March 31, 2024** **June 30, 2024.**

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As of **March 31, 2024** **June 30, 2024**, **the Company’s**our commercial real estate (including multi-family residential) loan portfolio included **\$259.8 million** **\$234.4 million** of multifamily community development loans with associated tax credits, which fund Texas-based projects to promote affordable housing, compared to \$298.9 million as of December 31, 2023.

**Commercial Real Estate Construction and Land Development.** We make commercial real estate construction and land development loans to fund commercial construction, land acquisition and real estate development construction. Construction loans involve additional risks as they often involve the disbursement of funds with the repayment dependent on the ultimate success of the project's completion. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are monitored closely by management. Due to uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often includes the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. Commercial real estate construction and land development loans decreased \$137.6 million, or 13.0%, to \$922.8 million as of June 30, 2024 compared to \$1.06 billion as of December 31, 2023. As of March 31, 2024 June 30, 2024 and December 31, 2023, 19.2% 13.4% and 21.1%, respectively, of our commercial real estate construction and land development loans were owner-occupied. Commercial real estate construction and land development loans decreased \$21.0 million, or 2.0%, to \$1.04 billion as of March 31, 2024 compared to \$1.06 billion as of December 31, 2023.

As of March 31, 2024 June 30, 2024, the Company's our commercial real estate construction and land development portfolio included \$120.3 million \$127.3 million of construction and development loans to support multifamily community development loans with associated tax credits, which fund Texas-based projects to promote affordable housing, compared to \$80.5 million as of December 31, 2023.

**1-4 Family Residential (Including Home Equity).** Our residential real estate loans include the origination of 1-4 family residential mortgage loans (including home equity and home improvement loans and home equity lines of credit) collateralized by owner-occupied residential properties located in our market areas. Our residential real estate portfolio (including home equity) increased \$2.1 million \$51.5 million, or 0.2% 4.9%, to \$1.05 billion as of March 31, 2024 compared to December 31, 2023 to \$1.10 billion as of June 30, 2024.

**Residential Construction.** We make residential construction loans to home builders and individuals to fund the construction of single-family residences with the understanding that such loans will be repaid from the proceeds of the sale of the homes by builders or with the proceeds of a mortgage loan. These loans are secured by the real property being built and are made based on our assessment of the value of the property on an as-completed basis. Our residential construction loans portfolio decreased \$14.8 million \$67.2 million, or 5.5% 25.1%, to \$252.6 million \$200.1 million as of March 31, 2024 June 30, 2024 from \$267.4 million as of December 31, 2023.

**Consumer and Other.** Our consumer and other loan portfolio is made up of loans made to individuals for personal purposes and deferred fees and costs on all loan types. Generally, consumer loans entail greater risk than residential real estate loans because they may be unsecured or if secured the value of the collateral, such as an automobile or boat, may be more difficult to assess and more likely to decrease in value than real estate. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are

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dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. Our consumer and other loan portfolio decreased \$3.1 million increased \$2.3 million, or 4.9% 3.5%, to \$61.1 million \$66.5 million as of March 31, 2024 June 30, 2024 from \$64.3 million as of December 31, 2023.

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Asset Quality

We have procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our officers and monitor our delinquency levels for any negative or adverse trends.

Nonperforming Assets

Nonperforming assets totaled \$57.1 million \$53.5 million, or 0.53% 0.50% of total assets, at March 31, 2024 June 30, 2024 compared to \$39.2 million, or 0.37%, of total assets at December 31, 2023. Nonaccrual loans consisted of 131 158 separate credits at March 31, 2024 June 30, 2024 compared to 114 separate credits at December 31, 2023. The following table presents information regarding nonperforming assets as of the dates indicated.

	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
	(Dollars in thousands)		(Dollars in thousands)	
Nonaccrual loans:				
Commercial and industrial				
Commercial and industrial				
Commercial and industrial				
Paycheck Protection Program (PPP)				
Real estate:				

Commercial real estate (including multi-family residential)					
Commercial real estate (including multi-family residential)					
Commercial real estate (including multi-family residential)					
Commercial real estate construction and land development					
1-4 family residential (including home equity)					
Residential construction					
Consumer and other					
Total nonaccrual loans					
Accruing loans 90 or more days past due					
Total nonperforming loans					
Other real estate					
Total nonperforming assets					
Troubled loan modifications <sup>(1)</sup>					
Nonperforming assets to total assets	Nonperforming assets to total assets	0.53 %	0.37 %	Nonperforming assets to total assets	0.50 % 0.37 %
Nonperforming loans to total loans	Nonperforming loans to total loans	0.72 %	0.49 %	Nonperforming loans to total loans	0.66 % 0.49 %

(1) Troubled loan modifications **in the table above** are loans that were modified that are not included in nonperforming loans.

#### Allowance for Credit Losses

The allowance for credit losses is a valuation allowance that is established through charges to earnings in the form of a provision for (or reversal of) credit losses calculated in accordance with accounting standards codification topic ("ASC") 326, "Financial Instruments - Credit Losses" that is deducted from the amortized cost basis of certain assets to present the net amount expected to be collected. The amount of each allowance account represents management's best estimate of current expected credit losses on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. For additional information regarding critical accounting estimates and policies, refer to "Critical Accounting Estimates" in this section, Note 1 – Nature of Operations and Significant Accounting and Reporting Policies and Note 4 – Loans and Allowance for Credit Losses in the accompanying notes to the consolidated financial statements.

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#### Allowance for Credit Losses on Loans

The allowance for credit losses on loans represents management's estimates of current expected credit losses in the Company's loan portfolio. Pools of loans with similar risk characteristics are collectively evaluated, while loans that no longer share risk characteristics with loan pools are evaluated individually.

At **June**~~March~~ **31**, **30**, 2024, our allowance for credit losses on loans was **\$96.3 million**~~\$94.8 million~~, or **1.22%**~~1.23%~~ of total loans, compared with \$91.7 million, or 1.16% of total loans, as of December 31, 2023. The increase in the allowance for credit losses on loans during **the first three months of** 2024 primarily resulted from changes to the specific reserves within the allowance for credit losses model, among other things. The following table presents, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

		March 31,		June 30,	
		2024	2023	2024	2023
		(Dollars in thousands)		(Dollars in thousands)	
Average loans outstanding	Average loans outstanding	\$ 7,938,824	\$ 7,847,011	Average loans outstanding	\$ 7,873,572 \$ 7,914,303
Gross loans outstanding at end of period	Gross loans outstanding at end of period	7,908,111	7,886,044	Gross loans outstanding at end of period	7,713,897 8,068,718
Allowance for credit losses on loans at beginning of period	Allowance for credit losses on loans at beginning of period	91,684	93,180	Allowance for credit losses on loans at beginning of period	91,684 93,180

Provision for credit losses on loans	Provision for credit losses on loans	5,315	3,200	Provision for credit losses on loans	3,801	7,443
<b>Charge-offs:</b>						
Commercial and industrial loans						
Commercial and industrial loans						
Commercial and industrial loans		(309)	(426)		(810)	(1,484)
<b>Real estate:</b>						
Commercial real estate (including multi-family residential)						
Commercial real estate (including multi-family residential)						
Commercial real estate (including multi-family residential)		(527)	—		(527)	—
Commercial real estate construction and land development	Commercial real estate construction and land development	—	—	Commercial real estate construction and land development	—	—
1-4 family residential (including home equity)	1-4 family residential (including home equity)	—	—	1-4 family residential (including home equity)	—	(23)
Residential construction	Residential construction	—	—	Residential construction	—	—
Consumer and other	Consumer and other	(5)	(8)	Consumer and other	(105)	(38)
Total charge-offs for all loan types	Total charge-offs for all loan types	(841)	(434)	Total charge-offs for all loan types	(1,442)	(1,545)
<b>Recoveries:</b>						
Commercial and industrial loans						
Commercial and industrial loans						
Commercial and industrial loans		114	208		715	1,069
<b>Real estate:</b>						
Commercial real estate (including multi-family residential)						
Commercial real estate (including multi-family residential)						
Commercial real estate (including multi-family residential)		—	14		—	14
Commercial real estate construction and land development	Commercial real estate construction and land development	—	—	Commercial real estate construction and land development	—	—
1-4 family residential (including home equity)	1-4 family residential (including home equity)	5	7	1-4 family residential (including home equity)	6	9
Residential construction	Residential construction	—	—	Residential construction	—	—
Consumer and other	Consumer and other	8	13	Consumer and other	8	25
Total recoveries for all loan types	Total recoveries for all loan types	127	242	Total recoveries for all loan types	729	1,117
Net charge-offs	Net charge-offs	(714)	(192)	Net charge-offs	(713)	(428)
Allowance for credit losses on loans at end of period	Allowance for credit losses on loans at end of period	\$ 96,285	\$ 96,188	Allowance for credit losses on loans at end of period	\$ 94,772	\$ 100,195
Allowance for credit losses on loans to total loans	Allowance for credit losses on loans to total loans	1.22 %	1.22 %	Allowance for credit losses on loans to total loans	1.23 %	1.24 %
Net charge-offs to average loans <sup>(1)</sup>	Net charge-offs to average loans <sup>(1)</sup>	0.04 %	0.01 %	Net charge-offs to average loans <sup>(1)</sup>	0.02 %	0.01 %
Allowance for credit losses on loans to nonperforming loans	Allowance for credit losses on loans to nonperforming loans	168.54 %	221.56 %	Allowance for credit losses on loans to nonperforming loans	186.17 %	231.14 %

(1) Annualized.

#### Allowance for Credit Losses on Unfunded Commitments

The allowance for credit losses on unfunded commitments estimates current expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by us. The allowance for credit losses on unfunded commitments is a liability account reported as a component of other liabilities in our consolidated balance sheets and is adjusted as a provision for credit loss expense. The estimate includes consideration

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of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate

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of commitments expected to fund is affected by historical analysis looking at utilization rates. The expected credit loss rates applied to the commitments expected to fund are affected by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. At **March 31, 2024** **June 30, 2024**, our allowance for credit losses on unfunded commitments was **\$10.1 million** **\$9.7 million** compared to \$11.3 million at December 31, 2023.

#### Available for Sale Securities

We use our securities portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk and to meet pledging and regulatory capital requirements. As of **March 31, 2024** **June 30, 2024**, the carrying amount of investment securities totaled **\$1.52 billion** **\$1.63 billion**, an increase of **\$127.4 million** **\$235.3 million**, or **9.1%** **16.9%**, compared with \$1.40 billion as of December 31, 2023. Securities represented **14.2%** **15.2%** and 13.1% of total assets as of **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively.

All of the securities in our securities portfolio are classified as available for sale. Securities classified as available for sale are measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, as accumulated comprehensive income or loss until realized. Interest earned on securities is included in interest income. The following tables summarize the amortized cost and fair value of the securities in our securities portfolio as of the dates shown:

March 31, 2024					June 30, 2024			
Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)								

#### Available for Sale

U.S. government and agency securities

U.S. government and agency securities

U.S. government and agency securities

Municipal securities

Agency mortgage-backed pass-through securities

Agency collateralized mortgage obligations

Corporate bonds and other

Total

#### December 31, 2023

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)			

#### Available for Sale

U.S. government and agency securities	\$	307,529	\$	90	\$	(10,201)	\$	297,418
Municipal securities		229,615		1,615		(27,171)		204,059
Agency mortgage-backed pass-through securities		424,664		370		(37,161)		387,873
Agency collateralized mortgage obligations		462,498		172		(64,553)		398,117
Corporate bonds and other		120,824		56		(12,667)		108,213
Total	\$	1,545,130	\$	2,303	\$	(151,753)	\$	1,395,680

Investment securities classified as available for sale or held to maturity are evaluated for expected credit losses under ASC 326. See Note 3 – Securities in the accompanying notes to the consolidated financial statements for additional information. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of **March 31, 2024** **June 30, 2024**, management believes that the unrealized losses detailed in the previous table are due to noncredit-related factors, including changes in interest rates and other market conditions, and therefore, no losses have been recognized in the Company's consolidated statements of income.

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The following tables summarize the contractual maturity of securities and their weighted average yields as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures. Available for sale securities are shown at amortized cost. For purposes of the tables below, municipal securities are calculated on a tax equivalent basis.

		March 31, 2024										June 30, 2024											
		Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	Within One Year		After One Year but Within Five Years										
		Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield	Amount	Yield								
(Dollars in thousands)										(Dollars in thousands)													
Available for Sale																							
U.S. government and agency securities																							
U.S. government and agency securities																							
U.S. government and agency securities		\$74,976	0.81	0.81 %	\$ 77,928	1.30	1.30 %	\$ 6,694	4.83	4.83 %	\$ 139,768	4.78	4.78 %	\$ 299,366	2.88	2.88 %	\$ 74,987	2.88	2.88 %				
Municipal securities	Municipal securities	—	0.00	0.00 %	2,102	4.76	4.76 %	68,712	2.48	2.48 %	151,995	2.68	2.68 %	222,809	2.63	2.63 %							
Agency mortgage-backed pass-through securities	Agency mortgage-backed pass-through securities	627	2.78	2.78 %	4,688	2.89	2.89 %	11,865	4.33	4.33 %	437,459	3.61	3.61 %	454,639	3.62	3.62 %							
Agency collateralized mortgage obligations	Agency collateralized mortgage obligations	—	0.00	0.00 %	15,046	2.76	2.76 %	13,986	4.93	4.93 %	564,403	2.43	2.43 %	593,435	2.50	2.50 %							
Corporate bonds and other	Corporate bonds and other	1,085	0.70	0.70 %	3,000	5.75	5.75 %	61,940	4.78	4.78 %	51,606	3.02	3.02 %	117,631	3.99	3.99 %							
Total	Total	\$76,688	0.83	0.83 %	\$102,764	1.79	1.79 %	\$ 163,197	3.79	3.79 %	\$1,345,231	3.11	3.11 %	\$1,687,880	2.99	2.99 %	Total		\$74,987				

December 31, 2023									
Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
(Dollars in thousands)									

Available for Sale															
U.S. government and agency securities	\$	84,932	1.35 %	\$	78,193	1.31 %	\$	7,442	4.69 %	\$	136,962	4.61 %	\$	307,529	2.87 %
Municipal securities		—	0.00 %		1,806	4.78 %		67,735	2.35 %		160,074	2.65 %		229,615	2.58 %
Agency mortgage-backed pass-through securities		640	2.98 %		4,852	2.92 %		12,025	4.32 %		407,147	3.45 %		424,664	3.47 %
Agency collateralized mortgage obligations		—	0.00 %		11,170	2.80 %		7,869	2.66 %		443,459	1.90 %		462,498	1.93 %
Corporate bonds and other		1,077	2.50 %		3,000	5.75 %		62,368	4.75 %		54,379	2.98 %		120,824	3.96 %
Total	\$	86,649	1.37 %	\$	99,021	1.76 %	\$	157,439	3.58 %	\$	1,202,021	2.88 %	\$	1,545,130	2.80 %

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers may have the right to prepay their obligations. Mortgage-backed securities and collateralized mortgage obligations are typically issued with stated principal amounts and are backed by pools of mortgage loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay and, in particular, monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of the security.

As of March 31, 2024, June 30, 2024 and December 31, 2023, we did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored entities) for which the aggregate adjusted cost exceeded 10% of our consolidated shareholders' equity.



The average yield of our securities portfolio was 2.82% 3.07% for the three six months ended March 31, 2024 June 30, 2024 compared with 2.76% 2.74% for the three six months ended March 31, 2023 June 30, 2023. The increase in average yield during the first quarter of 2024 six months ended June 30, 2024 compared to the same period in 2023 was primarily due to the mix of higher-yielding securities within the portfolio.

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**Goodwill and Core Deposit Intangibles**

Our goodwill was \$497.3 million as of both March 31, 2024 June 30, 2024 and December 31, 2023. Goodwill resulting from business combinations represents the excess of the consideration paid over the fair value of the net assets acquired. Goodwill is assessed

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annually for impairment and on an interim basis if an event occurs or circumstances change that would indicate that the carrying amount of the asset may not be recoverable.

Our core deposit intangibles, net, as of March 31, 2024 June 30, 2024 was \$110.5 million \$104.3 million and \$116.7 million as of December 31, 2023. Core deposit intangibles are amortized using the straight-line or an accelerated method over the estimated useful life of seven to ten years.

**Deposits**

Our lending and investing activities are primarily funded by deposits. We offer a variety of deposit accounts having a wide range of interest rates and terms including demand, savings, money market and certificates and other time accounts. We rely primarily on convenient locations, personalized service and our customer relationships to attract and retain these deposits. We seek customers that will engage in both a lending and deposit relationship with us.

Total deposits at March 31, 2024 June 30, 2024 were \$8.79 billion \$8.73 billion, a decrease of \$78.8 million \$148.2 million, or 0.9% 1.7%, compared with \$8.87 billion at December 31, 2023 primarily driven by seasonality, industry-wide pressures and the maintenance of pricing discipline in an intensely competitive market for deposits. Noninterest-bearing deposits at March 31, 2024 June 30, 2024 were \$3.32 billion \$3.31 billion, a decrease of \$223.7 million \$238.4 million, or 6.3% 6.7%, compared with \$3.55 billion at December 31, 2023. Interest-bearing deposits at March 31, 2024 June 30, 2024 were \$5.47 billion \$5.42 billion, an increase of \$144.9 million \$90.2 million, or 2.7% 1.7%, compared with \$5.33 billion at December 31, 2023. Estimated uninsured deposits totaled \$4.80 billion \$4.79 billion and estimated uninsured deposits net of collateralized deposits of \$1.03 billion \$1.01 billion were \$3.77 billion \$3.78 billion, or 42.9% 43.3%, of total deposits at March 31, 2024 June 30, 2024.

The following table sets forth the amount of time deposits that met or exceeded the FDIC insurance limit of \$250 thousand by time remaining until maturity at March 31, 2024 June 30, 2024 (in thousands):

Three months or less	\$	161,592	177,906
Over three months through six months		164,968	230,914
Over six months through 12 months		183,175	91,142
Over 12 months		32,533	31,387
Total	\$	542,268	531,349

**Borrowings**

We have an available line of credit with the Federal Home Loan Bank ("FHLB" ("FHLB") of Dallas, which allows us to borrow on a collateralized basis. FHLB advances are used to manage liquidity. The advances are secured by a blanket lien on certain loans. Maturing advances are replaced by drawing on available cash, making additional borrowings or through increased customer deposits. At March 31, 2024 June 30, 2024, we had a total borrowing capacity of \$3.52 billion \$3.08 billion, of which \$2.14 billion \$1.86 billion was available and \$1.38 billion \$1.23 billion was outstanding pursuant to FHLB advances and letters of credit. There were \$215.0 million \$240.0 million of FHLB short-term advances outstanding at March 31, 2024 June 30, 2024 at a weighted-average rate of 5.60% 5.67%.

Letters At June 30, 2024, the Company had FHLB letters of credit were \$1.17 billion at March 31, 2024 pledged as collateral for public and will other deposits of state and local government agencies totaling \$986.0 million, which expire in the following periods (in thousands):

2024
2025
2026
2027
Thereafter
Total

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## Credit Agreement

On December 13, 2022, the Company Stellar entered into a loan agreement with another financial institution or the ("Loan (the "Loan Agreement")), that provides for a \$75.0 million revolving line of credit. At March 31, 2024 June 30, 2024, there were no outstanding borrowings on this line of credit and the Company did not draw no draws were taken on this line of credit during 2024 or 2023. The Company the six months ended June 30, 2024. Draws can make draws be made on the line of credit for a period of 24 months, which began on December 13, 2022, will end December 13, 2024, after which the Company will not be permitted to make

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no further draws are permitted and the outstanding balance will amortize over a period of 60 months. Interest accrues on outstanding borrowings at a per annum rate equal to the prime rate quoted by The Wall Street Journal and with a floor rate of 3.50% calculated in accordance with the terms of the revolving promissory note and payable quarterly through the first 24 months. The entire outstanding balance and unpaid interest is payable in full on December 13, 2024.

The Company may prepay the principal amount of the line of credit without premium or penalty. The obligations of the Company Stellar under the Loan Agreement are secured by a pledge of all the issued and outstanding shares of capital stock of Stellar the Bank.

Covenants made under the Loan Agreement include, among other things, while there any are obligations outstanding under Loan Agreement, the Company shall maintain a cash flow to debt service (as defined in the Loan Agreement) of not less than 1.25, the Bank's Texas Ratio (as defined in the Loan Agreement) not to exceed 25.0%, and the Bank shall maintain a Tier 1 Leverage Ratio (as defined under the Loan Agreement) of at least 7.0% and restrictions on the ability of the Company Stellar and its subsidiaries to incur certain additional debt. As of March 31, 2024 June 30, 2024, we believe we were the Company believes it was in compliance with all such debt covenants and had not been made aware of any noncompliance by the lender.

## Junior Subordinated Debentures

In connection with the acquisition of F&M Bancshares, Inc. in 2015, the Company Stellar assumed Farmers & Merchants Capital Trust II and Farmers & Merchants Capital Trust III. Each of these the trusts is a capital or statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company's Stellar's junior subordinated debentures. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Company. Stellar.. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company Stellar making payment on the related junior subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of the Company's present and future senior indebtedness. The Company Stellar has fully and unconditionally guaranteed each trust's obligations under the trust securities issued by such each trust to the extent not paid or made by such trust, provided such trust has funds available for such obligations. The trust preferred securities bear a floating rate of interest equal to 3-month 3-Month SOFR plus a spread adjustment. The junior subordinated debentures are included in Tier 1 capital under current regulatory guidelines and interpretations. Under the provisions of each issue of the debentures, the Company Stellar has the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on either issue of the debentures are deferred, the distributions on the applicable trust preferred securities and common securities will also be deferred.

A summary of pertinent information related to the Company's Stellar's junior subordinated debentures outstanding at March 31, 2024 June 30, 2024 is set forth in the table below:

Description	Issuance Date	Trust Preferred Securities Outstanding	Junior Subordinated Debt Owed to Trusts	Maturity Date <sup>(1)</sup>
(Dollars in thousands)				
Farmers & Merchants Capital Trust II	November 13, 2003	\$ 7,500	\$ 7,732	November 8, 2033
Farmers & Merchants Capital Trust III	June 30, 2005	3,500	3,609	July 7, 2035
			<u>\$ 11,341</u>	

(1) All junior subordinated debentures were callable at March 31, 2024 June 30, 2024.

## Subordinated Notes

In December 2017, the Bank issued \$40.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Bank Notes") due December 15, 2027. The Bank Notes bear a floating rate of interest equal to 3-Month SOFR plus a spread adjustment until the Bank Notes mature on December 15, 2027, or such earlier redemption date, payable quarterly in arrears. The Bank Notes are redeemable by the Bank, in whole or in part or in whole but not in part, upon the occurrence of certain specified tax events, capital events or investment company events. Any redemption will be at a redemption price equal to 100% of the principal amount of Bank Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Bank Notes are not subject to redemption at the option of the holders. The Bank Notes are eligible for Tier 2 capital treatment, however, during the last

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five years of the instrument, the amount eligible must be reduced by 20% of the original amount annually and that no amount of the instrument is eligible for inclusion in Tier 2 capital when the remaining maturity of the instrument is less than

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one year. As the Bank Notes are within five years of maturity, only 60% of the notes are eligible for Tier 2 capital treatment at **March 31, 2024** **June 30, 2024**.

In September 2019, **the Company Stellar** issued \$60.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Company Notes") due October 1, 2029. The Company Notes bear a fixed interest rate of 4.70% per annum until (but excluding) October 1, 2024, payable semi-annually in arrears on April 1 and October 1, commencing on April 1, 2020. Thereafter, from October 1, 2024 through the maturity date, October 1, 2029, or earlier redemption date, the Company Notes will bear interest at a floating rate equal to 3-Month SOFR, plus 3.13%, for each quarterly interest period, payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year. Any redemption will be at a redemption price equal to 100% of the principal amount of Company Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Company Notes are not subject to redemption at the option of the holders.

### **Off-Balance Sheet Items**

In the normal course of business, we enter into various transactions, which, in accordance with accounting principles generally accepted in the United States, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

**Commitments to Extend Credit.** We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. The amount and type of collateral obtained, if considered necessary by us, upon extension of credit, is based on management's credit evaluation of the customer. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

**Standby Letters of Credit.** Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. If the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment and we would have the rights to the underlying collateral. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

As of **March 31, 2024** **June 30, 2024** and December 31, 2023, we had outstanding **\$1.55 billion** **\$1.64 billion** and \$1.79 billion, respectively, in commitments to extend credit and **\$39.4 million** **\$39.1 million** and \$37.7 million in commitments associated with outstanding letters of credit for those same periods. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

### **Liquidity and Capital Resources**

#### **Liquidity**

Liquidity is the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital, strategic cash flow needs and to maintain reserve requirements to operate on an ongoing basis and manage unexpected events, all at a reasonable cost. During the **three six months ended March 31, 2024** **June 30, 2024** and the year ended December 31, 2023, our liquidity needs have been primarily met by deposits, borrowed funds and securities. The Bank has access to purchased funds from correspondent banks, the Federal Reserve discount window and advances from the FHLB, on a collateralized basis, are available under a security and pledge agreement to take advantage of investment opportunities.

Liquidity risk management is an important element in our asset/liability management process. Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. We regularly model liquidity stress scenarios to assess potential liquidity outflows or funding problems resulting from economic disruptions, volatility in the financial markets, unexpected credit events or other significant occurrences deemed problematic by management. Liquidity stress scenarios are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs.

Our largest source of funds is deposits and our largest use of funds is loans. Average total deposits decreased **\$351.2 million** **\$93.2 million**, or **3.83%** **1.0%**, and average loans **increased \$91.8 million** **decreased \$40.7 million**, or **1.2%** **0.51%**, **for during the three six months ended March 31, 2024** **June 30, 2024** compared to the **three six months ended March 31, 2023**. Estimated uninsured deposits totaled \$4.80 billion and our estimated uninsured deposits net of

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**collateralized deposits of \$1.03 billion were \$3.77 billion, or 42.9%, of total deposits at March 31, 2024** **ended June 30, 2023**. Our average deposit account size was \$78 thousand at **March 31, 2024** **June 30, 2024**. We predominantly invest excess deposits in Federal Reserve Bank of Dallas balances, securities, interest-bearing deposits at other banks or other short-term liquid investments until the funds are needed to fund loan growth. Our securities portfolio had a weighted average life of **7.9** **7.4** years and 7.6 years at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively.

Total immediate contingent funding sources, including unrestricted cash, available-for-sale securities that are not pledged and total available borrowing capacity was \$4.31 billion \$4.14 billion, or 49.0% 47.4% of total deposits at March 31, 2024 June 30, 2024. Including policy-driven capacity for brokered deposits, the Bank would have been able to add approximately \$979.3 million \$1.01 billion to its contingent sources of liquidity, bringing total contingent funding sources to approximately \$5.29 billion \$5.15 billion, or 60.2% 59.0%, of deposits at March 31, 2024 June 30, 2024.

As of March 31, 2024 June 30, 2024 and December 31, 2023, the Company had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

### Capital Resources

Capital management consists of providing equity to support our current and future operations. We are subject to capital adequacy requirements imposed by the Federal Reserve and the Bank is subject to capital adequacy requirements imposed by the FDIC. Both the Federal Reserve and the FDIC have adopted risk-based capital requirements for assessing bank holding company and bank capital adequacy. These standards define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure, adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate relative risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Under current guidelines, the minimum ratio of total capital to risk-weighted assets (which are primarily the credit risk equivalents of balance sheet assets and certain off-balance sheet items such as standby letters of credit) is 8.0%. At least half of total capital must be composed of Tier 1 capital, which includes common shareholders' equity (including retained earnings), less goodwill, other disallowed intangible assets and disallowed deferred tax assets, among other items. The Federal Reserve also has adopted a minimum leverage ratio, requiring Tier 1 capital of at least 4.0% of average quarterly total consolidated assets, net of goodwill and certain other intangible assets, for all but the most highly rated bank holding companies. The federal banking agencies have also established risk-based and leverage capital guidelines that FDIC-insured depository institutions are required to meet. These regulations are generally similar to those established by the Federal Reserve for bank holding companies.

Under the Federal Deposit Insurance Act, the federal bank regulatory agencies must take "prompt corrective action" against undercapitalized U.S. depository institutions. U.S. depository institutions are assigned one of five capital categories: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized," and are subjected to different regulation corresponding to the capital category within which the institution falls. A depository institution is deemed to be "well-capitalized" if the banking institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a common equity Tier 1 capital ratio of 6.5% and a leverage ratio of 5.0% or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific level for any capital measure. Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category.

Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, including: termination of deposit insurance by the FDIC, restrictions on certain business activities and appointment of the FDIC as conservator or receiver.

As of March 31, 2024 June 30, 2024 and December 31, 2023, the Bank was well-capitalized. well-capitalized under regulatory capital guidelines. Total shareholders' equity was \$1.53 billion \$1.57 billion at March 31, 2024 June 30, 2024 compared with \$1.52 billion at December 31, 2023, an increase of \$9.7 million \$44.8 million. This increase was primarily due to net income of \$26.1 million \$55.9 million partially offset by the \$0.13 \$0.26 per common share dividend paid for the three six months ended March 31, 2024 June 30, 2024 and a \$12.1 million \$3.1 million increase in the accumulated other comprehensive loss, which represents a decrease in the fair value of the Company's securities.

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The following is a summary of the Company's and the Bank's actual and required capital ratios as of March 31, 2024 June 30, 2024 and December 31, 2023.

		Minimum Required For Capital Purposes			Minimum Required For Conservation Buffer			To Be Categorized As Well-Capitalized Under Prompt Corrective Action Provisions			Minimum Required For Capital Purposes			Minimum Required For Conservation Buffer			To Be Categorized As Well-Capitalized Under Prompt Corrective Action Provisions		
		Actual Ratio	Adequacy	Purposes	Actual Ratio	Adequacy	Conservation Buffer	Actual Ratio	Adequacy	Purposes	Actual Ratio	Adequacy	Purposes	Actual Ratio	Adequacy	Conservation Buffer	Actual Ratio	Adequacy	Purposes
Stellar Bancorp, Inc. (Consolidated)		Stellar Bancorp, Inc. (Consolidated)			Stellar Bancorp, Inc. (Consolidated)			Stellar Bancorp, Inc. (Consolidated)			Stellar Bancorp, Inc. (Consolidated)			Stellar Bancorp, Inc. (Consolidated)			Stellar Bancorp, Inc. (Consolidated)		
March 31, 2024																			
June 30, 2024																			
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	14.62 %	8.00 %	10.50 %				N/A											

Common Equity Tier 1 capital (to risk-weighted assets)	Common Equity Tier 1 capital (to risk-weighted assets)	12.29 %	4.50 %	7.00 %	N/A	Common Equity Tier 1 capital (to risk-weighted assets)	12.98 %	4.50 %	7.00 %	N/A
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	12.41 %	6.00 %	8.50 %	N/A	Tier 1 Capital (to risk-weighted assets)	13.10 %	6.00 %	8.50 %	N/A
Tier 1 Leverage (to average tangible assets)	Tier 1 Leverage (to average tangible assets)	10.41 %	4.00 %	4.00 %	N/A	Tier 1 Leverage (to average tangible assets)	10.93 %	4.00 %	4.00 %	N/A

#### December 31, 2023

Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	14.02 %	8.00 %	10.50 %	N/A	Total Capital (to risk-weighted assets)	14.02 %	8.00 %	10.50 %	N/A
Common Equity Tier 1 capital (to risk-weighted assets)	Common Equity Tier 1 capital (to risk-weighted assets)	11.77 %	4.50 %	7.00 %	N/A	Common Equity Tier 1 capital (to risk-weighted assets)	11.77 %	4.50 %	7.00 %	N/A
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	11.89 %	6.00 %	8.50 %	N/A	Tier 1 Capital (to risk-weighted assets)	11.89 %	6.00 %	8.50 %	N/A
Tier 1 Leverage (to average tangible assets)	Tier 1 Leverage (to average tangible assets)	10.18 %	4.00 %	4.00 %	N/A	Tier 1 Leverage (to average tangible assets)	10.18 %	4.00 %	4.00 %	N/A

#### Stellar Bank

March 31, 2024
March 31, 2024
March 31, 2024
June 30, 2024
June 30, 2024
June 30, 2024

Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	14.13 %	8.00 %	10.50 %	10.00 %	Total Capital (to risk-weighted assets)	14.65 %	8.00 %	10.50 %	10.00 %
Common Equity Tier 1 capital (to risk-weighted assets)	Common Equity Tier 1 capital (to risk-weighted assets)	12.61 %	4.50 %	7.00 %	6.50 %	Common Equity Tier 1 capital (to risk-weighted assets)	13.12 %	4.50 %	7.00 %	6.50 %
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	12.61 %	6.00 %	8.50 %	8.00 %	Tier 1 Capital (to risk-weighted assets)	13.12 %	6.00 %	8.50 %	8.00 %
Tier 1 Leverage (to average tangible assets)	Tier 1 Leverage (to average tangible assets)	10.59 %	4.00 %	4.00 %	5.00 %	Tier 1 Leverage (to average tangible assets)	10.94 %	4.00 %	4.00 %	5.00 %

#### December 31, 2023

Total Capital (to risk-weighted assets)											
Total Capital (to risk-weighted assets)											
Total Capital (to risk-weighted assets)		13.65 %	8.00 %	10.50 %		10.00 %	13.65 %	8.00 %	10.50 %	10.00 %	
Common Equity Tier 1 capital (to risk-weighted assets)	Common Equity Tier 1 capital (to risk-weighted assets)	12.20 %	4.50 %	7.00 %		6.50 %	Common Equity Tier 1 capital (to risk-weighted assets)	12.20 %	4.50 %	7.00 %	6.50 %
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	12.20 %	6.00 %	8.50 %		8.00 %	Tier 1 Capital (to risk-weighted assets)	12.20 %	6.00 %	8.50 %	8.00 %
Tier 1 Leverage (to average tangible assets)	Tier 1 Leverage (to average tangible assets)	10.44 %	4.00 %	4.00 %		5.00 %	Tier 1 Leverage (to average tangible assets)	10.44 %	4.00 %	4.00 %	5.00 %

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Asset/Liability Management and Interest Rate Risk

Our asset liability and interest rate risk policy provides management with the guidelines for effective balance sheet management. We have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

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

Based upon the nature of our operations, we are not subject to foreign exchange rate or commodity price risk. We do not own any trading assets. We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of a community banking business. The Company enters into interest rate swaps as an accommodation to customers.

Our exposure to interest rate risk is managed by the Asset Liability Committee ("ALCO"). The ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the ALCO reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity.

We use an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and the balance sheet, respectively. All instruments on the balance sheet are modeled at the instrument level, incorporating all relevant attributes such as next reset date, reset frequency and call dates, as well as prepayment assumptions for loans and securities and decay rates for nonmaturity deposits. Assumptions based on past experience are incorporated into the model for nonmaturity deposit account decay rates. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

We utilize static balance sheet rate shocks to estimate the potential impact on net interest income of changes in interest rates under various rate scenarios. This analysis estimates a percentage of change in the metric from the stable rate base scenario versus alternative scenarios of rising and falling market interest rates by instantaneously shocking a static balance sheet.

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

Change in Interest Rates (Basis Points)	Change in Interest Rates (Basis Points)	Percent Change in Net Interest Income		Percent Change in Economic Value of Equity		Change in Interest Rates (Basis Points)		Percent Change in Net Interest Income		Percent Change in Economic Value of Equity	
		March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023	Change in Interest Rates (Basis Points)	Change in Interest Rates (Basis Points)	June 30, 2024	December 31, 2023	June 30, 2024	December 31, 2023
+300	+300	(1.4)%	(0.9)%	(5.8)%	(0.9)%	+200	+200	(0.8)%	(0.9)%	(3.7)%	(0.9)%
+200	+200	(1.1)%	(0.6)%	(2.7)%	1.8%	+100	+100	(0.4)%	(0.6)%	(1.1)%	1.8%
+100	+100	(0.5)%	0.1%	(0.7)%	3.4%			(0.1)%	0.1%	0.2%	3.4%

Base	Base			0.0%	Base			0.0%				
-100	-100	(0.3)%	0.5%	(1.4)%	1.0%	-100	(0.8)%	0.5%	(2.0)%	1.0%		
-200	-200	(0.8)%	0.2%	(4.6)%	(3.6)%	-200	(1.8)%	0.2%	(6.2)%	(3.6)%		

These results are primarily due to the size of our cash position, the size and duration of our loan and securities portfolio, the duration of our borrowings and the expected behavior of demand, money market and savings deposits during such rate fluctuations. During the ~~six~~three months ended ~~March 31, 2024~~ June 30, 2024, changes in our overall interest rate profile were driven by the decrease in noninterest bearing deposits and certain interest bearing deposits, increases in certificates of deposits and borrowed funds, an increase in loans and decreases in securities and cash and cash equivalents.

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## 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 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 (the "Exchange Act")) were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Company's Chief Executive Officer and Chief Financial Officer, respectively.

**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 ~~March 31, 2024~~ June 30, 2024 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

From time to time, we are subject to claims and litigation arising in the ordinary course of business. In the opinion of management, we are not party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which such claim or litigation is resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor. We intend to defend ourselves vigorously against any future claims or litigation.

### ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously disclosed by the Company. Investors should carefully consider the risks described in "Part I—Item 1A.—Risk Factors" in the Company's Annual Reports on Form 10-K for the year ended December 31, 2023 and the Company's other SEC filings.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In 2022, During the second quarter of 2024, the Company's Board of Directors authorized a ~~share repurchase program, or the 2022 Repurchase Program, under which the Company may repurchase up to \$40.0 million of the Company's common stock starting September 22, 2022 through September 30, 2023. During the second quarter of 2023, the Company's Board of Directors authorized the expansion of its existing share repurchase program to provide that the Company may repurchase up to \$60 million of the Company's common stock through~~ ~~May 31, 2024~~ May 31, 2025.

Repurchases under the Company's share 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.

There were no ~~repurchases~~ shares repurchased by the Company under this plan during the three months ended ~~March 31, 2024~~ June 30, 2024. The number of shares that may be repurchased under the plan was ~~2,463,054, 2,613,241~~, which was computed based on the closing share price of the Company's common stock, as of ~~March 31, 2024~~ June 30, 2024.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

The following table provides information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of the Company’s common stock during the first quarter of 2024.

Period	Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Plan	Number of Shares That May Yet be Purchased Under the Plan <sup>(2)</sup>
January 1, 2024 to January 31, 2024	1,827	\$ 27.84	—	2,397,123
February 1, 2024 to February 29, 2024	—	—	—	2,531,645
March 1, 2024 to March 31, 2024	22,590	23.38	—	2,463,054
Total	24,417	23.72		

(1) Shares employees 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) Computed based on the closing price of the Company’s common stock as of the end of each period shown.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None of the Company’s directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company’s fiscal quarter ended March 31, 2024 June 30, 2024, as such terms are defined under Item 408(a) of Regulation S-K, except that on March 8, 2024, Ramon A. Vitulli III, President of Stellar Bancorp, Inc., adopted a Rule 10b5-1 trading arrangement for the potential sale of up to 9,000 shares of the Company’s common stock, subject to certain conditions. The arrangement’s expiration date is December 31, 2024. S-K.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	<a href="#">Second Amended and Restated Certificate of Formation of Stellar Bancorp, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 3, 2022)</a>
3.2	<a href="#">Bylaws of Stellar Bancorp, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on October 3, 2022)</a>
10.1*	<a href="#">Stellar Bancorp, Inc. Form of Performance Share Award Agreement</a>
10.2*	<a href="#">Executive Employment Agreement dated March 1, 2023, by and among Stellar Bank, Stellar Bancorp, Inc. and Justin M. Long Form of Restricted Stock Award Agreement</a>
31.1*	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</a>
31.2*	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</a>
32.1**	<a href="#">Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed with this Quarterly Report on Form 10-Q.

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

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#### 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.



Stellar Bancorp, Inc.  
(Registrant)

Date: April 26, 2024 July 26, 2024

/s/ Robert R. Franklin, Jr.

Robert R. Franklin, Jr.  
Chief Executive Officer

Date: April 26, 2024 July 26, 2024

/s/ Paul P. Egge

Paul P. Egge  
Chief Financial Officer

56 61

Exhibit 10.1

Exhibit 10.1

PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD GRANT NOTICE  
STELLAR BANCORP, INC.  
2022 OMNIBUS INCENTIVE PLAN

Stellar Bancorp, Inc., a Texas corporation (the "**Company**" or "**Stellar**"), pursuant to its 2022 Omnibus Incentive Plan (the "**Plan**"), hereby grants to the individual listed below ("**Participant**"), this award ("**Award**") of performance-based restricted stock units (the "**PRSUs**"). This Award is subject to all of the terms and conditions set forth herein and in the Terms and Conditions to the PRSUs attached hereto (the "**Terms and Conditions**") and in the Plan, each of which is incorporated herein by reference. Unless otherwise defined, the terms in this Performance-Based Restricted Stock Unit Award Grant Notice (this "**Grant Notice**") and the Terms and Conditions shall have the same defined meanings assigned to them in the Plan.

Participant:

Award Date:

Target Number of PRSUs:

Maximum Number of PRSUs\*:

(\*The actual number of PRSUs that vest pursuant to the terms and condition of the PRSUs will be between 0% and 200% of the Target Number of PRSUs. The Maximum Number of PRSUs represents 200% of the Target Number of PRSUs.)

Vesting Date:

Performance Vesting Conditions: See Exhibit A attached hereto.

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company, Participant hereby: (a) agrees to be bound by the terms and conditions of the Plan, the Terms and Conditions and this Grant Notice; (b) acknowledges and agrees that Participant has reviewed the Plan, the Terms and Conditions and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, the Terms and Conditions and this Grant Notice; (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, the Terms and Conditions or this Grant Notice (including any exhibit attached hereto); (d) agrees that if he or she fails to acknowledge and accept this Grant Notice within 90 days of the Award Date, then this Award may, in the Company's discretion, be immediately cancelled and forfeited and he or she will not be entitled receive any other benefits or compensation as replacement for this Award; and (e) agrees that he or she has read, understands, and agrees to be bound by the restrictive covenants set forth in Section 8 of the Terms and Conditions.

PRSU Award Agreement 1

Approved March 2024 – Grant Notice  
200648964.2

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**STELLAR BANCORP, INC.**

By:  
Print Name:  
Title: \_\_\_\_\_

**PARTICIPANT**

By:  
Print Name:

PRSU Award Agreement 2

Approved March 2024 – Grant Notice

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**PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD GRANT NOTICE**  
**PERFORMANCE VESTING CONDITIONS**

**Exhibit A**

The number of PRSUs that you will earn pursuant to this Award (your "Earned PRSUs") will range from 0% to 200% of the Target Number of PRSUs (as set forth in the Grant Notice) based on Stellar's Total Shareholder Return relative to the Total Shareholder Return ("TSR") of the component companies of the S&P U.S. SmallCap Bank Index on the date of this Award (the "Peer Group Members") over the performance period that began on January 1, 2024 and ends on December 31, 2026 (the "Performance Period"). For avoidance of doubt, in no event will your number of Earned PRSUs exceed the Maximum Number of PRSUs (as set forth in the Grant Notice). All determinations made under this Exhibit A shall be made by the Administrator in its sole and absolute discretion. The Administrator will determine your number of Earned PRSUs no later than February 28, 2027 (or, if earlier, no later than three (3) business days before the date on which a Change of Control occurs). Your number Earned PRSUs shall be determined by the Administrator as follows:

Earned PRSUs (as % of Target Number of PRSUs)\*

0%  
100%  
200%

Stellar's TSR for the Performance Period Relative to Peer Group Members

Below 20th percentile

(Threshold)

At or above 45th percentile and equal to or below 55th percentile

(Target)

At or above 75th percentile

(Maximum)

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(\*) Straight-line interpolation shall be used to determine your number of Earned PRSUs if performance is achieved between Minimum and Target, or between Target and Maximum.

Total Shareholder Return for Stellar and for each Peer Group Member will be determined using total shareholder return performance starting on the last trading day before the first day of the Performance Period and ending the last twenty (20) trading days of the Performance Period. In addition, dividends shall be treated as reinvested in Stellar or the Peer Group Member (as applicable) at the end of each calendar quarter.

If, (a) at the end of the Performance Period, any Peer Group Member is no longer publicly traded or (b) during the Performance Period, any Peer Group Member declares bankruptcy, the TSR of such Peer Group Member shall be deemed to be the lowest ranked TSR in the Peer Group (and, if multiple Peer Group Members are no longer publicly traded at the end of the Performance Period or declare bankruptcy during the Performance Period, such Peer Group Members shall be ranked in order of when such delisting or bankruptcy occurs, with earlier bankruptcies and delistings ranking lower than later bankruptcies, and delistings). If, during the Performance Period, any Peer Group Member is involved in a merger or acquisition, then (x) if such Peer Group Member is the surviving company, such Peer Group Member will continue to be a Peer Group Member and (y) if such Peer Group Member is not the surviving company, then the Performance Period for such Peer Group Member will end as of the closing date of such merger or acquisition, with the TSR of such Peer Group Member measured as of such closing date.

Notwithstanding anything in the Grant Notice or this Exhibit A to the contrary, in the event of a Change of Control: (a) the Vesting Date will be the date on which the Change of Control occurs; and (b) the "Performance Period" will be deemed to end on the date that is ten (10) business days immediately preceding such Change of Control.

Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the Plan, the Terms and Conditions, or the Grant Notice.

PRSU Award Agreement 3

Approved March 2024 – Grant Notice – Exhibit A

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**TERMS AND CONDITIONS**  
**PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD**  
**STELLAR BANCORP, INC. 2022 OMNIBUS INCENTIVE PLAN**

These Terms and Conditions, collectively with the accompanying Performance-Based Restricted Stock Unit Award Grant Notice (the "**Grant Notice**") comprise your agreement (the "**Agreement**") with the Company regarding the performance-based restricted stock units awarded under the Stellar Bancorp, Inc. 2022 Omnibus Incentive Plan (as

amended and restated, the "**Plan**"). Capitalized terms not specifically in the Agreement have the same meanings assigned to them in the Plan.

1. **PRSU Grant.** Each Earned PRSU represents the unsecured right to receive one (1) share of Stock, subject to the terms and conditions contained in this Agreement and the Plan. In the event of any conflict between the terms of the Plan and this Agreement, the terms of the Plan shall govern.

2. **Settlement; Issuance of Shares.**

(a) **Settlement.** No shares of Stock shall be issued to you prior to the date on which the PRSUs vest. After any PRSUs are earned and vest pursuant to the vesting terms set forth in Grant Notice (and, if applicable, Sections 4(c) or 4(d) below), the Company shall promptly cause to be issued in book-entry form, registered in your name or in the name of your legal representatives or heirs, as the case may be, shares of Stock in payment of such vested whole PRSUs; *provided, however*, that in the event such PRSUs do not vest on a day during which the Stock is quoted on the New York Stock Exchange (or traded on such other principal national securities market or exchange on which the Stock may then be listed) ("**Trading Day**"), the Company shall cause shares of Stock to be issued on the next Trading Day following the date on which such PRSUs vest; *provided, further*, that in no event shall the Company cause such shares of Stock to be issued later than the sixtieth (60) day following (i) the Vesting Date, or (ii) an earlier settlement date as a result of a vesting acceleration event pursuant to Section 4(c) or Section 4(d). For purposes of the PRSUs, the date on which the shares of Stock underlying the PRSUs are issued shall be referred to as the "**Settlement Date**."

(b) **Fractional Shares.** Unless otherwise determined by the Administrator in its sole discretion, no fractional shares shall be issued pursuant to the PRSUs, and any fractional share resulting from the vesting of the PRSUs in accordance with the terms of this Agreement shall be rounded down to the next whole share.

3. **Dividend Equivalent Rights.** Each Earned PRSU shall have a dividend equivalent right associated with it with respect to any cash dividends on the Stock that have a record date after the Award Date and prior to the applicable Settlement Date for such Earned PRSU (the total accrued dividends for each Earned PRSU, a "**PRSU Dividend Equivalent Amount**"). For the avoidance of doubt, no dividend equivalent right shall accrue in respect of a PRSU which is not earned. The PRSU Dividend Equivalent Amount shall be calculated by crediting a hypothetical bookkeeping account for you with an amount equal to the amount of cash dividends that would have been paid on the dividend payment date with respect to the number of shares of Stock underlying the unsettled Earned PRSUs (or PRSUs which become Earned PRSUs in accordance with this Agreement) if such shares had been outstanding on the dividend record date. Your PRSU Dividend Equivalent Amount shall not be credited with interest or earnings. Any PRSU Dividend Equivalent Amount: (a) shall be subject to the same terms and conditions applicable to the Earned PRSU to which the dividend equivalent right relates, including, without limitation, the restrictions on transfer and the forfeiture conditions contained in the Agreement; (b) shall vest and be settled upon the same terms and at the same time of settlement as the Earned PRSUs to which they relate; and (c) will be denominated and payable solely in cash. The payment of the PRSU Dividend Equivalent Amounts, if any, will be net of all applicable withholding taxes pursuant to Section 7.

4. **Earning and Vesting of PRSUs.**

(a) **Earning of PRSUs.** The PRSUs will be earned if and to the extent the Performance Vesting Conditions (as set forth in the Grant Notice) are satisfied. Any PRSUs that become earned are herein referred to as "**Earned PRSUs**". Any PRSUs (and related PRSU Dividend Equivalent Amounts) that do not become Earned PRSUs due to the failure to satisfy the

PRSU Award Agreement 4

Approved March 2024 – Terms and Conditions

Performance Vesting Conditions will be forfeited to the Company, and you will not thereafter have any rights with respect to such PRSUs (or related PRSU Dividend Equivalent Amounts) that are so forfeited.

(b) **Vesting.** Earned PRSUs (and related PRSU Dividend Equivalent Amounts) will vest on the Vesting Date set forth in the Grant Notice; *provided*, that you continue to be an employee, director or consultant of the Company or a Subsidiary (a "**Service Provider**") from the Award Date through the Vesting Date. Any PRSUs (and related PRSU Dividend Equivalent Amounts) that do not become vested as of the Vesting Date will be forfeited to the Company for no consideration, and you will not thereafter have any rights with respect to such PRSUs (and related PRSU Dividend Equivalent Amounts) that are so forfeited.

(c) **Death; Disability.** Notwithstanding anything in Section 4(a) to the contrary, if you cease to be a Service Provider due to your death or Disability (as hereinafter defined), then a portion of the Target Number of PRSUs (as set forth in the Grant Notice) and related PRSU Dividend Equivalent Amounts will fully vest effective as the date you cease to be a Service Provider, with such prorated portion equal to a fraction, (i) the numerator of which is the number of calendar days that elapsed from the Award Date until the date you cease to be a Service Provider, and (ii) the denominator of which is the total number of calendar days between the Award Date until the Vesting Date. For purposes of this Agreement, "**Disability**" means that you are unable to perform your duties with the Company and its Subsidiaries on a full-time basis as a result of incapacity due to mental or physical illness, which inability exists for 90 continuous days or 180 days during any 12-month period, as determined by a physician selected by the Company or its insurers.

(d) **Change of Control.** Notwithstanding anything in this Agreement to the contrary, in the event that the Company experiences a Change of Control (as defined in the Plan), then the Administrator shall determine and approve the Company's performance with respect to the Performance Vesting Conditions no later than three (3) business days before the date on which such Change of Control occurs. Provided that you remain a Service Provider from the Award Date to the date of the Change of Control, you will be deemed to have earned and vested, effective as of immediately prior to the Change of Control, the number of PRSUs (and related PRSU Dividend Equivalent Amounts) determined based

on the Company's performance (as determined by the Administrator in its sole discretion) and subject to any limitations set forth in the Grant Notice. All unearned PRSUs (and related PRSU Dividend Equivalent Amounts) will be automatically forfeited to and reacquired by the Company without consideration immediately upon the Change of Control.

5. **Forfeiture of PRSUs.** Except as otherwise provided in Section 4(c), if your status as a Service Provider terminates for any reason before the Vesting Date, all of your PRSUs (and related PRSU Dividend Equivalent Amounts) will be forfeited to the Company for no consideration, and you will not thereafter have any rights with respect to such PRSUs (and related PRSU Dividend Equivalent Amounts). All PRSUs (and related PRSU Dividend Equivalent Amounts), whether vested or unvested, shall be immediately forfeited for no consideration upon termination of your employment or service by the Company and its Subsidiaries for Cause (as hereinafter defined) or your resignation at a time when Cause to terminate your employment or service exists, and, in such event, the Company may, in its sole discretion, also: (a) cancel any shares of Stock issued to you in settlement of any of your PRSUs; and/or (b) require you to pay to the Company the amount of any (i) proceeds received by you from your sale or disposition of any shares of Stock issued to you in settlement of any PRSUs and/or (ii) PRSU Dividend Equivalent Amounts paid to you. Notwithstanding any provision herein to the contrary, in the event of any inconsistency between this Section 5 and any employment agreement entered into by and between you and the Company (your "**Employment Agreement**"), the terms of the employment agreement shall control.

For purposes of this Award, your status as a Service Provider will be considered terminated (regardless of the reason for termination and whether or not the termination is in breach of applicable laws) effective as of the date you are no longer employed by or providing services to the Company or Subsidiary. The Administrator will have the exclusive discretion to determine when your status as a Service Provider terminates for purposes of this Award (including whether you may still be considered to be employed by or providing services to the Company or a Subsidiary while on a leave of absence).

For purposes of this Award, "**Cause**" has the meaning given in your Employment Agreement; *provided, however*, that if you are not party to an Employment Agreement or if such Employment Agreement does not define "Cause" (or terms of similar meaning), then "Cause" means, as determined by the Administrator in its discretion: (i) your commission of, conviction for, or plea of no contest to, a felony or any other crime involving moral turpitude; (ii) your commission of an act or omission involving misappropriation, embezzlement, theft, or fraud with respect to the Company or any of its Subsidiaries, or any of their customers or suppliers; (iii) your failure to comply with the Company's or its Subsidiaries' material policies,

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procedures, and guidelines, including corporate governance, human relations, anti-harassment, and anti-discrimination policies, and applicable laws with respect to the Company's or its Subsidiaries' business operations; (iv) your breach of fiduciary duty or willful misconduct that causes material and demonstrable injury, monetarily or otherwise, to the Company or its Subsidiaries; or (v) your material breach of any confidentiality, noncompetition, nonsolicitation, or no-hire obligations set forth in this Agreement or in any other written agreement between you, on the one hand, and the Company or any of its Subsidiaries, on the other hand.

6. **Nontransferability.** Except as otherwise provided in the Plan, no right or interest of yours in the PRSUs (and related PRSU Dividend Equivalent Amounts) may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by you other than by will or by the laws of descent and distribution, and any such purported sale, assignment, transfer, pledge, hypothecation or other disposition shall be void and unenforceable against the Company. Notwithstanding the foregoing, you may, in the manner established by the Administrator, designate a beneficiary or beneficiaries to exercise your rights and receive any property distributable with respect to the PRSUs upon your death.

7. **Responsibility for Taxes.** Regardless of any action the Company or, if different, your employer (the "**Employer**") takes with respect to any or all income tax, social insurance, payroll tax, fringe benefit tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("**Tax-Related Items**"), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer: (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the PRSUs (and related PRSU Dividend Equivalent Amounts), including, but not limited to, the grant, earning or vesting of the PRSUs (and related PRSU Dividend Equivalent Amounts), the subsequent sale of earned and vested PRSUs and the receipt of any PRSU Dividend Equivalent Amounts; and (b) do not commit to and are under no obligation to structure the terms of the Award or any aspect of the PRSUs or the PRSU Dividend Equivalent Amounts to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to tax in more than one jurisdiction, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, you will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, you authorize the Company, the Employer, and their respective agents, at their discretion, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following:

- (a) withholding from your wages or other cash compensation payable to you by the Company and/or the Employer, including any PRSU Dividend Equivalent Amount;
- (b) withholding from proceeds of the sale of shares of Stock issuable or issued to you upon the Settlement Date with respect to any earned and vested PRSUs, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization without your further consent or authorization);
- (c) withholding from proceeds of the sale of Shares either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization without further consent);
- (d) requiring you to make a payment in cash by certified check acceptable to the Company or wire transfer; or

- (e) any other method determined by the Company, and to the extent required by applicable laws or the Plan, approved by the Administrator.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering statutory withholding rates or other withholding rates, including maximum rates applicable in your jurisdiction(s), in which case you may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding shares of Stock otherwise issuable to you in settlement of earned and vested PRSUs, you are deemed for tax purposes to have been issued the full number of shares of Stock issuable to you in settlement of such earned and vested PRSUs notwithstanding that a number of shares of Stock are

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held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan.

#### 8. Non-Solicitation Covenants.

(a) By accepting this Award, you hereby acknowledge and agree that (i) the Company has provided and will continue to provide you with access to confidential and proprietary information ("**Confidential Information**") of the Company and its subsidiaries (the "**Company Group**") for use only during your employment with the Company Group, (ii) the Company Group has entrusted you and will continue to entrust you, in your unique and special capacity, with developing the goodwill of the Company Group, and (iii) in consideration of the Company providing you with continued access to Confidential Information and as an express incentive for the Company to enter into this Agreement and grant you the PRSUs hereunder, you have voluntarily agreed to the non-solicitation covenants set forth in this Section 8. You agree and acknowledge that the limitations and restrictions set forth herein are reasonable in all respects, do not interfere with public interests, will not cause you undue hardship, and are material and substantial parts of this Agreement intended and necessary to prevent unfair competition and to protect the Company Group's business, Confidential Information, goodwill and legitimate business interests. You further acknowledge and agree that you are receiving new consideration by entering into this Agreement that includes sufficient and independent consideration for the non-solicitation covenants set forth herein.

(b) During your employment with the Company Group and for a period of one-year following the end of your employment with the Company Group, **Restricted Period (defined below)** you shall not, without the prior written approval of the Board of Directors of the Company, directly or indirectly, for yourself or on behalf of or in conjunction with any other person or entity of any nature:

(i) solicit, canvass, approach, encourage, entice or induce any customer, client, business partner or supplier of any member of the Company Group with whom or which you had contact on behalf of any member of the Company Group, or about whom or which you had access to Confidential Information, or for whom or which you had direct or indirect responsibility for on behalf of the Company Group to cease or lessen such customer's, client's, business partner's or supplier's business with any member of the Company Group; or

(ii) solicit, canvass, approach, encourage, entice or induce any employee or contractor of any member of the Company Group to terminate his, her or its employment or engagement with any member of the Company Group.

For purposes of this Section 8, the "**Restricted Period**" means the period that begins on the Award Date and ends on the earliest of (x) the date that is twelve (12) months following the date on which you cease to be a Service Provider for any reason other than due to your involuntary termination by the Company Group without Cause, (y) the date that is twelve (12) months following the date on which all of the Restricted Shares covered by this Award have become fully vested, or (z) the date on which you cease to be a Service Provider due to your involuntary termination by the Company Group without Cause.

(c) Because of the difficulty of measuring economic losses to the Company Group as a result of a breach or threatened breach of the covenants set forth in this Section 8, and because of the immediate and irreparable damage that would be caused to the members of the Company Group for which they would have no other adequate remedy, the Company and each other member of the Company Group shall be entitled to enforce the foregoing non-solicitation covenants, in the event of a breach or threatened breach, by injunctions and restraining orders from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's or any other member of the Company Group's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company and each other member of the Company Group at law and equity.

(d) The non-solicitation covenants in this Section 8, and each provision and portion hereof, are severable and separate, and the unenforceability of any specific covenant (or portion thereof) shall not affect the provisions of any other covenant (or portion thereof). Moreover, in the event any arbitrator or court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which such arbitrator or court deems reasonable, and this Agreement shall thereby be reformed.

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(e) The covenants in this Section 8 are in addition to and complements (and does not replace or supersede) any obligation that you have to any member of the Company Group with respect to non-solicitation under any other written agreement between you and any member of the Company Group.

9. **Other Terms and Conditions.**

(a) **The Plan.** The Agreement is further subject to the terms and provisions of the Plan. Only certain provisions of the Plan are described in the Agreement. As a condition to your receipt of this Award and the PRSUs covered hereby, you

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acknowledge and agree to the terms and conditions of the Agreement and the terms and provisions of the Plan, a copy of which you acknowledge receiving.

(b) **Employment/Service Relationship.** Nothing in the Agreement will confer on you any right to continue in the employ or service of the Company or the Employer or interfere with or restrict rights of the Company or the Employer, which are hereby expressly reserved, to terminate your employment or service at any time.

(c) **Claw-Back.** The PRSUs, any shares of Stock delivered in settlement of the PRSUs, any PRSU Dividend Equivalent Amounts, and any proceeds, gains or other economic benefit actually or constructively received by you upon the resale of any shares of Stock delivered in settlement of the PRSUs, shall be subject to the provisions of (i) the Company's Policy for the Recovery of Erroneously Awarded Company (as the same may be amended or restated, the "***Claw-Back Policy***") and (ii) any other policy adopted or implemented by the Company that provides for the claw-back, recoupment or recovery of compensation (an "***Other Recovery Policy***"), to the extent set forth in such Claw-Back Policy or Other Recovery Policy.

(d) **Adjustments.** The PRSUs will be subject to adjustment (including, without limitation, as to the number of PRSUs) in such manner as the Administrator, in its sole discretion, deems equitable and appropriate in connection with the occurrence of any of the events described in Section 4(c) of the Plan following the Award Date.

10. **Nature of Grant.** In accepting this Award, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;

(b) the grant of the PRSUs to you is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of equity awards, or benefits in lieu of equity awards, even if equity awards have been granted to you in the past;

(c) all decisions with respect to future grants of equity awards, if any, will be at the sole discretion of the Company;

(d) you are voluntarily participating in the Plan;

(e) the PRSUs, and the value of and income from such PRSUs (and any related PRSU Dividend Equivalent Amounts), are not intended to replace any pension rights, retirement benefits or other compensation;

(f) the PRSUs, and the value of and income from such PRSUs (and related PRSU Dividend Equivalent Amounts), are not part of normal or expected compensation or salary for any purpose;

(g) this Award and your participation in the Plan will not be interpreted to form an employment contract or other service relationship with the Company or any Subsidiary;

(h) the future value of the PRSUs (and related PRSU Dividend Equivalent Amounts) is unknown and cannot be predicted with certainty; and

(i) no claim or entitlement to compensation or damages will arise from forfeiture of the PRSUs (and related PRSU Dividend Equivalent Amounts) resulting from termination of your status as a Service Provider (for any reason whatsoever and whether or not in breach of applicable laws), and in consideration of the grant of this Award to which you are otherwise not entitled, you irrevocably agree to (i) never institute any such claim against the Company, the Employer or any

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of their respective Affiliates, (ii) waive your ability, if any, to bring any such claim against the Company, the Employer or any of their respective Affiliates, (iii) forever release the Company, the Employer and each of their respective Affiliates from any such claim, and (iv) execute any and all documents necessary, or reasonably requested by the Company, to request dismissal or withdrawal of any such claim that is allowed by a court of competent jurisdiction, in each case to the maximum extent permitted by applicable laws.

11. **No Advice Regarding Grant**. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan or your acquisition of the PRSUs. You are hereby

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advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

12. **Data Privacy**. *You understand that the Company and the Employer hold certain personal information about you, including, but not limited to, your name, home address, email address, and telephone number, date of birth, social insurance number, or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all PRSUs or any other entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in your favor (your "Data"), for the exclusive purpose of implementing, administering and managing the Plan.*

*You understand that it will be necessary for your Data to be collected, used and transferred, in electronic or other form, as described in the Agreement and any other award documentation by and among, as applicable, the Employer, the Company and any Affiliate. Such processing will be for the exclusive purpose of implementing, administering and managing your participation in the Plan, and therefore for the performance of the Agreement. The provision of your Data is a contractual requirement. Without the provision of your Data, it will not be possible to for the Company and/ or the Employer to perform their obligations under the Agreement.*

*You understand that, in performing the Agreement, it will be necessary for:*

- your Data to be transferred to a Company-designated Plan broker, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan;*
- the Company, its Plan broker and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan, to receive, possess, use, retain and transfer your Data, in electronic or other form, for the sole purpose of implementing, administering and managing your participation in the Plan; and*
- your Data to be held only as long as is necessary to implement, administer and manage your participation in the Plan.*

1. **Compliance with Laws and Regulations**. You will not require the Company to deliver any shares of Stock in settlement or earned and vested PRSUs, and the Company will not be obligated to deliver any shares of Stock in settlement of earned and vested PRSUs, if counsel to the Company determines that such delivery would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which shares of Stock are listed or quoted. The Company will in no event be obligated to take any affirmative action in order to cause the delivery of any shares of Stock in settlement or earned and vested PRSUs to comply with any such law, rule, regulation or agreement.

2. **Successors and Assigns**. The Company may assign any of its rights under the Agreement. The Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer contained herein, the Agreement will be binding upon you and your heirs, executors, administrators, legal representatives, successors and assigns.

3. **Governing Law; Jurisdiction; Severability**. The Agreement is to be governed by and construed in accordance with the internal laws of the State of Texas, as such laws are applied to agreements between Texas residents entered into and to be

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performed entirely within Texas, excluding that body of laws pertaining to conflict of laws. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the Company and you evidenced by this grant or the Agreement, the Company and you hereby submit to and consent to the exclusive jurisdiction of the State of Texas and agree that such litigation will be conducted only in the courts of Harris County, Texas, or the federal courts for the United States for the Southern District of Texas, and no other courts, where this grant is made and/or to be performed. If any provision of the Agreement is determined by a court of law to be illegal or unenforceable, in whole or in part, that provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

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4. **Further Instruments.** You agree to execute further instruments and to take further actions as may be reasonably necessary to carry out the purposes and intent of the Agreement.

5. **Administrator Authority.** The Administrator has the power to interpret the Plan and the Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any PRSUs or related PRSU Dividend Equivalent Amounts have vested). All actions taken and all interpretations and determinations made by the Administrator will be final and binding upon you, the Company and all other interested persons. The Administrator will not be personally liable for any action, determination or interpretation made with respect to the Plan or the Agreement.

6. **Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

7. **Headings.** The captions and headings of the Agreement are included for ease of reference only and will be disregarded in interpreting or construing the Agreement. All references herein to Sections will refer to Sections of these Terms and Conditions, unless otherwise noted.

8. **Waiver.** You acknowledge that a waiver by the Company of breach of any provision of the Agreement will not operate or be construed as a waiver of any other provision of the Agreement, or of any subsequent breach by you or any other Participant.

9. **Amendment.** Notwithstanding any other provision hereof, this Agreement may be supplemented or amended from time to time as approved by the Administrator as contemplated by Section 23 of the Plan. Without limiting the generality of the foregoing, without your consent:

- (a) this Agreement may be amended or supplemented from time to time as approved by the Administrator (i) to cure any ambiguity or to correct or supplement any provision herein that may be defective or inconsistent with any other provision herein, (ii) to add to the covenants and agreements of the Company for your benefit or surrender any right or power reserved to or conferred upon the Company in this Agreement, subject to any required approval of the Company's shareholders, and provided, in each case, that such changes or corrections will not adversely affect your rights with respect to the Award evidenced hereby or (iii) to make such other changes as the Company, upon advice of counsel, determines are necessary or advisable because of the adoption or promulgation of, or change in the interpretation of, any law or governmental rule or regulation, including any applicable federal or state securities laws; and
- (b) subject to any required action by the Board of Directors or the shareholders of the Company, the Award evidenced by this Agreement may be canceled by the Plan Administrator and a new Award made in substitution therefor, provided that the Award so substituted will satisfy all of the requirements of the Plan as of the date such new Award is made and no such action will adversely affect the PRSUs to the extent then earned and vested.

10. **Entire Agreement.** The Plan, these Terms and Conditions and the Grant Notice, including Exhibit A thereto and your Employment Agreement, constitute the entire agreement and understanding of the parties with respect to the subject

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matter of the Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties with respect to the specific subject matter hereof.

11. **Notices.** Unless the Company notifies the Grantee in writing of a different procedure or address, any notice or other communication to the Company with respect to this Agreement will be in writing and will be delivered personally or sent by first class mail, postage prepaid, to the address of the Company's principal office. Unless the Company elects to notify you electronically pursuant to the online grant and administration program or via email, any notice or other communication to you with respect to this Agreement will be in writing and will be delivered personally, or will be sent by first class mail, postage

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prepaid, to your address as listed in the records of the Company or any Subsidiary of the Company on the Award Date, unless the Company has received written notification from you of a change of address.

12. **Construction.** References in this Agreement to "this Agreement" and the words "herein," "hereof," "hereunder" and similar terms include all Exhibits and Schedules appended hereto, including the Plan. All references to "Sections" in this Agreement shall be to Sections of this Agreement unless explicitly stated otherwise. The word "include" and all variations thereof are used in an illustrative sense and not in a limiting sense. All decisions of the Administrator upon questions regarding the Plan or this Agreement will be conclusive. Unless otherwise expressly stated herein, in the event of any inconsistency between the terms of the Plan and this Agreement, the terms of the Plan will control. The headings of the sections of this Agreement have been included for convenience of reference only, are not to be considered a part hereof and will in no way modify or restrict any of the terms or provisions hereof.

13. **Limitations Applicable to Section 16 Persons.** Notwithstanding any other provision of the Plan or the Agreement, if you are subject to Section 16 of the Exchange Act, then the Plan, the PRSUs and the Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable laws, the Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

14. **Section 409A.** Neither the PRSUs nor any PRSU Dividend Equivalent Amounts are intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (together with any U.S. Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "**Section 409A**"). However, notwithstanding any other provision of the Plan or the Agreement, if at any time the Administrator determines that the PRSUs or any PRSU Dividend Equivalent Amounts (or any portion of any of the foregoing) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify you or any other person for failure to do so) to adopt such amendments to the Plan or the Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the PRSUs and/or the PRSU Dividend Equivalent Amounts to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

15. **Counterparts.** This Agreement may be executed in one or more counterparts, including by way of any electronic signature, subject to applicable law, each of which shall be deemed an original and all of which together shall constitute one instrument.

**By signing the Grant Notice or otherwise accepting the PRSUs, you agree to be bound by terms of the Agreement and the Plan.**

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Exhibit 10.2

EXECUTIVE EMPLOYMENT AGREEMENT

Exhibit 10.2

RESTRICTED STOCK AWARD GRANT NOTICE

**STELLAR BANCORP, INC.**  
**2022 OMNIBUS INCENTIVE PLAN**

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this "**Agreement**") is made and entered into, and effective as of, this 1st day of March, 2023, by and between Allegiance Bank (including its successors and assigns, the "**Bank**"), and Justin M. Long, an individual who resides in the State of Texas ("**Executive**") and Stellar Bancorp, Inc., a Texas corporation and sole parent of the Bank (the "**Company**") or "**Stellar**

**AGREEMENT**

In consideration", pursuant to its 2022 Omnibus Incentive Plan (the "**Plan**"), hereby grants to the individual listed below ("**Participant**"), the award ("**Award**") of shares of restricted stock set forth below. This Award is subject to all of the payments, consents terms and acknowledgements described below, in consideration of Executive's continued employment with the Company and the Bank, conditions set forth herein and in consideration of other good the Terms and valuable consideration, Conditions to the receipt Restricted Shares (the "**Terms and sufficiency of all Conditions**") and in the Plan, each of which is hereby acknowledged, the parties agree as follows:

**1. Term.**

(a) **Term of Agreement.** Upon incorporated herein by reference. Unless otherwise defined, the terms and subject to the conditions set forth in this Agreement, the Company and the Bank hereby agree to continue to employ Executive, and Executive hereby accepts such continued employment, for the term ("**Term**") commencing the Effective Date (the Restricted Stock Award Grant Notice (this "**Commencement Date**") through the close of business on October 1, 2024 (the "**Term End Date**"), unless terminated pursuant to Section 4 hereof.

**2. Employment; Extent of Service.** During the Term, Executive will be employed on and after the Commencement Date as Senior Executive Vice President, and General Counsel of the Company and the Bank. Executive will report directly to the Chief Executive Officer of the Company ("**CEO Grant Notice**") and the Executive Chairman of the Bank (the "**Executive Chairman**"). Executive Terms and Conditions shall have the duties, responsibilities and authority commensurate with such positions and such other duties as may be assigned to him by the CEO or the Executive Chairman, as applicable, to the extent such other duties also are commensurate with such positions. During the Term, and excluding any periods of vacation, sick or other leave to which Executive is entitled, Executive agrees to: (a) devote all of his business effort, time, energy, and skill to fulfill his employment duties; (b) faithfully, loyally and diligently perform such duties; and (c) diligently follow and implement all lawful management policies and decisions of the Company and the Bank that are communicated to and applicable to Executive. During his employment hereunder, Executive shall not be engaged in or provide services to any other business or enterprise (whether engaged in for profit or not) which materially interferes or conflicts with his obligations to the Company or the Bank under this Agreement without the prior written consent of the CEO or the Executive Chairman. During the Term, Executive may be asked to serve as a member of the Board of Directors of the Company and/or the Bank, and, if applicable, shall serve in such capacity without additional compensation hereunder. The principal place of employment of Executive shall be Austin, Texas; provided, however, that, unless otherwise agreed to by the CEO, Executive will work at least three (3) days per week at the Company's offices in Houston, Texas. Executive understands and agrees that Executive will be required to travel from time to time for business reasons (in addition to any required business travel to and from Houston, Texas).

**3. Compensation and Benefits.** For the avoidance of doubt, the compensation provided under this Section 3 shall be in consideration for all services rendered by Executive to the Company or the Bank during the Term.

(a) **Base Salary.** During the Term, the Bank shall pay to Executive a base salary at the rate of \$415,000.00 per year (the "**Base Salary**"), less applicable withholdings, payable in approximately equal bi-weekly or other installments (no less frequently than monthly) as are or become customary under the Bank's payroll practices for its other senior executive officers from time to time. The Compensation Committee of the Board of Directors of the Company (the "**Compensation Committee**") shall review the Base Salary at least annually and may increase, but not decrease, the Base Salary based on such review.

(b) **Retirement Plans.** During the Term, Executive shall be entitled to participate in any retirement plans available to other senior executive officers of the Bank similarly situated to Executive, and on a basis not less favorable than that provided to such senior executive officers, subject to eligibility requirements and terms and conditions of each such plan, provided that nothing herein shall limit the ability of the Bank to amend, modify or terminate any such plans at any time and from time to time in accordance with their terms and applicable law.

(c) **Incentive Plans.** During the Term, Executive shall be entitled to participate in any incentive plans available to other senior executive officers of the Bank similarly situated to Executive, and, subject to eligibility requirements and terms and conditions of each such plan, provided that nothing herein shall limit the ability of the Company or the Bank to amend, modify or terminate any such plans at any time and from time to time (except as set forth below). Without limiting the foregoing:

(i) **Annual Bonus.**

(A) For each calendar year during the Term that begins on or after January 1, 2023, Executive shall be eligible for an annual incentive bonus (the "**Incentive Bonus**") in the target amount of no less than 36.14% of Executive's Base Salary in effect as of March 1 of such calendar year (the "**Bonus Target**"), based upon the achievement of the Company, Bank and/or Executive performance goals, criteria, and/or targets for such calendar year, as determined by the Compensation Committee. The

Incentive Bonus for the 2022 calendar year shall be determined by the Compensation Committee in accordance with the annual compensation program of the Company as communicated to Executive in the first quarter of 2022. Nothing in this Section 3(c)(i), nor anything else in this Agreement, entitles or shall be interpreted to entitle Executive to any guaranteed minimum Incentive Bonus at any time during the Term and, unless otherwise provided in Section 5(a) or Section 5(b), Executive's receipt of an Incentive Bonus is expressly contingent upon Executive being actively employed by the Bank through the date that any such Incentive Bonus is actually paid to Executive. All determinations with respect to any Incentive Bonus, including whether applicable Company, Bank and/or Executive performance goals, criteria, and/or targets have been met, shall be made by the Company Board in its sole and reasonable discretion, and shall be final, conclusive, and binding on all parties. Except as otherwise provided herein, Executive must be employed with the Company or the Bank on December 31 of the calendar year to which the Incentive Bonus relates to be eligible to receive such Incentive Bonus. Any Incentive Bonus earned shall be payable in cash no later than March 15 of the year following the year in which the bonus is earned in accordance with the Bank's normal practices for the payment of annual short-term incentives.

(ii) Stock-Based Awards. During the Term, Executive shall be eligible to participate in the stock award incentive plan of the Corporation as in effect at the applicable time, as the same may be amended or superseded from time to time (the "Equity Plan"). With respect to each calendar year during the Term that begins after October 1, 2022 (the "Merger Date"), Executive shall be entitled to receive stock-based awards under the Equity Plan with a grant date fair market value (as determined in accordance with the Corporation's customary equity award valuation method) of no less than 36.14% of Executive's Base Salary in effect as of March 1 of such calendar year. All such stock-based awards shall be subject to the terms of the Equity Plan and such other terms and conditions (including service and/or performance vesting conditions) as may be approved by the administrator of the Equity Plan in its sole discretion and set forth in the award agreement evidencing the stock-based awards.

(iii) Restricted Stock Award. In consideration for Executive's execution of this Agreement, including, but not limited to the promises made by Executive in Section 6 of this Agreement, subject to approval as set forth in the terms of the Equity Plan, in accordance with the terms of thereof, the Bank shall cause to be granted to Executive, on a date (the "Grant Date") that is within 35 days of the Commencement Date, a restricted stock award (the "Restricted Stock Award") of 17,128 shares of Company common stock.

(d) Welfare Benefit Plans. During the Term, Executive and Executive's eligible dependents shall be eligible for participation in the welfare benefit plans, practices, policies and programs provided by the Bank, if any, to the extent available to other senior executive officers of the Bank similarly situated to Executive and on a basis not less favorable than that provided to such senior executive officers and their eligible dependents, and subject

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to eligibility requirements and terms and conditions of each such plan; *provided, however*, that nothing herein shall limit the ability of the Bank to amend, modify or terminate any such benefit plans, policies or programs at any time and from time to time in accordance with their terms and applicable law.

(e) Expenses. During the Term, and subject to Section 12 hereof, Executive shall be entitled to receive reimbursement for all reasonable expenses incurred by Executive in the course of performing his duties and responsibilities under this Agreement, including without limitation travel, entertainment and other business expenses, in accordance with the policies, practices and procedures of the Bank to the extent available to other senior executive officers of the Bank similarly situated to Executive and on terms no less favorable than those applicable to other senior executive officers. For avoidance of doubt, such expenses shall include reasonable expenses for business travel to and from Houston, Texas, from Executive's residence in Austin, Texas (including reimbursement for mileage at the rate established by the Internal Revenue Service, lodging, meal, and related ancillary expenses).

(f) Vacation; Paid Time-Off. During the Term, Executive shall be entitled to six (6) weeks of paid vacation days per calendar year (prorated for partial years) to be used in accordance with the Bank's vacation policies, as in effect from time to time. Executive shall receive other paid time-off in accordance with the Bank's policies for senior executive officers as such policies may exist from time to time.

(g) Change in Control Severance Plan. The Bank shall cause the Company to take all actions necessary and appropriate (including obtaining any required consents and adopting any required plan amendments) to (A) cause Executive to become a participant in the Allegiance Bancshares, Inc. Change in Control Severance Plan dated January 30, 2020, as amended from time to time (the "CIC Plan") to be effective as of the Effective Date with a "Severance Multiplier" (as defined in the CIC Plan) of no less than 2.0 and severance benefits at least equal to the severance benefits provided to similarly situated senior executive officers of Allegiance who participate in the CIC Plan immediately prior to the Merger Date, and (B) provide that an "Effective Period" (as defined in the CIC Plan) shall apply with respect to Executive for the 18-month period following the Merger Date. During the Term, (x) Executive shall remain eligible to participate in the CIC Plan and (y) the CIC Plan shall not be terminated or otherwise be amended in a manner that is materially adverse to Executive. If the Company is unable for any reason to provide for Executive's participation in the CIC Plan as contemplated by this Section 3(g), the Company and Executive shall promptly and in good faith negotiate an amendment to this Agreement to provide for severance benefits at least equal to the severance benefits that Executive would have been entitled to receive had Executive been a participant in the CIC Plan on the date of this Agreement with a "Severance Multiplier" of 2.0.

4. Termination of Employment. Executive's employment hereunder will terminate as provided in this Section 4.

(a) **Death or Disability.** Executive's employment shall terminate automatically upon Executive's death. If the Bank determines in good faith that a Disability of Executive has occurred during the Term, the Bank may give to Executive written notice of its intention to terminate Executive's employment. In such event, Executive's employment with the Bank shall terminate effective on the 30th day after receipt of such written notice by Executive, *provided that*, within the thirty (30) days after such receipt, Executive shall not have returned to full-time performance of Executive's duties.

(b) **Termination by Bank.** The Bank may terminate Executive's employment during the Term, with or without Cause, immediately on written notice to Executive if with Cause or after thirty (30) days' written notice if without Cause.

(c) **Termination by Executive.** Executive's employment may be terminated by Executive for any reason or no reason by delivering a Notice of Termination to the Company and the Bank at least thirty (30) days prior to the desired date of termination for Executive (with the thirty (30) day period to be referred to as the "**Notice Period**"). During the Notice Period, and at the sole discretion of the Bank, Executive may be relieved of all duties or prohibited from physically working at the Bank's offices so long as Executive continues to be paid his Base Salary and receive any other amounts owed under this Agreement during such Notice Period.

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(d) **Notice of Termination.** Any termination by the Bank with or without Cause and any termination by Executive for any reason or no reason shall be communicated by Notice of Termination to the other party hereto. The failure by the Bank to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause shall not waive any right of the Bank hereunder or preclude the Bank from asserting such fact or circumstance in enforcing the Bank's rights hereunder.

5. **Obligations of the Bank upon Termination.** On termination of Executive's employment during the Term, Executive shall be entitled to the compensation and benefits described in this Section 5 and shall have no further rights to any compensation or any other benefits from the Company, the Bank, the Company, or any their affiliates.

(a) **Accrued Compensation.** If Executive's employment with the Bank terminates for any reason, the Bank shall pay or provide to Executive the following:

(i) Executive's earned but unpaid Base Salary through the Executive's Date of Termination, which for the avoidance of doubt, does not include the yet to be earned Base Salary that Executive would have earned had his employment not terminated prior to the expiration of the Term;

(ii) Payment for any accrued but unused vacation or paid time-off as of the Executive's Date of Termination, to the extent payment is required under the Bank's vacation or paid time-off policies;

(iii) Any earned but unpaid Incentive Bonus, incentive or other cash bonuses for any prior period which remain unpaid as of the Executive's Date of Termination which for the avoidance of doubt includes the Incentive Bonus for 2022;

(iv) Any reimbursements for expenses incurred but not yet paid as of the Executive's Date of Termination; and

(v) Any other amounts or benefits required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company or the Bank and in accordance with the terms thereof, any deferred compensation arrangements or agreements between Executive and the Company or the Bank, or other benefit plans, in accordance with the terms of such plans, programs or policies.

The payments and benefits in this Section 5(a) are referred to, collectively, as the "**Accrued Compensation**". Payment of the amounts in clauses (i) through (iii) shall be made in a single lump sum payment within 10 business days following the Executive's Date of Termination (or such earlier date as required by applicable law). Payment of any amounts payable under clause (iv) shall be paid in accordance with the Bank's expense reimbursement policies. Payments or benefits under clause (v) shall be paid or provided in accordance with the terms of the applicable plan, program, policy or practice or contract or agreement. In the event of Executive's death, the Accrued Compensation shall be paid to Executive's estate.

(b) **Regular Severance Benefits.** If during the Term, (x) the Bank terminates Executive's employment other than for Cause, death, or Disability or (y) Executive's employment terminates by reason of his Resignation for Good Reason, in each case at a time that Executive is otherwise willing and able to continue in employment, then, in addition to the Accrued Compensation, Executive shall, subject to Section 5(b)(v) and Section 12 below, be entitled to receive the payments and benefits set forth in this Section 5(b), which shall be paid to Executive as follows:

(i) The Bank shall pay Executive an amount (the "**Pro Rata Bonus**") equal to the product of (A) the Incentive Bonus, if any, that Executive would have earned for the calendar year in which the Executive's Date of Termination occurs based on achievement, through the Executive's Date of Termination, of the applicable performance goals for such year as determined by the Bank and (B) a fraction, the numerator of which is

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the number of days the Executive was employed by the Bank during the year of termination and the denominator of which is the number of days in such year, in a lump sum in cash payable within sixty (60) days following the Executive's Date of Termination, provided, that if such sixty (60) day period begins in one taxable year and ends in the subsequent taxable year, then such payment shall not occur before the first day in the second of such two taxable years.

(ii) The Bank shall pay Executive in a lump sum in cash in the amount of the product of (A) two, multiplied by (B) Executive's then-current Base Salary (the "**Severance Amount**") payable within sixty (60) days following the Executive's Date of Termination, provided, that if such sixty (60) day period begins in one taxable year and ends in the subsequent taxable year, then such payment shall not occur before the first day in the second of such two taxable years.

(iii) The Bank shall pay Executive a lump sum in cash in the amount of the product of (A) eighteen (18), multiplied by (B) the full monthly cost of premiums Executive would pay in the first calendar month immediately following the calendar month that includes the Executive's Date of Termination if Executive timely elected to continue coverage at the level in effect immediately prior to the Executive's Date of Termination in any Bank group medical, dental, vision or prescription drug plans in which Executive or Executive's eligible dependents are entitled to continue participation under Section 4980B of the Code or other similar applicable law (the "**Health Coverage Benefit**"), payable within sixty (60) days following the Executive's Date of Termination, provided, that if such sixty (60) day period begins in one taxable year and ends in the subsequent taxable year, then such payment shall not occur before the first day in the second of such two taxable years.

(iv) Notwithstanding the foregoing, the Bank shall be obligated to provide the payments and benefits described in Section 5(b)(i) through (iii), only if (A) within fifty-two (52) days after the Executive's Date of Termination Executive shall have timely executed and returned to the Bank a separation and release agreement in a customary form prescribed by the Bank (the "**Release Agreement**") and such Release Agreement shall not have been revoked within the revocation period specified in the Release Agreement, and (B) Executive fully complies with the obligations set forth in Section 6 hereof. For the avoidance of doubt, if Executive does not comply with the obligations set forth in Section 6 hereof, then Executive shall not be entitled to the Pro Rata Bonus, Severance Amount, or Health Coverage Benefit. The Release Agreement must be executed and all revocation periods shall have expired within 60 days after the Executive's Date of Termination; failing which all payments and benefits conditioned thereupon shall be forfeited.

(v) If Executive's employment with the Bank is terminated during an Effective Period as defined in the CIC Plan (as modified by this Agreement), Executive shall be eligible to receive the severance benefits described in Section 4 of the CIC Plan, pursuant to the terms and conditions of the CIC Plan (the "**CIC Severance Benefits**"). For the avoidance of doubt, as set forth in Section 4.5 of the CIC Plan, any CIC Severance Benefits payable to Executive under the CIC Plan shall be reduced by and not in addition to any severance benefits payable to Executive pursuant to Section 5(b) of this Agreement, which, for purposes of this sentence shall not include the Accrued Compensation (for the purpose of clarity, if Executive becomes entitled to both the CIC Severance Benefits under the CIC Plan and the severance benefits pursuant to Section 5(b) of this Agreement, Executive shall be entitled to the greater of, and only the greater of, the CIC Severance Benefits under the CIC Plan and the severance benefits pursuant to Section 5(b) of this Agreement).

(vi) Treatment of Executive's outstanding unvested Company options, restricted stock and other equity-based awards (collectively, the "**Equity Awards**") shall be determined in accordance with the terms of the plans and/or agreements providing for such Equity Awards.

(c) Termination for Cause; Resignation by Executive other than Resignation for Good Reason; Termination Due to Death or Disability; Termination Upon the Expiration of the Term. If during the Term Executive's employment is terminated by the Bank for Cause, or due to Executive's death or Disability, or by Executive other than by reason of a Resignation for Good Reason, or if Executive's employment terminates upon expiration of this Agreement, then the Bank shall have no further obligations to Executive or Executive's legal

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representatives under this Agreement, other than for payment of the Accrued Compensation. In the event of Executive's death, the Accrued Compensation shall be paid to Executive's estate.

(d) Resignations. Termination of Executive's employment for any reason whatsoever shall constitute Executive's resignation from the Boards and the boards of directors of any subsidiary on which he serves, if any, and resignation as an officer of the Bank, the Company and of any of the subsidiaries for which he serves as an officer.

6. Restrictive Covenants. For purposes of this Section 6 and the Definitions in Section 7 that are used in this Section 6, references to the "**Bank**" shall include the Bank, the Company, Allegiance, Allegiance Bank, and their affiliates. For the avoidance of doubt, the Restrictive Covenants contained in this Section 6, as well as any other

provisions of this Agreement necessary to interpret or enforce the Restrictive Covenants, shall survive termination of this Agreement at any time or termination of Executive's employment for any reason, and shall continue to be in full force and effect in accordance with their terms.

(a) Acknowledgments.

(i) Access to Confidential Information, Relationships, and Goodwill. Executive acknowledges and agrees that he is being provided and entrusted with Confidential Information (as that term is defined below), including highly confidential customer information that is subject to extensive measures to maintain its secrecy within the Bank, is not known in the trade or disclosed to the public, and would materially harm the Bank's legitimate business interests if it was disclosed or used in violation of this Agreement. Executive also acknowledges and agrees that he is being provided and entrusted with access to the Bank's customer and employee relationships and goodwill. Executive further acknowledges and agrees that the Bank would not provide access to the Confidential Information, customer and employee relationships, and goodwill in the absence of Executive's execution of and compliance with this Agreement. Executive further acknowledges and agrees that the Bank's Confidential Information, customer and employee relationships, and goodwill are valuable assets of the Bank and are legitimate business interests that are properly subject to protection through the covenants contained in this Agreement.

(ii) Potential Unfair Competition. Executive acknowledges and agrees that as a result of his employment with the Company and the Bank, his knowledge of and access to Confidential Information, and his relationships with the Bank's customers and employees, Executive would have an unfair competitive advantage if Executive were to engage in activities in violation of this Agreement.

(iii) No Undue Hardship. Executive acknowledges and agrees that, in the event that his employment with the Company and the Bank terminates, he possesses marketable skills and abilities that will enable him to find suitable employment without violating the covenants set forth in this Agreement.

(iv) Voluntary Execution. Executive acknowledges and affirms that he is executing this Agreement voluntarily, that he has read this Agreement carefully and had a full and reasonable opportunity to consider this Agreement (including an opportunity to consult with legal counsel), and that he has not been pressured or in any way coerced, threatened or intimidated into signing this Agreement.

(b) Restriction on Disclosure and Use of Confidential Information. Executive agrees that Executive shall not, directly or indirectly, use any Confidential Information on Executive's own behalf or on behalf of any Person other than the Bank, or reveal, divulge, or disclose any Confidential Information to any Person not expressly authorized by the Bank to receive such Confidential Information. This obligation shall remain in effect for as long as the information or materials in question retain their status as Confidential Information. Executive further agrees that he shall fully cooperate with the Bank in maintaining the Confidential Information to the extent permitted by law. The parties acknowledge and agree that this Agreement is not intended to, and does not, alter either the Bank's rights or Executive's obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices. Anything herein to the contrary notwithstanding, Executive shall not be restricted from disclosing information that is required to be disclosed by law, court order or other valid and appropriate legal

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process; provided, however, that in the event such disclosure is required by law, Executive shall provide the Bank with prompt notice of such requirement so that the Bank may seek an appropriate protective order prior to any such required disclosure by Executive. Executive understands and acknowledges that nothing in this Section 6 limits his ability to communicate with any government agencies or otherwise participate in any investigation or proceeding that may be conducted by any government agencies in connection with any charge or complaint, whether filed by Executive, on Executive's behalf, or by any other individual.

(c) Non-Recruitment of Employees. Executive agrees that during the Restricted Non-Solicit Period, he shall not, without the prior written consent of the Bank, directly or indirectly, whether on his own behalf or as a Principal or Representative of any Person, call on, solicit or induce any employee of the Bank whom Employee had contact with, knowledge of, or association with in the course of employment with the Bank to terminate employment from the Bank, or hire or retain – for any purpose other than engaging in the practice of law – any former employee of the Bank whom Employee had contact with, knowledge of, or association with in the course of employment with the Bank and whose employment with the Bank terminated in the three-month period immediately preceding such hiring or retention. Notwithstanding the foregoing, Executive shall not be subject to the non-recruitment restrictions set forth in this Section in the event Executive's employment terminates at any time due to Executive's death or Disability.

(d) Proprietary Rights.

(i) Ownership and Assignment of Protected Works. Executive agrees that any and all Confidential Information and Protected Works are the sole property of the Bank, and that no compensation in addition to Executive's base salary is due to Executive for development or transfer of such Protected Works. Executive agrees that he shall promptly disclose in writing to the Bank the existence of any Protected Works. Executive hereby assigns and agrees to assign all of his rights, title and interest in any and all Protected Works, including all patents or patent applications, and all copyrights therein, to the Bank. Executive shall not be entitled to use Protected Works for his own benefit or the benefit of anyone except the Bank without written permission from the Bank and then only subject to the terms of such permission. Executive further agrees that he will communicate to the Bank any facts known to him and testify in any legal proceedings, sign all lawful papers, make all rightful oaths, execute all divisionals, continuations,



continuations-in-part, foreign counterparts, or reissue applications, all assignments, all registration applications, and all other instruments or papers to carry into full force and effect the assignment, transfer, and conveyance hereby made or to be made and generally do everything possible for title to the Protected Works and all patents or copyrights or trademarks or service marks therein to be clearly and exclusively held by the Bank. Executive agrees that he will not oppose or object in any way to applications for registration of Protected Works by the Bank or others designated by the Bank. Executive agrees to exercise reasonable care to avoid making Protected Works available to any third party and shall be liable to the Bank for all damages and expenses, including reasonable attorneys' fees, if Protected Works are made available to third parties by him without the express written consent of the Bank.

Anything herein to the contrary notwithstanding, Executive will not be obligated to assign to the Bank any Protected Work for which no equipment, supplies, facilities, or Confidential Information of the Bank was used and which was developed entirely on Executive's own time, unless (A) the invention relates (1) directly to the business of the Bank, or (2) to the Bank's actual or demonstrably anticipated research or development; or (B) the invention results from any work performed by Executive for the Bank. Executive likewise will not be obligated to assign to the Bank any Protected Work that is conceived by Executive after Executive leaves the employ of the Company and the Bank, except that Executive is so obligated if the same relates to or is based on Confidential Information to which Executive had access by virtue of his employment with the Company and the Bank. Similarly, Executive will not be obligated to assign any Protected Work to the Bank that was conceived and reduced to practice prior to his employment, regardless of whether such Protected Work relates to or would be useful in the business of the Bank. Executive acknowledges and agrees that there are no Protected Works conceived and reduced to practice by him prior to his employment with the Company and the Bank.

(ii) No Other Duties. Executive acknowledges and agrees that there is no other contract or duty on his part now in existence to assign Protected Works to anyone other than the Bank.

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(iii) Works Made for Hire. The Bank and Executive acknowledge that in the course of his employment with the Company and the Bank, Executive may from time to time create for the Bank copyrightable works. Such works may consist of manuals, pamphlets, instructional materials, computer programs, software, software integration techniques, software codes, and data, technical data, photographs, drawings, logos, designs, artwork or other copyrightable material, or portions thereof, and may be created within or without the Bank's facilities and before, during or after normal business hours. All such works related to or useful in the business of the Bank are specifically intended to be works made for hire by Executive, and Executive shall cooperate with the Bank in the protection of the Bank's copyrights in such works and, to the extent deemed desirable by the Bank, the registration of such copyrights.

(e) Return of Materials. Executive agrees that he will not retain or destroy (except as set forth below), and will immediately return to the Bank on or prior to the Executive's Date of Termination, or at any other time the Bank requests such return, any and all property of the Bank that is in his possession or subject to his control, including, but not limited to, keys, credit and identification cards, personal items or equipment, customer files and information, papers, drawings, notes, manuals, specifications, designs, devices, code, email, documents, diskettes, CDs, tapes, keys, access cards, credit cards, identification cards, computers, mobile devices, other electronic media, all other files and documents relating to the Bank and its business (regardless of form, but specifically including all electronic files and data of the Bank), together with all Protected Works and Confidential Information belonging to the Bank or that Executive received from or through his employment with the Bank. Executive will not make, distribute, or retain copies of any such information or property.

(f) Enforcement of Restrictive Covenants. For the avoidance of doubt, nothing in this Section 6(h) limits the remedies available to the Bank under Section 13 hereof.

(i) Rights and Remedies Upon Breach. The parties specifically acknowledge and agree that the remedy at law for any breach of the Restrictive Covenants will be inadequate, and that in the event Executive breaches any of the Restrictive Covenants, the Bank shall have the right and remedy, without the necessity of proving actual damage or posting any bond, to enjoin, preliminarily and permanently, Executive from violating the Restrictive Covenants and to have the Restrictive Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach of the Restrictive Covenants would cause irreparable injury to the Bank and that money damages would not provide an adequate remedy to the Bank. Executive understands and agrees that if he violates any of the obligations set forth in Section 6(c), the Restricted Non-Solicit Period shall cease to run during the pendency of any litigation over such violation, provided that such litigation was initiated during the Restricted Non-Solicit Period. Such rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Bank at law or in equity. The Bank's ability to enforce its rights under the Restrictive Covenants or applicable law against Executive shall not be impaired in any way by the existence of a claim or cause of action on the part of Executive based on, or arising out of, this Agreement or any other event or transaction.

(ii) Severability and Modification of Covenants. Executive acknowledges and agrees that each of the Restrictive Covenants is reasonable and valid in time and scope and in all other respects. The parties agree that it is their intention that the Restrictive Covenants be enforced in accordance with their terms to the maximum extent permitted by law. Each of the Restrictive Covenants shall be considered and construed as a separate and independent covenant. Should any part or provision of any of the Restrictive Covenants, or any other provision of this Section 6, be held invalid, void, or unenforceable, such invalidity, voidness, or unenforceability shall not render invalid, void, or unenforceable any other part or provision of this Agreement or such Restrictive Covenant. If any of the provisions of the Restrictive Covenants should ever be held by a court of competent jurisdiction to exceed the scope permitted by the applicable law, such provision or provisions shall be automatically modified to such lesser scope as such court may



deem just and proper for the reasonable protection of the Bank's legitimate business interests and may be enforced by the Bank to that extent in the manner described above and all other provisions of this Agreement shall be valid and enforceable.

(g) **Existing Covenants.** Executive represents and warrants that his employment with Bank does not and will not breach any agreement that Executive has with any former employer to keep in confidence proprietary or confidential information or not to compete with any such former employer. Executive will not

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disclose to the Bank or use on its behalf any proprietary or confidential information of any other party required to be kept confidential by Executive.

(h) **Immunity Notice And Lawful Communications.** Notwithstanding any other provision of this Agreement: (i) Executive will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that (A) is made (I) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and (II) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding, and (ii) if Executive files a lawsuit for retaliation, Executive may disclose the Bank's trade secrets to his attorney and use the trade secret information in the court proceeding if Executive (X) files any document containing the trade secret under seal, and (Y) does not disclose the trade secret, except pursuant to court order.

Nothing in this Agreement prevents Executive from testifying at a hearing, deposition, or in court in response to a lawful subpoena. Likewise, nothing in this Agreement, limits Executive's ability to communicate with government agencies, including, but not limited to, the Equal Employment Opportunity Commission ("**EEOC**"), the Securities and Exchange Commission ("**SEC**"), the United States Department of Justice, Congress, any agency Inspector General or any other federal, state or local governmental agency commission ("**Government Agencies**") or otherwise participate in any investigation or proceeding that may be conducted by any Governmental Agency, including providing documents or other information, without notice to the Bank.

7. **Definitions.** The following capitalized terms used in this Agreement shall have the meanings assigned to them below, which definitions shall apply to both the singular and the plural forms of such terms:

(a) "**Cause**" means a determination by the Bank after the process described below that any of the following has occurred:

(i) Executive's failure to follow the reasonable directions of the Bank and the failure to cure such failure to the satisfaction of the Bank within thirty (30) days after receipt of written notice from of the Bank specifying the particulars of the failure;

(ii) Executive's willful violation of any laws, rules or regulations applicable to banks or the banking industry generally (including but not limited to the regulations of the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation (the "**FDIC**"), the Texas Department of Banking, or any other applicable regulatory authority);

(iii) Executive's material failure to comply with the Company's or the Bank's policies or guidelines of employment or corporate governance policies or guidelines, including, without limitation, any business code of ethics adopted by the Company or the Bank, provided Executive has been notified of or is aware of such policies or guidelines and that in any such case, if capable of being cured, is not cured by Executive within thirty (30) days of written notice by the Company or the Bank of the material failure

(iv) any act of fraud, misappropriation or embezzlement by Executive committed in connection with the business of the Company or the Bank which results or is likely to result in any material harm to the Company or the Bank;

(v) a material breach of this Agreement, including, without limitation, a breach of Section 6 hereof, that, if such material breach is capable of being cured, is not cured by Executive within thirty (30) days of written notice by the Company or the Bank of the breach; or

(vi) Executive's conviction of, or Executive's pleading guilty or nolo contendere to, a felony or a crime involving moral turpitude (including pleading guilty or nolo contendere to a felony or lesser charge which results from plea bargaining), whether or not such felony, crime or lesser offense is connected with the business of the Company or the Bank, if such results or is likely to result in any material harm to the Company or the Bank, including the reputation of the Company or the Bank.

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(b) **"Code"** shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

(c) **"Confidential Information"** means any and all data and information relating to the Bank, its activities, business, or clients that (i) is disclosed to Executive or of which Executive becomes aware as a consequence of his employment with the Bank; (ii) has value to the Bank; and (iii) is not generally known outside of the Bank. "Confidential Information" shall include, but is not limited to the following types of information regarding, related to, or concerning the Bank: trade secrets (as defined by Texas Uniform Trade Secrets Act); financial plans and data; management planning information; business plans; operational methods; market studies; marketing plans or strategies; pricing information; product development techniques or plans; customer lists; customer files, data and financial information; details of customer contracts; current and anticipated customer requirements; identifying and other information pertaining to business referral sources; past, current and planned research and development; computer aided systems, software, strategies and programs; business acquisition plans; management organization and related information (including, without limitation, data and other information concerning the compensation and benefits paid to officers, directors, employees and management); personnel and compensation policies; new personnel acquisition plans; and other similar information. "Confidential Information" also includes combinations of information or materials which individually may be generally known outside of the Bank, but for which the nature, method, or procedure for combining such information or materials is not generally known outside of the Bank. In addition to data and information relating to the Bank, "Confidential Information" also includes any and all data and information relating to or concerning a third party that otherwise meets the definition set forth above, that was provided or made available to the Bank by such third party, and that the Bank has a duty or obligation to keep confidential. This definition shall not limit any definition of "confidential information" or any equivalent term under state or federal law. "Confidential Information" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any right or privilege of the Bank. For purposes of this definition of Confidential Information, references to the "Bank" shall include the Bank, the Company, Allegiance, Allegiance Bank, and their affiliates.

(d) **"Disability"** shall mean a condition for which benefits are payable to Executive under any long-term disability insurance coverage then provided to Executive by the Company or the Bank; or, if no such coverage is then being provided, the inability of Executive, as reasonably determined by the Company or the Bank, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental illness which has lasted (or can reasonably be expected to last) for (A) 120 days out of any 300-day period or (B) a period of 100 consecutive days. At the request of Executive or his personal representative, the determination by the Company or the Bank that the Disability of Executive has occurred shall be certified by a physician mutually agreed upon by Executive, or his personal representative, and the Company or the Bank.

(e) **"Executive's Date of Termination"** means Executive's last day of employment with the Bank.

(f) **"Notice of Termination"** means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, generally identifies the basis for termination of Executive's employment under the provision so indicated, and (iii) specifies the Executive's Date of Termination.

(g) **"Person"** means any individual or any corporation, partnership, joint venture, limited liability company, association or other entity or enterprise.

(h) **"Principal or Representative"** means a principal, owner, partner, shareholder, joint venturer, investor, member, trustee, director, officer, manager, employee, agent, representative or consultant.

(i) **"Protected Work"** means any and all ideas, inventions, formulas, Confidential Information, source codes, object codes, techniques, processes, concepts, systems, programs, software, software integration techniques, hardware systems, schematics, flow charts, computer data bases, client lists, trademarks,

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service marks, brand names, trade names, compilations, documents, data, notes, designs, drawings, technical data or training materials, including improvements thereto or derivatives therefrom, whether or not patentable, and whether or not subject to copyright or trademark or trade secret protection, conceived, developed or produced by Executive, or by others working with Executive or under his direction, during the period of his employment, or conceived, produced or used or intended for use by or on behalf of the Bank or its customers. For purposes of this definition of Protected Work, references to the "Bank" shall include the Bank, the Company, Allegiance, Allegiance Bank, and their affiliates.

(j) **"Resignation for Good Reason"** means Executive's termination of his employment with the Company and/or the Bank after (without Executive's written consent) any of the following events occurring after the date of this Agreement:

- (i) a material and adverse change in Executive's title, authority, reporting relationship, or responsibilities;
- (ii) a material reduction in Executive's base salary or target bonus as in effect on the date of this Agreement;

(iii) any assignment of duties that are materially inconsistent with and adverse to Executive's position or that are materially and adversely inconsistent with Executive's position and duties described in this Agreement;

(iv) a material breach of a material provision of this Agreement by the Bank; or

(v) the relocation of Executive to any principal place of employment other than Austin, Texas (it being understood and agreed that any requirement to perform services in the Company's offices in Houston, Texas, pursuant to Section 2 shall not be deemed to be a relocation of Executive's principal place of employment to Houston, Texas).

A termination by Executive shall not constitute Resignation for Good Reason unless (i) Executive shall first have delivered to the Bank written notice setting forth with specificity the occurrence deemed to give rise to a right to a Resignation for Good Reason (which notice must be given no later than ninety (90) days after the initial occurrence of such event) (the "**Material Breach Notice**"), (ii) the Bank has not corrected, rescinded or reversed, in all material respects, the circumstances giving rise to the Resignation for Good Reason (as identified by Executive in the Material Breach Notice) within thirty (30) days following its receipt of such Material Breach Notice, and (iii) Executive terminates employment within one hundred thirty (130) days after the initial occurrence of such occurrence supporting Resignation for Good Reason. For purposes of a Resignation for Good Reason, Executive's required Notice Period pursuant to Section 4(c) hereof shall be ten (10) days.

(k) "**Restricted Non-Solicit Period**" means the period defined as follows:

(i) If Executive's Date of Termination is on or before the date that is two (2) years after the date on which the Merger Date occurs, the Restricted Non-Solicit Period is the period that begins on the date of this Agreement and ends on the date that is the later of (A) two (2) years after the Merger Date and (B) one (1) year after Executive's Date of Termination; and

(ii) If Executive's Date of Termination is after the date that is two (2) years after the Merger Date, the Restricted Non-Solicit Period is the period that begins on the Merger Date of this Agreement and ends on the later of (A) the date that is three (3) years after the Merger Date and (B) Executive's Date of Termination; notwithstanding the foregoing, if such employment termination is either Executive's Resignation for Good Reason or a termination by the Bank other than for Cause, then the Restricted Non-Solicit Period shall end on the Executive's Date of Termination.

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For purposes of this definition of the Restricted Non-Solicit Period, references to the "Bank" shall include the Bank, the Company, Allegiance, Allegiance Bank, and their affiliates.

(l) "**Restrictive Covenants**" means the restrictive covenants contained in Section 6 hereof.

8. **Non-exclusivity of Rights.** Nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any employee benefit plan, program, policy or practice provided by Bank or its affiliated companies and for which Executive may qualify, except as specifically provided herein. Amounts that are vested benefits or which Executive is otherwise entitled to receive under any plan, policy, practice or program of the Bank or any of its affiliated companies at or subsequent to the Executive's Date of Termination shall be payable in accordance with such plan, policy, practice or program except as explicitly modified by this Agreement.

9. **Full Settlement; No Mitigation.** The Bank's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Bank may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Executive obtains other employment.

10. **Successors.** This Agreement is personal to Executive and shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement can be assigned by the Bank and shall be binding and inure to the benefit of the Bank and its successors and assigns.

11. **Code Section 280G.**

(a) Notwithstanding anything in this Agreement or any other plan or agreement to the contrary, in the event that any payment or benefit received or to be received by Executive (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, the "Total Payments") would not be deductible (in whole or in part) by the Bank or any of parent or subsidiary entity of the Bank making such payment or providing such benefit as a result of Section 280G of the Code, then, to the extent necessary to make such portion of the Total Payments deductible, the portion of the Total Payments that do not constitute deferred compensation within the meaning of Section 409A shall first be reduced (if necessary, to zero), and all other Total Payments shall thereafter be reduced (if necessary, to zero) with cash payments being reduced before non-cash payments, and payments to be paid last being reduced first, but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions

attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of tax imposed by Section 4999 of the Code (and similar state and local laws) to which Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Any determination required under this Section 11 shall be made in writing in good faith by an accounting firm selected in good faith by the Bank (the "Accountants"). The Bank and Executive shall provide the Accountants with such information and documents as the Accountants may reasonably request in order to make a determination under this Section 11. For purposes of making the calculations and determinations required by this Section 11, the Accountants may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Accountants' determinations shall be final and binding on the Bank and Executive.

12. Code Section 409A.

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(a) General. This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements of Section 409A of the Code and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder (collectively, "Section 409A").

(b) Definitional Restrictions. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt "deferred compensation" for purposes of Section 409A ("Non-Exempt Deferred Compensation") would otherwise be payable or distributable hereunder by reason of Executive's termination of employment, such Non-Exempt Deferred Compensation will not be payable or distributable to Executive by reason of such circumstance unless the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Section 409A. This provision does not affect the dollar amount or prohibit the vesting of any Non-Exempt Deferred Compensation upon a termination of employment, however defined.

(c) Six-Month Delay in Certain Circumstances. Notwithstanding anything in this Agreement to the contrary, if any amount or benefit that would constitute Non-Exempt Deferred Compensation would otherwise be payable or distributable under this Agreement by reason of Executive's separation from service during a period in which he is a "specified employee" (as defined in Section 409A), then: (i) the amount of such Non-Exempt Deferred Compensation that would otherwise be payable during the six-month period immediately following Executive's separation from service will be accumulated through and paid or provided, without interest, on the first day of the seventh month following Executive's separation from service (or, if Executive dies during such period, within 30 days after Executive's death) (in either case, the "Required Delay Period"); and (ii) the normal payment or distribution schedule for any remaining payments or distributions will resume at the end of the Required Delay Period.

(d) Treatment of Installment Payments. Each payment of termination benefits under this Agreement, including but not limited to Section 5, shall be considered a separate payment, as described in Treas. Reg. Section 1.409A-2(b)(2), for purposes of Section 409A.

(e) Timing of Reimbursements and In-Kind Benefits. If Executive is entitled to be paid or reimbursed for any taxable expenses under this Agreement, and such payments or reimbursements are includible in Executive's federal gross taxable income, the amount of such expenses reimbursable in any one calendar year shall not affect the amount reimbursable in any other calendar year, and the reimbursement of an eligible expense must be made no later than December 31 of the year after the year in which the expense was incurred. No right of Executive to reimbursement of expenses under this Agreement shall be subject to liquidation or exchange for another benefit.

(f) Permitted Acceleration. The Bank shall have the sole authority to make any accelerated distribution permissible under Treas. Reg. Section 1.409A-3(j)(4) to Executive of deferred amounts, provided that such distribution meets the requirements of Treas. Reg. Section 1.409A-3(j)(4).

13. Regulatory Action.

(a) If Executive is removed or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act ("FDIA") (12 U.S.C. 1818(e)(4) and (g)(1)), all obligations of the Bank under this Agreement shall terminate, as of the effective date of such order.

(b) If Executive is suspended or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under Section 8(e)(3) or 8(g)(1) of the FDIA (12 U.S.C. 1818(e)(3) and (g)(1)), all obligations of the Bank under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank shall reinstate (in whole or in part) any of its obligations which were suspended.

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(c) If the Bank is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default.

(d) All obligations under this Agreement shall be terminated, except to the extent a determination is made that continuation of the Agreement is necessary for the continued operation of the Bank (i) by the director of the FDIC or his or her designee (the "**Director**"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in 13(c) of the FDIA; or (ii) by the Director, at the time the Director approves a supervisory merger to resolve problems related to operation of the Bank when the Bank is determined by the Director to be in an unsafe and unsound condition.

14. **Compensation Recoupment Policy.** Any incentive compensation, including, but not limited to, cash-based and equity-based compensation, awarded to Executive by the Company or the Bank shall be subject to any compensation recoupment policy that the Company or the Bank may adopt from time to time that is applicable by its terms to Executive. In addition, the Compensation Committee may specify in any written documentation memorializing an incentive award that Executive's rights, payments and benefits with respect to such award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable conditions of such award. Such events may include, but shall not be limited to, (i) termination of employment for Cause, (ii) violation of material Company or Bank policies, (iii) breach of noncompetition, confidentiality or other restrictive covenants, (iv) other conduct by Executive that is detrimental to the business or reputation of the Company or the Bank or any affiliate, or (v) a later determination that the amount realized from a performance-based award was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria, whether or not Executive caused or contributed to such material inaccuracy. The reduction, cancellation, forfeiture and recoupment rights associated with any equity awards or similar awards granted to Executive, if any, shall be as provided in the award certificate memorializing any such award.

15. **Indemnification.** The Bank shall indemnify Executive for liabilities incurred by him while acting in good faith in his capacity as a director or an officer to the fullest extent provided for any other officer or director of the Bank. To the extent the Bank maintains director and officer liability insurance, such insurance shall cover Executive to the same extent as any other officer or director of the Bank. The Bank's obligations under this Section 15 shall survive any termination of this Agreement and Executive's employment hereunder.

16. **Miscellaneous.**

(a) **Applicable Law; Forum Selection; Consent to Jurisdiction.** The Bank and Executive agree that this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Texas without giving effect to its conflicts of law principles. Executive agrees that venue for any action to enforce this Agreement, as well as any action relating to or arising out of this Agreement, shall be exclusively in the state courts of Harris County, Texas. With respect to any such court action, Executive hereby irrevocably submits to the personal jurisdiction of such courts. The parties hereto further agree that the courts listed above are convenient forums for any dispute that may arise herefrom and that neither party shall raise as a defense that such courts are not convenient forums.

(b) **Non-Duplication.** Notwithstanding anything to the contrary in this Agreement, and except as specifically provided below, any severance payments or benefits received by Executive pursuant to this Agreement shall be in lieu of any general severance policy or other severance plan (including the Allegiance Bank Texas Severance Plan, as amended, but excluding the CIC Plan, subject to Section 4.5 thereof) maintained by the Company or the Bank; *provided, however*, that, for avoidance of doubt, this Section 16(b) shall not (i) negate Executive's right to receive any amount under the Allegiance Bank Texas Severance Plan if such amounts would be payable prior to the date on which amounts hereunder would be paid (provided, further, that in such event, any amounts payable pursuant to Section 5(b) shall be reduced by the amount payable under the Allegiance Bank Texas Severance Plan) or (ii) apply to any equity awards granted to Executive, or any amounts payable to Executive pursuant to any deferred compensation or similar plan or agreement that may contain provisions operative on a termination of Executive's employment.

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(c) **Captions.** The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(d) **Amendments.** This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(e) **Notices.** All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive: On file with the Bank  
If to the Bank:  
Allegiance Bank  
9 Greenway Plaza, Ste. 110  
Houston, Texas 77046  
Attention: Robert R. Franklin, Jr.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(g) Withholding. The Bank shall have the right to withhold from any amount payable hereunder or referenced herein any Federal, state, and local taxes in order for the Bank to satisfy any withholding tax obligation it may have under any applicable law or regulation. For avoidance of doubt, all payments and benefits payable to Executive hereunder or referenced herein are subject to applicable withholdings and deduction.

(h) No Guarantee of Tax Consequences. None of the Company, the Bank, either Board or officers, representatives, agents or affiliates of any of the foregoing makes any guarantee, promise or representation to Executive (or any person claiming through or on behalf of Executive) that any particular tax treatment will (or will not) apply to any amounts payable pursuant to this Agreement or assumes any liability or obligation with respect thereto.

(i) Waivers. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

(j) Entire Agreement. This Agreement and the CIC Plan contain the entire agreement between the Bank and Executive with respect to the subject matter hereof and, from and after the date hereof, this Agreement shall supersede any other agreement, written or oral, other than the CIC Plan between the parties relating to the subject matter of this Agreement, including but not limited to any prior discussions, understandings, or agreements between the parties, written or oral, at any time.

(k) Construction. The parties understand and agree that because they both have been given the opportunity to have counsel review and revise this Agreement, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement shall be construed as a whole, and according to its fair meaning, and not strictly for or against either of the parties.

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(l) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

SIGNATURE PAGE FOLLOWS

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IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the day and year first above written, Plan.

Participant: ALLEGIANCE BANK

Award Date:

Number of Shares of Restricted Stock:

Vesting Schedule:

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company, Participant hereby: (a) agrees to be bound by the terms and conditions of the Plan, the Terms and Conditions and this Grant Notice; (b) acknowledges and agrees that Participant has reviewed the Plan, the Terms and Conditions and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, the Terms and Conditions and this Grant Notice; (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, the Terms and Conditions or this Grant Notice (including any exhibit attached hereto); (d) acknowledges and agrees that if he or she fails to execute and return this Grant Notice within 90 days of the Award Date, then this Award may be immediately cancelled and forfeited and he or she will not be entitled receive any other benefits or compensation as replacement for this Award; and (e) agrees that he or she has read, understands, and agrees to be bound by the restrictive covenants set forth in Section 9 of the Terms and Conditions.

STELLAR BANCORP, INC.

PARTICIPANT

By:  
Print Name:  
By:

By:  
Print Name:  
Name:  
Title:

STELLAR BANCORP,  
INC.

By:

Name:

Title:

EXECUTIVE

Name:

Justin  
M.  
Long

TERMS AND CONDITIONS



RESTRICTED STOCK AWARD  
STELLAR BANCORP, INC. 2022 OMNIBUS INCENTIVE PLAN

These Terms and Conditions, collectively with the accompanying Restricted Stock Award Grant Notice (the "**Grant Notice**") comprise your agreement (the "**Agreement**") with the Company regarding the shares of restricted stock awarded under the Stellar Bancorp, Inc. 2022 Omnibus Incentive Plan (as amended and restated, the "**Plan**"). Capitalized terms not specifically in the Agreement have the same meanings assigned to them in the Plan.

1. **The Grant.** Subject to the conditions set forth below, the Company hereby grants you effective as of the Award Date set forth in the Grant Notice, as a matter of separate inducement but not in lieu of any salary or other compensation for your services for the Company, an award (the "**Award**") of the Number of Shares of Restricted Stock (as set forth in the Grant Notice) (the "**Restricted Shares**"), subject to the conditions and restrictions set forth in the Agreement and in the Plan.

2. **Issuance of Restricted Shares.** Upon issuance of the Restricted Shares, such Restricted Shares will be registered in a book entry account in your name. Until such time as the Restricted Shares are vested, any statement of ownership representing the Restricted Shares that may be issued, and any securities constituting Retained Distributions (defined below) will bear a restrictive legend to the effect that ownership of the Restricted Shares (and such Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms and conditions provided in the Plan and this Agreement.

3. **Restrictions.** The Restricted Shares will constitute issued and outstanding shares of Stock for all corporate purposes. You will have the right to vote such Restricted Shares, to receive and retain such dividends and distributions paid or distributed on such Restricted Shares and to exercise all other rights, powers and privileges of a holder of Stock with respect to such Restricted Shares, except that: (a) you will not be entitled to delivery of the Restricted Shares until such Restricted Shares become vested or the applicable vesting conditions are waived in writing; (b) the Company or its designee will retain custody of the Restricted Shares until such time, if ever, as the Restricted Shares vest; (c) the Company or its designee will retain custody of all distributions ("**Retained Distributions**") made or declared with respect to the Restricted Shares (and such Retained Distributions will be subject to the same restrictions, terms and vesting and other conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested, and such Retained Distributions will not bear interest or be segregated in a separate account; and (d) except as provided in Section 7, you may not sell, assign, transfer, pledge, exchange, encumber or dispose of the Restricted Shares or any Retained Distributions or your interest in any of them until the Restricted Shares and/or the Retained Distributions become vested.

4. **Vesting of Restricted Shares.**

(a) **Vesting.** Each vesting tranche of the Restricted Shares (and related Retained Distributions) will vest pursuant to the Vesting Schedule set forth in the Grant Notice; provided, that you continue to be an employee, director or consultant of the Company or a Subsidiary (a "**Service Provider**") from the Award Date through the applicable vesting date for such vesting tranche.

(b) **Death; Disability.** Notwithstanding anything in Section 4(a) to the contrary, if you cease to be a Service Provider due to your death or Disability (as hereinafter defined), then a portion of your then-outstanding unvested Restricted Shares (and related Retained Distributions) will fully vest effective as the date you cease to be a Service Provider, with such portion equal to a fraction, (i) the numerator of which is the number of calendar days that elapsed from the Award Date until the date you cease to be a Service Provider, and (ii) the denominator of which is the total number of calendar days between the Award Date until the last vesting date in the Vesting Schedule. For purposes of this Agreement, "**Disability**" means that you are unable to perform your duties with the Company and its Subsidiaries on a full-time basis as a result of incapacity due

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EXHIBIT A to mental or physical illness, which inability exists for 90 continuous days or 180 days during any 12-month period, as determined by a physician selected by the Company or its insurers.

Restricted Stock Grant (c) : The shares subject Change of Control. Notwithstanding anything in Section 4(a) to the Restricted Stock contrary, if the Company experiences a Change of Control (as defined in the Plan) and provided that you remain a Service Provider from the Award will vest 33 1/3% per year on Date to the first, second and third anniversaries date of the Merger Date, and be issued pursuant to the form Change of restricted stock award agreement under the Equity Plan, in Control, all cases subject to continued employment, but with no other performance or service conditions.

Provided that if the Bank terminates Executive's employment other than for Cause, death, or Disability, at a time that Executive is otherwise willing and able to continue in employment, (i) after the Grant Date but unvested Restricted Shares will fully vest effective as of immediately prior to the first anniversary Change of the Merger Date, the first 33 1/3% Control.

5. **Forfeiture of the Restricted Stock Award shall vest, Shares** Except as otherwise provided in Section 4(b), all unvested Restricted Shares (and all related Retained Distributions) will be forfeited to the extent unvested, Company for no consideration on the Executive's Date of Termination date you cease for any reason to be a Service Provider, and the remainder you will not thereafter have any rights (including dividend and voting rights) with respect to such Restricted Shares (or related Retained Distributions). All Restricted Shares (and all related Retained Distributions), whether vested or unvested, shall be immediately forfeited for no consideration upon termination of your employment or service by the Company and its Subsidiaries for Cause (as hereinafter defined) or your resignation at a time when Cause to terminate your employment or service exists, and, in such event, the Company may also require you to pay to the Company the amount of any proceeds received by you from your sale or disposition of any vested Restricted Shares



covered by this Award. Notwithstanding any provision herein to the contrary, in the event of any inconsistency between this Section 5 and any employment agreement entered into by and between you and the Company (your "**Employment Agreement**"), the terms of the employment agreement shall control.

For purposes of this Award, your status as a Service Provider will be considered terminated (regardless of the reason for termination and whether or not the termination is in breach of applicable laws) effective as of the date you are no longer employed by or providing services to the Company or Subsidiary. The Administrator will have the exclusive discretion to determine when your status as a Service Provider terminates for purposes of this Award (including whether you may still be considered to be employed by or providing services to the Company or a Subsidiary while on a leave of absence).

For purposes of this Award, "**Cause**" has the meaning given in your Employment Agreement; *provided, however*, that if you are not party to an Employment Agreement or if such Employment Agreement does not define "Cause" (or terms of similar meaning), then "Cause" means, as determined by the Administrator in its discretion: (i) your commission of, conviction for, or plea of no contest to, a felony or any other crime involving moral turpitude; (ii) your commission of an act or omission involving misappropriation, embezzlement, theft, or fraud with respect to the Company or any of its Subsidiaries, or any of their customers or suppliers; (iii) your failure to comply with the Company's or its Subsidiaries' material policies, procedures, and guidelines, including corporate governance, human relations, anti-harassment, and anti-discrimination policies, and applicable laws with respect to the Company's or its Subsidiaries' business operations; (iv) your breach of fiduciary duty or willful misconduct that causes material and demonstrable injury, monetarily or otherwise, to the Company or its Subsidiaries; or (v) your material breach of any confidentiality, noncompetition, nonsolicitation, or no-hire obligations set forth in any other written agreement between you, on the one hand, and the Company or any of its Subsidiaries, on the other hand.

**6. Delivery by the Company.** As soon as practicable after the **first anniversary** Restricted Shares become vested pursuant to this Agreement, but no later than 30 days after such event occurs, and subject to the withholding referred to in Section 8, the Company will (a) cause to be removed from the Restricted Shares the restrictions described in Section 3 or cause to be issued and delivered to you (in certificate or electronic form) an equal number of shares of Stock, and (b) shall cause to be delivered to you any Retained Distributions with respect to such Restricted Shares. If delivery of certificates is by mail, delivery of shares of Stock will be deemed effected for all purposes when a stock transfer agent of the **Merger** Company has deposited the certificates in the United States mail, addressed to you.

**7. Nontransferability of Restricted Shares.** Restricted Shares that have not become earned and vested are not transferable (either voluntarily or involuntarily), before or after your death, except as follows: (a) during your lifetime, pursuant to a domestic relations order, issued by a court of competent jurisdiction, that is not contrary to the terms and conditions of the Plan or this Agreement, and in a form acceptable to the Administrator; or (b) after your death, by will or pursuant to the applicable laws of descent and distribution, as may be the case. Any person to whom Restricted Shares are transferred in accordance with the provisions of the preceding sentence shall take such Restricted Shares subject to all of the terms and conditions of the Plan and this Agreement, including that the vesting and termination provisions of this Agreement will continue to be applied with respect to you. Certificates representing Restricted Shares that have vested may be delivered

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(or, in the case of book entry registration, registered) only to you (or during your lifetime, to your court appointed legal representative) or to a person to whom the Restricted Shares have been transferred in accordance with this Section 7.

**8. Responsibility for Taxes.** Regardless of any action the Company or, if different, your employer (the "**Employer**") takes with respect to any or all income tax, social insurance, payroll tax, fringe benefit tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("**Tax-Related Items**"), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer: (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Shares, including, but not limited to, the grant or vesting of the Restricted Shares, the subsequent sale of vested Restricted Shares and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the Award or any aspect of the Restricted Shares to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to tax in more than one jurisdiction, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, you will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, you authorize the Company, the Employer, and their respective agents, at their discretion, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following:

- (a) withholding from your wages or other cash compensation payable to you by the Company and/or the Employer;
- (b) withholding from proceeds of the sale of Restricted Shares issuable or issued to you upon vesting of the Restricted Shares either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization without your further consent or direction);
- (c) withholding earned and vested Restricted Shares upon vesting of such Restricted Shares;
- (d) requiring you to make a payment in cash by certified check acceptable to the Company or wire transfer; or
- (e) any other method determined by the Company, and to the extent required by applicable laws or the Plan, approved by the Administrator.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering statutory withholding rates or other withholding rates, including maximum rates applicable in your jurisdiction(s), in which case you may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding earned and vested Restricted Shares, you are deemed for tax purposes to have been issued the full number of earned and vested Restricted Shares notwithstanding that a number of the earned and vested Restricted Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan.

#### 9. **Non-Solicitation Covenants.**

(a) By accepting this Award, you hereby acknowledge and agree that (i) the Company has provided and will continue to provide you with access to confidential and proprietary information ("**Confidential Information**") of the Company and its subsidiaries (the "**Company Group**") for use only during your employment with the Company Group, (ii) the Company Group has entrusted you and will continue to entrust you, in your unique and special capacity, with developing the goodwill of the Company Group, and (iii) in consideration of the Company providing you with continued access to Confidential Information and as an express incentive for the Company to enter into this Agreement and grant you the Restricted Shares hereunder, you have voluntarily agreed to the non-solicitation covenants set forth in this Section 9. You agree and acknowledge that the limitations and restrictions set forth herein are reasonable in all respects, do not interfere with public interests, will not cause you undue hardship, and are material and substantial parts of this Agreement intended and necessary to prevent unfair competition and to protect the Company Group's business, Confidential Information, goodwill

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and legitimate business interests. You further acknowledge and agree that you are receiving new consideration by entering into this Agreement that includes sufficient and independent consideration for the non-solicitation covenants set forth herein.

(b) During the Restricted Period (defined below) you shall not, without the prior written approval of the Board of Directors of the Company, directly or indirectly, for yourself or on behalf of or in conjunction with any other person or entity of any nature:

(i) solicit, canvass, approach, encourage, entice or induce any customer, client, business partner or supplier of any member of the Company Group with whom or which you had contact on behalf of any member of the Company Group, or about whom or which you had access to Confidential Information, or for whom or which you had direct or indirect responsibility for on behalf of the Company Group to cease or lessen such customer's, client's, business partner's or supplier's business with any member of the Company Group; or

(ii) solicit, canvass, approach, encourage, entice or induce any employee or contractor of any member of the Company Group to terminate his, her or its employment or engagement with any member of the Company Group.

For purposes of this Section 9, the "**Restricted Period**" means the period that begins on the Award Date and ends on the earliest of (x) the date that is twelve (12) months following the date on which you cease to be a Service Provider for any reason other than due to your involuntary termination by the Company Group without Cause, (y) the date that is twelve (12) months following the date on which all of the Restricted Shares covered by this Award have become fully vested, or (z) the date on which you cease to be a Service Provider due to your involuntary termination by the Company Group without Cause.

(c) Because of the difficulty of measuring economic losses to the Company Group as a result of a breach or threatened breach of the covenants set forth in this Section 9, and because of the immediate and irreparable damage that would be caused to the members of the Company Group for which they would have no other adequate remedy, the Company and each other member of the Company Group shall be entitled to enforce the foregoing non-solicitation covenants, in the event of a breach or threatened breach, by injunctions and restraining orders from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's or any other member of the Company Group's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company and each other member of the Company Group at law and equity.

(d) The non-solicitation covenants in this Section 9, and each provision and portion hereof, are severable and separate, and the unenforceability of any specific covenant (or portion thereof) shall not affect the provisions of any other covenant (or portion thereof). Moreover, in the event any arbitrator or court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which such arbitrator or court deems reasonable, and this Agreement shall thereby be reformed.

(e) The covenants in this Section 9 are in addition to and complements (and does not replace or supersede) any obligation that you have to any member of the Company Group with respect to non-solicitation under any other written agreement between you and any member of the Company Group.

#### 10. **Other Terms and Conditions.**

(a) The Plan. The Agreement is further subject to the terms and provisions of the Plan. Only certain provisions of the Plan are described in the Agreement. As a condition to your receipt of this Award and the Restricted Shares covered hereby, you acknowledge and agree to the terms and conditions of the Agreement and the terms and provisions of the Plan, a copy of which you acknowledge receiving.

(b) **Employment/Service Relationship.** Nothing in the Agreement will confer on you any right to continue in the employ or service of the Company or the Employer or interfere with or restrict rights of the Company or the Employer, which are hereby expressly reserved, to terminate your employment or service at any time.

(c) **Claw-Back.** The Restricted Shares, the Retained Dividends, and any proceeds, gains or other economic benefit actually or constructively received by you upon the resale of any Restricted Shares, shall be subject to the provisions of (i) the Company's Policy for the Recovery of Erroneously Awarded Company (as the same may be amended or restated,

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the "**Claw-Back Policy**") and (ii) any other policy adopted or implemented by the Company that provides for the claw-back, recoupment or recovery of compensation (an "**Other Recovery Policy**"), to the extent set forth in such Claw-Back Policy or Other Recovery Policy.

(d) **Adjustments.** The Restricted Shares will be subject to adjustment (including, without limitation, as to the number of Restricted Shares) in such manner as the Administrator, in its sole discretion, deems equitable and appropriate in connection with the occurrence of any of the events described in Section 4(c) of the Plan following the Award Date.

11. **Nature of Grant.** By accepting this Award, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;

(b) the grant of the Restricted Shares to you is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of equity awards, or benefits in lieu of equity awards, even if equity awards have been granted to you in the past;

(c) all decisions with respect to future grants of equity awards, if any, will be at the sole discretion of the Company;

(d) you are voluntarily participating in the Plan;

(e) the Restricted Shares, and the value of and income from such Restricted Shares, are not intended to replace any pension rights, retirement benefits or other compensation;

(f) the Restricted Shares, and the value of and income from such Restricted Shares, are not part of normal or expected compensation or salary for any purpose;

(g) this Award and your participation in the Plan will not be interpreted to form an employment contract or other service relationship with the Company, the Employer or any Affiliate;

(h) the future value of the Restricted Shares is unknown and cannot be predicted with certainty; and

(i) no claim or entitlement to compensation or damages will arise from forfeiture of the Restricted Shares resulting from termination of your status as a Service Provider (for any reason whatsoever and whether or not in breach of applicable laws), and in consideration of the grant of this Award to which you are otherwise not entitled, you irrevocably agree to (i) never institute any such claim against the Company, the Employer or any of their respective Affiliates, (ii) waive your ability, if any, to bring any such claim against the Company, the Employer or any of their respective Affiliates, (iii) forever release the Company, the Employer and each of their respective Affiliates from any such claim, and (iv) execute any and all documents necessary, or reasonably requested by the Company, to request dismissal or withdrawal of any such claim that is allowed by a court of competent jurisdiction, in each case to the maximum extent permitted by applicable laws.

12. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the Restricted Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

13. **Data Privacy.** You understand that the Company and the Employer hold certain personal information about you, including, but not limited to, your name, home address, email address, and telephone number, date of birth, social insurance number, or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all Restricted Shares or any other entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in your favor (your "Data"), for the exclusive purpose of implementing, administering and managing the Plan.

You understand that it will be necessary for your Data to be collected, used and transferred, in electronic or other form, as described in the Agreement and any other award documentation by and among, as applicable, the Employer, the Company and any Affiliate. Such processing will be for the exclusive purpose of implementing, administering and

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managing your participation in the Plan, and therefore for the performance of the Agreement. The provision of your Data is a contractual requirement. Without the provision of your Data, it will not be possible for the Company and/or the Employer to perform their obligations under the Agreement.

You understand that, in performing the Agreement, it will be necessary for:

- your Data to be transferred to a Company-designated Plan broker, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan;
- the Company, its Plan broker and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan, to receive, possess, use, retain and transfer your Data, in electronic or other form, for the sole purpose of implementing, administering and managing your participation in the Plan; and
- your Data to be held only as long as is necessary to implement, administer and manage your participation in the Plan.

1. **Compliance with Laws and Regulations.** You will not require the Company to deliver any Restricted Shares or Retained Distributions and the Company will not be obligated to deliver any Restricted Shares or Retained Distributions if counsel to the Company determines that such delivery would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which shares of Stock are listed or quoted. The Company will in no event be obligated to take any affirmative action in order to cause the delivery of any Restricted Shares and Retained Distributions to comply with any such law, rule, regulation or agreement.

2. **Successors and Assigns.** The Company may assign any of its rights under the Agreement. The Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer contained herein, the Agreement will be binding upon you and your heirs, executors, administrators, legal representatives, successors and assigns.

3. **Governing Law; Jurisdiction; Severability.** The Agreement is to be governed by and construed in accordance with the internal laws of the State of Texas, as such laws are applied to agreements between Texas residents entered into and to be performed entirely within Texas, excluding that body of laws pertaining to conflict of laws. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the Company and you evidenced by this grant or the Agreement, the Company and you hereby submit to and consent to the exclusive jurisdiction of the State of Texas and agree that such litigation will be conducted only in the courts of Harris County, Texas, or the federal courts for the United States for the Southern District of Texas, and no other courts, where this grant is made and/or to be performed. If any provision of the Agreement is determined by a court of law to be illegal or unenforceable, in whole or in part, that provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

4. **Further Instruments.** You agree to execute further instruments and to take further actions as may be reasonably necessary to carry out the purposes and intent of the Agreement.

5. **Administrator Authority.** The Administrator has the power to interpret the Plan and the Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Shares or Retained Distributions have vested). All actions taken and all interpretations and determinations made by the Administrator will be final and binding upon you, the Company and all other interested persons. The Administrator will not be personally liable for any action, determination or interpretation made with respect to the Plan or the Agreement.

6. **Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by

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electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

7. **Headings.** The captions and headings of the Agreement are included for ease of reference only and will be disregarded in interpreting or construing the Agreement. All references herein to Sections will refer to Sections of these Terms and Conditions, unless otherwise noted.

8. **Waiver.** You acknowledge that a waiver by the Company of breach of any provision of the Agreement will not operate or be construed as a waiver of any other provision of the Agreement, or of any subsequent breach by you or any other Participant.

9. **Amendment.** Notwithstanding any other provision hereof, this Agreement may be supplemented or amended from time to time as approved by the Administrator as contemplated by Section 23 of the Plan. Without limiting the generality of the foregoing, without your consent,

- (a) this Agreement may be amended or supplemented from time to time as approved by the Administrator (i) to cure any ambiguity or to correct or supplement any provision herein that may be defective or inconsistent with any other provision herein, (ii) to add to the covenants and agreements of the Company for your benefit or surrender any right or power reserved to or conferred upon the Company in this Agreement, subject to any required approval of the Company's shareholders, and provided, in each case, that such changes or corrections will not adversely affect your rights with respect to the Award evidenced hereby or (iii) to make such other changes as the Company, upon advice of counsel, determines are necessary or advisable because of the adoption or promulgation of, or change in the interpretation of, any law or governmental rule or regulation, including any applicable federal or state securities laws; and
- (b) subject to any required action by the Board of Directors or the shareholders of the Company, the Award evidenced by this Agreement may be canceled by the Plan Administrator and a new Award made in substitution therefor, provided that the Award so substituted will satisfy all of the requirements of the Plan as of the date such new Award is made and no such action will adversely affect the Restricted Shares to the extent then earned and vested.

10. **Entire Agreement.** The Plan, these Terms and Conditions, the Grant Notice and your Employment Agreement (if applicable) constitute the entire agreement and understanding of the parties with respect to the subject matter of the Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties with respect to the specific subject matter hereof.

11. **Notices.** Unless the Company notifies the Grantee in writing of a different procedure or address, any notice or other communication to the Company with respect to this Agreement will be in writing and will be delivered personally or sent by first class mail, postage prepaid, to the address of the Company's principal office. Unless the Company elects to notify you electronically pursuant to the online grant and administration program or via email, any notice or other communication to you with respect to this Agreement will be in writing and will be delivered personally, or will be sent by first class mail, postage prepaid, to your address as listed in the records of the Company or any Subsidiary of the Company on the Award Date, unless the Company has received written notification from you of a change of address.

12. **Construction.** References in this Agreement to "this Agreement" and the words "herein," "hereof," "hereunder" and similar terms include all Exhibits and Schedules appended hereto, including the Plan. All references to "Sections" in this Agreement shall be to Sections of this Agreement unless explicitly stated otherwise. The word "include" and all variations thereof are used in an illustrative sense and not in a limiting sense. All decisions of the Administrator upon questions regarding the Plan or this Agreement will be conclusive. Unless otherwise expressly stated herein, in the event of any inconsistency between the terms of the Plan and this Agreement, the terms of the Plan will control. The headings of the sections of this Agreement have been included for convenience of reference only, are not to be considered a part hereof and will in no way modify or restrict any of the terms or provisions hereof.

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13. **Nonalienation of Benefits.** Except as provided in Section 7 and prior to the second anniversary vesting of any Restricted Share, (a) no right or benefit under this Agreement will be subject to anticipation, alienation, sale, assignment, hypothecation, pledge, exchange, transfer, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same will be void, and (b) no right or benefit hereunder will in any manner be subjected to or liable for the debts, contracts, liabilities or torts of you or other person entitled to such benefits.

14. **Limitations Applicable to Section 16 Persons.** Notwithstanding any other provision of the Merger Date, Plan or the second 33 1/3% Agreement, if you are subject to Section 16 of the Exchange Act, then the Plan, the Restricted Stock Award Shares and the Agreement shall vest, be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable laws, the Agreement shall be deemed amended to the extent unvested, on necessary to conform to such applicable exemptive rule.

15. **Section 409A.** Neither the Executive's Date Restricted Shares nor the Retained Distributions are intended to constitute "nonqualified deferred compensation" within the meaning of Termination Section 409A of the Code (together with any U.S. Department of Treasury regulations and the remainder shall other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be forfeited for no consideration, and (iii) during the period beginning on the day issued after the Term End Date and ending on the third anniversary date hereof, "Section 409A"). However, notwithstanding any other provision of the Merger Date, Plan or the Agreement, if at any

remaining unvested time the Administrator determines that the Restricted Shares or Retained Distributions (or any portion if of any of the Restricted Stock Award foregoing) may be subject to Section 409A, the Administrator shall vest on have the Executive's Date of Termination. Any vesting that occurs pursuant right in its sole discretion (without any obligation to do so or to indemnify you or any other person for failure to do so) to adopt such amendments to the Plan or the Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Restricted Shares and/or Retained Distributions to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

16. **Counterparts.** This Agreement may be executed in one or more counterparts, including by way of any electronic signature, subject to applicable law, each of which shall be deemed an original and all of which together shall constitute one instrument.

By signing the Grant Notice or otherwise accepting the Restricted Shares, you agree to be bound by terms of this paragraph is referred to as the "Accelerated Vesting". Notwithstanding the foregoing, the Executive shall be entitled to the Accelerated Vesting only if within fifty-two (52) days after the Executive's Date of Termination Executive shall have timely executed and returned to the Bank a Release Agreement and such Release Agreement shall not have been revoked within the revocation period specified in the Release Agreement. The Release Agreement must be executed and all revocation periods shall have expired within 60 days after the Executive's Date of Termination; failing which all benefits conditioned thereupon shall be forfeited. In the event the Executive receives the Accelerated Vesting but the Release Agreement does not become effective within 60 days after the Executive's Date of Termination, the Executive shall promptly return to the Company all Company stock (and the full amount of all associated accumulated dividends) that vested pursuant to this paragraph. Plan.

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Exhibit 31.1

# CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

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

1. I have reviewed this Quarterly Report on Form 10-Q of Stellar Bancorp, Inc.;
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 officers 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(s) 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: April 26, 2024 July 26, 2024

/s/ Robert R. Franklin, Jr.

Robert R. Franklin, Jr.  
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Paul P. Egge, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stellar Bancorp, Inc.;
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 officers 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(s) 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: April 26, 2024 July 26, 2024

/s/ Paul P. Egge

Paul P. Egge  
Chief Financial Officer



**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 (AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the Quarterly Report of Stellar Bancorp, Inc. (the "Company") on Form 10-Q for the period ending **March 31, 2024** **June 30, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert R. Franklin, Jr., 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:

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 operating results of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of **April 26, 2024** **July 26, 2024**.

/s/ Robert R. Franklin, Jr.

Robert R. Franklin, Jr.  
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 (AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the Quarterly Report of Stellar Bancorp, Inc. (the "Company") on Form 10-Q for the period ending **March 31, 2024** **June 30, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul P. Egge, 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:

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 operating results of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of **April 26, 2024** **July 26, 2024**.

/s/ Paul P. Egge

Paul P. Egge  
Chief Financial Officer



#### DISCLAIMER

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