

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

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 2019

☐ 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 001-34657

**TEXAS CAPITAL BANCSHARES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

75-2679109

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

2000 McKinney Avenue

Suite 700

Dallas TX USA

(Address of principal executive offices)

75201

(Zip Code)

(214) 932-6600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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                                           | TCBI              | Nasdaq Stock Market                       |
| 6.5% Non-Cumulative Perpetual Preferred Stock Series A, par value \$0.01 per share | TCBIP             | Nasdaq Stock Market                       |

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

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

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

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large Accelerated Filer | <input checked="" type="checkbox"/> | Accelerated Filer         | <input type="checkbox"/> |
| Non-Accelerated Filer   | <input type="checkbox"/>            | Smaller Reporting Company | <input type="checkbox"/> |
| Emerging Growth Company | <input type="checkbox"/>            |                           |                          |

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 ☒

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

On October 16, 2019, the number of shares set forth below was outstanding with respect to each of the issuer's classes of common stock:

Common Stock, par value \$0.01 per share 50,320,553

## Table of Contents

Texas Capital Bancshares, Inc.  
Form 10-Q  
Quarter Ended September 30, 2019

Index

### Part I. Financial Information

|         |                                                                                                              |                           |
|---------|--------------------------------------------------------------------------------------------------------------|---------------------------|
| Item 1. | <a href="#"><u>Financial Statements</u></a>                                                                  | <a href="#"><u>3</u></a>  |
|         | <a href="#"><u>Consolidated Balance Sheets - Unaudited</u></a>                                               | <a href="#"><u>4</u></a>  |
|         | <a href="#"><u>Consolidated Statements of Income and Other Comprehensive Income - Unaudited</u></a>          | <a href="#"><u>5</u></a>  |
|         | <a href="#"><u>Consolidated Statements of Stockholders' Equity - Unaudited</u></a>                           | <a href="#"><u>6</u></a>  |
|         | <a href="#"><u>Consolidated Statements of Cash Flows - Unaudited</u></a>                                     | <a href="#"><u>8</u></a>  |
|         | <a href="#"><u>Notes to Consolidated Financial Statements - Unaudited</u></a>                                | <a href="#"><u>9</u></a>  |
| Item 2. | <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a> | <a href="#"><u>29</u></a> |
|         | <a href="#"><u>Quarterly Financial Summaries - Unaudited</u></a>                                             | <a href="#"><u>32</u></a> |
| Item 3. | <a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>                            | <a href="#"><u>43</u></a> |
| Item 4. | <a href="#"><u>Controls and Procedures</u></a>                                                               | <a href="#"><u>46</u></a> |

### Part II. Other Information

|          |                                          |                           |
|----------|------------------------------------------|---------------------------|
| Item 1.  | <a href="#"><u>Legal Proceedings</u></a> | <a href="#"><u>46</u></a> |
| Item 1A. | <a href="#"><u>Risk Factors</u></a>      | <a href="#"><u>46</u></a> |
| Item 6.  | <a href="#"><u>Exhibits</u></a>          | <a href="#"><u>47</u></a> |

|                                   |                           |
|-----------------------------------|---------------------------|
| <a href="#"><u>Signatures</u></a> | <a href="#"><u>48</u></a> |
|-----------------------------------|---------------------------|

---

[Table of Contents](#)

**PART I - FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

| (in thousands except share data)                                                                                        | September 30,<br>2019 | December 31, 2018 |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------|
|                                                                                                                         | (Unaudited)           |                   |
| <b>Assets</b>                                                                                                           |                       |                   |
| Cash and due from banks                                                                                                 | \$ 216,085            | \$ 214,191        |
| Interest-bearing deposits in other banks                                                                                | 4,968,185             | 2,815,684         |
| Federal funds sold and securities purchased under resale agreements                                                     | 25,000                | 50,190            |
| Investment securities                                                                                                   | 238,022               | 120,216           |
| Loans held for sale (\$2,667.2 million at September 30, 2019 and \$1,969.2 million at December 31, 2018, at fair value) | 2,674,225             | 1,969,474         |
| Loans held for investment, mortgage finance                                                                             | 7,951,432             | 5,877,524         |
| Loans held for investment (net of unearned income)                                                                      | 16,772,824            | 16,690,550        |
| Less: Allowance for loan losses                                                                                         | 190,138               | 191,522           |
| Loans held for investment, net                                                                                          | 24,534,118            | 22,376,552        |
| Mortgage servicing rights, net                                                                                          | 49,125                | 42,474            |
| Premises and equipment, net                                                                                             | 32,667                | 23,802            |
| Accrued interest receivable and other assets                                                                            | 770,793               | 626,614           |
| Goodwill and intangible assets, net                                                                                     | 18,217                | 18,570            |
| Total assets                                                                                                            | \$ 33,526,437         | \$ 28,257,767     |
| <b>Liabilities and Stockholders' Equity</b>                                                                             |                       |                   |
| Liabilities:                                                                                                            |                       |                   |
| Deposits:                                                                                                               |                       |                   |
| Non-interest-bearing                                                                                                    | \$ 10,289,572         | \$ 7,317,161      |
| Interest-bearing                                                                                                        | 17,123,731            | 13,288,952        |
| Total deposits                                                                                                          | 27,413,303            | 20,606,113        |
| Accrued interest payable                                                                                                | 34,336                | 20,675            |
| Other liabilities                                                                                                       | 285,954               | 194,238           |
| Federal funds purchased and repurchase agreements                                                                       | 139,967               | 641,174           |
| Other borrowings                                                                                                        | 2,500,000             | 3,900,000         |
| Subordinated notes, net                                                                                                 | 282,038               | 281,767           |
| Trust preferred subordinated debentures                                                                                 | 113,406               | 113,406           |
| Total liabilities                                                                                                       | 30,769,004            | 25,757,373        |
| Stockholders' equity:                                                                                                   |                       |                   |
| Preferred stock, \$.01 par value, \$1,000 liquidation value:                                                            |                       |                   |
| Authorized shares—10,000,000                                                                                            |                       |                   |
| Issued shares—6,000,000 shares issued at September 30, 2019 and December 31, 2018                                       | 150,000               | 150,000           |
| Common stock, \$.01 par value:                                                                                          |                       |                   |
| Authorized shares—100,000,000                                                                                           |                       |                   |
| Issued shares— 50,318,071 and 50,201,127 at September 30, 2019 and December 31, 2018, respectively                      | 503                   | 502               |
| Additional paid-in capital                                                                                              | 974,799               | 967,890           |
| Retained earnings                                                                                                       | 1,623,128             | 1,381,492         |
| Treasury stock (shares at cost: 417 at September 30, 2019 and December 31, 2018)                                        | (8)                   | (8)               |
| Accumulated other comprehensive income, net of taxes                                                                    | 9,011                 | 518               |
| Total stockholders' equity                                                                                              | 2,757,433             | 2,500,394         |
| Total liabilities and stockholders' equity                                                                              | \$ 33,526,437         | \$ 28,257,767     |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND OTHER**  
**COMPREHENSIVE INCOME -UNAUDITED**

| (in thousands except per share data)                                                                     | Three months ended September 30, |            | Nine months ended September 30, |            |
|----------------------------------------------------------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                                                                                          | 2019                             | 2018       | 2019                            | 2018       |
| <b>Interest income</b>                                                                                   |                                  |            |                                 |            |
| Interest and fees on loans                                                                               | \$ 329,344                       | \$ 291,189 | \$ 971,889                      | \$ 814,500 |
| Investment securities                                                                                    | 2,316                            | 1,161      | 6,036                           | 1,560      |
| Federal funds sold and securities purchased under resale agreements                                      | 554                              | 1,018      | 1,090                           | 2,808      |
| Interest-bearing deposits in other banks                                                                 | 22,887                           | 8,386      | 48,540                          | 23,607     |
| Total interest income                                                                                    | 355,101                          | 301,754    | 1,027,555                       | 842,475    |
| <b>Interest expense</b>                                                                                  |                                  |            |                                 |            |
| Deposits                                                                                                 | 80,967                           | 52,034     | 222,550                         | 123,343    |
| Federal funds purchased                                                                                  | 1,835                            | 1,800      | 10,553                          | 4,434      |
| Other borrowings                                                                                         | 14,703                           | 10,317     | 46,681                          | 24,481     |
| Subordinated notes                                                                                       | 4,191                            | 4,191      | 12,573                          | 12,573     |
| Trust preferred subordinated debentures                                                                  | 1,237                            | 1,237      | 3,863                           | 3,457      |
| Total interest expense                                                                                   | 102,933                          | 69,579     | 296,220                         | 168,288    |
| <b>Net interest income</b>                                                                               | 252,168                          | 232,175    | 731,335                         | 674,187    |
| <b>Provision for credit losses</b>                                                                       | 11,000                           | 13,000     | 58,000                          | 52,000     |
| <b>Net interest income after provision for credit losses</b>                                             | 241,168                          | 219,175    | 673,335                         | 622,187    |
| <b>Non-interest income</b>                                                                               |                                  |            |                                 |            |
| Service charges on deposit accounts                                                                      | 2,707                            | 3,477      | 8,535                           | 9,619      |
| Wealth management and trust fee income                                                                   | 2,330                            | 2,065      | 6,468                           | 5,996      |
| Brokered loan fees                                                                                       | 8,691                            | 6,141      | 21,093                          | 17,124     |
| Servicing income                                                                                         | 3,549                            | 4,987      | 9,409                           | 15,446     |
| Swap fees                                                                                                | 1,196                            | 1,355      | 2,828                           | 4,269      |
| Net gain/(loss) on sale of loans held for sale                                                           | (6,011)                          | (444)      | (12,502)                        | (7,847)    |
| Other                                                                                                    | 7,839                            | 7,937      | 38,848                          | 18,137     |
| Total non-interest income                                                                                | 20,301                           | 25,518     | 74,679                          | 62,744     |
| <b>Non-interest expense</b>                                                                              |                                  |            |                                 |            |
| Salaries and employee benefits                                                                           | 80,106                           | 77,327     | 234,818                         | 222,268    |
| Net occupancy expense                                                                                    | 8,125                            | 8,362      | 23,914                          | 22,952     |
| Marketing                                                                                                | 14,753                           | 10,214     | 40,548                          | 29,127     |
| Legal and professional                                                                                   | 11,394                           | 10,764     | 31,428                          | 29,948     |
| Communications and technology                                                                            | 10,805                           | 7,435      | 31,025                          | 21,211     |
| FDIC insurance assessment                                                                                | 5,220                            | 6,524      | 14,480                          | 18,884     |
| Servicing related expenses                                                                               | 8,165                            | 4,207      | 19,613                          | 12,379     |
| Allowance and other carrying costs for other real estate owned                                           | 2                                | (1,864)    | 2                               | 467        |
| Other                                                                                                    | 10,800                           | 13,174     | 35,481                          | 37,998     |
| Total non-interest expense                                                                               | 149,370                          | 136,143    | 431,309                         | 395,234    |
| <b>Income before income taxes</b>                                                                        | 112,099                          | 108,550    | 316,705                         | 289,697    |
| Income tax expense                                                                                       | 23,958                           | 22,998     | 67,756                          | 60,764     |
| <b>Net income</b>                                                                                        | 88,141                           | 85,552     | 248,949                         | 228,933    |
| <b>Preferred stock dividends</b>                                                                         | 2,438                            | 2,438      | 7,313                           | 7,313      |
| <b>Net income available to common stockholders</b>                                                       | \$ 85,703                        | \$ 83,114  | \$ 241,636                      | \$ 221,620 |
| <b>Other comprehensive income (loss)</b>                                                                 |                                  |            |                                 |            |
| Change in unrealized gain (loss) on available-for-sale debt securities arising during period, before tax | \$ 884                           | \$ (2,223) | \$ 10,752                       | \$ (2,390) |
| Income tax expense (benefit) related to unrealized loss on available-for-sale debt securities            | 186                              | (467)      | 2,259                           | (502)      |
| Other comprehensive income (loss), net of tax                                                            | 698                              | (1,756)    | 8,493                           | (1,888)    |
| <b>Comprehensive income</b>                                                                              | \$ 88,839                        | \$ 83,796  | \$ 257,442                      | \$ 227,045 |
| <b>Basic earnings per common share</b>                                                                   | \$ 1.70                          | \$ 1.66    | \$ 4.81                         | \$ 4.45    |

|                                   |    |      |    |      |    |      |    |      |
|-----------------------------------|----|------|----|------|----|------|----|------|
| Diluted earnings per common share | \$ | 1.70 | \$ | 1.65 | \$ | 4.80 | \$ | 4.41 |
|-----------------------------------|----|------|----|------|----|------|----|------|

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED**

| <i>(in thousands except share data)</i>                                                 | Preferred Stock |            | Common Stock |        | Additional         | Retained    | Treasury Stock |        | Accumulated                      | Total        |
|-----------------------------------------------------------------------------------------|-----------------|------------|--------------|--------|--------------------|-------------|----------------|--------|----------------------------------|--------------|
|                                                                                         | Shares          | Amount     | Shares       | Amount | Paid-in<br>Capital | Earnings    | Shares         | Amount | Other<br>Comprehensive<br>Income |              |
| Balance at June 30, 2018                                                                | 6,000,000       | \$ 150,000 | 50,151,481   | \$ 502 | \$ 963,732         | \$1,228,924 | (417)          | \$ (8) | \$ 380                           | \$ 2,343,530 |
| Comprehensive income:                                                                   |                 |            |              |        |                    |             |                |        |                                  |              |
| Net income                                                                              | —               | —          | —            | —      | —                  | 85,552      | —              | —      | —                                | 85,552       |
| Change in unrealized gain on<br>available-for-sale securities,<br>net of taxes of \$467 | —               | —          | —            | —      | —                  | —           | —              | —      | (1,756)                          | (1,756)      |
| Total comprehensive income                                                              |                 |            |              |        |                    |             |                |        |                                  | 83,796       |
| Stock-based compensation expense<br>recognized in earnings                              | —               | —          | —            | —      | 2,292              | —           | —              | —      | —                                | 2,292        |
| Preferred stock dividend                                                                | —               | —          | —            | —      | —                  | (2,438)     | —              | —      | —                                | (2,438)      |
| Issuance of stock related to stock-<br>based awards                                     | —               | —          | 25,989       | —      | (738)              | —           | —              | —      | —                                | (738)        |
| Issuance of common stock related<br>to warrants                                         | —               | —          | 207          | —      | —                  | —           | —              | —      | —                                | —            |
| Balance at September 30, 2018                                                           | 6,000,000       | \$ 150,000 | 50,177,677   | \$ 502 | \$ 965,286         | \$1,312,038 | (417)          | \$ (8) | \$ (1,376)                       | \$ 2,426,442 |
| Balance at June 30, 2019                                                                | 6,000,000       | \$ 150,000 | 50,297,969   | \$ 503 | \$ 972,219         | \$1,537,425 | (417)          | \$ (8) | \$ 8,313                         | \$ 2,668,452 |
| Comprehensive income:                                                                   |                 |            |              |        |                    |             |                |        |                                  |              |
| Net income                                                                              | —               | —          | —            | —      | —                  | 88,141      | —              | —      | —                                | 88,141       |
| Change in unrealized gain on<br>available-for-sale securities,<br>net of taxes of \$186 | —               | —          | —            | —      | —                  | —           | —              | —      | 698                              | 698          |
| Total comprehensive income                                                              |                 |            |              |        |                    |             |                |        |                                  | 88,839       |
| Stock-based compensation expense<br>recognized in earnings                              | —               | —          | —            | —      | 3,023              | —           | —              | —      | —                                | 3,023        |
| Preferred stock dividend                                                                | —               | —          | —            | —      | —                  | (2,438)     | —              | —      | —                                | (2,438)      |
| Issuance of stock related to stock-<br>based awards                                     | —               | —          | 20,102       | —      | (443)              | —           | —              | —      | —                                | (443)        |
| Issuance of common stock related<br>to warrants                                         | —               | —          | —            | —      | —                  | —           | —              | —      | —                                | —            |
| Balance at September 30, 2019                                                           | 6,000,000       | \$ 150,000 | 50,318,071   | \$ 503 | \$ 974,799         | \$1,623,128 | (417)          | \$ (8) | \$ 9,011                         | \$ 2,757,433 |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED - CONTINUED**

| (in thousands except share data)                                                    | Preferred Stock |            | Common Stock |        | Additional      | Retained    | Treasury Stock |        | Accumulated                | Total        |
|-------------------------------------------------------------------------------------|-----------------|------------|--------------|--------|-----------------|-------------|----------------|--------|----------------------------|--------------|
|                                                                                     | Shares          | Amount     | Shares       | Amount | Paid-in Capital | Earnings    | Shares         | Amount | Other Comprehensive Income |              |
| Balance at December 31, 2017 (audited)                                              | 6,000,000       | \$ 150,000 | 49,643,761   | \$ 496 | \$ 961,305      | \$1,090,500 | (417)          | \$ (8) | \$ 428                     | \$ 2,202,721 |
| Impact of adoption of new accounting standards(1)                                   |                 |            |              |        |                 | (82)        |                |        | 84                         | 2            |
| Comprehensive income:                                                               |                 |            |              |        |                 |             |                |        |                            |              |
| Net income                                                                          | —               | —          | —            | —      | —               | 228,933     | —              | —      | —                          | 228,933      |
| Change in unrealized gain on available-for-sale securities, net of taxes of \$502   | —               | —          | —            | —      | —               | —           | —              | —      | (1,888)                    | (1,888)      |
| Total comprehensive income                                                          |                 |            |              |        |                 |             |                |        |                            | 227,045      |
| Stock-based compensation expense recognized in earnings                             | —               | —          | —            | —      | 6,383           | —           | —              | —      | —                          | 6,383        |
| Preferred stock dividend                                                            | —               | —          | —            | —      | —               | (7,313)     | —              | —      | —                          | (7,313)      |
| Issuance of stock related to stock-based awards                                     | —               | —          | 97,061       | 1      | (2,397)         | —           | —              | —      | —                          | (2,396)      |
| Issuance of common stock related to warrants                                        | —               | —          | 436,855      | 5      | (5)             | —           | —              | —      | —                          | —            |
| Balance at September 30, 2018                                                       | 6,000,000       | \$ 150,000 | 50,177,677   | \$ 502 | \$ 965,286      | \$1,312,038 | (417)          | \$ (8) | \$ (1,376)                 | \$ 2,426,442 |
| Balance at December 31, 2018 (audited)                                              | 6,000,000       | \$ 150,000 | 50,201,127   | \$ 502 | \$ 967,890      | \$1,381,492 | (417)          | \$ (8) | \$ 518                     | \$ 2,500,394 |
| Comprehensive income:                                                               |                 |            |              |        |                 |             |                |        |                            |              |
| Net income                                                                          | —               | —          | —            | —      | —               | 248,949     | —              | —      | —                          | 248,949      |
| Change in unrealized gain on available-for-sale securities, net of taxes of \$2,259 | —               | —          | —            | —      | —               | —           | —              | —      | 8,493                      | 8,493        |
| Total comprehensive income                                                          |                 |            |              |        |                 |             |                |        |                            | 257,442      |
| Stock-based compensation expense recognized in earnings                             | —               | —          | —            | —      | 8,565           | —           | —              | —      | —                          | 8,565        |
| Preferred stock dividend                                                            | —               | —          | —            | —      | —               | (7,313)     | —              | —      | —                          | (7,313)      |
| Issuance of stock related to stock-based awards                                     | —               | —          | 108,176      | 1      | (1,656)         | —           | —              | —      | —                          | (1,655)      |
| Issuance of common stock related to warrants                                        | —               | —          | 8,768        | —      | —               | —           | —              | —      | —                          | —            |
| Balance at September 30, 2019                                                       | 6,000,000       | \$ 150,000 | 50,318,071   | \$ 503 | \$ 974,799      | \$1,623,128 | (417)          | \$ (8) | \$ 9,011                   | \$ 2,757,433 |

(1) Represents the impact of adopting Accounting Standard Update ("ASU") 2018-02 and ASU 2016-01. See Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 for more information.

[Table of Contents](#)

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED**

|                                                                                   | Nine months ended September 30, |                    |
|-----------------------------------------------------------------------------------|---------------------------------|--------------------|
| (in thousands)                                                                    | 2019                            | 2018               |
| <b>Operating activities</b>                                                       |                                 |                    |
| Net income                                                                        | \$ 248,949                      | \$ 228,933         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                    |
| Provision for credit losses                                                       | 58,000                          | 52,000             |
| Depreciation and amortization                                                     | 25,754                          | 24,776             |
| Net (gain)/loss on sale of loans held for sale                                    | 12,502                          | 7,847              |
| Increase (decrease) in valuation allowance on mortgage servicing rights           | 8,360                           | (2,823)            |
| Stock-based compensation expense                                                  | 12,973                          | 15,633             |
| Purchases and originations of loans held for sale                                 | (7,288,823)                     | (5,012,188)        |
| Proceeds from sales and repayments of loans held for sale                         | 6,534,879                       | 4,321,485          |
| Changes in operating assets and liabilities:                                      |                                 |                    |
| Accrued interest receivable and other assets                                      | (156,472)                       | (80,731)           |
| Accrued interest payable and other liabilities                                    | 114,282                         | 33,920             |
| <b>Net cash used in operating activities</b>                                      | <b>(429,596)</b>                | <b>(411,148)</b>   |
| <b>Investing activities</b>                                                       |                                 |                    |
| Purchases of investment securities                                                | (111,131)                       | (99,295)           |
| Principal payments received on investment securities                              | 5,534                           | 2,998              |
| Originations of mortgage finance loans                                            | (99,799,613)                    | (73,661,362)       |
| Proceeds from pay-offs of mortgage finance loans                                  | 97,725,705                      | 73,491,735         |
| Net increase in loans held for investment, excluding mortgage finance loans       | (143,741)                       | (1,248,423)        |
| Purchase of premises and equipment, net                                           | (15,047)                        | (5,655)            |
| Proceeds from sale of MSRs                                                        | —                               | 22,439             |
| Proceeds from sale of other real estate owned, net                                | 79                              | 13,645             |
| <b>Net cash used in investing activities</b>                                      | <b>(2,338,214)</b>              | <b>(1,483,918)</b> |
| <b>Financing activities</b>                                                       |                                 |                    |
| Net increase in deposits                                                          | 6,807,190                       | 1,262,457          |
| Costs from issuance of stock related to stock-based awards and warrants           | (1,655)                         | (2,396)            |
| Preferred dividends paid                                                          | (7,313)                         | (7,313)            |
| Net increase/(decrease) in other borrowings                                       | (1,400,000)                     | 400,000            |
| Net increase/(decrease) in Federal funds purchased and repurchase agreements      | (501,207)                       | 121,778            |
| <b>Net cash provided by financing activities</b>                                  | <b>4,897,015</b>                | <b>1,774,526</b>   |
| Net increase/(decrease) in cash and cash equivalents                              | 2,129,205                       | (120,540)          |
| Cash and cash equivalents at beginning of period                                  | 3,080,065                       | 2,905,591          |
| Cash and cash equivalents at end of period                                        | \$ 5,209,270                    | \$ 2,785,051       |
| Supplemental disclosures of cash flow information:                                |                                 |                    |
| Cash paid during the period for interest                                          | \$ 282,559                      | \$ 158,750         |
| Cash paid during the period for income taxes                                      | 85,314                          | 64,225             |

See accompanying notes to consolidated financial statements.

## **(1) Operations and Summary of Significant Accounting Policies**

### **Organization and Nature of Business**

Texas Capital Bancshares, Inc. (the "Company"), a Delaware corporation, was incorporated in November 1996 and commenced banking operations in December 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association (the "Bank"). We serve the needs of commercial businesses and successful professionals and entrepreneurs located in Texas as well as operate several lines of business serving a regional or national clientele of commercial borrowers. We are primarily a secured lender, with the majority of our loans held for investment, excluding mortgage finance loans and other national lines of business, being made to businesses headquartered or with operations in Texas. Our national lines of business provide specialized lending products to businesses throughout the United States.

### **Basis of Presentation**

Our accounting and reporting policies conform to accounting principles generally accepted in the United States ("GAAP") and to generally accepted practices within the banking industry. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements are unaudited and certain information and footnote disclosures presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2018, included in our Annual Report on Form 10-K filed with the SEC on February 14, 2019 (the "2018 Form 10-K"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

### **Accounting Changes**

ASU 2016-02 "*Leases (Topic 842)*" ("ASU 2016-02") requires that lessees and lessors recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was effective for us on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption with the option to elect certain practical expedients. We have elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and have not restated comparative periods. Of the optional practical expedients available under ASU 2016-02, we have adopted all expedients except for the hindsight practical expedient.

Our operating leases relate primarily to office space and bank branches. As a result of implementing ASU 2016-02, we recognized an operating lease right-of-use ("ROU") asset of \$64 million and an operating lease liability of \$74 million on January 1, 2019, with no impact on our consolidated statement of income or consolidated statement of cash flows compared to the prior lease accounting model. The ROU asset and operating lease liability are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. See Note 7 - Leases for additional information.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of financial instruments and the status of contingencies are particularly susceptible to significant change.

## (2) Earnings Per Share

The following table presents the computation of basic and diluted earnings per share:

| (in thousands except per share data)                                                                 | Three months ended September 30, |            | Nine months ended September 30, |            |
|------------------------------------------------------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                                                                                      | 2019                             | 2018       | 2019                            | 2018       |
| Numerator:                                                                                           |                                  |            |                                 |            |
| Net income                                                                                           | \$ 88,141                        | \$ 85,552  | \$ 248,949                      | \$ 228,933 |
| Preferred stock dividends                                                                            | 2,438                            | 2,438      | 7,313                           | 7,313      |
| Net income available to common stockholders                                                          | \$ 85,703                        | \$ 83,114  | \$ 241,636                      | \$ 221,620 |
| Denominator:                                                                                         |                                  |            |                                 |            |
| Denominator for basic earnings per share—weighted average shares                                     | 50,305,844                       | 50,163,433 | 50,273,485                      | 49,853,515 |
| Effect of employee stock-based awards(1)                                                             | 110,558                          | 207,391    | 119,277                         | 240,376    |
| Effect of warrants to purchase common stock                                                          | —                                | 10,525     | —                               | 115,537    |
| Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions | 50,416,402                       | 50,381,349 | 50,392,762                      | 50,209,428 |
| Basic earnings per common share                                                                      | \$ 1.70                          | \$ 1.66    | \$ 4.81                         | \$ 4.45    |
| Diluted earnings per common share                                                                    | \$ 1.70                          | \$ 1.65    | \$ 4.80                         | \$ 4.41    |

(1) SARs and RSUs outstanding of 107,615 at September 30, 2019 and 4,000 at September 30, 2018 have not been included in diluted earnings per share because to do so would have been antidilutive for the periods presented.

## (3) Investment Securities

### Available-for-Sale Debt Securities

The following is a summary of available-for-sale debt securities:

| (in thousands)                         | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|----------------------------------------|----------------|------------------------|-------------------------|----------------------|
| <b>September 30, 2019</b>              |                |                        |                         |                      |
| Available-for-sale debt securities:    |                |                        |                         |                      |
| Residential mortgage-backed securities | \$ 5,594       | \$ 324                 | \$ —                    | \$ 5,918             |
| Tax-exempt asset-backed securities     | 183,273        | 14,340                 | —                       | 197,613              |
| Credit risk transfer securities        | 14,713         | —                      | (3,258)                 | 11,455               |
|                                        | \$ 203,580     | \$ 14,664              | \$ (3,258)              | \$ 214,986           |
| <b>December 31, 2018</b>               |                |                        |                         |                      |
| Available-for-sale debt securities:    |                |                        |                         |                      |
| Residential mortgage-backed securities | \$ 6,874       | \$ 368                 | \$ —                    | \$ 7,242             |
| Tax-exempt asset-backed securities     | 95,518         | 286                    | —                       | 95,804               |
|                                        | \$ 102,392     | \$ 654                 | \$ —                    | \$ 103,046           |

During the first quarter of 2019, we acquired a \$92.0 million tax-exempt security backed with underlying cash flows from municipal revenue bonds, as well as \$15.0 million in credit risk transfer ("CRT") securities. The securities were all recorded as available-for-sale upon acquisition and subsequently marked to fair value as of quarter end.

CRT securities represent unsecured obligations issued by government sponsored entities ("GSEs") such as Freddie Mac and are designed to transfer mortgage credit risk from the GSE to private investors. CRT securities are structured to be subject to the performance of a reference pool of mortgage loans in which we share in 50% of the first losses with the GSE. If the reference pool incurs losses, the amount we will recover on the notes is reduced by our share of the amount of such losses, which could potentially be up to 100% of the amount outstanding. The CRT securities are generally interest-only for an initial period of time and are restricted from being transferred until a future date.

[Table of Contents](#)

The amortized cost and estimated fair value of available-for-sale debt securities are presented below by contractual maturity:

| <i>(in thousands, except percentage data)</i> | Less Than<br>One Year | After One<br>Through<br>Five Years | After Five<br>Through<br>Ten Years | After Ten<br>Years | Total      |
|-----------------------------------------------|-----------------------|------------------------------------|------------------------------------|--------------------|------------|
| <b>September 30, 2019</b>                     |                       |                                    |                                    |                    |            |
| Available-for-sale:                           |                       |                                    |                                    |                    |            |
| Residential mortgage-backed securities:(1)    |                       |                                    |                                    |                    |            |
| Amortized cost                                | \$ —                  | \$ 1,135                           | \$ —                               | \$ 4,459           | \$ 5,594   |
| Estimated fair value                          | —                     | 1,232                              | —                                  | 4,686              | 5,918      |
| Weighted average yield(3)                     | —%                    | 5.54%                              | —%                                 | 4.68%              | 4.86%      |
| Tax-exempt asset-backed securities:(1)        |                       |                                    |                                    |                    |            |
| Amortized Cost                                | —                     | —                                  | —                                  | 183,273            | 183,273    |
| Estimated fair value                          | —                     | —                                  | —                                  | 197,613            | 197,613    |
| Weighted average yield(2)(3)                  | —%                    | —%                                 | —%                                 | 4.20%              | 4.20%      |
| CRT securities:(1)                            |                       |                                    |                                    |                    |            |
| Amortized Cost                                | —                     | —                                  | —                                  | 14,713             | 14,713     |
| Estimated fair value                          | —                     | —                                  | —                                  | 11,455             | 11,455     |
| Weighted average yield(3)                     | —%                    | —%                                 | —%                                 | 2.15%              | 2.15%      |
| Total available-for-sale debt securities:     |                       |                                    |                                    |                    |            |
| Amortized cost                                |                       |                                    |                                    |                    | \$ 203,580 |
| Estimated fair value                          |                       |                                    |                                    |                    | \$ 214,986 |

**December 31, 2018**

|                                            |       |          |      |          |            |
|--------------------------------------------|-------|----------|------|----------|------------|
| Available-for-sale:                        |       |          |      |          |            |
| Residential mortgage-backed securities:(1) |       |          |      |          |            |
| Amortized cost                             | \$ 3  | \$ 1,573 | \$ — | \$ 5,298 | \$ 6,874   |
| Estimated fair value                       | 4     | 1,668    | —    | 5,570    | 7,242      |
| Weighted average yield(3)                  | 6.50% | 5.54%    | —%   | 4.53%    | 4.76%      |
| Tax-exempt asset-backed securities:(1)     |       |          |      |          |            |
| Amortized Cost                             | —     | —        | —    | 95,518   | 95,518     |
| Estimated fair value                       | —     | —        | —    | 95,804   | 95,804     |
| Weighted average yield(2)(3)               | —%    | —%       | —%   | 4.25%    | 4.25%      |
| Total available-for-sale debt securities:  |       |          |      |          |            |
| Amortized cost                             |       |          |      |          | \$ 102,392 |
| Estimated fair value                       |       |          |      |          | \$ 103,046 |

- (1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.
- (2) Yields have been adjusted to a tax equivalent basis assuming a 21% federal tax rate.
- (3) Yields are calculated based on amortized cost.

The following table discloses our available-for-sale debt securities as of September 30, 2019 that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

| <b>September 30, 2019</b><br><i>(in thousands)</i> | Less Than 12 Months |                 | 12 Months or Longer |                 | Total      |                 |
|----------------------------------------------------|---------------------|-----------------|---------------------|-----------------|------------|-----------------|
|                                                    | Fair Value          | Unrealized Loss | Fair Value          | Unrealized Loss | Fair Value | Unrealized Loss |
| CRT securities                                     | \$ 11,455           | \$ (3,258)      | \$ —                | \$ —            | \$ 11,455  | \$ (3,258)      |

At September 30, 2019, the CRT securities were the only available-for-sale debt securities in an unrealized loss position. There were no available-for-sale debt securities in an unrealized loss position at December 31, 2018.

## [Table of Contents](#)

We conduct periodic reviews of securities with unrealized losses to evaluate whether the impairment is other-than-temporary. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income ("AOCI") for available-for-sale debt securities. When we have the intent to sell or we believe we will more likely than not be required to sell an available-for-sale debt security, the entire excess of its amortized cost basis over its fair value is recognized in earnings. For available-for-sale debt securities that we do not intend to sell and are not likely to be required to sell, only the credit-related impairment is recognized in earnings and any non-credit-related impairment is recorded in AOCI.

Based on the results of our periodic review of available-for-sale debt securities in an unrealized loss position at March 31, 2019, we recorded a \$331,000 other-than-temporary credit-related impairment on the CRT securities, reducing the amortized cost of the securities. The loss was measured as the excess of the amortized costs basis of the security over the present value of cash flows expected to be collected and was recorded in other non-interest expense. Based on the results of our periodic review at September 30, 2019, no additional other-than-temporary credit-related impairment was recorded. These securities also have unrealized losses, which we do not believe are other-than-temporary. We have evaluated the near-term prospects of the investments in relation to the severity and duration of the unrealized losses and based on that evaluation have determined that we have the ability and intent to hold the investments until recovery of fair value.

Available-for-sale debt securities with carrying values of approximately \$3.9 million and \$1.4 million were pledged to secure certain customer repurchase agreements and deposits, respectively, at September 30, 2019. The comparative amounts at December 31, 2018 were \$4.8 million and \$1.7 million, respectively.

### Equity Securities

Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan. At September 30, 2019 and December 31, 2018, we had \$23.0 million and \$17.2 million, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains/(losses) recognized on equity securities and included in other non-interest income in the consolidated statements of income:

| (in thousands)                                                                             | Three months ended September 30, |        | Nine months ended September 30, |         |
|--------------------------------------------------------------------------------------------|----------------------------------|--------|---------------------------------|---------|
|                                                                                            | 2019                             | 2018   | 2019                            | 2018    |
| Net gains/(losses) recognized during the period                                            | \$ 37                            | \$ 253 | \$ 1,876                        | \$ 149  |
| Less: Realized net gains/(losses) recognized during the period on equity securities sold   | 111                              | 18     | 87                              | 180     |
| Unrealized net gains/(losses) recognized during the period on equity securities still held | \$ (74)                          | \$ 235 | \$ 1,789                        | \$ (31) |

### (4) Loans Held for Investment and Allowance for Loan Losses

Loans held for investment are summarized by portfolio segment as follows:

| (in thousands)                                    | September 30, 2019 | December 31, 2018 |
|---------------------------------------------------|--------------------|-------------------|
| Commercial                                        | \$ 10,377,952      | \$ 10,373,288     |
| Mortgage finance(1)                               | 7,951,432          | 5,877,524         |
| Construction                                      | 2,641,019          | 2,120,966         |
| Real estate                                       | 3,513,799          | 3,929,117         |
| Consumer                                          | 68,033             | 63,438            |
| Equipment leases                                  | 266,600            | 312,191           |
| Gross loans held for investment                   | 24,818,835         | 22,676,524        |
| Deferred income (net of direct origination costs) | (94,579)           | (108,450)         |
| Allowance for loan losses                         | (190,138)          | (191,522)         |
| Total loans held for investment, net              | \$ 24,534,118      | \$ 22,376,552     |

(1) Balances at September 30, 2019 and December 31, 2018 are stated net of \$734.7 million and \$193.0 million of participations sold, respectively.

## Summary of Loan Loss Experience

The following tables summarize the credit risk profile of our loans held for investment by internally assigned grades and non-accrual status:

| <i>(in thousands)</i>           | Commercial    | Mortgage<br>Finance | Construction | Real Estate  | Consumer  | Equipment<br>Leases | Total         |
|---------------------------------|---------------|---------------------|--------------|--------------|-----------|---------------------|---------------|
| <b>September 30, 2019</b>       |               |                     |              |              |           |                     |               |
| Grade:                          |               |                     |              |              |           |                     |               |
| Pass                            | \$ 9,986,993  | \$ 7,951,432        | \$ 2,605,995 | \$ 3,404,146 | \$ 67,844 | \$ 266,101          | \$ 24,282,511 |
| Special mention                 | 198,186       | —                   | 19,324       | 73,927       | 150       | 245                 | 291,832       |
| Substandard-accruing            | 83,502        | —                   | 15,700       | 24,350       | —         | 254                 | 123,806       |
| Non-accrual                     | 109,271       | —                   | —            | 11,376       | 39        | —                   | 120,686       |
| Total loans held for investment | \$ 10,377,952 | \$ 7,951,432        | \$ 2,641,019 | \$ 3,513,799 | \$ 68,033 | \$ 266,600          | \$ 24,818,835 |
| <b>December 31, 2018</b>        |               |                     |              |              |           |                     |               |
| Grade:                          |               |                     |              |              |           |                     |               |
| Pass                            | \$ 10,034,597 | \$ 5,877,524        | \$ 2,099,955 | \$ 3,850,811 | \$ 61,815 | \$ 309,775          | \$ 22,234,477 |
| Special mention                 | 120,531       | —                   | 21,011       | 47,644       | —         | 2,223               | 191,409       |
| Substandard-accruing            | 140,297       | —                   | —            | 28,205       | 1,568     | 193                 | 170,263       |
| Non-accrual                     | 77,863        | —                   | —            | 2,457        | 55        | —                   | 80,375        |
| Total loans held for investment | \$ 10,373,288 | \$ 5,877,524        | \$ 2,120,966 | \$ 3,929,117 | \$ 63,438 | \$ 312,191          | \$ 22,676,524 |

The allowance for loan losses is comprised of general reserves and specific reserves for impaired loans based on our estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We believe the allowance at September 30, 2019 to be appropriate, given management's assessment of losses inherent in the portfolio as of the evaluation date, the growth in the loan and lease portfolio, current economic conditions in our market areas and other factors.

## Table of Contents

The following table details activity in the allowance for loan losses, as well as the recorded investment in loans held for investment, by portfolio segment and disaggregated on the basis of our impairment methodology. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

| <i>(in thousands)</i>                              | Commercial    | Mortgage Finance | Construction | Real Estate  | Consumer  | Equipment Leases | Additional Qualitative Reserve | Total         |
|----------------------------------------------------|---------------|------------------|--------------|--------------|-----------|------------------|--------------------------------|---------------|
| <b>Nine months ended September 30, 2019</b>        |               |                  |              |              |           |                  |                                |               |
| Allowance for loan losses:                         |               |                  |              |              |           |                  |                                |               |
| Beginning balance                                  | \$ 129,442    | \$ —             | \$ 19,242    | \$ 33,353    | \$ 425    | \$ 1,829         | \$ 7,231                       | \$ 191,522    |
| Provision for loan losses                          | 74,462        | 1,966            | 712          | (7,916)      | (419)     | (1,491)          | (7,231)                        | 60,083        |
| Charge-offs                                        | 62,678        | —                | —            | 177          | —         | 19               | —                              | 62,874        |
| Recoveries                                         | 1,337         | —                | —            | —            | 60        | 10               | —                              | 1,407         |
| Net charge-offs (recoveries)                       | 61,341        | —                | —            | 177          | (60)      | 9                | —                              | 61,467        |
| Ending balance                                     | \$ 142,563    | \$ 1,966         | \$ 19,954    | \$ 25,260    | \$ 66     | \$ 329           | \$ —                           | \$ 190,138    |
| Period end allowance for loan losses allocated to: |               |                  |              |              |           |                  |                                |               |
| Loans individually evaluated for impairment        | \$ 26,418     | \$ —             | \$ —         | \$ 101       | \$ 8      | \$ —             | \$ —                           | \$ 26,527     |
| Loans collectively evaluated for impairment        | 116,145       | 1,966            | 19,954       | 25,159       | 58        | 329              | —                              | 163,611       |
| Total                                              | \$ 142,563    | \$ 1,966         | \$ 19,954    | \$ 25,260    | \$ 66     | \$ 329           | \$ —                           | \$ 190,138    |
| Period end loans allocated to:                     |               |                  |              |              |           |                  |                                |               |
| Loans individually evaluated for impairment        | \$ 109,271    | \$ —             | \$ —         | \$ 11,376    | \$ 39     | \$ —             | \$ —                           | \$ 120,686    |
| Loans collectively evaluated for impairment        | 10,268,681    | 7,951,432        | 2,641,019    | 3,502,423    | 67,994    | 266,600          | —                              | 24,698,149    |
| Total                                              | \$ 10,377,952 | \$ 7,951,432     | \$ 2,641,019 | \$ 3,513,799 | \$ 68,033 | \$ 266,600       | \$ —                           | \$ 24,818,835 |
| <b>Nine months ended September 30, 2018</b>        |               |                  |              |              |           |                  |                                |               |
| Allowance for loan losses:                         |               |                  |              |              |           |                  |                                |               |
| Beginning balance                                  | \$ 118,806    | \$ —             | \$ 19,273    | \$ 34,287    | \$ 357    | \$ 3,542         | \$ 8,390                       | \$ 184,655    |
| Provision for loan losses                          | 55,808        | —                | 331          | (1,635)      | 757       | (1,425)          | (3,048)                        | 50,788        |
| Charge-offs                                        | 45,273        | —                | —            | —            | 767       | 319              | —                              | 46,359        |
| Recoveries                                         | 1,069         | —                | —            | 43           | 78        | 32               | —                              | 1,222         |
| Net charge-offs (recoveries)                       | 44,204        | —                | —            | (43)         | 689       | 287              | —                              | 45,137        |
| Ending balance                                     | \$ 130,410    | \$ —             | \$ 19,604    | \$ 32,695    | \$ 425    | \$ 1,830         | \$ 5,342                       | \$ 190,306    |
| Period end allowance for loan losses allocated to: |               |                  |              |              |           |                  |                                |               |
| Loans individually evaluated for impairment        | \$ 30,855     | \$ —             | \$ —         | \$ 70        | \$ 10     | \$ —             | \$ —                           | \$ 30,935     |
| Loans collectively evaluated for impairment        | 99,555        | —                | 19,604       | 32,625       | 415       | 1,830            | 5,342                          | 159,371       |
| Total                                              | \$ 130,410    | \$ —             | \$ 19,604    | \$ 32,695    | \$ 425    | \$ 1,830         | \$ 5,342                       | \$ 190,306    |
| Period end loans allocated to:                     |               |                  |              |              |           |                  |                                |               |
| Loans individually evaluated for impairment        | \$ 105,522    | \$ —             | \$ —         | \$ 9,057     | \$ 60     | \$ —             | \$ —                           | \$ 114,639    |
| Loans collectively evaluated for impairment        | 10,011,423    | 5,477,787        | 2,263,463    | 3,915,625    | 51,632    | 319,411          | —                              | 22,039,341    |
| Total                                              | \$ 10,116,945 | \$ 5,477,787     | \$ 2,263,463 | \$ 3,924,682 | \$ 51,692 | \$ 319,411       | \$ —                           | \$ 22,153,980 |

During 2019, we refined our methodology for calculating the allowance for loan losses to improve the specificity of the risk weights and the risk-weighting process for each product type assigned to the loans in our held for investment portfolio. As a result of these refinements, we believe that management is better able to allocate inherent losses previously accounted for in the additional qualitative reserve component of our allowance for loan losses to specific product types and credit risk grades, thus eliminating the additional qualitative reserve component of our allowance for loan losses in 2019. Additionally, this improved specificity and consideration of current mortgage market conditions resulted in the allocation of a portion of the company's provision for loan losses to our mortgage finance loan portfolio for the first time in 2019.

[Table of Contents](#)

The following tables detail our impaired loans held for investment by portfolio segment. In accordance with ASC 310, *Receivables*, we have also included all restructured and formerly restructured loans in our impaired loan totals.

| <i>(in thousands)</i>                           | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| <b>September 30, 2019</b>                       |                        |                                |                      |                                   |                                  |
| With no related allowance recorded:             |                        |                                |                      |                                   |                                  |
| Commercial                                      |                        |                                |                      |                                   |                                  |
| Business loans                                  | \$ 17,420              | \$ 31,270                      | \$ —                 | \$ 18,902                         | \$ —                             |
| Energy loans                                    | 18,758                 | 28,193                         | —                    | 10,340                            | —                                |
| Real estate                                     |                        |                                |                      |                                   |                                  |
| Market risk                                     | 8,757                  | 8,757                          | —                    | 3,750                             | —                                |
| Commercial                                      | 908                    | 908                            | —                    | 6,500                             | —                                |
| Secured by 1-4 family                           | 1,220                  | 1,220                          | —                    | 1,228                             | —                                |
| Consumer                                        | —                      | —                              | —                    | —                                 | —                                |
| Equipment leases                                | —                      | —                              | —                    | —                                 | —                                |
| Total impaired loans with no allowance recorded | \$ 47,063              | \$ 70,348                      | \$ —                 | \$ 40,720                         | \$ —                             |
| With an allowance recorded:                     |                        |                                |                      |                                   |                                  |
| Commercial                                      |                        |                                |                      |                                   |                                  |
| Business loans                                  | \$ 28,662              | \$ 31,730                      | \$ 13,483            | \$ 24,184                         | \$ —                             |
| Energy loans                                    | 44,431                 | 64,171                         | 12,935               | 50,955                            | —                                |
| Real estate                                     |                        |                                |                      |                                   |                                  |
| Market risk                                     | 259                    | 259                            | 50                   | 2,855                             | —                                |
| Commercial                                      | —                      | —                              | —                    | —                                 | —                                |
| Secured by 1-4 family                           | 232                    | 232                            | 51                   | 750                               | —                                |
| Consumer                                        | 39                     | 39                             | 8                    | 71                                | —                                |
| Equipment leases                                | —                      | —                              | —                    | —                                 | —                                |
| Total impaired loans with an allowance recorded | \$ 73,623              | \$ 96,431                      | \$ 26,527            | \$ 78,815                         | \$ —                             |
| Combined:                                       |                        |                                |                      |                                   |                                  |
| Commercial                                      |                        |                                |                      |                                   |                                  |
| Business loans                                  | \$ 46,082              | \$ 63,000                      | \$ 13,483            | \$ 43,086                         | \$ —                             |
| Energy loans                                    | 63,189                 | 92,364                         | 12,935               | 61,295                            | —                                |
| Real estate                                     |                        |                                |                      |                                   |                                  |
| Market risk                                     | 9,016                  | 9,016                          | 50                   | 6,605                             | —                                |
| Commercial                                      | 908                    | 908                            | —                    | 6,500                             | —                                |
| Secured by 1-4 family                           | 1,452                  | 1,452                          | 51                   | 1,978                             | —                                |
| Consumer                                        | 39                     | 39                             | 8                    | 71                                | —                                |
| Equipment leases                                | —                      | —                              | —                    | —                                 | —                                |
| Total impaired loans                            | \$ 120,686             | \$ 166,779                     | \$ 26,527            | \$ 119,535                        | \$ —                             |

[Table of Contents](#)

| <i>(in thousands)</i>                           | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| <b>December 31, 2018</b>                        |                        |                                |                      |                                   |                                  |
| With no related allowance recorded:             |                        |                                |                      |                                   |                                  |
| Commercial                                      |                        |                                |                      |                                   |                                  |
| Business loans                                  | \$ 23,367              | \$ 55,008                      | \$ —                 | \$ 16,426                         | \$ 133                           |
| Energy loans                                    | 12,188                 | 13,363                         | —                    | 17,135                            | —                                |
| Real estate                                     |                        |                                |                      |                                   |                                  |
| Market risk                                     | —                      | —                              | —                    | —                                 | —                                |
| Commercial                                      | 7,388                  | 7,388                          | —                    | 3,215                             | —                                |
| Secured by 1-4 family                           | 1,233                  | 1,233                          | —                    | 734                               | —                                |
| Consumer                                        | —                      | —                              | —                    | —                                 | —                                |
| Equipment leases                                | —                      | —                              | —                    | —                                 | —                                |
| Total impaired loans with no allowance recorded | \$ 44,176              | \$ 76,992                      | \$ —                 | \$ 37,510                         | \$ 133                           |
| With an allowance recorded:                     |                        |                                |                      |                                   |                                  |
| Commercial                                      |                        |                                |                      |                                   |                                  |
| Business loans                                  | \$ 17,529              | \$ 17,564                      | \$ 4,679             | \$ 41,307                         | \$ —                             |
| Energy loans                                    | 25,344                 | 28,105                         | 3,573                | 25,672                            | —                                |
| Real estate                                     |                        |                                |                      |                                   |                                  |
| Market risk                                     | —                      | —                              | —                    | 49                                | —                                |
| Commercial                                      | —                      | —                              | —                    | 83                                | —                                |
| Secured by 1-4 family                           | 236                    | 236                            | 48                   | 188                               | —                                |
| Consumer                                        | 55                     | 55                             | 10                   | 54                                | —                                |
| Equipment leases                                | —                      | —                              | —                    | 275                               | —                                |
| Total impaired loans with an allowance recorded | \$ 43,164              | \$ 45,960                      | \$ 8,310             | \$ 67,628                         | \$ —                             |
| Combined:                                       |                        |                                |                      |                                   |                                  |
| Commercial                                      |                        |                                |                      |                                   |                                  |
| Business loans                                  | \$ 40,896              | \$ 72,572                      | \$ 4,679             | \$ 57,733                         | \$ 133                           |
| Energy loans                                    | 37,532                 | 41,468                         | 3,573                | 42,807                            | —                                |
| Real estate                                     |                        |                                |                      |                                   |                                  |
| Market risk                                     | —                      | —                              | —                    | 49                                | —                                |
| Commercial                                      | 7,388                  | 7,388                          | —                    | 3,298                             | —                                |
| Secured by 1-4 family                           | 1,469                  | 1,469                          | 48                   | 922                               | —                                |
| Consumer                                        | 55                     | 55                             | 10                   | 54                                | —                                |
| Equipment leases                                | —                      | —                              | —                    | 275                               | —                                |
| Total impaired loans                            | \$ 87,340              | \$ 122,952                     | \$ 8,310             | \$ 105,138                        | \$ 133                           |

Average impaired loans outstanding during the nine months ended September 30, 2019 and 2018 totaled \$119.5 million and \$105.0 million, respectively. As of September 30, 2019 and December 31, 2018, none of our non-accrual loans were earning interest income on a cash basis.

[Table of Contents](#)

The table below provides an age analysis of our loans held for investment:

| <i>(in thousands)</i>           | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Greater Than<br>90 Days(1) | Total Past<br>Due | Non-accrual | Current       | Total         |
|---------------------------------|------------------------|------------------------|----------------------------|-------------------|-------------|---------------|---------------|
| <b>September 30, 2019</b>       |                        |                        |                            |                   |             |               |               |
| Commercial                      |                        |                        |                            |                   |             |               |               |
| Business loans                  | \$ 31,313              | \$ 6,039               | \$ 19,084                  | \$ 56,436         | \$ 46,082   | \$ 8,728,321  | \$ 8,830,839  |
| Energy                          | 30,000                 | 4,200                  | 7,550                      | 41,750            | 63,189      | 1,442,174     | 1,547,113     |
| Mortgage finance loans          | —                      | —                      | —                          | —                 | —           | 7,951,432     | 7,951,432     |
| Construction                    |                        |                        |                            |                   |             |               |               |
| Market risk                     | —                      | 15,700                 | —                          | 15,700            | —           | 2,520,335     | 2,536,035     |
| Commercial                      | —                      | —                      | —                          | —                 | —           | 81,159        | 81,159        |
| Secured by 1-4 family           | —                      | —                      | —                          | —                 | —           | 23,825        | 23,825        |
| Real estate                     |                        |                        |                            |                   |             |               |               |
| Market risk                     | 3,129                  | 14,004                 | 2,061                      | 19,194            | 9,016       | 2,294,067     | 2,322,277     |
| Commercial                      | —                      | —                      | —                          | —                 | 908         | 821,323       | 822,231       |
| Secured by 1-4 family           | 312                    | —                      | 953                        | 1,265             | 1,452       | 366,574       | 369,291       |
| Consumer                        | 277                    | 20                     | —                          | 297               | 39          | 67,697        | 68,033        |
| Equipment leases                | —                      | —                      | —                          | —                 | —           | 266,600       | 266,600       |
| Total loans held for investment | \$ 65,031              | \$ 39,963              | \$ 29,648                  | \$ 134,642        | \$ 120,686  | \$ 24,563,507 | \$ 24,818,835 |

(1) Loans past due 90 days and still accruing includes premium finance loans of \$9.2 million. These loans are generally secured by obligations of insurance carriers to refund premiums on canceled insurance policies. The receipt of the refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

As of September 30, 2019 and December 31, 2018, we did not have any loans considered restructured that were not on non-accrual. Of the non-accrual loans at September 30, 2019 and December 31, 2018, \$15.5 million and \$20.0 million, respectively, met the criteria for restructured. These loans had no unfunded commitments at their respective balance sheet dates.

The following table details the recorded investment at September 30, 2019 and 2018 of loans that have been restructured during the nine months ended September 30, 2019 and 2018 by type of modification:

| <i>(in thousands, except number of contracts)</i> | Extended Maturity      |                          | Adjusted Payment Schedule |                          | Total                  |                          |
|---------------------------------------------------|------------------------|--------------------------|---------------------------|--------------------------|------------------------|--------------------------|
|                                                   | Number of<br>Contracts | Balance at<br>Period End | Number of<br>Contracts    | Balance at<br>Period End | Number of<br>Contracts | Balance at<br>Period End |
| <b>Nine months ended September 30, 2019</b>       |                        |                          |                           |                          |                        |                          |
| Commercial:                                       |                        |                          |                           |                          |                        |                          |
| Business loans                                    | 1                      | \$ 1,824                 | —                         | \$ —                     | 1                      | \$ 1,824                 |
| Energy loans                                      | 1                      | 3,941                    | —                         | —                        | 1                      | 3,941                    |
| Total                                             | 2                      | \$ 5,765                 | —                         | \$ —                     | 2                      | \$ 5,765                 |
| <b>Nine months ended September 30, 2018</b>       |                        |                          |                           |                          |                        |                          |
| Commercial:                                       |                        |                          |                           |                          |                        |                          |
| Business loans                                    | —                      | \$ —                     | 2                         | \$ 2,582                 | 2                      | \$ 2,582                 |
| Energy loans                                      | —                      | —                        | 5                         | \$ 12,332                | 5                      | \$ 12,332                |
| Total                                             | —                      | \$ —                     | 7                         | \$ 14,914                | 7                      | \$ 14,914                |

Restructured loans generally include terms to temporarily place the loan on interest only, extend the payment terms or reduce the interest rate. We did not forgive any principal on the above restructured loans. At September 30, 2019, all of the above loans restructured were on non-accrual. The restructuring of the loans did not have a significant impact on our allowance for loan losses at September 30, 2019 or 2018. As of September 30, 2019 and 2018, we did not have any loans that were restructured within the last 12 months that subsequently defaulted.

### (5) OREO and Valuation Allowance for Losses on OREO

The table below presents a summary of the activity related to OREO:

| (in thousands)               | Three months ended September 30, |          | Nine months ended September 30, |           |
|------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                              | 2019                             | 2018     | 2019                            | 2018      |
| Beginning balance            | \$ —                             | \$ 9,526 | \$ 79                           | \$ 11,742 |
| Sales                        | —                                | (11,447) | (79)                            | (11,663)  |
| Valuation allowance for OREO | —                                | 2,000    | —                               | —         |
| Ending balance               | \$ —                             | \$ 79    | \$ —                            | \$ 79     |

### (6) Certain Transfers of Financial Assets

The table below presents a reconciliation of the changes in loans held for sale:

| (in thousands)                    | Nine Months Ended September 30, |              |
|-----------------------------------|---------------------------------|--------------|
|                                   | 2019                            | 2018         |
| Outstanding balance(1):           |                                 |              |
| Beginning balance                 | \$ 1,949,785                    | \$ 1,012,580 |
| Loans purchased and originated    | 7,288,823                       | 5,012,188    |
| Payments and loans sold           | (6,571,942)                     | (4,366,138)  |
| Ending balance                    | 2,666,666                       | 1,658,630    |
| Fair value adjustment:            |                                 |              |
| Beginning balance                 | 19,689                          | (1,576)      |
| Increase/(decrease) to fair value | (12,130)                        | (5,124)      |
| Ending balance                    | 7,559                           | (6,700)      |
| Loans held for sale at fair value | \$ 2,674,225                    | \$ 1,651,930 |

- (1) Includes \$7.1 million and \$299,000 of loans held for sale that are carried at lower of cost or market as of September 30, 2019 and December 31, 2018, respectively, as well as \$3.3 million as of December 31, 2017. There were no loans held for sale carried at lower of cost or market as of September 30, 2018.

No loans held for sale were on non-accrual as of September 30, 2019 or December 31, 2018. At September 30, 2019 and December 31, 2018, we had \$9.2 million and \$16.8 million, respectively, in loans held for sale that were 90 days or more past due. The \$9.2 million in loans held for sale that were 90 days or more past due at September 30, 2019 included \$7.3 million in loans guaranteed by U.S. government agencies that were purchased out of Ginnie Mae securities and recorded as loans held for sale, at fair value, on the balance sheet. Interest on these past due loans accrues at the debenture rate guaranteed by the U.S. government. Also included in the \$9.2 million were \$1.9 million in loans that, pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase if defined delinquent loan criteria are met, and therefore must record as held for sale on our balance sheet regardless of whether the repurchase option has been exercised. At December 31, 2018, \$16.0 million of the \$16.8 million in loans held for sale were loans guaranteed by U.S. government agencies that were purchased out of Ginnie Mae securities and recorded as loans held for sale, at fair value, on the balance sheet.

## [Table of Contents](#)

From time to time we retain the right to service the loans sold through our MCA program, creating mortgage servicing rights ("MSRs") which are recorded as assets on our balance sheet. A summary of MSR activity is as follows:

| (in thousands)                             | Nine months ended September 30, |         |      |          |
|--------------------------------------------|---------------------------------|---------|------|----------|
|                                            | 2019                            |         | 2018 |          |
| MSRs:                                      |                                 |         |      |          |
| Balance, beginning of year                 | \$                              | 42,474  | \$   | 88,150   |
| Capitalized servicing rights               |                                 | 22,610  |      | 32,871   |
| Amortization                               |                                 | (7,599) |      | (7,920)  |
| Sales                                      |                                 | —       |      | (26,742) |
| Balance, end of period                     | \$                              | 57,485  | \$   | 86,359   |
| Valuation allowance:                       |                                 |         |      |          |
| Balance, beginning of year                 | \$                              | —       | \$   | 2,823    |
| Increase (decrease) in valuation allowance |                                 | 8,360   |      | (2,823)  |
| Balance, end of period                     | \$                              | 8,360   | \$   | —        |
| MSRs, net                                  | \$                              | 49,125  | \$   | 86,359   |
| MSRs, fair value                           | \$                              | 49,125  | \$   | 98,391   |

At September 30, 2019 and December 31, 2018, our servicing portfolio of residential mortgage loans had an outstanding principal balance of \$5.6 billion and \$3.9 billion, respectively.

In connection with the servicing of these loans, we hold deposits in the name of investors representing escrow funds for taxes and insurance, as well as collections in transit to the investors. These escrow funds are segregated and held in separate non-interest-bearing bank accounts at the Bank. These deposits, included in total non-interest-bearing deposits on the consolidated balance sheets, were \$75.2 million at September 30, 2019 and \$37.9 million at December 31, 2018.

The estimated fair value of the MSR assets is obtained from an independent third party and reviewed by management on a quarterly basis. MSRs typically do not trade in an active, open market with readily observable prices; as such, the fair value of MSRs is determined using a discounted cash flow model to calculate the present value of the estimated future net servicing income. The assumptions utilized in the discounted cash flow model are based on market data for comparable assets, where available. Each quarter, management and the independent third party review the key assumptions used in the discounted cash flow model and make adjustments as necessary to estimate the fair value of the MSRs. At September 30, 2019, the estimated fair value of MSRs was adjusted as a result of the decline in mortgage interest rates experienced in the first nine months of 2019, which resulted in an \$8.4 million impairment charge. There was no impairment charge at December 31, 2018. The following summarizes the assumptions used by management to determine the fair value of MSRs:

|                                 | September 30, 2019 | December 31, 2018 |
|---------------------------------|--------------------|-------------------|
| Average discount rates          | 9.06%              | 9.55%             |
| Expected prepayment speeds      | 14.48%             | 9.77%             |
| Weighted-average life, in years | 5.3                | 7.0               |

A sensitivity analysis of changes in the fair value of our MSR portfolio resulting from certain key assumptions is presented in the following table:

| <i>(in thousands)</i>                     | September 30, 2019 | December 31, 2018 |
|-------------------------------------------|--------------------|-------------------|
| 50 bp adverse change in prepayment speed  | \$ (6,077)         | \$ (6,028)        |
| 100 bp adverse change in prepayment speed | (9,340)            | (11,629)          |

These sensitivities are hypothetical and actual results may differ materially due to a number of factors. The effect on fair value of a 10% variation in assumptions generally cannot be determined with confidence because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may be correlated with changes in other factors, which could impact the sensitivity analysis as presented.

In conjunction with the sale and securitization of loans held for sale, we may be exposed to liability resulting from repurchase, indemnification and make-whole agreements. Our estimated exposure related to those agreements totaled \$5.4 million and \$1.6

## [Table of Contents](#)

million at September 30, 2019 and December 31, 2018, respectively, and is recorded in other liabilities in the consolidated balance sheets. We incurred \$4.5 million in losses due to make-whole obligations during the nine months ended September 30, 2019 compared to \$187,000 during the nine months ended September 30, 2018. The increase in make-whole obligation losses is primarily related to an increase in early payoffs resulting from the declining interest rate environment.

### (7) Leases

Operating leases in which we are the lessee are recorded as operating lease ROU assets and operating lease liabilities, included in other assets and other liabilities, respectively, on our consolidated balance sheets. We do not currently have any significant finance leases in which we are the lessee.

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

Our leases relate primarily to office space and bank branches with remaining lease terms of generally 1 to 13 years. Certain lease arrangements contain extension options which typically range from 5 to 10 years at the then fair market rental rates. As these extension options are not generally considered reasonably certain of exercise, they are not included in the lease term. As of September 30, 2019, operating lease ROU assets and liabilities were \$84.3 million and \$98.4 million, respectively.

The table below summarizes our net lease cost:

| <i>(in thousands)</i>                                                          | <b>Three months ended<br/>September 30, 2019</b> |        | <b>Nine months ended<br/>September 30, 2019</b> |         |
|--------------------------------------------------------------------------------|--------------------------------------------------|--------|-------------------------------------------------|---------|
| Operating lease cost                                                           | \$                                               | 3,836  | \$                                              | 10,973  |
| Variable lease cost                                                            |                                                  | 845    |                                                 | 2,977   |
| Sublease income                                                                |                                                  | (32)   |                                                 | (94)    |
| Net lease cost                                                                 | \$                                               | 4,649  | \$                                              | 13,856  |
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |                                                  |        |                                                 |         |
| Operating cash flows from operating leases                                     | \$                                               | 3,592  | \$                                              | 11,054  |
| Non-cash changes in ROU assets                                                 | \$                                               | 13,610 | \$                                              | 97,898  |
| Non-cash changes in lease liabilities(1)                                       | \$                                               | 13,610 | \$                                              | 107,719 |

(1) Includes \$4.2 million and \$87.9 million in lease liabilities from new ROU assets obtained during the three and nine months ended September 30, 2019, respectively.

The table below summarizes other information related to our operating leases:

|                                                                    | <b>September 30, 2019</b> |
|--------------------------------------------------------------------|---------------------------|
| Weighted-average remaining lease term - operating leases, in years | 7.3                       |
| Weighted-average discount rate - operating leases                  | 2.75%                     |

## [Table of Contents](#)

The table below summarizes the maturity of remaining lease liabilities:

| <i>(in thousands)</i>              | September 30, 2019 |
|------------------------------------|--------------------|
| 2019                               | \$ 3,666           |
| 2020                               | 16,518             |
| 2021                               | 17,035             |
| 2022                               | 16,235             |
| 2023                               | 16,271             |
| 2024 and thereafter                | 39,511             |
| Total lease payments               | 109,236            |
| Less: Interest                     | (10,824)           |
| Present value of lease liabilities | \$ 98,412          |

### (8) Financial Instruments with Off-Balance Sheet Risk

The table below presents our financial instruments with off-balance sheet risk, as well as the activity in the allowance for off-balance sheet credit losses related to those financial instruments. This allowance is recorded in other liabilities on the consolidated balance sheet.

| <i>(in thousands)</i>                                              | Three months ended September 30, |           |  | Nine months ended September 30, |           |  |
|--------------------------------------------------------------------|----------------------------------|-----------|--|---------------------------------|-----------|--|
|                                                                    | 2019                             | 2018      |  | 2019                            | 2018      |  |
| Beginning balance of allowance for off-balance sheet credit losses | \$ 10,790                        | \$ 10,458 |  | \$ 11,434                       | \$ 9,071  |  |
| Provision for off-balance sheet credit losses                      | (1,439)                          | (175)     |  | (2,083)                         | 1,212     |  |
| Ending balance of allowance for off-balance sheet credit losses    | \$ 9,351                         | \$ 10,283 |  | \$ 9,351                        | \$ 10,283 |  |

| <i>(in thousands)</i>                             | September 30, 2019 | December 31, 2018 |
|---------------------------------------------------|--------------------|-------------------|
| Commitments to extend credit - period end balance | \$ 8,139,889       | \$ 8,030,198      |
| Standby letters of credit - period end balance    | \$ 277,832         | \$ 236,537        |

### (9) Regulatory Restrictions

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Basel III regulatory capital framework (the "Basel III Capital Rules") adopted by U.S. federal regulatory authorities, among other things, (i) establishes the capital measure called "Common Equity Tier 1" ("CET1"), (ii) specifies that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting stated requirements, (iii) requires that most deductions/adjustments to regulatory capital measures be made to CET1 and not to other components of capital and (iv) defines the scope of the deductions/adjustments to the capital measures. The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions that fully phased in beginning on January 1, 2019.

Additionally, the Basel III Capital Rules require that we maintain a capital conservation buffer with respect to each of CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer is subject to a three year phase-in period that began on January 1, 2016 and was fully phased-in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2018 was 1.875%. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital

[Table of Contents](#)

distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of CET1, Tier 1 and total capital to risk-weighted assets, and of Tier 1 capital to average assets, each as defined in the regulations. Management believes, as of September 30, 2019, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier 1 risk-based, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company's capital ratios exceeded the regulatory definition of adequately capitalized as of September 30, 2019 and December 31, 2018. Based upon the information in its most recently filed call report, the Bank met the capital ratios necessary to be well capitalized. The regulatory authorities can apply changes in classification of assets and such changes may retroactively subject the Company to changes in capital ratios. Any such change could reduce one or more capital ratios below well-capitalized status. In addition, a change may result in imposition of additional assessments by the FDIC or could result in regulatory actions that could have a material adverse effect on our financial condition and results of operations.

Because our Bank had less than \$15.0 billion in total consolidated assets as of December 31, 2009, we are allowed to continue to classify our trust preferred securities, all of which were issued prior to May 19, 2010, as Tier 1 capital.

The table below summarizes our actual and required capital ratios under the Basel III Capital Rules:

|                                          | Actual            |        | Minimum Capital Required -<br>Basel III Phase-In Schedule |       | Minimum capital Required -<br>Basel III Fully Phased-In |        | Required to be Considered Well<br>Capitalized |        |
|------------------------------------------|-------------------|--------|-----------------------------------------------------------|-------|---------------------------------------------------------|--------|-----------------------------------------------|--------|
| (dollars in thousands)                   | Capital<br>Amount | Ratio  | Capital<br>Amount                                         | Ratio | Capital<br>Amount                                       | Ratio  | Capital<br>Amount                             | Ratio  |
| <b>September 30, 2019</b>                |                   |        |                                                           |       |                                                         |        |                                               |        |
| CET1                                     |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | \$ 2,579,029      | 8.59%  | N/A                                                       | N/A   | \$ 2,102,394                                            | 7.00%  | N/A                                           | N/A    |
| Bank                                     | 2,598,906         | 8.66%  | N/A                                                       | N/A   | 2,101,222                                               | 7.00%  | 1,951,135                                     | 6.50%  |
| Total capital (to risk-weighted assets)  |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | 3,318,598         | 11.05% | N/A                                                       | N/A   | 3,153,591                                               | 10.50% | N/A                                           | N/A    |
| Bank                                     | 3,179,785         | 10.59% | N/A                                                       | N/A   | 3,151,833                                               | 10.50% | 3,001,746                                     | 10.00% |
| Tier 1 capital (to risk-weighted assets) |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | 2,837,070         | 9.45%  | N/A                                                       | N/A   | 2,552,907                                               | 8.50%  | N/A                                           | N/A    |
| Bank                                     | 2,756,947         | 9.18%  | N/A                                                       | N/A   | 2,551,484                                               | 8.50%  | 2,401,397                                     | 8.00%  |
| Tier 1 capital (to average assets)(1)    |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | 2,837,070         | 8.63%  | N/A                                                       | N/A   | 1,314,356                                               | 4.00%  | N/A                                           | N/A    |
| Bank                                     | 2,756,947         | 8.39%  | N/A                                                       | N/A   | 1,313,883                                               | 4.00%  | 1,642,353                                     | 5.00%  |
| <b>December 31, 2018</b>                 |                   |        |                                                           |       |                                                         |        |                                               |        |
| CET1                                     |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | \$ 2,330,599      | 8.58%  | \$ 1,732,501                                              | 6.38% | \$ 1,902,354                                            | 7.00%  | N/A                                           | N/A    |
| Bank                                     | 2,340,988         | 8.62%  | 1,731,955                                                 | 6.38% | 1,901,755                                               | 7.00%  | 1,765,915                                     | 6.50%  |
| Total capital (to risk-weighted assets)  |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | 3,074,097         | 11.31% | 2,683,679                                                 | 9.88% | 2,853,532                                               | 10.50% | N/A                                           | N/A    |
| Bank                                     | 2,925,872         | 10.77% | 2,682,833                                                 | 9.88% | 2,852,632                                               | 10.50% | 2,716,793                                     | 10.00% |
| Tier 1 capital (to risk-weighted assets) |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | 2,589,374         | 9.53%  | 2,140,149                                                 | 7.88% | 2,310,002                                               | 8.50%  | N/A                                           | N/A    |
| Bank                                     | 2,499,763         | 9.20%  | 2,139,474                                                 | 7.88% | 2,309,274                                               | 8.50%  | 2,173,434                                     | 8.00%  |
| Tier 1 capital (to average assets)(1)    |                   |        |                                                           |       |                                                         |        |                                               |        |
| Company                                  | 2,589,374         | 9.87%  | 1,049,694                                                 | 4.00% | 1,049,694                                               | 4.00%  | N/A                                           | N/A    |
| Bank                                     | 2,499,763         | 9.53%  | 1,049,296                                                 | 4.00% | 1,049,296                                               | 4.00%  | 1,311,620                                     | 5.00%  |

(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve Board and the FDIC may require the Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.

Our mortgage finance loan volumes can increase significantly at month-end, causing a meaningful difference between ending balance and average balance for any period. At September 30, 2019, our mortgage finance loans were \$8.0 billion compared to the average for the quarter ended September 30, 2019 of \$8.1 billion. As CET1, Tier 1 and total capital ratios are calculated

## [Table of Contents](#)

using quarter-end risk-weighted assets and our mortgage finance loans are 100% risk-weighted (excluding MCA mortgage loans held for sale, which receive lower risk weights), the period-end fluctuation in these balances can significantly impact our reported ratios. Due to the actual risk profile and liquidity of this asset class, we manage capital allocated to mortgage finance loans based on changing trends in average balances and do not believe that the period-end balance is representative of risk characteristics that would justify higher allocations. However, we monitor our capital allocation to confirm that all capital levels remain above well-capitalized levels.

Dividends that may be paid by banks are routinely restricted by various regulatory authorities. The amount that can be paid in any calendar year without prior approval of our Bank's regulatory agencies cannot exceed the lesser of the net profits (as defined) for that year plus the net profits for the preceding two calendar years, or retained earnings. The Basel III Capital Rules further limit the amount of dividends that may be paid by our Bank. No dividends were declared or paid on our common stock during the nine months ended September 30, 2019, or 2018.

### (10) Stock-based Compensation

We have long-term incentive plans under which stock-based compensation awards are granted to employees and directors by the board of directors, or its designated committee. Grants are subject to vesting requirements and may include, among other things, nonqualified stock options, stock appreciation rights ("SARs"), restricted stock units ("RSUs"), restricted stock and performance units, or any combination thereof. There are 2,550,000 total shares authorized for grant under the plans.

The table below summarizes our stock-based compensation expense for the three and nine months ended September 30, 2019 and 2018:

| <i>(in thousands)</i>          | Three months ended September 30, |          | Nine months ended September 30, |           |
|--------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                | 2019                             | 2018     | 2019                            | 2018      |
| Stock-settled awards:          |                                  |          |                                 |           |
| SARs                           | \$ —                             | \$ 19    | \$ 6                            | \$ 112    |
| RSUs                           | 3,015                            | 2,261    | 8,532                           | 6,235     |
| Restricted stock               | 8                                | 12       | 27                              | 36        |
| Cash-settled performance units | 1,005                            | 2,144    | 4,408                           | 9,250     |
| Total                          | \$ 4,028                         | \$ 4,436 | \$ 12,973                       | \$ 15,633 |

| <i>(in thousands except period data)</i>                                          | September 30, 2019 |
|-----------------------------------------------------------------------------------|--------------------|
| Unrecognized compensation expense related to unvested stock-settled awards        | \$ 26,435          |
| Weighted average period over which expense is expected to be recognized, in years | 3.1                |

### (11) Fair Value Disclosures

We determine the fair market values of our assets and liabilities measured at fair value on a recurring and nonrecurring basis using the fair value hierarchy as prescribed in ASC 820. The standard describes three levels of inputs that may be used to measure fair value as provided below.

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Quoted prices in active markets for identical assets or liabilities.                                                                                                                                                                                                                                                                                                                                                                              |
| Level 2 | 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 for substantially the full term of the assets or liabilities.                                                                                                                                            |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. |

## [Table of Contents](#)

Assets and liabilities measured at fair value are as follows:

| (in thousands)                                          | Fair Value Measurements Using |           |         |
|---------------------------------------------------------|-------------------------------|-----------|---------|
|                                                         | Level 1                       | Level 2   | Level 3 |
| <b>September 30, 2019</b>                               |                               |           |         |
| Available-for-sale debt securities:(1)                  |                               |           |         |
| Residential mortgage-backed securities                  | \$ —                          | \$ 5,918  | \$ —    |
| Tax-exempt asset-backed securities                      | —                             | —         | 197,613 |
| CRT securities                                          | —                             | —         | 11,455  |
| Equity securities(1)(2)                                 | 15,890                        | 7,146     | —       |
| Loans held for sale(3)                                  | —                             | 2,657,969 | 9,198   |
| Loans held for investment(4)(6)                         | —                             | —         | 56,993  |
| Derivative assets(7)                                    | —                             | 62,726    | —       |
| Derivative liabilities(7)                               | —                             | 60,393    | —       |
| Non-qualified deferred compensation plan liabilities(8) | 16,790                        | —         | —       |
| <b>December 31, 2018</b>                                |                               |           |         |
| Available-for-sale debt securities:(1)                  |                               |           |         |
| Residential mortgage-backed securities                  | \$ —                          | \$ 7,242  | \$ —    |
| Tax-exempt asset-backed securities                      | —                             | —         | 95,804  |
| Equity securities(1)(2)                                 | 10,262                        | 6,908     | —       |
| Loans held for sale(3)                                  | —                             | 1,952,760 | 16,415  |
| Loans held for investment(4)(6)                         | —                             | —         | 29,885  |
| OREO(5)(6)                                              | —                             | —         | 79      |
| Derivative assets(7)                                    | —                             | 21,806    | —       |
| Derivative liabilities(7)                               | —                             | 41,375    | —       |
| Non-qualified deferred compensation plan liabilities(8) | 10,148                        | —         | —       |

- (1) Securities are measured at fair value on a recurring basis, generally monthly, except for tax-exempt asset-backed securities and CRT securities which are measured quarterly.
- (2) Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan.
- (3) Loans held for sale purchased through our MCA program are measured at fair value on a recurring basis, generally monthly.
- (4) Includes impaired loans that have been measured for impairment at the fair value of the loan's collateral.
- (5) OREO is transferred from loans to OREO at fair value less selling costs.
- (6) Loans held for investment and OREO are measured on a nonrecurring basis, generally annually or more often as warranted by market and economic conditions.
- (7) Derivative assets and liabilities are measured at fair value on a recurring basis, generally quarterly.
- (8) Non-qualified deferred compensation plan liabilities represent the fair value of the obligation to the employee, which generally corresponds to the fair value of the invested assets, and are measured at fair value on a recurring basis, generally monthly.

### Level 3 Valuations

The following table presents a reconciliation of the level 3 fair value category measured at fair value on a recurring basis:

|                                        |                                      |                          |                       | Net Realized/Unrealized Gains (Losses) |            |                             |  |  |
|----------------------------------------|--------------------------------------|--------------------------|-----------------------|----------------------------------------|------------|-----------------------------|--|--|
| (in thousands)                         | Balance at<br>Beginning of<br>Period | Purchases /<br>Additions | Sales /<br>Reductions | Realized                               | Unrealized | Balance at End<br>of Period |  |  |
| Three months ended September 30, 2019  |                                      |                          |                       |                                        |            |                             |  |  |
| Available-for-sale debt securities:(1) |                                      |                          |                       |                                        |            |                             |  |  |
| Tax-exempt asset-backed securities     | \$ 201,339                           | \$ —                     | \$ (4,116)            | \$ —                                   | \$ 390     | \$ 197,613                  |  |  |
| CRT securities                         | \$ 10,953                            | \$ —                     | \$ —                  | \$ —                                   | \$ 502     | \$ 11,455                   |  |  |
| Loans held for sale(2)                 | \$ 10,930                            | \$ —                     | \$ (2,056)            | \$ 102                                 | \$ 222     | \$ 9,198                    |  |  |
| Three months ended September 30, 2018  |                                      |                          |                       |                                        |            |                             |  |  |
| Tax-exempt asset-backed securities(1)  | \$ —                                 | \$ 95,521                | \$ —                  | \$ —                                   | \$ (2,152) | \$ 93,369                   |  |  |
| Loans held for sale(2)                 | \$ 27,929                            | \$ 901                   | \$ (6,948)            | \$ (134)                               | \$ 165     | \$ 21,913                   |  |  |
|                                        |                                      |                          |                       |                                        |            |                             |  |  |
| Nine months ended September 30, 2019   |                                      |                          |                       |                                        |            |                             |  |  |
| Available-for-sale debt securities:(1) |                                      |                          |                       |                                        |            |                             |  |  |
| Tax-exempt asset-backed securities     | \$ 95,804                            | \$ 92,010                | \$ (4,254)            | \$ —                                   | \$ 14,053  | \$ 197,613                  |  |  |
| CRT securities                         | \$ —                                 | \$ 15,044                | \$ —                  | \$ (331)                               | \$ (3,258) | \$ 11,455                   |  |  |
| Loans held for sale(2)                 | \$ 16,415                            | \$ —                     | \$ (8,466)            | \$ 450                                 | \$ 799     | \$ 9,198                    |  |  |
| Nine months ended September 30, 2018   |                                      |                          |                       |                                        |            |                             |  |  |
| Tax-exempt asset-backed securities(1)  | \$ —                                 | \$ 95,521                | \$ —                  | \$ —                                   | \$ (2,152) | \$ 93,369                   |  |  |
| Loans held for sale(2)                 | \$ —                                 | \$ 38,430                | \$ (14,936)           | \$ (66)                                | \$ (1,515) | \$ 21,913                   |  |  |

- (1) Unrealized gains/(losses) on available-for-sale debt securities are recorded in AOCI. Realized gains/(losses) are recorded in other non-interest income.  
(2) Realized and unrealized gains/(losses) on loans held for sale are recorded in gain/(loss) on sale of loans held for sale.

#### *Tax-exempt asset-backed securities*

The fair value of tax-exempt asset-backed securities is based on a discounted cash flow model, which utilizes Level 3, or unobservable, inputs, the most significant of which were a discount rate and weighted-average life. At September 30, 2019, a discount rate of 3.01% and a weighted-average life of 7.3 years were utilized to determine the fair value of these securities, compared to 4.21% and 9.2 years, respectively, at December 31, 2018.

#### *CRT securities*

The fair value of CRT securities is based on a discounted cash flow model, which utilizes Level 3, or unobservable, inputs, the most significant of which were a discount rate and weighted-average life. At September 30, 2019, a discount rate of 4.75% and a weighted-average life of 9.5 years were utilized to determine the fair value of these securities.

#### *Loans held for sale*

The fair value of loans held for sale using Level 3 inputs include loans that cannot be sold through normal sale channels and thus require significant management judgment or estimation when determining the fair value. The fair value of such loans is generally based upon quoted prices of comparable loans with a liquidity discount applied. At September 30, 2019, the fair value of these loans was calculated using a weighted-average discounted price of 95.3% compared to 92.9% at December 31, 2018.

## [Table of Contents](#)

### *Loans held for investment*

Certain impaired loans held for investment are reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral. The \$57.0 million fair value of loans held for investment at September 30, 2019 reported above includes impaired loans held for investment with a carrying value of \$72.6 million that were reduced by specific valuation allowance allocations totaling \$15.6 million based on collateral valuations utilizing Level 3 inputs. The \$29.9 million fair value of loans held for investment at December 31, 2018 reported above includes impaired loans with a carrying value of \$32.2 million that were reduced by specific valuation allowance allocations totaling \$2.3 million based on collateral valuations utilizing Level 3 inputs.

### *OREO*

Certain foreclosed assets, upon initial recognition, are recorded at fair value less estimated selling costs. At December 31, 2018, OREO had a carrying value of \$79,000, with no specific valuation allowance. The fair value of OREO was computed based on third party appraisals, which are Level 3 inputs.

### **Fair Value of Financial Instruments**

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practical to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. This disclosure does not and is not intended to represent the fair value of the Company.

A summary of the carrying amounts and estimated fair values of financial instruments is as follows:

| <i>(in thousands)</i>                   | September 30, 2019 |                      | December 31, 2018 |                      |
|-----------------------------------------|--------------------|----------------------|-------------------|----------------------|
|                                         | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| <b>Financial assets:</b>                |                    |                      |                   |                      |
| Level 1 inputs:                         |                    |                      |                   |                      |
| Cash and cash equivalents               | \$ 5,209,270       | \$ 5,209,270         | \$ 3,080,065      | \$ 3,080,065         |
| Investment securities                   | 15,890             | 15,890               | 10,262            | 10,262               |
| Level 2 inputs:                         |                    |                      |                   |                      |
| Investment securities                   | 13,064             | 13,064               | 14,150            | 14,150               |
| Loans held for sale                     | 2,657,969          | 2,657,969            | 1,953,059         | 1,953,059            |
| Derivative assets                       | 62,726             | 62,726               | 21,806            | 21,806               |
| Level 3 inputs:                         |                    |                      |                   |                      |
| Investment securities                   | 209,068            | 209,068              | 95,804            | 95,804               |
| Loans held for sale                     | 9,198              | 9,198                | 16,415            | 16,415               |
| Loans held for investment, net          | 24,534,118         | 24,564,623           | 22,376,552        | 22,347,876           |
| <b>Financial liabilities:</b>           |                    |                      |                   |                      |
| Level 2 inputs:                         |                    |                      |                   |                      |
| Federal funds purchased                 | 127,800            | 127,800              | 629,169           | 629,169              |
| Customer repurchase agreements          | 12,167             | 12,167               | 12,005            | 12,005               |
| Other borrowings                        | 2,500,000          | 2,500,000            | 3,900,000         | 3,900,000            |
| Subordinated notes                      | 282,038            | 293,472              | 281,767           | 283,349              |
| Trust preferred subordinated debentures | 113,406            | 113,406              | 113,406           | 113,406              |
| Derivative liabilities                  | 60,393             | 60,393               | 41,375            | 41,375               |
| Level 3 inputs:                         |                    |                      |                   |                      |
| Deposits                                | 27,413,303         | 27,420,277           | 20,606,113        | 20,608,494           |

The estimated fair value for cash and cash equivalents, variable rate loans and variable rate debt approximates carrying value. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

### *Investment Securities*

## [Table of Contents](#)

Within the investment securities portfolio, we hold equity securities related to our non-qualified deferred compensation plan that are valued using quoted market prices for identical equity securities in an active market, and are classified as Level 1 assets in the fair value hierarchy. The fair value of the remaining equity securities and residential mortgage-backed securities in our investment portfolio are based on prices obtained from independent pricing services that are based on quoted market prices for the same or similar securities, and are characterized as Level 2 assets in the fair value hierarchy. We have obtained documentation from our primary pricing service regarding their processes and controls applicable to pricing investment securities, and on a quarterly basis we independently verify the prices that we receive from the service provider using two additional independent pricing sources. We also hold tax-exempt asset-backed securities and CRT securities that are valued using a discounted cash flow model, which utilizes Level 3 inputs, and are classified as Level 3 assets in the fair value hierarchy.

### *Loans Held for Sale*

Fair value for loans held for sale is derived from quoted market prices for similar loans, in which case they are characterized as Level 2 assets in the fair value hierarchy, or is derived from third party pricing models, in which case they are characterized as Level 3 assets in the fair value hierarchy.

### *Derivatives*

The estimated fair value of interest rate swaps and caps is obtained from independent pricing services based on quoted market prices for similar derivative contracts and these financial instruments are characterized as Level 2 assets and liabilities in the fair value hierarchy. On a quarterly basis, we independently verify the fair value using an additional independent pricing source. Foreign currency forward contracts are valued based upon quoted market prices obtained from independent pricing services for similar derivative contracts. As such, these financial instruments are characterized as Level 2 assets and liabilities in the fair value hierarchy. The derivative instruments related to the loans held for sale portfolio include loan purchase commitments and forward sales commitments. Loan purchase commitments are valued based upon the fair value of the underlying mortgage loans to be purchased, which is based on observable market data for similar loans. Forward sales commitments are valued based upon quoted market prices from brokers. As such, these loan purchase commitments and forward sales commitments are characterized as Level 2 assets or liabilities in the fair value hierarchy.

## **(12) Derivative Financial Instruments**

The notional amounts and estimated fair values of derivative positions outstanding are presented in the following table:

|                                                             | September 30, 2019 |                      |                      |                 | December 31, 2018    |                      |  |
|-------------------------------------------------------------|--------------------|----------------------|----------------------|-----------------|----------------------|----------------------|--|
|                                                             |                    | Estimated Fair Value |                      |                 | Estimated Fair Value |                      |  |
| (in thousands)                                              | Notional Amount    | Asset Derivative     | Liability Derivative | Notional Amount | Asset Derivative     | Liability Derivative |  |
| Non-hedging derivatives:                                    |                    |                      |                      |                 |                      |                      |  |
| Financial institution counterparties:                       |                    |                      |                      |                 |                      |                      |  |
| Commercial loan/lease interest rate swaps                   | \$ 1,540,248       | \$ 94                | \$ 58,347            | \$ 1,579,328    | \$ 7,978             | \$ 16,719            |  |
| Commercial loan/lease interest rate caps                    | 627,149            | 43                   | —                    | 606,950         | 1,109                | 4                    |  |
| Foreign currency forward contracts                          | 2,954              | 37                   | 6                    | 39,737          | 2,263                | 59                   |  |
| Customer counterparties:                                    |                    |                      |                      |                 |                      |                      |  |
| Commercial loan/lease interest rate swaps                   | 1,540,248          | 58,347               | 94                   | 1,579,328       | 16,719               | 7,978                |  |
| Commercial loan/lease interest rate caps                    | 627,149            | —                    | 43                   | 606,950         | 4                    | 1,109                |  |
| Foreign currency forward contracts                          | 2,954              | 6                    | 37                   | 39,737          | 59                   | 2,263                |  |
| Economic hedging interest rate derivatives:                 |                    |                      |                      |                 |                      |                      |  |
| Loan purchase commitments                                   | 580,472            | 3,590                | 150                  | 167,984         | 1,442                | 6                    |  |
| Forward sale commitments                                    | 2,747,284          | 703                  | 1,810                | 1,928,527       | —                    | 21,005               |  |
| Gross derivatives                                           |                    | 62,820               | 60,487               |                 | 29,574               | 49,143               |  |
| Offsetting derivative assets/liabilities                    |                    | (94)                 | (94)                 |                 | (7,768)              | (7,768)              |  |
| Net derivatives included in the consolidated balance sheets |                    | \$ 62,726            | \$ 60,393            |                 | \$ 21,806            | \$ 41,375            |  |

The weighted-average received and paid interest rates for interest rate swaps outstanding were as follows:

|                                 | September 30, 2019<br>Weighted-Average Interest Rate |       | December 31, 2018 Weighted-Average Interest Rate |       |
|---------------------------------|------------------------------------------------------|-------|--------------------------------------------------|-------|
|                                 | Received                                             | Paid  | Received                                         | Paid  |
| Non-hedging interest rate swaps | 4.03%                                                | 3.56% | 4.24%                                            | 4.20% |

The weighted-average strike rate for outstanding interest rate caps was 3.30% at September 30, 2019 and 3.20% at December 31, 2018.

Our credit exposure on derivative instruments is limited to the net favorable value and interest payments by each counterparty. In some cases collateral may be required from the counterparties involved if the net value of the derivative instruments exceeds a nominal amount. Our credit exposure associated with these instruments, net of any collateral pledged, was approximately \$62.7 million at September 30, 2019 and approximately \$18.7 million at December 31, 2018. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap and cap values, as well as for changes in the value of forward sale commitments. At September 30, 2019, we had \$67.0 million in cash collateral pledged for these derivatives, of which \$66.6 million was included in interest-bearing deposits in other banks and \$410,000 was included in accrued interest receivable and other assets. At December 31, 2018, we had \$25.3 million in cash collateral pledged for these derivatives, of which \$11.2 million was included in interest-bearing deposits and \$14.1 million was included in accrued interest receivable and other assets.

We also enter into credit risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are either a participant or a lead bank. The risk participation agreements entered into by us as a participant bank provide credit protection to the financial institution counterparty should the borrower fail to perform on its interest rate derivative contract with that financial institution. We are party to 12 risk participation agreements where we are a participant bank with a notional amount of \$143.0 million at September 30, 2019, compared to 13 risk participation agreements having a notional amount of \$149.1 million at December 31, 2018. The maximum estimated exposure to these agreements, assuming 100% default by all obligors, was approximately \$4.3 million at September 30, 2019 and \$1.5 million at December 31, 2018. The fair value of these exposures was insignificant to the consolidated financial statements at both September 30, 2019 and December 31, 2018. Risk participation agreements entered into by us as the lead bank provide credit protection to us should the borrower fail to perform on its interest rate derivative contract with us. We are party to 13 risk participation agreements where we are the lead bank having a notional amount of \$166.7 million at September 30, 2019, compared to 9 agreements having a notional amount of \$114.8 million at December 31, 2018.

### (13) New Accounting Standards

ASU 2019-01 "*Leases (Topic 842)*" ("ASU 2019-1") provides clarifications to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing essential information about leasing transactions. Specifically, ASU 2019-01 (i) allows the fair value of the underlying asset reported by lessors that are not manufacturers or dealers to continue to be its cost and not fair value as measured under the fair value definition, (ii) allows for the cash flows received for sales-type and direct financing leases to continue to be presented as results from investing, and (iii) clarifies that entities do not have to disclose the effect of the lease standard on adoption year interim amounts. ASU 2019-01 will be effective for us on January 1, 2020 and will not have any material impact on our consolidated financial statements.

ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2016-13") requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. ASU 2016-13 will be effective for us on January 1, 2020. We continue to evaluate the impact adoption of ASU 2016-13 will have on our consolidated financial statements and disclosures, and while we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption could be significantly influenced by the composition, characteristics and quality of our loan portfolio as well as the prevailing economic conditions and forecasts as of the adoption date. As part of our evaluation process, we have established a steering committee and working group that includes individuals from various functional areas to implement this new accounting standard. Early implementation activities focused on data capture and portfolio segmentation and were substantially completed during the third quarter of 2019. Additionally, our primary model/tool was validated during the third quarter, enabling us to complete a parallel run using second quarter 2019 data. Completion of a parallel run using third quarter 2019 data will be completed early in the fourth quarter. During the third quarter, we continued validation of our reasonable and supportable forecast model, as well as refinement and documentation of our end-to-end processes, which we expect to be completed during the fourth quarter of 2019.

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

**Forward-Looking Statements**

Certain statements and financial analysis contained in this report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Forward-looking statements may also be contained in our future filings with SEC, in press releases and in oral and written statements made by us or with our approval that are not statements of historical fact. These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information available to us at the time such statements are made. Words such as “believes,” “expects,” “estimates,” “anticipates,” “plans,” “goals,” “objectives,” “expects,” “intends,” “seeks,” “likely,” “targeted,” “continue,” “remain,” “will,” “should,” “may” and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements may include, among other things, statements about the credit quality of our loan portfolio, general economic conditions in the United States and in our markets, including the continued impact on our customers from volatility in oil and gas prices, expectations regarding rates of default and loan losses, volatility in the mortgage industry, our business strategies and our expectations about future financial performance, future growth and earnings, the appropriateness of our allowance for loan losses and provision for loan losses, the impact of changing regulatory requirements and legislative changes on our business, increased competition, interest rate risk, new lines of business, new product or service offerings and new technologies.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made and are not guarantees of future results. Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, the following:

- Deterioration of the credit quality of our loan portfolio or declines in the value of collateral related to external factors such as commodity prices, real estate values or interest rates, increased default rates and loan losses or adverse changes in the industry concentrations of our loan portfolio.
- Changes in the value of commercial and residential real estate securing our loans or in the demand for credit to support the purchase and ownership of such assets.
- Changing economic conditions or other developments adversely affecting our commercial, entrepreneurial and professional customers.
- Adverse economic conditions and other factors affecting our middle market customers and their ability to continue to meet their loan obligations.
- The failure to correctly assess and model the assumptions supporting our allowance for loan losses, causing it to become inadequate in the event of deteriorations in loan quality and increases in charge-offs, or increases to our allowance for loan losses as a result of the implementation of CECL.
- Changes in the U.S. economy in general or the Texas economy specifically resulting in deterioration of credit quality, increases in non-performing assets or charge-offs or reduced demand for credit or other financial services we offer, including the effects from declines in the level of drilling and production related to volatility in oil and gas prices.
- Adverse changes in economic or market conditions, in Texas, the United States or internationally, that could affect the credit quality of our loan portfolio or our operating performance.
- Unanticipated effects from the Tax Act may limit its benefits or adversely impact our business, which could include decreased demand for borrowing by our middle market customers or increased price competition that offsets the benefits of decreased federal income tax expense.
- Unexpected market conditions or regulatory changes that could cause access to capital market transactions and other sources of funding to become more difficult to obtain on terms and conditions that are acceptable to us.
- The inadequacy of our available funds to meet our deposit, debt and other obligations as they become due, or our failure to maintain our capital ratios as a result of adverse changes in our operating performance or financial condition, or changes in applicable regulations or regulator interpretation of regulations impacting our business or the characterization or risk weight of our assets.
- The failure to effectively balance our funding sources with cash demands by depositors and borrowers.
- The failure to manage information systems risk or to prevent cyber-attacks against us, our customers or our third party vendors, or to manage risks from disruptions or security breaches affecting us, our customers or our third party vendors.
- The failure to effectively manage our interest rate risk resulting from unexpectedly large or sudden changes in interest rates, maturity imbalances in our assets and liabilities, potential adverse effects to our borrowers including their

## Table of Contents

inability to repay loans with increased interest rates and the impact to our net interest income from the increasing cost of interest-bearing deposits.

- Uncertainty regarding the future of the London Interbank Offered Rate ("LIBOR"), and the potential transition away from LIBOR toward new interest rate benchmarks.
- Legislative and regulatory changes imposing further restrictions and costs on our business, a failure to remain well capitalized or well managed status or regulatory enforcement actions against us, and uncertainty related to future implementation and enforcement of regulatory requirements resulting from the current political environment.
- The failure to successfully execute our business strategy, which may include expanding into new markets, developing and launching new lines of business or new products and services within the expected timeframes and budgets or to successfully manage the risks related to the development and implementation of these new businesses, products or services.
- The failure to attract and retain key personnel or the loss of key individuals or groups of employees.
- Increased or more effective competition from banks and other financial service providers in our markets.
- Structural changes in the markets for origination, sale and servicing of residential mortgages.
- Uncertainty in the pricing of mortgage loans that we purchase, and later sell or securitize, as well as competition for the MSRs related to these loans and related interest rate risk or price risk resulting from retaining MSRs, and the potential effects of higher interest rates on our MCA loan volumes.
- Material failures of our accounting estimates and risk management processes based on management judgment, or the supporting analytical and forecasting models.
- Failure of our risk management strategies and procedures, including failure or circumvention of our controls.
- Credit risk resulting from our exposure to counterparties.
- An increase in the incidence or severity of fraud, illegal payments, security breaches and other illegal acts impacting our Bank and our customers.
- The failure to maintain adequate regulatory capital to support our business.
- Unavailability of funds obtained from borrowing or capital transactions or from our Bank to fund our obligations.
- Incurrence of material costs and liabilities associated with legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving us or our Bank.
- Environmental liability associated with properties related to our lending activities.
- Severe weather, natural disasters, acts of war or terrorism and other external events.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed elsewhere in this report or disclosed in our other SEC filings. Forward-looking statements included herein speak only as of the date hereof and should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date of this report. Except as required by law, we undertake no obligation to revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise. The factors discussed herein are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. For a more detailed discussion of these and other factors that may affect our business, see "Risk Factors" in the 2018 Form 10-K and other filings we have made with the SEC. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results. Forward-looking statements should not be viewed as predictions and should not be the primary basis upon which investors evaluate an investment in our securities.

## **Overview of Our Business Operations**

We commenced our banking operations in December 1998. An important aspect of our growth strategy has been our ability to effectively service and manage a large number of loans and deposit accounts in multiple markets in Texas, as well as several lines of business serving a regional or national clientele of commercial borrowers. Accordingly, we have created an operations infrastructure sufficient to support our lending and banking operations that we continue to build out as needed to serve a larger customer base and specialized industries.

The following discussion and analysis presents the significant factors affecting our financial condition as of September 30, 2019 and December 31, 2018 and results of operations for the three and nine month periods ended September 30, 2019 and September 30, 2018. This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements appearing elsewhere in this report.

## ***Results of Operations***

### **Summary of Performance**

We reported net income of \$88.1 million and net income available to common stockholders of \$85.7 million, or \$1.70 per diluted common share, for the third quarter of 2019 compared to net income of \$85.6 million and net income available to common stockholders of \$83.1 million, or \$1.65 per diluted common share, for the third quarter of 2018. Return on average common equity ("ROE") was 13.22% and return on average assets ("ROA") was 1.06% for the third quarter of 2019, compared to 14.68% and 1.31%, respectively, for the third quarter of 2018. The results for the quarter included compression in ROE and ROA driven by larger balances in total mortgage finance loans and liquidity assets.

Net income and net income available to common stockholders for the nine months ended September 30, 2019 totaled \$248.9 million and \$241.6 million, respectively, or \$4.80 per diluted common share, compared to net income and net income available to common stockholders of \$228.9 million and \$221.6 million, respectively, or \$4.41 per diluted common share, for the same period in 2018. ROE was 12.99% and ROA was 1.12% for the nine months ended September 30, 2019 compared to 13.62% and 1.23%, respectively, for the same period in 2018.

Details of the changes in the various components of net income are discussed below.

**QUARTERLY FINANCIAL SUMMARIES – UNAUDITED**

Consolidated Daily Average Balances, Average Yields and Rates

| (in thousands except percentages)                                   | Three months ended September 30, 2019 |                 |            | Three months ended September 30, 2018 |                 |            |
|---------------------------------------------------------------------|---------------------------------------|-----------------|------------|---------------------------------------|-----------------|------------|
|                                                                     | Average Balance                       | Revenue/Expense | Yield/Rate | Average Balance                       | Revenue/Expense | Yield/Rate |
| <b>Assets</b>                                                       |                                       |                 |            |                                       |                 |            |
| Investment securities – taxable                                     | \$ 39,744                             | \$ 357          | 3.56%      | \$ 24,221                             | \$ 191          | 3.14%      |
| Investment securities – non-taxable(2)                              | 200,090                               | 2,480           | 4.92%      | 91,298                                | 1,228           | 5.33%      |
| Federal funds sold and securities purchased under resale agreements | 100,657                               | 554             | 2.18%      | 203,972                               | 1,018           | 1.98%      |
| Interest-bearing deposits in other banks                            | 4,184,217                             | 22,887          | 2.17%      | 1,697,787                             | 8,386           | 1.96%      |
| Loans held for sale                                                 | 2,555,269                             | 26,206          | 4.07%      | 1,484,459                             | 17,272          | 4.62%      |
| Loans held for investment, mortgage finance                         | 8,118,025                             | 68,660          | 3.36%      | 5,443,829                             | 49,715          | 3.62%      |
| Loans held for investment(1)(2)                                     | 16,901,391                            | 235,557         | 5.53%      | 16,331,622                            | 225,604         | 5.48%      |
| Less reserve for loan losses                                        | 212,898                               | —               | —          | 179,227                               | —               | —          |
| Loans held for investment, net                                      | 24,806,518                            | 304,217         | 4.87%      | 21,596,224                            | 275,319         | 5.06%      |
| Total earning assets                                                | 31,886,495                            | 356,701         | 4.44%      | 25,097,961                            | 303,414         | 4.80%      |
| Cash and other assets                                               | 1,000,117                             |                 |            | 877,954                               |                 |            |
| Total assets                                                        | \$ 32,886,612                         |                 |            | \$ 25,975,915                         |                 |            |
| <b>Liabilities and Stockholders' Equity</b>                         |                                       |                 |            |                                       |                 |            |
| Transaction deposits                                                | \$ 3,577,905                          | \$ 18,442       | 2.04%      | \$ 3,253,310                          | \$ 13,642       | 1.66%      |
| Savings deposits                                                    | 10,331,078                            | 45,586          | 1.75%      | 7,820,742                             | 29,930          | 1.52%      |
| Time deposits                                                       | 2,706,434                             | 16,939          | 2.48%      | 1,778,831                             | 8,462           | 1.89%      |
| Total interest-bearing deposits                                     | 16,615,417                            | 80,967          | 1.93%      | 12,852,883                            | 52,034          | 1.61%      |
| Other borrowings                                                    | 2,896,477                             | 16,538          | 2.27%      | 2,275,640                             | 12,117          | 2.11%      |
| Subordinated notes                                                  | 281,979                               | 4,191           | 5.90%      | 281,619                               | 4,191           | 5.90%      |
| Trust preferred subordinated debentures                             | 113,406                               | 1,237           | 4.33%      | 113,406                               | 1,237           | 4.33%      |
| Total interest-bearing liabilities                                  | 19,907,279                            | 102,933         | 2.05%      | 15,523,548                            | 69,579          | 1.78%      |
| Demand deposits                                                     | 9,992,406                             |                 |            | 7,940,503                             |                 |            |
| Other liabilities                                                   | 264,506                               |                 |            | 116,302                               |                 |            |
| Stockholders' equity                                                | 2,722,421                             |                 |            | 2,395,562                             |                 |            |
| Total liabilities and stockholders' equity                          | \$ 32,886,612                         |                 |            | \$ 25,975,915                         |                 |            |
| Net interest income(2)                                              |                                       | \$ 253,768      |            |                                       | \$ 233,835      |            |
| Net interest margin                                                 |                                       |                 | 3.16%      |                                       |                 | 3.70%      |
| Net interest spread                                                 |                                       |                 | 2.39%      |                                       |                 | 3.02%      |
| Loan spread(3)                                                      |                                       |                 | 3.48%      |                                       |                 | 3.93%      |

(1) The loan averages include non-accrual loans and are stated net of unearned income.

(2) Taxable equivalent rates used where applicable.

(3) Yield on loans, net of reserves, less funding cost including all deposits and borrowed funds.

[Table of Contents](#)

|                                                                     | Nine months ended September 30, 2019 |                     |                | Nine months ended September 30, 2018 |                     |                |
|---------------------------------------------------------------------|--------------------------------------|---------------------|----------------|--------------------------------------|---------------------|----------------|
| (in thousands except percentages)                                   | Average<br>Balance                   | Revenue/<br>Expense | Yield/<br>Rate | Average<br>Balance                   | Revenue/<br>Expense | Yield/<br>Rate |
| <b>Assets</b>                                                       |                                      |                     |                |                                      |                     |                |
| Investment securities – taxable                                     | \$ 36,452                            | \$ 918              | 3.37%          | \$ 24,198                            | \$ 590              | 3.26%          |
| Investment securities – non-taxable(2)                              | 169,163                              | 6,479               | 5.12%          | 30,767                               | 1,228               | 5.33%          |
| Federal funds sold and securities purchased under resale agreements | 64,384                               | 1,090               | 2.26%          | 210,531                              | 2,808               | 1.78%          |
| Interest-bearing deposits in other banks                            | 2,841,699                            | 48,540              | 2.28%          | 1,830,849                            | 23,607              | 1.72%          |
| Loans held for sale                                                 | 2,392,404                            | 79,116              | 4.42%          | 1,397,121                            | 46,833              | 4.48%          |
| Loans held for investment, mortgage finance                         | 6,705,960                            | 178,551             | 3.56%          | 4,818,342                            | 134,133             | 3.72%          |
| Loans held for investment(1)(2)                                     | 16,849,987                           | 717,541             | 5.69%          | 15,883,407                           | 637,692             | 5.37%          |
| Less reserve for loan losses                                        | 203,968                              | —                   | —              | 184,216                              | —                   | —              |
| Loans held for investment, net                                      | 23,351,979                           | 896,092             | 5.13%          | 20,517,533                           | 771,825             | 5.03%          |
| Total earning assets                                                | 28,856,081                           | 1,032,235           | 4.78%          | 24,010,999                           | 846,891             | 4.72%          |
| Cash and other assets                                               | 945,623                              |                     |                | 828,147                              |                     |                |
| Total assets                                                        | \$ 29,801,704                        |                     |                | \$ 24,839,146                        |                     |                |
| <b>Liabilities and Stockholders' Equity</b>                         |                                      |                     |                |                                      |                     |                |
| Transaction deposits                                                | \$ 3,440,245                         | \$ 52,480           | 2.04%          | \$ 2,980,386                         | \$ 32,588           | 1.46%          |
| Savings deposits                                                    | 9,332,059                            | 128,253             | 1.84%          | 7,862,053                            | 77,342              | 1.32%          |
| Time deposits                                                       | 2,317,339                            | 41,817              | 2.41%          | 1,092,975                            | 13,413              | 1.64%          |
| Total interest-bearing deposits                                     | 15,089,643                           | 222,550             | 1.97%          | 11,935,414                           | 123,343             | 1.38%          |
| Other borrowings                                                    | 3,110,761                            | 57,234              | 2.46%          | 2,039,010                            | 28,915              | 1.90%          |
| Subordinated notes                                                  | 281,890                              | 12,573              | 5.96%          | 281,528                              | 12,573              | 5.97%          |
| Trust preferred subordinated debentures                             | 113,406                              | 3,863               | 4.55%          | 113,406                              | 3,457               | 4.08%          |
| Total interest-bearing liabilities                                  | 18,595,700                           | 296,220             | 2.13%          | 14,369,358                           | 168,288             | 1.57%          |
| Demand deposits                                                     | 8,333,719                            |                     |                | 8,034,509                            |                     |                |
| Other liabilities                                                   | 236,136                              |                     |                | 109,044                              |                     |                |
| Stockholders' equity                                                | 2,636,148                            |                     |                | 2,326,235                            |                     |                |
| Total liabilities and stockholders' equity                          | \$ 29,801,704                        |                     |                | \$ 24,839,146                        |                     |                |
| Net interest income(2)                                              |                                      | \$ 736,015          |                |                                      | \$ 678,603          |                |
| Net interest margin                                                 |                                      |                     | 3.41%          |                                      |                     | 3.78%          |
| Net interest spread                                                 |                                      |                     | 2.65%          |                                      |                     | 3.15%          |
| Loan spread(3)                                                      |                                      |                     | 3.65%          |                                      |                     | 4.07%          |

(1) The loan averages include non-accrual loans and are stated net of unearned income.

(2) Taxable equivalent rates used where applicable.

(3) Yield on loans, net of reserves, less funding cost including all deposits and borrowed funds.

## Volume/Rate Analysis

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to differences in the average interest rate on those assets and liabilities.

|                                                                        | Three months ended September 30, 2019/2018 |                  |               |               | Nine months ended September 30, 2019/2018 |               |  |  |
|------------------------------------------------------------------------|--------------------------------------------|------------------|---------------|---------------|-------------------------------------------|---------------|--|--|
|                                                                        | Net<br>Change                              | Change due to(1) |               | Net<br>Change | Change Due To(1)                          |               |  |  |
| (in thousands)                                                         |                                            | Volume           | Yield/Rate(2) |               | Volume                                    | Yield/Rate(2) |  |  |
| Interest income:                                                       |                                            |                  |               |               |                                           |               |  |  |
| Investment securities                                                  | \$ 1,418                                   | \$ 1,526         | \$ (108)      | \$ 5,579      | \$ 4,193                                  | \$ 1,386      |  |  |
| Loans held for sale                                                    | 8,934                                      | 12,470           | (3,536)       | 32,283        | 33,316                                    | (1,033)       |  |  |
| Loans held for investment, mortgage<br>finance loans                   | 18,945                                     | 24,400           | (5,455)       | 44,418        | 52,497                                    | (8,079)       |  |  |
| Loans held for investment                                              | 9,953                                      | 7,870            | 2,083         | 79,849        | 38,387                                    | 41,462        |  |  |
| Federal funds sold and securities<br>purchased under resale agreements | (464)                                      | (516)            | 52            | (1,718)       | (1,924)                                   | 206           |  |  |
| Interest-bearing deposits in other<br>banks                            | 14,501                                     | 12,284           | 2,217         | 24,933        | 14,746                                    | 10,187        |  |  |
| Total                                                                  | 53,287                                     | 58,034           | (4,747)       | 185,344       | 141,215                                   | 44,129        |  |  |
| Interest expense:                                                      |                                            |                  |               |               |                                           |               |  |  |
| Transaction deposits                                                   | 4,800                                      | 1,358            | 3,442         | 19,892        | 4,909                                     | 14,983        |  |  |
| Savings deposits                                                       | 15,656                                     | 9,618            | 6,038         | 50,911        | 15,373                                    | 35,538        |  |  |
| Time deposits                                                          | 8,477                                      | 4,419            | 4,058         | 28,404        | 12,598                                    | 15,806        |  |  |
| Other borrowings                                                       | 4,421                                      | 3,302            | 1,119         | 28,319        | 15,140                                    | 13,179        |  |  |
| Long-term debt                                                         | —                                          | 5                | (5)           | 406           | 15                                        | 391           |  |  |
| Total                                                                  | 33,354                                     | 18,702           | 14,652        | 127,932       | 48,035                                    | 79,897        |  |  |
| Net interest income                                                    | \$ 19,933                                  | \$ 39,332        | \$ (19,399)   | \$ 57,412     | \$ 93,180                                 | \$ (35,768)   |  |  |

(1) Yield/rate and volume variances are allocated to yield/rate.

(2) Taxable equivalent rates used where applicable assuming a 21% tax rate.

## Net Interest Income

Net interest income was \$252.2 million for the three months ended September 30, 2019 compared to \$232.2 million for the same period in 2018. The increase was primarily due to an increase in average earning assets of \$6.8 billion, partially offset by an increase in average interest-bearing liabilities of \$4.4 billion and the effect of increasing funding costs. The increase in average earning assets included a \$1.1 billion increase in average loans held for sale, a \$3.2 billion increase in average total loans held for investment, primarily from increases in average mortgage finance loans related to lower long-term interest rates, and an \$2.4 billion increase in average liquidity assets. The increase in average interest-bearing liabilities included a \$3.8 billion increase in average interest-bearing deposits and a \$620.8 million increase in average other borrowings. Net interest margin for the three months ended September 30, 2019 was 3.16% compared to 3.70% for the same period in 2018. The decrease was primarily due to the effect of decreases in interest rates during the third quarter of 2019 on loan yields and higher funding costs compared to the third quarter of 2018.

The yield on total loans held for investment decreased to 4.87% for the three months ended September 30, 2019 compared to 5.06% for the same period in 2018, and the yield on earning assets decreased to 4.44% for the three months ended September 30, 2019 compared to 4.80% for the same period in 2018. The average cost of total deposits and borrowed funds increased to 1.31% for the third quarter of 2019 from 1.10% for the third quarter of 2018. The spread on total earning assets, net of the cost of deposits and borrowed funds, was 3.13% for the third quarter of 2019 compared to 3.70% for the third quarter of 2018. The decrease was primarily a result of an increase in the cost of interest-bearing liabilities coupled with declining loan yields. Total funding costs, including all deposits, long-term debt and stockholders' equity increased to 1.25% for the third quarter of 2019 compared to 1.07% for 2018.

## [Table of Contents](#)

Net interest income was \$731.3 million for the nine months ended September 30, 2019 compared to \$674.2 million for the same period in 2018. The increase was primarily due to an increase in average earning assets of \$4.8 billion and the effect of increases in interest rates on loan yields, partially offset by an increase in average interest-bearing liabilities of \$4.2 billion and the effect of increasing funding costs. The increase in average earning assets included a \$995.3 million increase in average loans held for sale, a \$2.8 billion increase in average total loans held for investment and a \$864.7 million increase in average liquidity assets. The increase in average interest-bearing liabilities included a \$3.2 billion increase in average interest-bearing deposits and a \$1.1 billion increase in average other borrowings. Net interest margin for the nine months ended September 30, 2019 was 3.41% compared to 3.78% for 2018. The decrease was primarily due to the effect of increases in interest rates on funding costs outpacing the increase in loan yields.

The yield on total loans held for investment increased to 5.13% for the nine months ended September 30, 2019 compared to 5.03% for the prior year period and the yield on earning assets increased to 4.78% for the nine months ended September 30, 2019 compared to 4.72% for the same period in 2018. The average cost of total deposits and borrowed funds increased to 1.41% for the nine months ended September 30, 2019 from 0.92% for the same period in 2018. The spread on total earning assets, net of the cost of deposits and borrowed funds, was 3.37% for 2019 compared to 3.80% for 2018. The decrease was primarily a result of an increase in the cost of interest-bearing liabilities outpacing the growth in loan yields. Total funding costs, including all deposits, long-term debt and stockholders' equity increased to 1.34% for the nine months ended September 30, 2019 compared to 0.91% for the same period in 2018.

### Non-interest Income

| (in thousands)                                 | Three months ended September 30, |           | Nine months ended September 30, |           |
|------------------------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                                                | 2019                             | 2018      | 2019                            | 2018      |
| Service charges on deposit accounts            | \$ 2,707                         | \$ 3,477  | \$ 8,535                        | \$ 9,619  |
| Wealth management and trust fee income         | 2,330                            | 2,065     | 6,468                           | 5,996     |
| Brokered loan fees                             | 8,691                            | 6,141     | 21,093                          | 17,124    |
| Servicing income                               | 3,549                            | 4,987     | 9,409                           | 15,446    |
| Swap fees                                      | 1,196                            | 1,355     | 2,828                           | 4,269     |
| Net gain/(loss) on sale of loans held for sale | (6,011)                          | (444)     | (12,502)                        | (7,847)   |
| Other(1)                                       | 7,839                            | 7,937     | 38,848                          | 18,137    |
| Total non-interest income                      | \$ 20,301                        | \$ 25,518 | \$ 74,679                       | \$ 62,744 |

(1) Other non-interest income includes such items as letter of credit fees, bank owned life insurance ("BOLI") income, dividends on FHLB and FRB stock and other general operating income.

Non-interest income decreased by \$5.2 million during the three months ended September 30, 2019 to \$20.3 million, compared to \$25.5 million for the same period in 2018. This decrease was primarily due to a \$5.6 million decrease in net gain/(loss) on sale of loans held for sale and a decrease of \$1.4 million in servicing income, attributable to a decrease in MSRs associated with our MCA program, partially offset by a \$2.6 million increase in brokered loan fees.

Non-interest income increased by \$11.9 million during the nine months ended September 30, 2019 to \$74.7 million, compared to \$62.7 million for the same period in 2018. This increase was primarily due to a \$20.7 million increase in other non-interest income, which included the settlement of \$15.0 million in legal claims during the nine months ended September 30, 2019, and a \$4.0 million increase in brokered loan fees, partially offset by a \$6.0 million decrease in servicing income, attributable to a decrease in MSRs, a \$4.7 million decrease in net gain/(loss) on sale of loans held for sale, a \$1.4 million decrease in swap fees and a \$1.1 million decrease in service charges. Swap fees are related to customer swap transactions, are received from the institution that is our counterparty on the transaction and fluctuate from time to time based on the number and volume of transactions closed during the year.

While management expects continued growth in certain components of non-interest income, the future rate of growth could be affected by increased competition from national and regional financial institutions and general economic conditions. In order to achieve continued growth in non-interest income, management from time to time evaluates new products, new lines of business or the expansion of existing lines of business. Any new product introduction or new market entry could place additional demands on capital and managerial resources and introduce new risks to our business.

## Non-interest Expense

| (in thousands)                              | Three months ended September 30, |            | Nine months ended September 30, |            |
|---------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                             | 2019                             | 2018       | 2019                            | 2018       |
| Salaries and employee benefits              | \$ 80,106                        | \$ 77,327  | \$ 234,818                      | \$ 222,268 |
| Net occupancy expense                       | 8,125                            | 8,362      | 23,914                          | 22,952     |
| Marketing                                   | 14,753                           | 10,214     | 40,548                          | 29,127     |
| Legal and professional                      | 11,394                           | 10,764     | 31,428                          | 29,948     |
| Communications and technology               | 10,805                           | 7,435      | 31,025                          | 21,211     |
| FDIC insurance assessment                   | 5,220                            | 6,524      | 14,480                          | 18,884     |
| Servicing related expenses                  | 8,165                            | 4,207      | 19,613                          | 12,379     |
| Allowance and other carrying costs for OREO | 2                                | (1,864)    | 2                               | 467        |
| Other(1)                                    | 10,800                           | 13,174     | 35,481                          | 37,998     |
| Total non-interest expense                  | \$ 149,370                       | \$ 136,143 | \$ 431,309                      | \$ 395,234 |

(1) Other expense includes such items as courier expenses, regulatory assessments other than FDIC insurance, insurance expenses and other general operating expenses.

Non-interest expense for the three months ended September 30, 2019 increased \$13.2 million compared to the same period in 2018. The increase is primarily due to increases in salaries and employee benefits, marketing and communications and technology expenses, all of which were due to general business growth and continued build-out, as well as increases in servicing related expenses and allowance and other carrying costs for OREO, partially offset by decreases in FDIC insurance assessment and other non-interest expense. The increase in servicing related expenses is due to higher amortization expense resulting from higher mortgage prepayment rates, as well as an increase in impairment expense. The increase in allowance and other carrying costs for OREO expense is due to the reversal of a \$2.0 million valuation allowance on a property sold during the third quarter of 2018.

Non-interest expense for the nine months ended September 30, 2019 increased \$36.1 million compared to 2018. The increase is primarily due to increases in salaries and employee benefits, marketing, legal and professional and communication and technology expenses, all of which were due to general business growth and continued build-out, as well as an increase in servicing related expenses, partially offset by decreases in FDIC insurance assessment and other non-interest expense.

## Analysis of Financial Condition

### Loans Held for Investment

The following table summarizes our loans held for investment on a gross basis by portfolio segment:

| (in thousands)                                    | September 30, 2019 | December 31, 2018 |
|---------------------------------------------------|--------------------|-------------------|
| Commercial                                        | \$ 10,377,952      | \$ 10,373,288     |
| Mortgage finance                                  | 7,951,432          | 5,877,524         |
| Construction                                      | 2,641,019          | 2,120,966         |
| Real estate                                       | 3,513,799          | 3,929,117         |
| Consumer                                          | 68,033             | 63,438            |
| Equipment leases                                  | 266,600            | 312,191           |
| Gross loans held for investment                   | \$ 24,818,835      | \$ 22,676,524     |
| Deferred income (net of direct origination costs) | (94,579)           | (108,450)         |
| Allowance for loan losses                         | (190,138)          | (191,522)         |
| Total loans held for investment, net              | \$ 24,534,118      | \$ 22,376,552     |

Our business plan focuses primarily on lending to middle market businesses and successful professionals and entrepreneurs, and as such, commercial, real estate and construction loans have comprised a majority of our loan portfolio. Consumer loans generally have represented 1% or less of the portfolio. Mortgage finance loans relate to our mortgage warehouse lending operations in which we purchase mortgage loan ownership interests that are typically sold within 10 to 20 days. Volumes fluctuate based on the level of market demand for the product and the number of days between purchase and sale of the loans, as well as overall market interest rates and tend to peak at the end of each month.

## [Table of Contents](#)

We originate a substantial majority of all loans held for investment, excluding mortgage finance loans. We also participate in syndicated loan relationships, both as a participant and as an agent. As of September 30, 2019, we had \$2.6 billion in syndicated loans, \$598.4 million of which we administer as agent. All syndicated loans, whether we act as agent or participant, are underwritten to the same standards as all other loans we originate. As of September 30, 2019, \$6.1 million of our syndicated loans were on non-accrual.

### Portfolio Geographic and Industry Concentrations

Although more than 50% of our total loan exposure is outside of Texas and more than 50% of our deposits are sourced outside of Texas, our Texas concentration remains significant. As of September 30, 2019, a majority of our loans held for investment, excluding mortgage finance loans and other national lines of business, were to businesses with headquarters or operations in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this state. We also make loans to customers that are secured by assets located outside of Texas. The risks created by this concentration have been considered by management in the determination of the appropriateness of the allowance for loan losses.

### Non-performing Assets

Non-performing assets include non-accrual loans and leases and repossessed assets. The table below summarizes our non-performing assets by type and by type of property securing the credit:

| <i>(in thousands)</i>                                      | September 30,<br>2019 | December 31, 2018 | September 30,<br>2018 |
|------------------------------------------------------------|-----------------------|-------------------|-----------------------|
| Non-accrual loans(1)                                       |                       |                   |                       |
| Commercial                                                 |                       |                   |                       |
| Oil and gas properties                                     | \$ 63,189             | \$ 37,532         | \$ 31,235             |
| Assets of the borrowers                                    | 21,975                | 16,538            | 41,067                |
| Inventory                                                  | 18,133                | 21,300            | 30,182                |
| Other                                                      | 5,974                 | 2,493             | 2,473                 |
| Total commercial                                           | 109,271               | 77,863            | 104,957               |
| Real estate                                                |                       |                   |                       |
| Commercial property                                        | 1,167                 | 988               | 1,015                 |
| Single family residences                                   | 1,452                 | 1,469             | 1,500                 |
| Hotel/motel                                                | 8,757                 | —                 | —                     |
| Total real estate                                          | 11,376                | 2,457             | 2,515                 |
| Consumer                                                   | 39                    | 55                | 60                    |
| Total non-accrual loans                                    | 120,686               | 80,375            | 107,532               |
| OREO                                                       | —                     | 79                | 79                    |
| Total non-performing assets                                | \$ 120,686            | \$ 80,454         | \$ 107,611            |
| Restructured loans - accruing                              | \$ —                  | \$ —              | \$ —                  |
| Loans held for investment past due 90 days and accruing(2) | \$ 29,648             | \$ 9,353          | \$ 11,295             |
| Loans held for sale past due 90 days and accruing(3)       | \$ 9,187              | \$ 16,829         | \$ 25,238             |

- (1) As of September 30, 2019, December 31, 2018 and September 30, 2018, non-accrual loans included \$15.5 million, \$20.0 million and \$22.5 million, respectively, in loans that met the criteria for restructured.
- (2) At September 30, 2019, December 31, 2018 and September 30, 2018, loans past due 90 days and still accruing includes premium finance loans of \$9.2 million, \$9.2 million and \$8.2 million, respectively.
- (3) Includes loans guaranteed by U.S. government agencies that were repurchased out of Ginnie Mae securities. Loans are recorded as loans held for sale and carried at fair value on the balance sheet. Interest on these past due loans accrues at the debenture rate guaranteed by the U.S. government. Also includes loans that, pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase if defined delinquent loan criteria are met and therefore must record as loans held for sale on our balance sheet regardless of whether the repurchase option has been exercised.

Potential problem loans consist of loans that are performing in accordance with contractual terms, but for which we have concerns about the borrower's ability to comply with repayment terms because of the borrower's potential financial difficulties. We monitor these loans closely and review their performance on a regular basis. At September 30, 2019, we had \$58.2 million in loans of this type, compared to \$81.7 million at December 31, 2018 and \$39.3 million at September 30, 2018.

### Summary of Loan Loss Experience

The provision for credit losses, which includes a provision for losses on unfunded commitments, is a charge to earnings to maintain the allowance for loan losses at a level consistent with management's assessment of inherent losses in the loan portfolio at the balance sheet date. We recorded a provision for credit losses of \$11.0 million during the third quarter of 2019, compared to \$13.0 million in the third quarter of 2018.

The table below presents a summary of our loan loss experience:

| <i>(in thousands except percentage and multiple data)</i>                             | <b>Nine months ended<br/>September 30, 2019</b> | <b>Year ended December<br/>31 2018</b> | <b>Nine months ended<br/>September 30, 2018</b> |
|---------------------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------|-------------------------------------------------|
| Allowance for loan losses:                                                            |                                                 |                                        |                                                 |
| Beginning balance                                                                     | \$ 191,522                                      | \$ 184,655                             | \$ 184,655                                      |
| Loans charged-off:                                                                    |                                                 |                                        |                                                 |
| Commercial                                                                            | 62,678                                          | 79,692                                 | 45,273                                          |
| Construction                                                                          | —                                               | —                                      | —                                               |
| Real estate                                                                           | 177                                             | —                                      | —                                               |
| Consumer                                                                              | —                                               | 767                                    | 767                                             |
| Equipment leases                                                                      | 19                                              | 319                                    | 319                                             |
| Total charge-offs                                                                     | 62,874                                          | 80,778                                 | 46,359                                          |
| Recoveries:                                                                           |                                                 |                                        |                                                 |
| Commercial                                                                            | 1,337                                           | 2,468                                  | 1,069                                           |
| Construction                                                                          | —                                               | —                                      | —                                               |
| Real estate                                                                           | —                                               | 69                                     | 43                                              |
| Consumer                                                                              | 60                                              | 438                                    | 78                                              |
| Equipment leases                                                                      | 10                                              | 33                                     | 32                                              |
| Total recoveries                                                                      | 1,407                                           | 3,008                                  | 1,222                                           |
| Net charge-offs                                                                       | 61,467                                          | 77,770                                 | 45,137                                          |
| Provision for loan losses                                                             | 60,083                                          | 84,637                                 | 50,788                                          |
| Ending balance                                                                        | \$ 190,138                                      | \$ 191,522                             | \$ 190,306                                      |
| Allowance for off-balance sheet credit losses:                                        |                                                 |                                        |                                                 |
| Beginning balance                                                                     | \$ 11,434                                       | \$ 9,071                               | \$ 9,071                                        |
| Provision for off-balance sheet credit losses                                         | (2,083)                                         | 2,363                                  | 1,212                                           |
| Ending balance                                                                        | \$ 9,351                                        | \$ 11,434                              | \$ 10,283                                       |
| Total allowance for credit losses                                                     | \$ 199,489                                      | \$ 202,956                             | \$ 200,589                                      |
| Total provision for credit losses                                                     | \$ 58,000                                       | \$ 87,000                              | \$ 52,000                                       |
| Allowance for loan losses to LHI                                                      | 0.77 %                                          | 0.85 %                                 | 0.86 %                                          |
| Net charge-offs to average LHI                                                        | 0.35 %                                          | 0.37 %                                 | 0.29 %                                          |
| Total provision for credit losses to average LHI                                      | 0.33 %                                          | 0.42 %                                 | 0.34 %                                          |
| Recoveries to total charge-offs                                                       | 2.24 %                                          | 3.72 %                                 | 2.64 %                                          |
| Allowance for off-balance sheet credit losses to off-balance sheet credit commitments | 0.11 %                                          | 0.14 %                                 | 0.13 %                                          |
| Combined allowance for credit losses to LHI                                           | 0.81 %                                          | 0.90 %                                 | 0.91 %                                          |
| Allowance as a multiple of non-performing loans                                       | 1.6 x                                           | 2.4 x                                  | 1.8 x                                           |

The allowance for credit losses, including the allowance for losses on unfunded commitments reported on the consolidated balance sheets in other liabilities, totaled \$199.5 million at September 30, 2019, \$203.0 million at December 31, 2018 and \$200.6 million at September 30, 2018. The combined allowance as a percentage of loans held for investment decreased to 0.81% at September 30, 2019 from 0.91% at September 30, 2018 and 0.90% at December 31, 2018. The decline in the combined allowance as a percentage of loans held for investment for the first nine months of 2019 compared to the first nine months of 2018 is due primarily to an increase in loans held for investment.

## Loans Held for Sale

Through our MCA program we commit to purchase residential mortgage loans from independent correspondent lenders and deliver those loans into the secondary market via whole loan sales to independent third parties or in securitization transactions to Ginnie Mae and GSEs such as Fannie Mae and Freddie Mac. For additional information on our loans held for sale portfolio, see Note 6 - Certain Transfers of Financial Assets in the accompanying notes to the consolidated financial statements included elsewhere in this report.

## Liquidity and Capital Resources

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, repurchase investment securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, formulated and monitored by our senior management and our Balance Sheet Management Committee ("BSMC"), which take into account the demonstrated marketability of our assets, the sources and stability of our funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the year ended December 31, 2018 and the nine months ended September 30, 2019, our principal source of funding has been our customer deposits, supplemented by our short-term and long-term borrowings, primarily from Federal funds purchased and FHLB borrowings, which are generally used to fund mortgage finance assets. We also rely on the availability of the mortgage secondary market provided by Ginnie Mae and the GSEs to support the liquidity of our mortgage finance assets.

In accordance with our liquidity strategy, deposit growth and increases in borrowing capacity related to our mortgage finance loans have resulted in accumulating liquidity assets in recent periods. The following table summarizes the composition of liquidity assets:

| <i>(in thousands except percentage data)</i>                        | September 30,<br>2019 | December 31, 2018   | September 30,<br>2018 |
|---------------------------------------------------------------------|-----------------------|---------------------|-----------------------|
| Federal funds sold and securities purchased under resale agreements | \$ 25,000             | \$ 50,190           | \$ 30,000             |
| Interest-bearing deposits                                           | 4,968,185             | 2,815,684           | 2,585,570             |
| <b>Total liquidity assets</b>                                       | <b>\$ 4,993,185</b>   | <b>\$ 2,865,874</b> | <b>\$ 2,615,570</b>   |
| Total liquidity assets as a percent of:                             |                       |                     |                       |
| Total loans held for investment                                     | 20.2%                 | 12.7%               | 11.9%                 |
| Total earning assets                                                | 15.4%                 | 10.5%               | 10.0%                 |
| Total deposits                                                      | 18.2%                 | 13.9%               | 12.8%                 |

Our liquidity needs to support growth in loans held for investment have been fulfilled primarily through growth in our core customer deposits. Our goal is to obtain as much of our funding for loans held for investment and other earning assets as possible from deposits of these core customers. These deposits are generated principally through development of long-term customer relationships, with a significant focus on treasury management products. In addition to deposits from our core customers, we also have access to deposits through brokered customer relationships. For regulatory purposes, these relationship brokered deposits are categorized as brokered deposits; however, since these deposits arise from a customer relationship, which involves extensive treasury services, we consider these deposits to be core deposits for our reporting purposes.

## [Table of Contents](#)

We also have access to incremental deposits through brokered retail certificates of deposit, or CDs. These traditional brokered deposits are generally of short maturities, less than 12 months, and are used to fund temporary differences in the growth in loan balances, including growth in loans held for sale or other specific categories of loans as compared to customer deposits. The following table summarizes our period-end and average year-to-date core customer deposits, relationship brokered deposits and traditional brokered deposits:

| <i>(in thousands)</i>                                                         | <b>September 30,<br/>2019</b> | <b>December 31,<br/>2018</b> | <b>September 30,<br/>2018</b> |
|-------------------------------------------------------------------------------|-------------------------------|------------------------------|-------------------------------|
| Deposits from core customers                                                  | \$ 22,885,756                 | \$ 17,015,541                | \$ 17,044,441                 |
| Deposits from core customers as a percent of total deposits                   | 83.5%                         | 82.6%                        | 83.6%                         |
| Relationship brokered deposits                                                | \$ 2,430,543                  | \$ 2,027,850                 | \$ 1,813,000                  |
| Relationship brokered deposits as a percent of average total deposits         | 8.9%                          | 9.8%                         | 8.9%                          |
| Traditional brokered deposits                                                 | \$ 2,097,004                  | \$ 1,562,722                 | \$ 1,528,196                  |
| Traditional brokered deposits as a percent of total deposits                  | 7.6%                          | 7.6%                         | 7.5%                          |
| Average deposits from core customers(1)                                       | \$ 19,431,375                 | \$ 17,504,922                | \$ 17,477,759                 |
| Average deposits from core customers as a percent of average total deposits   | 82.9%                         | 86.6%                        | 87.5%                         |
| Average relationship brokered deposits(1)                                     | \$ 2,190,618                  | \$ 1,890,824                 | \$ 1,878,614                  |
| Average relationship brokered deposits as a percent of average total deposits | 9.4%                          | 9.4%                         | 9.4%                          |
| Average traditional brokered deposits(1)                                      | \$ 1,801,369                  | \$ 817,857                   | \$ 613,550                    |
| Average traditional brokered deposits as a percent of average total deposits  | 7.7%                          | 4.0%                         | 3.1%                          |

(1) Annual averages presented for December 31, 2018.

We have access to sources of traditional brokered deposits that we estimate to be \$5.3 billion. Based on our internal guidelines, we have chosen to limit our use of these sources to a lesser amount. We have increased our use of traditional brokered deposits in 2018 and 2019 in response to favorable rates available in that market relative to other available funding sources.

## [Table of Contents](#)

We have short-term borrowing sources available to supplement deposits and meet our funding needs. Such borrowings are generally used to fund our mortgage finance loans, due to their liquidity, short duration and interest spreads available. These borrowing sources include Federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are smaller than our Bank) and from our upstream correspondent bank relationships (which consist of banks that are larger than our Bank), customer repurchase agreements and advances from the FHLB and the Federal Reserve. The following table summarizes our short-term and other borrowings:

| <i>(in thousands)</i>                                                  | <b>September 30, 2019</b> |           |
|------------------------------------------------------------------------|---------------------------|-----------|
| Federal funds purchased                                                | \$                        | 127,800   |
| Repurchase agreements                                                  |                           | 12,167    |
| FHLB borrowings                                                        |                           | 2,500,000 |
| Line of credit                                                         |                           | —         |
| Total short-term borrowings                                            | \$                        | 2,639,967 |
| Maximum short-term borrowings outstanding at any month-end during 2019 |                           | 5,816,421 |

The following table summarizes our other borrowing capacities net of balances outstanding. As of September 30, 2019, all are scheduled to mature within one year.

| <i>(in thousands)</i>                                      | <b>September 30, 2019</b> |           |
|------------------------------------------------------------|---------------------------|-----------|
| FHLB borrowing capacity relating to loans                  | \$                        | 9,080,641 |
| FHLB borrowing capacity relating to securities             |                           | 610       |
| Total FHLB borrowing capacity(1)                           | \$                        | 9,081,251 |
| Unused Federal funds lines available from commercial banks | \$                        | 1,340,000 |
| Unused Federal Reserve borrowings capacity                 | \$                        | 3,957,357 |
| Unused revolving line of credit(2)                         | \$                        | 130,000   |

- (1) FHLB borrowings are collateralized by a blanket floating lien on certain real estate secured loans, mortgage finance assets and also certain pledged securities.
- (2) Unsecured revolving, non-amortizing line of credit with maturity date of December 17, 2019. Proceeds may be used for general corporate purposes, including funding regulatory capital infusions into the Bank. The loan agreement contains customary financial covenants and restrictions. No borrowings were made against this line of credit during the nine months ended September 30, 2019.

Our equity capital averaged \$2.7 billion for the three months ended September 30, 2019 as compared to \$2.4 billion for the same period in 2018. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the foreseeable future.

For additional information regarding our capital and stockholders' equity, see Note 9 - Regulatory Restrictions in the accompanying notes to the consolidated financial statements included elsewhere in this report.

## Commitments and Contractual Obligations

The following table presents, as of September 30, 2019, significant fixed and determinable contractual obligations to third parties by payment date. Amounts in the table do not include accrued or accruing interest. See Note 7 - Leases for details of contractual lease obligations.

| <i>(In thousands)</i>                                      | Within One<br>Year | After One But<br>Within Three<br>Years | After Three<br>But Within<br>Five Years | After<br>Five<br>Years | Total         |
|------------------------------------------------------------|--------------------|----------------------------------------|-----------------------------------------|------------------------|---------------|
| Deposits without a stated maturity                         | \$ 24,669,330      | \$ —                                   | \$ —                                    | \$ —                   | \$ 24,669,330 |
| Time deposits                                              | 2,692,942          | 49,170                                 | 1,856                                   | 5                      | 2,743,973     |
| Federal funds purchased and customer repurchase agreements | 139,967            | —                                      | —                                       | —                      | 139,967       |
| FHLB borrowings                                            | 2,500,000          | —                                      | —                                       | —                      | 2,500,000     |
| Subordinated notes                                         | —                  | —                                      | —                                       | 282,038                | 282,038       |
| Trust preferred subordinated debentures                    | —                  | —                                      | —                                       | 113,406                | 113,406       |
| Total contractual obligations                              | \$ 30,002,239      | \$ 49,170                              | \$ 1,856                                | \$ 395,449             | \$ 30,448,714 |

## Critical Accounting Policies

SEC guidance requires disclosure of “critical accounting policies.” The SEC defines “critical accounting policies” as those that are most important to the presentation of a company’s financial condition and results, and require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We follow financial accounting and reporting policies that are in accordance with accounting principles generally accepted in the United States. The more significant of these policies are summarized in Note 1 - Operations and Summary of Significant Accounting Policies in the notes to the consolidated financial statements included in our 2018 Form 10-K. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC’s definition of a critical accounting policy.

### *Allowance for Loan Losses*

Management considers the policies related to the allowance for loan losses as the most critical to the financial statement presentation. The total allowance for loan losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (“ASC”) 310, *Receivables*, and ASC 450, *Contingencies*. The allowance for loan losses is established through a provision for credit losses charged to current earnings. The amount maintained in the allowance reflects management’s continuing evaluation of the loan losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses is comprised of general reserves and specific reserves assigned to certain impaired loans. Factors contributing to the determination of specific reserves include the creditworthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan’s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of determining the general reserve, the portfolio is segregated by product types in order to recognize differing risk profiles among categories, and then further segregated by credit grades. See “*Summary of Loan Loss Experience*” above and Note 4 – Loans Held for Investment and Allowance for Loan Losses in the accompanying notes to the consolidated financial statements included elsewhere in this report for further discussion of the risk factors considered by management in establishing the allowance for loan losses.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices, or equity prices. Additionally, the financial instruments subject to market risk can be classified either as held for trading purposes or held for other than trading.

We are subject to market risk primarily through the effect of changes in interest rates on our portfolio of assets held for purposes other than trading. Additionally, we have some market risk relative to commodity prices through our energy lending activities. Declines and volatility in commodity prices negatively impacted our energy clients' ability to perform on their loan obligations in recent years, and further uncertainty and volatility could have a negative impact on our customers and our loan portfolio in future periods. Foreign exchange rates, commodity prices (other than energy) and equity prices are not expected to pose significant market risk to us.

The responsibility for managing market risk rests with the BSMC, which operates under policy guidelines established by our board of directors. The acceptable negative variation in net interest revenue due to a 200 basis point increase or decrease in interest rates is generally limited by these guidelines to plus or minus 10-15%. These guidelines establish maximum levels for short-term borrowings, short-term assets and public and brokered deposits and minimum levels for liquidity, among other things. Oversight of our compliance with these guidelines is the ongoing responsibility of the BSMC, with exceptions reported to the Risk Management Committee, and to our board of directors if deemed necessary, on a quarterly basis. Additionally, the Credit Policy Committee ("CPC") specifically manages risk relative to commodity price market risks. The CPC establishes maximum portfolio concentration levels for energy loans as well as maximum advance rates for energy collateral.

**Interest Rate Risk Management**

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of September 30, 2019, and is not necessarily indicative of positions on other dates. The balances of interest rate sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. The mismatch between repricings or maturities within a time period is commonly referred to as the "gap" for that period. A positive gap (asset sensitive), where interest rate-sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite results on the net interest margin. To reflect anticipated prepayments, certain asset and liability categories are shown in the table using estimated cash flows rather than contractual cash flows. The Company employs interest rate floors in certain variable rate loans to enhance the yield on those loans at times when market interest rates are extraordinarily low. The degree of asset sensitivity, spreads on loans and net interest margin may be reduced until rates increase by an amount sufficient to eliminate the effects of floors. The adverse effect of floors as market rates increase may also be offset by the positive gap, the extent to which rates on deposits and other funding sources lag increasing market rates for loans and changes in composition of funding.

**Interest Rate Sensitivity Gap Analysis**  
**September 30, 2019**

| <i>(in thousands)</i>                                                                                         | 0-3 mo<br>Balance |            | 4-12 mo<br>Balance |            | 1-3 yr<br>Balance |            | 3+ yr<br>Balance |            | Total<br>Balance |
|---------------------------------------------------------------------------------------------------------------|-------------------|------------|--------------------|------------|-------------------|------------|------------------|------------|------------------|
| Assets:                                                                                                       |                   |            |                    |            |                   |            |                  |            |                  |
| Interest-bearing deposits in other banks, federal funds sold and securities purchased under resale agreements | \$                | 4,993,185  | \$                 | —          | \$                | —          | \$               | —          | \$ 4,993,185     |
| Investment securities(1)                                                                                      |                   | 26,438     |                    | 1,192      |                   | 144        |                  | 210,248    | 238,022          |
| Total variable loans                                                                                          |                   | 23,976,894 |                    | 153,583    |                   | 48,530     |                  | 316,018    | 24,495,025       |
| Total fixed loans                                                                                             |                   | 238,343    |                    | 1,271,209  |                   | 304,002    |                  | 1,184,481  | 2,998,035        |
| Total loans(2)                                                                                                |                   | 24,215,237 |                    | 1,424,792  |                   | 352,532    |                  | 1,500,499  | 27,493,060       |
| Total interest sensitive assets                                                                               | \$                | 29,234,860 | \$                 | 1,425,984  | \$                | 352,676    | \$               | 1,710,747  | \$ 32,724,267    |
| Liabilities:                                                                                                  |                   |            |                    |            |                   |            |                  |            |                  |
| Interest-bearing customer deposits                                                                            | \$                | 14,379,758 | \$                 | —          | \$                | —          | \$               | —          | \$ 14,379,758    |
| CDs & IRAs                                                                                                    |                   | 249,490    |                    | 346,448    |                   | 49,170     |                  | 1,861      | 646,969          |
| Traditional brokered deposits                                                                                 |                   | 2,097,004  |                    | —          |                   | —          |                  | —          | 2,097,004        |
| Total interest-bearing deposits                                                                               |                   | 16,726,252 |                    | 346,448    |                   | 49,170     |                  | 1,861      | 17,123,731       |
| Repurchase agreements, Federal funds purchased, FHLB borrowings                                               |                   | 2,639,967  |                    | —          |                   | —          |                  | —          | 2,639,967        |
| Subordinated notes                                                                                            |                   | —          |                    | —          |                   | —          |                  | 282,038    | 282,038          |
| Trust preferred subordinated debentures                                                                       |                   | —          |                    | —          |                   | —          |                  | 113,406    | 113,406          |
| Total borrowings                                                                                              |                   | 2,639,967  |                    | —          |                   | —          |                  | 395,444    | 3,035,411        |
| Total interest sensitive liabilities                                                                          | \$                | 19,366,219 | \$                 | 346,448    | \$                | 49,170     | \$               | 397,305    | \$ 20,159,142    |
| GAP                                                                                                           | \$                | 9,868,641  | \$                 | 1,079,536  | \$                | 303,506    | \$               | 1,313,442  | \$ —             |
| Cumulative GAP                                                                                                | \$                | 9,868,641  | \$                 | 10,948,177 | \$                | 11,251,683 | \$               | 12,565,125 | \$ 12,565,125    |
|                                                                                                               |                   |            |                    |            |                   |            |                  |            |                  |
| Demand deposits                                                                                               |                   |            |                    |            |                   |            |                  |            | 10,289,572       |
| Stockholders' equity                                                                                          |                   |            |                    |            |                   |            |                  |            | 2,757,433        |
| Total                                                                                                         |                   |            |                    |            |                   |            |                  |            | \$ 13,047,005    |

(1) Investment securities based on fair market value.

(2) Total loans includes loans held for investments, stated at gross, and loans held for sale.

## [Table of Contents](#)

While a gap interest table is useful in analyzing interest rate sensitivity, an interest rate sensitivity simulation provides a better illustration of the sensitivity of earnings to changes in interest rates. Earnings are also affected by the effects of changing interest rates on the value of funding derived from demand deposits and stockholders' equity. We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. We quantify and measure interest rate risk exposure using a model to dynamically simulate the effect of changes in net interest income relative to changes in interest rates and account balances over the next twelve months based on three interest rate scenarios. These are a "most likely" rate scenario and two "shock test" scenarios.

The "most likely" rate scenario is based on the consensus forecast of future interest rates published by independent sources. These forecasts incorporate future spot rates and relevant spreads of instruments that are actively traded in the open market. The Federal Reserve's Federal funds target affects short-term borrowing; the prime lending rate and LIBOR are the basis for most of our variable-rate loan pricing. The 10-year treasury rate is also monitored because of its effect on prepayment speeds for mortgage-backed securities and MSRs. These are our primary interest rate exposures. We are currently not using derivatives to manage our interest rate exposure.

For modeling purposes, the "shock test" scenarios assume immediate, sustained 100 and 200 basis point increases in interest rates and a 100 basis point decrease in interest rates.

Our interest rate risk exposure model incorporates assumptions regarding the level of interest rate and balance changes on indeterminable maturity deposits (demand deposits, interest-bearing transaction accounts and savings accounts) for a given level of market rate change. In the current environment of increasing short-term rates, deposit pricing can vary by product and customer. These assumptions have been developed through a combination of historical analysis and projection of future expected pricing behavior. Changes in prepayment behavior of mortgage-backed securities, residential and commercial mortgage loans in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. The impact of planned growth and new business activities is factored into the simulation model. This modeling indicated interest rate sensitivity as follows:

| Anticipated Impact Over the Next<br>Twelve Months as Compared to Most Likely Scenario |                    |                  |                  |                    |                  |                  |
|---------------------------------------------------------------------------------------|--------------------|------------------|------------------|--------------------|------------------|------------------|
| (in thousands)                                                                        | September 30, 2019 |                  |                  | September 30, 2018 |                  |                  |
|                                                                                       | 100 bps Increase   | 200 bps Increase | 100 bps Decrease | 100 bps Increase   | 200 bps Increase | 100 bps Decrease |
| Change in net interest income                                                         | \$ 97,080          | \$ 194,542       | \$ (99,756)      | \$ 106,977         | \$ 214,641       | \$ (111,867)     |

The simulations used to manage market risk are based on numerous assumptions regarding the effect of changes in interest rates on the timing and extent of repricing characteristics, future cash flows and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions, customer behavior and management strategies, among other factors.

Our business relies upon a large volume of loans, derivative contracts and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR to establish their interest rate and/or value. In 2017, the U.K. Financial Conduct Authority announced that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. The impact of alternatives to LIBOR on the valuations, pricing and operation of our financial instruments is not yet known; however, the primary instruments that may be impacted include loans, securities, borrowings and derivatives indexed to LIBOR that mature after December 31, 2021. We have established a working group, consisting of key stakeholders from throughout the company, to monitor developments relating to LIBOR uncertainty and changes and to guide the Bank's response. This team is currently working to gain an understanding of the specific products, information technology systems, borrowing arrangements and legal agreements that will be impacted by the change.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, we have concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except the following:

During the three months ended March 31, 2019, we converted to a new loan servicing system to replace the existing platform that serviced our \$17.1 billion loans held for investment portfolio, excluding mortgage finance loans. The new system was subject to various testing and review procedures before, during and after implementation. As a result of this implementation, we made changes to our processes and procedures which, in turn, resulted in changes to our internal control over financial reporting, including the implementation of additional controls.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is subject to various claims and legal actions that may arise in the ordinary course of conducting its business. Management does not expect the disposition of any of these matters to have a material adverse impact on the Company's financial statements or results of operations.

**ITEM 1A. RISK FACTORS**

The Company has described in the 2018 Form 10-K the primary risks related to its business and securities, and periodically updates those risks. Provided below is an update to the Company's risk factors as previously disclosed in the 2018 Form 10-K.

We may be adversely affected by changes in the method of determining the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, for our variable rate loans, derivative contracts and other financial assets and liabilities.

Our business relies upon a large volume of loans, derivative contracts and other financial instruments which are directly or indirectly dependent on LIBOR to establish their interest rate and/or value. The U.K. Financial Conduct Authority announced in 2017 that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict whether banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. It is expected that a transition away from the widespread use of LIBOR to alternative rates is likely to occur during the next several years.

While we have established a working group consisting of key stakeholders from throughout the company to monitor developments relating to LIBOR uncertainty and changes and to guide the Bank's response, the impact of these developments on our business and financial results is not yet known. The transition from LIBOR may cause us to incur increased costs and additional risk. Uncertainty as to the nature of alternative reference rates and as to potential changes in or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans originated prior to 2021. If LIBOR rates are no longer available, any successor or replacement interest rates may perform differently, which may affect our net interest income, change our market risk profile and require changes to our risk, pricing and hedging strategies. Any failure to adequately manage this transition could adversely impact our reputation.

**ITEM 6. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a) Exhibits

|         |                                                                                                                                                                |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1    | <a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act*</a>                                                       |
| 31.2    | <a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act*</a>                                                       |
| 32.1    | <a href="#">Section 1350 Certification of Chief Executive Officer**</a>                                                                                        |
| 32.2    | <a href="#">Section 1350 Certification of Chief Financial Officer**</a>                                                                                        |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | XBRL Taxonomy Extension Schema Document*                                                                                                                       |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*                                                                                                         |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document*                                                                                                          |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*                                                                                                               |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*                                                                                                        |

\* Filed herewith

\*\* Furnished herewith

**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.

TEXAS CAPITAL BANCSHARES, INC.

Date: October 17, 2019

/s/ Julie Anderson

---

Julie Anderson

Chief Financial Officer

(Duly authorized officer and principal financial officer)

## CERTIFICATION

I, C. Keith Cargill, certify that:

1. I have reviewed this report on Form 10-K of Texas Capital Bancshares, 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 17, 2019

/s/ C. Keith Cargill

C. Keith Cargill

Chief Executive Officer

## CERTIFICATION

I, Julie Anderson, certify that:

1. I have reviewed this report on Form 10-K of Texas Capital Bancshares, 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 17, 2019

/s/ Julie Anderson

---

Julie Anderson

Chief Financial Officer

**CERTIFICATION**

In connection with the Annual Report on Form 10-K of Texas Capital Bancshares, Inc. (the “Company”) for the period ending September 30, 2019 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, C. Keith Cargill, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Keith Cargill

---

C. Keith Cargill

Chief Executive Officer

Date: October 17, 2019

**CERTIFICATION**

In connection with the Annual Report on Form 10-K of Texas Capital Bancshares, Inc. (the “Company”) for the period ending September 30, 2019 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Julie Anderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Julie Anderson

---

Julie Anderson

Chief Financial Officer

Date: October 17, 2019