

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

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

For the fiscal year ended December 31, 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

75201

(Address of principal executive offices)

(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 under Section 12(b) of the Exchange Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the issuer is a well-known seasoned issuer pursuant to Section 13 or Section 15(d) of the Securities Act. Yes  No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company   
Emerging Growth Company

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

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

As of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by non-affiliates, based on the closing price per share of the registrant's common stock as reported on The Nasdaq Global Select Market, was approximately \$3,070,019,000. There were 50,345,627 shares of the registrant's common stock outstanding on February 11, 2020.

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**ITEM 1. BUSINESS**

**Background**

*The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the section captioned “Forward-Looking Statements,” “Additional Information about the Merger and Where to Find It” and “Participants in the Solicitation” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.*

Texas Capital Bancshares, Inc. (“we,” “us,” “TCBI” or the “Company”), a Delaware corporation organized in 1996, is the parent of Texas Capital Bank, National Association (the “Bank”). The Company is a registered bank holding company and a financial holding company.

The Bank is headquartered in Dallas, with primary banking offices in Austin, Dallas, Fort Worth, Houston and San Antonio, the five largest metropolitan areas of Texas. Substantially all of our business activities are conducted through the Bank. We have focused on organic growth, maintenance of credit quality and recruiting and retaining experienced bankers with strong personal and professional relationships in their communities.

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. We have benefitted from the success of our business model since inception, producing strong loan and deposit growth and favorable loss experience amidst a challenging environment for banking nationally.

**Merger with Independent Bank Group, Inc.**

On December 9, 2019, the Company entered into an Agreement and Plan of Merger, which we refer to as the merger agreement, with Independent Bank Group, Inc. (“IBTX”) under which the companies will combine in an all-stock merger of equals, with IBTX as the surviving entity, which we refer to as the merger. Immediately following the merger, the Bank will merge with and into IBTX’s wholly owned subsidiary, Independent Bank, with Independent Bank as the surviving bank. The name of the surviving entity will be Independent Bank Group, Inc. and the name of the surviving bank will be Texas Capital Bank. The surviving bank will be operated under the name Independent Financial in Colorado and under the name Texas Capital Bank in Texas. The surviving entity will trade under the Independent Bank Group ticker symbol “IBTX” on the Nasdaq Global Select Market.

The merger agreement was unanimously approved by each company's board of directors. The merger is expected to close in mid-2020, subject to satisfaction of customary closing conditions, including receipt of customary regulatory approvals and approval of the merger agreement by the stockholders of TCBI and IBTX, respectively.

Under the terms of the merger agreement, at the effective time of the merger, each share of common stock, par value \$0.01 per share, of TCBI outstanding immediately prior to the effective time, other than certain shares held by TCBI or IBTX, will be converted into the right to receive the merger consideration of 1.0311 shares of common stock, par value \$0.01 per share, of IBTX. Holders of TCBI common stock will receive cash in lieu of fractional shares.

At the effective time of the merger, (i) each outstanding share of 6.50% Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share, of TCBI, which we refer to as TCBI preferred stock, will be automatically converted into the right to receive one share of a newly issued series of IBTX preferred stock having substantially the same terms as such share of TCBI preferred stock, which we refer to as IBTX Series B preferred stock (taking into account that TCBI will not be the surviving entity in the merger and any adjustment to the right of optional redemption by IBTX that is reasonably necessary to obtain Tier 1 Capital treatment of the IBTX Series B preferred stock from the Board of Governors of the Federal Reserve System, which we refer to as the Federal Reserve, for such preferred stock), and (ii) unless otherwise agreed between TCBI and IBTX, each outstanding TCBI equity award under TCBI’s equity compensation plans outstanding at the time the merger agreement was signed will vest and be converted into the right to receive the merger consideration (or, in the case of cash-settled TCBI equity awards, an amount in cash determined based on the value of the merger consideration) in respect of each share of TCBI common stock underlying such TCBI equity award (and in the case of TCBI stock appreciation rights, less the applicable exercise price). Any performance goals applicable to such TCBI equity awards will be deemed satisfied at the effective time of the merger based on the greater of target and actual performance.

The merger agreement also provides, among other things, that as of the effective time, David R. Brooks, the current IBTX Chairman, President and Chief Executive Officer, will be the Chairman, President and Chief Executive Officer of the surviving entity and surviving bank and that Larry L. Helm, the current TCBI Chairman, will serve as the lead independent director of the surviving entity. The merger agreement also provides that, as of the effective time, Keith Cargill, the President and Chief

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Executive Officer, will serve as Special Advisor to the Chairman, President and Chief Executive Officer of the surviving entity and surviving bank. The board of directors of IBTX following the merger will be comprised of 13 directors, of which seven will be former members of the board of directors of TCBI and six will be former members of the board of directors of IBTX.

The merger agreement contains customary representations and warranties from both TCBI and IBTX, and each party has agreed to customary covenants, including, among others, covenants relating to (1) the conduct of its business during the interim period between the execution of the merger agreement and the effective time of the merger, (2) its obligation to call a meeting of its stockholders to adopt the merger agreement, and, subject to certain exceptions, to recommend that its stockholders adopt the merger agreement, and (3) its non-solicitation obligations related to alternative acquisition proposals.

The completion of the merger is subject to customary conditions, including (1) adoption of the merger agreement by TCBI's stockholders and by IBTX's shareholders, (2) authorization for listing on the Nasdaq Global Select Market of the shares of IBTX common stock and IBTX Series B preferred stock to be issued in the merger, subject to official notice of issuance, (3) the receipt of required regulatory approvals, including the approval of the Federal Reserve, the Federal Deposit Insurance Corporation ("FDIC"), the Texas Commissioner of Banks and the Texas Department of Banking, (4) effectiveness of the registration statement on Form S-4 for the IBTX common stock and IBTX Series B preferred stock to be issued in the merger, and (5) the absence of any order, injunction, decree or other legal restraint preventing the completion of the merger or making the completion of the merger illegal. Each party's obligation to complete the merger is also subject to certain additional customary conditions, including (a) subject to certain exceptions, the accuracy of the representations and warranties of the other party, (b) performance in all material respects by the other party of its obligations under the merger agreement and (c) receipt by such party of an opinion from its counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The merger agreement provides certain termination rights for both TCBI and IBTX and further provides that a termination fee of \$115.0 million may be payable by the party, terminating, or causing the termination of, the merger agreement under certain circumstances.

The foregoing description of the merger agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the merger agreement, which is attached as Exhibit 2.1 to the Form 8-K filed by the Company on December 13, 2019. The merger agreement should not be read alone, but should instead be read in conjunction with the other information regarding TCBI, IBTX, their respective affiliates and their respective businesses, the merger agreement and the merger contained in, or incorporated by reference into, the Registration Statement on Form S-4 filed by IBTX with the Securities and Exchange Commission, which we refer to as the SEC, that includes a joint proxy statement of IBTX and TCBI and a prospectus of IBTX, as well as in the Annual Reports on Forms 10-K, the Quarterly Reports on Forms 10-Q and other filings that each of IBTX and TCBI has made with the SEC.

Please refer to Item 1A, "Risk Factors-Merger-Related Risks," for a discussion of certain risks related to the proposed Merger.

## **Growth History**

We have grown substantially in both size and profitability since our formation. The table below sets forth data regarding the growth of key areas of our business for the past five years:

<i>(in thousands)</i>	<b>December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Loans held for sale	\$ 2,577,134	\$ 1,969,474	\$ 1,011,004	\$ 968,929	\$ 86,075
Loans held for investment, mortgage finance	8,169,849	5,877,524	5,308,160	4,497,338	4,966,276
Loans held for investment, net	16,476,413	16,690,550	15,366,252	13,001,011	11,745,674
Assets	32,548,069	28,257,767	25,075,645	21,697,134	18,903,821
Demand deposits	9,438,459	7,317,161	7,812,660	7,994,201	6,386,911
Total deposits	26,478,593	20,606,113	19,123,180	17,016,831	15,084,619
Stockholders' equity	2,832,258	2,500,394	2,202,721	2,009,557	1,623,533

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The following table provides information about the growth of our loans held for investment ("LHI") portfolio by type of loan for the past five years:

<i>(in thousands)</i>	<b>December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Commercial	\$ 10,230,828	\$ 10,373,288	\$ 9,189,811	\$ 7,291,545	\$ 6,672,631
Total real estate	6,008,040	6,050,083	5,960,785	5,560,909	4,990,914
Construction	2,563,339	2,120,966	2,166,208	2,098,706	1,851,717
Real estate term	3,444,701	3,929,117	3,794,577	3,462,203	3,139,197
Mortgage finance	8,169,849	5,877,524	5,308,160	4,497,338	4,966,276
Equipment leases	256,462	312,191	264,903	185,529	113,996
Consumer	71,463	63,438	48,684	34,587	25,323

### **The Texas Market**

The Texas market for banking services is highly competitive. Texas' largest banking organizations are headquartered outside of Texas and are controlled by out-of-state organizations. We also compete with other providers of financial services, such as non-bank lenders, commercial finance and leasing companies, consumer finance companies, financial technology, or fintech, companies, securities firms, insurance companies, full service brokerage firms and discount brokerage firms, credit unions and savings and loan associations. We believe that many middle market companies and successful professionals and entrepreneurs are interested in banking with a company headquartered in, and with decision-making authority based in, Texas and with established Texas bankers who have the expertise to act as trusted advisors to customers with regard to their banking needs.

Our banking centers in our target markets are served by experienced bankers with lending expertise in the specific industries found in their market areas and established community ties. We believe our Bank can offer customers more responsive and personalized service than our competitors. By providing effective service to these customers, we believe we will be able to establish long-term relationships and provide multiple products to our customers, thereby enhancing our profitability.

### **National Lines of Business**

While the Texas market continues to be central to the growth and success of our company, we have developed several lines of business, including mortgage finance, mortgage correspondent aggregation ("MCA"), homebuilder finance, insurance premium finance, lender finance, asset-based lending and escrow services, that offer specialized loan and deposit products to businesses regionally and throughout the nation. We believe this helps us mitigate our geographic concentration risk in Texas. We continue to seek opportunities to develop additional lines of business that leverage our capabilities and are consistent with our business strategy. Most recently, we launched Bask Bank, an all-digital branch of our Bank that offers depositors American Airlines AAdvantage® miles instead of interest.

### **Business Strategy**

Drawing on the business and community ties of our management and their banking experience, our strategy has been to grow an independent bank that has focused primarily on middle market business customers and successful professionals and entrepreneurs in each of the five major metropolitan markets of Texas as well as our national lines of business. To achieve this, we have employed the following strategies:

- offering a premier and differentiated banking experience to middle market businesses and successful professionals and entrepreneurs who value a broad relationship with our Bank;
- growing our loan and deposit base in our existing markets by hiring additional experienced bankers in our different lines of business;
- developing lines of business that leverage our strengths and complement our existing lines of business;
- continuing our emphasis on credit policy to maintain credit quality consistent with long-term objectives;
- leveraging our existing infrastructure with improvements in technology and processes to gain efficiencies to support a larger volume of business;
- maintaining effective internal approval processes for capital and operating expenditures;
- continuing our extensive use of outsourcing to provide cost-effective and more efficient operational support and service levels consistent with large-bank operations; and
- extending our reach within our target markets and lines of business through service innovation and service excellence.

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The merger with IBTX is intended to augment our strategy by delivering:

- enhanced scale to drive growth and improve profitability, creating the largest Texas-headquartered bank by Texas deposits, with a significant presence in Colorado, and providing a strong foundation to better manage risk and serve clients across business lines through further investment in technology;
- a more diversified mix of business supported by a full-service financial institution with extensive strategic and client coverage, including enhancing the revenue mix by diversifying each company's client base, business lines and loan and funding concentrations;
- a strengthened core deposits franchise, allowing for a more stable source of funds and increased optionality to compete in a dynamic market environment;
- presence in attractive, fast growing Texas markets that constitute five of the top 10 fastest growing MSAs in the United States;
- an experienced combined management team having a strong track record of organic growth and high performance, including significant experience successfully executing and integrating transformative transactions;
- strong cultures of collaboration and entrepreneurial spirit supporting the delivery of premier and differentiated client experiences; and
- commitment to our important community relationships built over decades, continuing our investments in local programs and communities.

### **Products and Services**

We offer a variety of loan, deposit account and other financial products and services to our customers.

*Business Customers.* We offer a full range of products and services oriented to the needs of our business customers, including:

- commercial loans for general corporate purposes including financing for working capital, internal growth, acquisitions and financing for business insurance premiums;
- real estate term and construction loans;
- mortgage warehouse lending;
- mortgage correspondent aggregation;
- equipment finance and leasing;
- treasury management services, including online banking and debit and credit card services;
- escrow services; and
- letters of credit.

*Individual Customers.* We also provide complete banking services for our individual customers, including:

- personal wealth management and trust services;
- certificates of deposit and IRAs;
- interest-bearing and non-interest-bearing checking accounts;
- traditional money market and savings accounts;
- loans, both secured and unsecured;
- online and mobile banking; and
- Bask Bank, an all-digital branch offering depositors American Airlines AAdvantage® miles instead of interest.

### **Lending Activities**

We target our lending to middle market businesses and successful professionals and entrepreneurs that meet our credit standards. The credit standards are set by our standing Credit Policy Committee with the assistance of our Bank's Chief Credit Officer, who is charged with ensuring that credit standards are met by loans in our portfolio. Our Credit Policy Committee is comprised of senior Bank officers including our Bank's Texas President/Vice Chairman, our Bank's Chief Risk Officer and our Bank's Chief Credit Officer, and is subject to oversight by the Risk Committee of the Company's board of directors. We believe we maintain an appropriately diversified loan portfolio. Credit policies and underwriting guidelines are tailored to address the unique risks associated with each industry represented in the portfolio.

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Our credit standards for commercial borrowers reference numerous criteria with respect to the borrower, including historical and projected financial information, strength of management, acceptable collateral and associated advance rates, and market conditions and trends in the borrower's industry. In addition, prospective loans are also analyzed based on current industry concentrations in our loan portfolio to prevent an unacceptable concentration of loans in any particular industry. We believe our credit standards are consistent with achieving our business objectives in the markets we serve and are an important part of our risk mitigation. We believe that our Bank is differentiated from its competitors by its focus on and targeted marketing to our core customers and by its ability to fit its products to the individual needs of our customers.

We generally extend variable rate loans in which the interest rate fluctuates with a specified reference rate such as the United States prime rate or the London Interbank Offered Rate (LIBOR) and frequently provide for a minimum floor rate. Our use of variable rate loans is designed to protect us from risks associated with interest rate fluctuations since the rates of interest earned will automatically reflect such fluctuations. 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. We have established a working group, consisting of key stakeholders from throughout our Bank, to monitor developments relating to LIBOR uncertainty and changes and to guide our Bank's response.

### **Deposit Products**

We offer a variety of deposit products and services to our customers with terms, including interest rates, which are competitive with other banks. Our business deposit products include commercial checking accounts, lockbox accounts, cash concentration accounts and other treasury management services, including online banking. Our treasury management online system offers information services, wire transfer initiation, ACH initiation, account transfer and service integration. Our consumer deposit products include checking accounts, savings accounts, money market accounts and certificates of deposit. We also allow our consumer deposit customers to access their accounts, transfer funds, pay bills and perform other account functions through online and mobile banking.

### **Wealth Management and Trust**

Our wealth management and trust services include wealth strategy, financial planning, investment management, personal trust and estate services, custodial services, retirement accounts and related services. Our investment management professionals work with our clients to define objectives, goals and strategies for their investment portfolios. We assist the customer with the selection of an investment manager and work with the client to tailor the investment program accordingly. We also offer retirement products such as individual retirement accounts and administrative services for retirement vehicles such as pension and profit sharing plans. Our wealth management and trust services are primarily focused on serving the needs of our banking clients and depend on close cooperation and support between our banking relationship managers and our investment management professionals.

### **Employees**

As of December 31, 2019, we had 1,738 full-time employees. None of our employees is represented by a collective bargaining agreement and we consider our relations with our employees to be good.

### **Regulation and Supervision**

*General.* We and our Bank are subject to extensive federal and state laws and regulations that impose specific requirements on us and provide regulatory oversight of virtually all aspects of our operations. These laws and regulations generally are intended for the protection of depositors, the deposit insurance fund ("DIF") of the FDIC and the stability of the U.S. banking system as a whole, rather than for the protection of our stockholders and creditors.

The following discussion summarizes certain laws, regulations and policies to which we and our Bank are subject. It does not address all applicable laws, regulations and policies that affect us currently or might affect us in the future. This discussion is qualified in its entirety by reference to the full texts of the laws, regulations and policies described.

The Company's activities are governed by the Bank Holding Company Act of 1956, as amended ("BHCA"). We are subject to regulation, supervision and examination by the Federal Reserve pursuant to the BHCA. We file quarterly reports and other information with the Federal Reserve. We file reports with the SEC and are subject to its regulation with respect to our securities, financial reporting and certain governance matters. Our securities are listed on the Nasdaq Global Select Market, and we are subject to Nasdaq rules for listed companies.

Our Bank is organized as a national banking association under the National Bank Act, and is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the "OCC"), the FDIC and the Consumer Financial Protection Bureau ("CFPB") as well as being subject to regulation by certain other federal and state agencies. The OCC has primary supervisory responsibility for our Bank and performs a continuous program of examinations concerning safety and

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soundness, the quality of management and oversight by our board of directors, information technology and compliance with applicable laws and regulations. Our Bank files quarterly reports of condition and income with the FDIC, which provides insurance for certain of our Bank's deposits.

*Bank Holding Company Regulation.* The BHCA limits our business to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be closely related to banking. We have elected to register with the Federal Reserve as a financial holding company. This authorizes us to engage in any activity that is either (i) financial in nature or incidental to such financial activity, as determined by the Federal Reserve, or (ii) complementary to a financial activity, so long as the activity does not pose a substantial risk to the safety and soundness of our Bank or the financial system generally, as determined by the Federal Reserve. Examples of non-banking activities that are financial in nature include securities underwriting and dealing, insurance underwriting, providing investment and financial advice, leasing personal property and making merchant banking investments.

We are not at this time exercising the powers authorized for a financial holding company at the parent company level.

We, through our Bank, engage in traditional banking activities that are deemed financial in nature. In order for us to undertake new activities permitted by the BHCA, we and our Bank must be considered "well capitalized" (as defined below) and well managed, our Bank must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act and we must notify the Federal Reserve within thirty days of engaging in the new activity. We do not currently expect to engage in any non-banking activities at the holding company level.

Under Federal Reserve policy, now codified by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), we are expected to act as a source of financial and managerial strength to our Bank and commit resources to its support. Such support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. We could in certain circumstances be required to guarantee the capital plan of our Bank if it became undercapitalized.

It is the policy of the Federal Reserve that financial holding companies may pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that financial holding companies may not pay cash dividends in an amount that would undermine the holding company's ability to serve as a source of strength to its banking subsidiary.

With certain limited exceptions, the BHCA and the Change in Bank Control Act, together with regulations promulgated thereunder, prohibit a person or company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve.

If, in the opinion of the applicable federal bank regulatory authorities, a depository institution or holding company is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends or repurchase or redemptions of securities), such authority may require, generally after notice and hearing, that such institution or holding company cease and desist such practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's or holding company's capital base to an inadequate level would be such an unsafe or unsound banking practice. Moreover, the Federal Reserve and the FDIC have issued policy statements providing that financial holding companies and insured depository institutions generally should only pay dividends out of current operating earnings. Federal Reserve regulations require that the Company provide prior notice to or obtain the prior approval of the Federal Reserve for redemptions or repurchases of its equity securities, and prohibit such actions if they would deplete the Company's capital or impair its ability to serve as a source of strength for our Bank.

*Regulation of Our Bank by the OCC.* National banks the size of our Bank are subject to continuous regulation, supervision and examination by the OCC. The OCC regulates or monitors all areas of a national bank's operations, including security devices and procedures, adequacy of capitalization and loss reserves, accounting treatment and impact on capital determinations, loans, investments, borrowings, deposits, liquidity, mergers, issuances of securities, payment of dividends, interest rate risk management, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe and sound lending and deposit gathering practices. The OCC requires national banks to maintain specified capital ratios and imposes limitations on their aggregate investment in real estate, bank premises and furniture and fixtures. National banks are required by the OCC to file quarterly reports of their financial condition and results of operations and to obtain an annual audit of their financial statements in compliance with minimum standards and procedures prescribed by the OCC.

*Regulation of Our Bank by the CFPB.* The CFPB has regulation, supervision and examination authority over our Bank with respect to substantially all federal statutes and regulations protecting the interests of consumers of financial services, including but not limited to the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Truth in

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Savings Act, the Right to Financial Privacy Act and the Electronic Funds Transfer Act and their respective related regulations. Penalties for violating these laws and regulations could subject our Bank to lawsuits and administrative penalties, including civil monetary penalties, payments to affected consumers and orders to halt or materially change our consumer banking activities. The CFPB has broad authority to pursue enforcement actions, including investigations, civil actions and cease and desist proceedings, and can refer civil and criminal findings to the Department of Justice for prosecution. The Bank is also subject to other federal and state consumer protection laws and regulations that, among other things, prohibit unfair, deceptive and abusive, corrupt or fraudulent business practices, untrue or misleading advertising and unfair competition.

*Capital Adequacy Requirements.* Federal banking regulators have adopted a system using risk-based capital guidelines to evaluate the capital adequacy of banks and bank holding companies that is based upon the 1988 capital accord of the Bank for International Settlements' Basel Committee on Banking Supervision (the "Basel Committee"), a committee of central banks and bank regulators from the major industrialized countries that coordinates international standards for bank regulation. Under the guidelines, specific categories of assets and off-balance-sheet activities such as letters of credit are assigned risk weights, based generally on the perceived credit or other risks associated with the asset. Off-balance-sheet activities are assigned a credit conversion factor based on the perceived likelihood that they will become on-balance-sheet assets. These risk weights are multiplied by corresponding asset balances to determine a "risk weighted" asset base which is then measured against various forms of capital to produce capital ratios.

An organization's capital is classified in one of two tiers, Core Capital, or Tier 1, and Supplementary Capital, or Tier 2. Tier 1 capital includes common stock, retained earnings, qualifying non-cumulative perpetual preferred stock, minority interests in the equity of consolidated subsidiaries, a limited amount of qualifying trust preferred securities and qualifying cumulative perpetual preferred stock at the holding company level, less goodwill and most intangible assets. Tier 2 capital includes perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, mandatory convertible debt securities, subordinated debt, and allowances for loan and lease losses. Each category is subject to a number of regulatory definitional and qualifying requirements.

The Basel Committee in 2010 released a set of international recommendations for strengthening the regulation, supervision and risk management of banking organizations, known as Basel III. In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules became effective for us on January 1, 2015, with certain transition provisions phasing in over a period that ended on January 1, 2019.

The Basel III Capital Rules, among other things, (i) specify a capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) require that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) define the scope of the deductions/adjustments to the capital measures. Our Series A 6.5% Non-Cumulative Perpetual Preferred Stock constitutes Additional Tier 1 capital and our subordinated notes constitute Tier 2 capital.

The Basel III Capital Rules set the risk-based capital requirement and the total risk-based capital requirement to a minimum of 6.0% and 8.0%, respectively, plus a capital conservation buffer of 2.5% producing targeted ratios of 8.5% and 10.5%, respectively, which were fully phased-in as of January 1, 2019 and for subsequent years. The leverage ratio requirement under the Basel III Capital Rules is 4.0%. In order to be well capitalized under the rules now in effect, our Bank must maintain CET1, Tier 1 and total capital ratios that are equal to or greater than 7.0%, 8.5% and 10.5%, respectively, and a leverage ratio equal to or greater than 5.0%. See "*Selected Consolidated Financial Data - Capital and Liquidity Ratios.*"

Additionally, the Basel III Capital Rules specify a capital conservation buffer with respect to each of the CET1, Tier 1 and total capital to risk-weighted assets ratios, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The 2.5% capital conservation buffer was implemented over a three year phase-in period that began on January 1, 2016 and concluded on January 1, 2019. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

We have met the capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis since we commenced filing applicable reports with the FDIC and OCC. At December 31, 2019 our Bank's CET1 ratio was 8.96% and its total risk-based capital ratio was 10.92% and, as a result, it is currently classified as "well capitalized" for purposes of the OCC's prompt corrective action regulations.

Because we had less than \$15 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. We have elected to exclude the effects of accumulated other comprehensive income items included in stockholders' equity from the determination of capital ratios under the Basel III Capital Rules.

Regulators may change capital and liquidity requirements, including previous interpretations of practices related to risk weights, which could require an increase to the allocation of capital to assets held by our Bank. Regulators could also require us to make retroactive adjustments to financial statements to reflect such changes. A regulatory capital ratio or category may not

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constitute an accurate representation of the Bank's overall financial condition or prospects. Our regulatory capital status is addressed in more detail under the heading "*Liquidity and Capital Resources*" within *Management's Discussion and Analysis of Financial Condition and Results of Operations* and in Note 14 - Regulatory Restrictions in the accompanying notes to the consolidated financial statements included elsewhere in this report.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") established a system of prompt corrective action regulations and policies to resolve the problems of undercapitalized insured depository institutions. Under this system, insured depository institutions are ranked in one of five capital categories as described below. Regulators are required to take mandatory supervisory actions and are authorized to take other discretionary actions of increasing severity with respect to insured depository institutions in the three undercapitalized categories. The five capital categories for insured depository institutions under the prompt corrective action regulations consist of:

- Well capitalized - equals or exceeds a 10% total risk-based capital ratio, 8% Tier 1 risk-based capital ratio, and 5% leverage ratio and is not subject to any written agreement, order or directive requiring it to maintain a specific level for any capital measure;
- Adequately capitalized - equals or exceeds an 8% total risk-based capital ratio, 6% Tier 1 risk-based capital ratio, and 4% leverage ratio;
- Undercapitalized - total risk-based capital ratio of less than 8%, or a Tier 1 risk-based ratio of less than 6%, or a leverage ratio of less than 4%;
- Significantly undercapitalized - total risk-based capital ratio of less than 6%, or a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 3%; and
- Critically undercapitalized - a ratio of tangible equity to total assets equal to or less than 2%.

The prompt corrective action regulations provide that an institution may be downgraded to the next lower category if its regulator determines, after notice and opportunity for hearing or response, that the institution is in an unsafe or unsound condition or has received and not corrected a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent examination.

Federal bank regulatory agencies are required to implement arrangements for prompt corrective action for institutions failing to meet minimum requirements to be at least adequately capitalized. FDICIA imposes an increasingly stringent array of restrictions, requirements and prohibitions as an organization's capital levels deteriorate. A bank rated "adequately capitalized" or below may not accept, renew or roll over brokered deposits. A "significantly undercapitalized" institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The OCC has only very limited discretion in dealing with a "critically undercapitalized" institution and generally must appoint a receiver or conservator (the FDIC) if the capital deficiency is not corrected promptly.

Under the Federal Deposit Insurance Act ("FDIA"), "critically undercapitalized" banks may not, beginning 60 days after becoming critically undercapitalized, make any payment of principal or interest on their subordinated debt (subject to certain limited exceptions). In addition, under Section 18(i) of the FDIA, banks are required to obtain the advance consent of the FDIC to retire any part of their subordinated notes. Under the FDIA, a bank may not pay interest on its subordinated notes if such interest is required to be paid only out of net profits, or distribute any of its capital assets, while it remains in default on any assessment due to the FDIC.

Federal bank regulators may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve and OCC guidelines provide that banking organizations experiencing significant growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. Concentration of credit risks, interest rate risk (imbalances in rates, maturities or sensitivities) and risks arising from non-traditional activities, as well as an institution's ability to manage these risks, are important factors taken into account by regulatory agencies in assessing an organization's overall capital adequacy.

The OCC and the Federal Reserve also use a leverage ratio as an additional tool to evaluate the capital adequacy of banking organizations. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. A minimum leverage ratio of 3.0% is required for banks and bank holding companies that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other banks and bank holding companies are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In order to be considered well capitalized the leverage ratio must be at least 5.0%.

Our Bank's leverage ratio was 8.2% at December 31, 2019 and, as a result, it is currently classified as "well capitalized" for purposes of the OCC's prompt corrective action regulations.

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The risk-based and leverage capital ratios established by federal banking regulators are minimum supervisory ratios generally applicable to banking organizations that meet specified criteria, assuming that they otherwise have received the highest regulatory ratings in their most recent examinations. Banking organizations not meeting these criteria are expected to operate with capital positions in excess of the minimum ratios. Regulators can, from time to time, change their policies or interpretations of banking practices to require changes in risk weights assigned to our Bank's assets or changes in the factors considered in order to evaluate capital adequacy, which may require our Bank to obtain additional capital to support existing asset levels or future growth or reduce asset balances in order to meet minimum acceptable capital ratios.

*Liquidity Requirements.* U.S. bank regulators in September 2014 issued a final rule implementing the Basel III liquidity framework for certain U.S. banks - generally those having more than \$50 billion of assets or whose primary federal banking regulator determines compliance with the liquidity framework is appropriate based on the organization's size, level of complexity, risk profile, scope of operations, U.S. or non-U.S. affiliations or risk to the financial system. One of the liquidity tests included in the new rule, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that a banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario.

The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements encourage the covered banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets, and also to increase the use of long-term debt as a funding source.

While the LCR and NSFR tests are not currently applicable to our Bank, and the proposed rules would increase substantially the \$50 billion asset threshold, other relevant measures of liquidity are monitored by management and are reported to our board of directors. Regulators may change capital and liquidity requirements, including previous interpretations of practices related to risk weights, which could require an increase in liquid assets or in the necessary capital to support the assets held by our Bank. Regulators could also require us to make retroactive adjustments to financial statements and reported capital ratios to reflect such changes.

*Stress Testing.* Pursuant to the Dodd-Frank Act and regulations published by the Federal Reserve and OCC, we were required to conduct an annual "stress test" of capital and consolidated earnings and losses under a base case and two severely adverse stress scenarios provided by bank regulatory agencies during the years 2016 to 2018. In response to this requirement we developed dedicated staffing, economic models, policies and procedures to implement stress testing on an annual basis, the results of which were furnished to regulators and published on our website, as well as conducting stress tests for internal use based upon economic scenarios we developed. The Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") enacted in 2018, which amended portions of the Dodd-Frank Act, and subsequently adopted enabling regulations terminated our stress testing requirements. We continue to perform certain stress tests internally and have incorporated the economic models and information developed through our stress testing program into our risk management and business, capital and liquidity planning activities, which are subject to continuing regulatory oversight.

*Gramm-Leach-Bliley Financial Modernization Act of 1999 ("Gramm-Leach-Bliley Act").* The Gramm-Leach-Bliley Act:

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was permissible prior to enactment, including insurance underwriting and making merchant banking investments in commercial and financial companies;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies;
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations; and
- directs bank regulators to prescribe standards for the security of consumer information.

The Gramm-Leach-Bliley Act also modifies other current financial laws, including laws related to financial privacy.

*Privacy and Data Security.* The financial privacy provisions of the Gramm-Leach-Bliley Act generally prohibit financial institutions, including our Bank, from disclosing non-public personal financial information to non-affiliated third parties unless customers have the opportunity to "opt out" of the disclosure and have not elected to do so. Our Bank is required to comply with state laws regarding consumer privacy if they are more protective than the Gramm-Leach-Bliley Act. An increasing number of state laws and regulations have been enacted in recent years to implement privacy and cybersecurity standards and regulations, including data breach notification and data privacy requirements. Other nations in which our customers do business, such as the European Union, have adopted similar requirements. This trend of state-level and international activity is expected to continue to expand, requiring continual monitoring of developments in the states and nations in which our customers are located and ongoing investments in our information systems and compliance capabilities.

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*Community Reinvestment Act.* The Community Reinvestment Act of 1977 (“CRA”) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit, making investments and providing community development services to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the CRA. Our Bank’s strategic focus on serving commercial customers in regional and national markets from a limited number of branches makes it more challenging for us to satisfy CRA requirements as compared to banks of comparable size that focus on providing retail banking services in markets where they maintain a network of full-service branches.

*The USA Patriot Act, the International Money Laundering Abatement and Financial Anti-Terrorism Act and the Bank Secrecy Act.* A major focus of U.S. government policy regarding financial institutions in recent years has been combating money laundering, terrorist financing and other illegal payments. The USA Patriot Act of 2001 and the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 substantially broadened the scope of United States anti-money laundering laws and penalties, specifically related to the Bank Secrecy Act of 1970, and expanded the extra-territorial jurisdiction of the U.S. government in this area. Regulations issued under these laws impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and other suspicious activity and to verify the identity of their customers and apply additional scrutiny to customers considered to present greater than normal risk. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with relevant laws or regulations, could have serious legal, reputational and financial consequences for the institution. Because of the significance of regulatory emphasis on these requirements, we have expended, and expect to continue to expend, significant staffing, technology and financial resources to maintain programs designed to ensure compliance with applicable laws and regulations and an effective audit function for testing our compliance with the Bank Secrecy Act on an ongoing basis.

*Office of Foreign Assets Control.* The U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”) is responsible for administering and enforcing economic and trade sanctions against specified foreign parties, including countries and regimes, foreign individuals and other foreign organizations and entities. OFAC publishes lists of prohibited parties that are regularly consulted by our Bank in the conduct of its business in order to assure compliance. We are responsible for, among other things, blocking accounts of, and transactions with, prohibited parties identified by OFAC, avoiding unlicensed trade and financial transactions with such parties and reporting blocked transactions after their occurrence. Failure to comply with OFAC requirements could have serious legal, financial and reputational consequences for our Bank.

*Safe and Sound Banking Practices; Enforcement.* Banks and bank holding companies are prohibited from engaging in unsafe and unsound banking practices. Bank regulators have broad authority to prohibit and penalize activities of bank holding companies and their subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws, regulations or written directives of or agreements with regulators. Regulators have considerable discretion in identifying what they deem to be unsafe and unsound practices and in pursuing enforcement actions in response to them.

The FDIA requires federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions that relate to, among other things: (i) internal controls, information systems and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth and quality; and (vi) compensation and benefits. Federal banking agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these requirements, which regulators use to identify and address problems at insured depository institutions before capital becomes impaired. If a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the bank may be required to submit an acceptable plan to achieve compliance, and agree to specific deadlines for the submission to and review by the regulator of reports confirming progress in implementing the safety and soundness compliance plan. Failure to implement such a plan may result in an enforcement action against the bank.

Enforcement actions against us, our Bank and our officers and directors may include the issuance of a written directive, the issuance of a cease-and-desist order that can be judicially enforced, the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against officers or other institution-affiliated parties, the imposition of restrictions and sanctions under prompt corrective action regulations, the termination of deposit insurance (in the case of our Bank) and the appointment of a conservator or receiver for our Bank. Civil money penalties can be as high as \$1.0 million for each day a violation continues.

*Transactions with Affiliates and Insiders.* Our Bank is subject to Section 23A of the Federal Reserve Act which places limits on, among other covered transactions, the amount of loans or extensions of credit to affiliates that may be made by our Bank. Extensions of credit to affiliates must be adequately collateralized by specified amounts and types of collateral. Section 23A also limits the amount of loans or advances by our Bank to third party borrowers which are collateralized by our securities or obligations or those of our subsidiaries. Our Bank also is subject to Section 23B of the Federal Reserve Act, which, among

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other things, prohibits an institution from engaging in transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliates.

We are subject to restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. These restrictions are contained in the Federal Reserve Act and Federal Reserve Regulation O and apply to all insured institutions as well as their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such loans can be made. There is also an aggregate limitation on all loans to insiders and their related interests, which cannot exceed the institution's total unimpaired capital and surplus, unless the FDIC determines that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. Additional restrictions on transactions with affiliates and insiders are discussed in the Dodd-Frank Act section below.

*Restrictions on Payment of Dividends by Our Bank.* The sole source of funding of our parent company financial obligations has consisted of proceeds of capital markets transactions and cash payments from our Bank for debt service and dividend payments with respect to our Bank's preferred stock issued to the Company. We may in the future seek to rely upon receipt of dividends paid by our Bank to meet our financial obligations. Our Bank is subject to statutory dividend restrictions. Under such restrictions, national banks may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's net profits plus the retained net profits from the prior two years, less any required transfers to surplus. The Basel III Capital Rules further limit the amount of dividends that may be paid by our Bank. In addition, under the FDICIA, our Bank may not pay any dividend if it is undercapitalized or if payment would cause it to become undercapitalized.

*Limits on Compensation.* The Federal Reserve, OCC and FDIC in 2010 issued comprehensive final guidance on incentive compensation policies for executive management of banks and bank holding companies. This guidance was intended to ensure that the incentive compensation policies of banking organizations do not undermine their safety and soundness by encouraging excessive risk-taking. The objective of the guidance is to assure that incentive compensation arrangements (i) provide incentives that do not encourage excessive risk-taking, (ii) are compatible with effective internal controls and risk management and (iii) are supported by strong corporate governance, including oversight by the board of directors. In 2016, the Federal Reserve and the FDIC proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2019, these rules have not been implemented.

*Deposit Insurance.* Our Bank's deposits are insured by the FDIC up to limits established by applicable law, currently \$250,000 per depositor. The FDIC determines quarterly deposit insurance assessments consisting of a percentage of an assessment base equal to our Bank's average consolidated total assets less average tangible equity capital and the assignment of one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. The FDIC has the discretion to adjust an institution's risk rating. For 2019, minimum and maximum assessment rates (inclusive of possible adjustments) for institutions the size of our Bank ranged from 1.5 to 40 basis points. As a "large" institution for purposes of determining FDIC insurance assessments, our Bank was until December 31, 2018, subject to additional surcharges to rebuild the DIF to a reserve ratio (DIF balance divided by total insured deposits) equal to 1.35%.

*The Dodd-Frank Act.* The Dodd-Frank Act became law in 2010 and has had a broad impact on the financial services industry, imposing significant regulatory and compliance changes. A significant volume of financial services regulations required by the Dodd-Frank Act have not yet been finalized by banking regulators, Congress continues to consider legislation that would make significant changes to the law and courts are addressing significant litigation arising under the Act, making it difficult to predict the ultimate effect of the Dodd-Frank Act on our business. The following discussion provides a brief summary of certain provisions of the Dodd-Frank Act that may have an effect on us.

The Dodd-Frank Act significantly reduces the ability of national banks to rely upon federal preemption of state consumer financial laws and permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Although the OCC, as the primary regulator of national banks, has the ability to make preemption determinations where certain conditions are met, the broad rollback of federal preemption has the potential to create a patchwork of federal and state compliance obligations and enforcement. This may result in significant state regulatory requirements applicable to us and certain of our lending activities, with potentially significant changes in our operations and increases in our compliance costs.

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of restrictions on loans to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution,

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including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

The Dodd-Frank Act increases the risk of "secondary actor liability" for lenders that provide financing or other services to customers offering financial products or services to consumers, as our Bank does in our mortgage finance, mortgage correspondent aggregation and lender finance lines of business. The Dodd-Frank Act can impose liability on a service provider for knowingly or recklessly providing substantial assistance to a customer found to have engaged in unfair, deceptive or abusive practices that injure a consumer. This exposure contributes to increased compliance and other costs in connection with the administration of credit extended to entities engaged in providing financial products and services to consumers.

The Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent compliance, capital, liquidity and leverage requirements or otherwise adversely affect our business. These developments may also require us to invest significant management attention and resources to evaluate and make changes to our business as necessary to comply with new and changing statutory and regulatory requirements.

*The Volcker Rule.* The Dodd-Frank Act amended the BHCA to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading in designated types of financial instruments and from investing in and sponsoring certain hedge funds and private equity funds. The Volcker Rule has not had a material effect on our operations since we do not engage in the businesses prohibited by the Volcker Rule. Unanticipated effects of the Volcker Rule's provisions or future interpretations may have an adverse effect on our business or services provided to our Bank by other financial institutions.

### **Available Information**

Under the Securities Exchange Act of 1934, we are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information that we file electronically with the SEC.

We make available, free of charge through our website, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Additionally, we have adopted and posted on our website a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The address for our website is [www.texascapitalbank.com](http://www.texascapitalbank.com). Any amendments to, or waivers from, our code of ethics applicable to our executive officers will be posted on our website within four days of such amendment or waiver. We will provide a printed copy of any of the aforementioned documents to any requesting stockholder.

### **ITEM 1A. RISK FACTORS**

*Our business is subject to risk. The following discussion, along with management's discussion and analysis and our financial statements and footnotes, sets forth the most significant risks and uncertainties that we believe could adversely affect our business, financial condition or results of operations. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also have a material adverse effect on our business, financial condition or results of operations. There is no assurance that this discussion covers all potential risks that we face. The occurrence of the described risks could cause our results to differ materially from those described in our forward-looking statements included elsewhere in this report or in our other filings with the SEC and could have a material adverse impact on our business, financial condition or results of operations.*

#### **Merger-Related Risks**

**The consummation of the merger is contingent upon the satisfaction of a number of conditions, including shareholder and regulatory approvals, that may be outside of TCBI's or IBTX's control and that TCBI and IBTX may be unable to satisfy or obtain or which may delay the consummation of the merger or result in the imposition of conditions that could reduce the anticipated benefits from the merger or cause the parties to abandon the merger.**

*We face risks and uncertainties related to the proposed merger with Independent Bank Group, Inc.* Before the transactions contemplated in the merger agreement with IBTX can be completed, approvals must be obtained from regulatory authorities, including the Federal Reserve, the FDIC and the Texas Department of Banking, and from our stockholders, and all conditions to the closing of the transaction included in the merger agreement must have been satisfied or waived. The required regulatory approvals may impose additional conditions, limitations, obligations or costs on the surviving entity, place restrictions on the conduct of the business of the surviving entity or require changes to the terms of the transactions contemplated by the merger agreement. There can be no assurance that our or IBTX's regulators will not impose any such additional conditions, limitations, obligations or restrictions, or that they will not have the effect of delaying or preventing the completion of the merger, imposing

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additional material costs on or materially limiting the revenues of the surviving entity following the merger or otherwise reducing the anticipated benefits of the merger.

Uncertainties about the effects of the merger may impair our ability to attract, retain and motivate key personnel until the merger is consummated and for a period of time thereafter, and could cause customers and others who work with us to seek to change their existing business relationships with us. It is not unusual for competitors to use mergers as an opportunity to target the merging parties' customers and to hire certain of their employees. Employee retention may be particularly challenging during the pendency of the merger, as employees may experience uncertainty about their roles with the surviving entity following the merger.

The merger agreement contains provisions that restrict each company's ability to, among other things, initiate, solicit, knowingly encourage or knowingly facilitate, inquiries or proposals with respect to, or, subject to certain exceptions generally related to its board of directors' exercise of fiduciary duties, engage in any negotiations concerning, or provide any confidential information relating to, any alternative acquisition proposals. These provisions, which include a \$115.0 million termination fee payable under certain circumstances, may discourage any potential competing acquirer having an interest in acquiring us from proposing a transaction, or may result in the offer of a lower per share price to acquire us than might otherwise have been proposed.

*We may fail to realize all of the anticipated benefits of the merger, or those benefits may take longer to realize than expected. We may also encounter significant difficulties in integrating with IBTX.* We and IBTX have operated, and until the completion of the merger will continue to operate, independently, subject to terms of the merger agreement imposing specific limitations on certain actions of each party without the consent of the other party. A significant portion of the anticipated benefit of the merger is attributable to anticipated cost savings from the integration of the two companies and elimination of duplicated costs and business functions. There is no assurance that our businesses can be integrated successfully or that the expected cost reductions can be realized. The integration process may result in the loss of key employees of each company, the loss of customers, the disruption of each company's ongoing business, inconsistencies in standards, controls, policies and procedures, unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. If we experience difficulties in the integration process, including those listed in the prior sentence, we may fail to realize the anticipated benefits of the merger in a timely manner or at all. The success of the merger will depend on, among other things, the ability of the surviving entity following the merger to operate its businesses in a manner that facilitates growth and realizes cost savings.

*The merger agreement may be terminated in accordance with its terms and the merger may not be completed.* The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger, including the approval of the merger agreement by TCBI's stockholders and by IBTX's shareholders; the receipt of authorization for listing on the Nasdaq of the shares of IBTX common stock and IBTX Series B preferred stock to be issued in the merger; the receipt of all required regulatory approvals; the effectiveness of the registration statement on Form S-4 for the IBTX common stock and IBTX preferred stock to be issued in the merger; the absence of any order, injunction, decree or other legal restraint preventing the completion of the merger or making the completion of the merger illegal; subject to certain exceptions, the accuracy of the representations and warranties under the merger agreement; our and IBTX's performance in all material respects of our and their respective obligations under the merger agreement; and each of our and IBTX's receipt of a tax opinion to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. The conditions to the closing of the merger included in the merger agreement may not be fulfilled in a timely manner or at all, and, accordingly, the merger may be delayed or may not be completed.

We and IBTX may elect to terminate the merger agreement under certain circumstances. Among other situations, if the merger is not completed by December 31, 2020, either we or IBTX may choose not to proceed with the merger (unless the failure of the closing to occur by such date was due to the failure of the party seeking to terminate the merger agreement to perform or observe the obligations, covenants and agreements of such party set forth in the merger agreement). We and IBTX can also mutually decide to terminate the merger agreement at any time. If the merger agreement is terminated, under certain circumstances, we may be required to pay a termination fee of \$115.0 million to IBTX.

*The value to be recognized by our stockholders from the merger is subject to material uncertainties.* The merger agreement provides that upon the closing of the merger our stockholders will receive 1.0311 shares of IBTX common stock for each share of our common stock that they own at that time. The exchange rate for the conversion of our common stock into IBTX common stock was set in early December 2019 based upon information available to the boards of directors and financial advisors of each company at that time. The market price of our common stock and of IBTX common stock is subject to substantial fluctuations in response to variety of factors that are inherently unpredictable and outside of our control, including changes in our and IBTX's business, operations and prospects, and regulatory considerations, the historical and anticipated future financial results of our respective banking operations and general market and economic developments affecting Texas, United States and international businesses and financial markets. The substantial differences between our business and the business of IBTX will subject our stockholders to new and different risks than those with which they are familiar. A period of

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months may transpire between the date that our stockholders are asked to approve the merger and the date that the merger is consummated, during which time the value of the merger consideration received by our stockholders will continue to fluctuate. As a result, at the time of our special meeting of stockholders to vote to approve the merger agreement, our stockholders will not until the closing of the merger know the precise value of the merger consideration they will receive, which could be materially different than the market value at the time of the merger vote and the market value at the time the exchange ratio was set.

*Failure to complete the proposed merger with IBTX could negatively impact our business, financial results and stock price.* If the proposed merger is not completed for any reason, our ongoing business may be adversely affected and, without realizing any of the benefits of having completed the merger, we would be subject to a number of related risks, including the following:

- we may be required, under certain circumstances, to pay IBTX a termination fee of \$115.0 million under the merger agreement, which may adversely affect the price of our common stock;
- we will have incurred substantial expenses and will be required to pay significant costs relating to the merger, whether or not it is completed, such as legal, accounting, due diligence, financial advisor and printing fees;
- the merger agreement places certain restrictions on the conduct of our business prior to completion of the merger, which may adversely affect our ability to execute certain of our business strategies and cause certain other initiatives to be delayed or abandoned;
- matters relating to the merger require substantial commitments of time and resources by our management team that could have been and could be devoted to the pursuit of other opportunities beneficial to us as an independent company; and
- we may be subject to negative reactions from the financial markets and from our customers and employees that could materially affect our business, financial results and stock price; the market price of our common stock could decline to the extent that current market prices of our common stock reflect a market assumption that the merger will be completed.

*Litigation could prevent or delay the closing of the proposed merger or otherwise negatively impact our business and operations.* We may be subject to legal proceedings related to the agreed terms of the proposed merger, the manner in which the merger was considered and approved by our board of directors or any failure to complete the merger or perform our obligations under the merger agreement. Such litigation could delay or block the consummation of the merger, have an adverse effect on our financial condition and impose material costs on us or the surviving entity. Any delay in completing the merger could cause us not to realize, or to be delayed in realizing, some or all of the benefits that we expect to achieve if the merger is successfully completed within its expected time frame.

*Our future results will suffer if we do not effectively manage our expanded operations following the merger.* Following the merger, the size of our business will increase significantly beyond its current size. The future success of the surviving entity depends, in part, upon the ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances the surviving entity will be successful or that it will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the merger.

### **Risk Factors Associated With Our Business**

*We must effectively manage our credit risk.* The risk of non-payment of loans is inherent in commercial banking. Increased credit risk may result from many factors, including:

- Adverse changes in local, U.S. and global economic and industry conditions;
- Declines in the value of collateral, including asset values that are directly or indirectly related to external factors such as commodity prices, real estate values or interest rates;
- Concentrations of credit associated with specific loan categories, industries or collateral types; and
- Exposures to individual borrowers and to groups of entities that may be affiliated on some basis that individually and/or collectively represent a larger percentage of our total loans or capital than might be considered common at other banks of similar size.

We rely heavily on information provided by third parties when originating and monitoring loans. If this information is intentionally or negligently misrepresented and we do not detect such misrepresentations, the credit risk associated with the transaction may be increased. Although we attempt to manage our credit risk by carefully monitoring the concentration of our loans within specific loan categories and industries and through prudent loan approval and monitoring practices in all categories of our lending, we cannot assure you that our approval and monitoring procedures will reduce these lending risks. Our significant number of large credit relationships (above \$20 million) could exacerbate credit problems precipitated by a

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regional or national economic downturn. Competitive pressures could erode underwriting standards, leading to a decline in general credit quality and increases in credit defaults and non-performing asset levels. If our credit administration personnel, policies and procedures are not able to adequately adapt to changes in economic, competitive or other conditions that affect customers and the quality of the loan portfolio, we may incur increased losses that could adversely affect our financial results and lead to increased regulatory scrutiny, restrictions on our lending activity or financial penalties.

*A significant portion of our assets consists of commercial loans.* We generally invest a greater proportion of our assets in commercial loans to business customers than other banking institutions of our size, and our business plan calls for continued efforts to increase our assets invested in these loans. At December 31, 2019, approximately 42% of our LHI portfolio was comprised of commercial loans. Commercial loans may involve a higher degree of credit risk than other types of loans due, in part, to their larger average size, the effects of changing economic conditions on the businesses of our commercial loan customers, the dependence of borrowers on operating cash flow to service debt and our reliance upon collateral which may not be readily marketable. Due to the greater proportion of these commercial loans in our portfolio and because the balances of these loans are, on average, larger than other categories of loans, losses incurred on a relatively small number of commercial loans could have a materially adverse impact on our results of operations and financial condition.

*A significant portion of our loans are secured by commercial and residential real estate.* At December 31, 2019, approximately 57% of our loans held for investment portfolio was comprised of loans with real estate as the primary component of collateral. Our real estate lending activities, and our exposure to fluctuations in real estate collateral values, are significant and may increase as our assets increase. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located, in response to factors such as economic downturns, changes in the economic health of industries heavily concentrated in a particular area and in response to changes in market interest rates, which influence capitalization rates used to value revenue-generating commercial real estate. If the value of real estate serving as collateral for our loans declines materially, a significant part of our loan portfolio could become under-collateralized and losses incurred upon borrower defaults would increase. Conditions in certain segments of the real estate industry, including homebuilding, lot development and mortgage lending, may have an effect on values of real estate pledged as collateral for our loans. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of our borrowers who are dependent on the sale or refinancing of property to repay their loans. Changes in the economic health of certain industries can have a significant impact on other sectors or industries which are directly or indirectly associated with those industries, and may impact the value of real estate in areas where such industries are concentrated.

*Our future profitability depends, to a significant extent, upon our middle market business customers.* Our future profitability depends, to a significant extent, upon revenue we receive from middle market business customers, and their ability to continue to meet their loan obligations. Adverse economic conditions or other factors affecting this market segment, and our failure to timely identify and react to unexpected economic downturns, may have a greater adverse effect on us than on other financial institutions that have a more diversified customer base. Additionally, our inability to grow our middle market business customer base in a highly competitive market could affect our future growth and profitability.

*We must maintain an appropriate allowance for loan losses.* Our experience in the banking industry indicates that some portion of our loans will become delinquent, and some may only be partially repaid or may never be repaid at all. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense each quarter, that is consistent with management's assessment of the collectability of the loan portfolio in light of the amount of loans committed and outstanding and current economic conditions and market trends. When specific loan losses are identified, the amount of the expected loss is removed, or charged-off, from the allowance. Our methodology for establishing the appropriateness of the allowance for loan losses depends on our subjective application of risk grades as indicators of each borrower's ability to repay specific loans, together with our assessment of how actual or projected changes in competitor underwriting practices, competition for borrowers and depositors and other conditions in our markets are likely to impact improvement or deterioration in the collectability of our loans as compared to our historical experience.

Our business model makes our Bank more vulnerable to changes in underlying business credit quality than other banks with which we compete. We have a substantially larger percentage of commercial, real estate and other categories of business loans relative to total assets than most other banks in our market and our individual loans are generally larger as a percentage of our total earning assets than other banks. While we have substantially increased our liquidity in recent years, these funds are invested in low-yielding deposits with federal agencies and other financial institutions. A substantially smaller portion of our assets consists of securities and other earning asset categories that can be less vulnerable to changes in local, regional or industry-specific economic trends, causing our potential for credit losses to be more severe than other banks. Our business model has focused on growth in various loan categories that can be more sensitive to changes in economic trends. We believe our ability to maintain an above-peer rate of growth in commercial loans is dependent on maintaining above-peer credit quality metrics. The failure to maintain above-peer credit quality metrics would have a material adverse impact on our growth and profitability. Historically, we have sought to take action prior to economic downturns by slowing growth rates and decreasing

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the risk level of our assets by, among other things, allowing runoff of loans that we believe may not perform well during a weakening or declining economic environment.

If our assessment of inherent risk and losses in our loan portfolio is inaccurate, or economic and market conditions or our borrowers' financial performance experience material unanticipated changes, the allowance may become inadequate, requiring larger provisions for loan losses that can materially decrease our earnings. Certain of our loans individually represent a significant percentage of our total allowance for loan losses. Adverse collection experience in a relatively small number of these loans could require an increase in the provision for loan losses. Federal regulators periodically review our allowance for loan losses and, based on their judgments, which may be different than ours, may require us to change classifications or grades of loans, increase the allowance for loan losses or recognize further loan charge-offs. Any increase in the allowance for loan losses or in the amount of loan charge-offs required by our methodology or regulatory agencies could have a negative effect on our results of operations and financial condition.

*Changes in accounting standards, including the implementation of Current Expected Credit Loss methodology for 2020, could materially affect how we report our financial results.* The Financial Accounting Standards Board adopted a new accounting standard for determining the amount of our allowance for credit losses (ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326)*) that will be effective for our fiscal year ending December 31, 2020, referred to as Current Expected Credit Loss ("CECL"). Implementation of CECL will require that we determine periodic estimates of lifetime expected future credit losses on loans in the provision for loan losses in the period when the loans are booked. Based on our fourth quarter parallel run, review of the portfolio, including the composition, characteristics and quality of the underlying loans, and the prevailing economic conditions and forecasts as of the adoption date, we believe that adoption of ASU 2016-13 will result in an immaterial increase of approximately 5-6% to our allowance for credit losses. This is consistent with our expectations given that our current portfolio is of shorter duration and commercially focused. The ongoing impact of CECL will be significantly influenced by the composition, characteristics and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Should these factors materially change, we may be required to increase or decrease our allowance for loan losses, decreasing or increasing our reported income, and introducing additional volatility into our reported earnings.

*Our business is concentrated in Texas; our energy industry exposure could adversely affect our performance.* Although more than 50% of our loan exposure is outside of Texas and more than 50% of our deposits are sourced outside of Texas, our Texas concentration remains significant compared to other peer banks. A majority of our loans held for investment, excluding mortgage finance loans and other national lines of business, are to businesses with headquarters or operations in Texas. As a result, our financial condition and results of operations may be strongly affected by any prolonged period of economic recession or other adverse business, economic or regulatory conditions affecting Texas businesses and financial institutions. While the Texas economy is more diversified than in the 1980's, the energy sector continues to play an important role. At December 31, 2019 our outstanding energy loans represented 5% of total loans. Our energy loans consist primarily of producing reserve-based loans to exploration and production companies with a smaller portion of our loan balances attributable to royalty owners, midstream operators, saltwater disposal and other service companies whose businesses primarily relate to production, not exploration and development, of oil and gas. These businesses have been significantly affected by volatility in oil and natural gas prices, reserve depletion curves, material declines in the level of drilling and production activity in Texas and in other areas of the United States and material fluctuations in investor interest in oil and gas exploration and production investments. We experienced an increase in non-performing assets and higher charge-offs primarily related to energy loans during 2016, and while those levels have moderated over the last three years, they still remain elevated compared to the overall loan portfolio. There is no assurance that we will not be materially adversely impacted by the direct and indirect effects of current and future conditions in the energy industry in Texas and nationally.

*Our business faces unpredictable economic and business conditions.* Our business is directly impacted by general economic and business conditions in Texas, the United States and internationally. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we and our customers conduct our respective businesses. Our continued financial success can be affected by other factors that are beyond our control, including:

- national, regional and local economic conditions;
- the value of the U.S. Dollar in relation to the currencies of other advanced and emerging market countries;
- the performance of both domestic and international equity and debt markets and valuation of securities traded on recognized domestic and international exchanges;
- general economic consequences of international conditions, such as weakness in European and South American sovereign debt and currencies and the U.K.'s referendum to exit from the European Union, and the impact of those conditions on the US and global economies;
- legislative and regulatory changes impacting our industry;

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- the financial health of our customers and economic conditions affecting them and the value of our collateral, including effects from continued price volatility of oil and gas and other commodities;
- the incidence of fraud, illegal payments, security breaches and other illegal acts among or impacting our Bank and our customers;
- structural changes in the markets for origination, sale and servicing of residential mortgages;
- changes in governmental economic and regulatory policies, including the extent and timing of intervention in credit markets by the Federal Reserve or withdrawal from that intervention, generally as well as changes attributable to presidential and congressional elections;
- changes in the availability of liquidity at a systemic level; and
- material inflation or deflation.

Substantial deterioration in any of the foregoing conditions can have a material adverse effect on our prospects and our results of operations and financial condition. There is no assurance that we will be able to return to our historical rate of growth or our profitability. Our Bank's customer base is primarily commercial in nature, and our Bank does not have a significant retail branch network or retail consumer deposit base. In periods of economic downturn, business and commercial deposits may be more volatile than traditional retail consumer deposits. As a result, our financial condition and results of operations could be adversely affected to a greater degree by these uncertainties than competitors having a larger retail customer base.

*The impact of the Tax Cuts and Jobs Act (the "Tax Act") on us and our customers contributes to uncertainty and risk related to our customers' future demand for credit and our future results.* The extent to which increased economic activity expected to result from the Tax Act has spurred additional economic activity or affected the extent of borrowing by our customers is unclear, although the continuation of the current economic expansion provides some evidence of a positive effect. At the same time, some of our customers may have elected to use their additional cash flow from lower taxes to fund their business, decreasing borrowing needs. The elimination of the federal income tax deductibility of business interest expense for a significant number of our customers effectively increases the cost of borrowing and makes equity or hybrid funding relatively more attractive. This could have a long-term negative impact on business customer borrowing. We realized a significant increase in our after-tax net income available to stockholders attributable to the Tax Act beginning in 2018, but there is no guarantee that future years' results will have the same benefit. The continued compression of net interest margin at our bank and for competitor banks indicates that some or all of the expected benefit from the Tax Act has been lost as the banks and financial services companies we compete with have elected to lower interest rates and fees and we have responded in order to remain competitive. Additionally, the tax benefits could be repealed as a result of future political or regulatory actions. There is no assurance that the current or anticipated benefits of the Tax Act will be realized in future periods.

*Our growth plans are dependent on the availability of capital and funding.* Our historical ability to raise capital through the sale of capital stock and debt securities may be affected by economic and market conditions or regulatory changes that are beyond our control. Adverse changes in our operating performance or financial condition could make raising additional capital difficult or more expensive or limit our access to customary sources of funding, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank ("FRB") or the Federal Home Loan Bank ("FLHB"). Unexpected changes in requirements for capital resulting from regulatory actions could require us to raise capital at a time, and at a price, that might be unfavorable, or could require that we forego continuing growth or reduce our current loan portfolio. We cannot offer assurance that capital and funding will be available to us in the future, in needed amounts, upon acceptable terms or at all. Our efforts to raise capital could require the issuance of securities at times and with maturities, conditions and rates that are disadvantageous, and which could have a dilutive impact on our current stockholders. Factors that could adversely affect our ability to raise additional capital or necessary funding include conditions in the capital markets, our financial performance, our credit ratings, regulatory actions and general economic conditions. Increases in our cost of capital, including dilution and increased interest or dividend requirements, could have a direct adverse impact on our operating performance and our ability to achieve our growth objectives. Trust preferred securities are no longer viable as a source of new long-term debt capital as a result of regulatory changes. The treatment of our existing trust preferred securities as capital may be subject to further regulatory change prior to their maturity, which could require the Company to seek additional capital.

Our mortgage finance business has experienced, and will likely continue to experience, highly variable usage of our funding capacity resulting from seasonal demands for credit, surges in consumer demand driven by changes in interest rates and month-end "spikes" of residential mortgage closings. These spikes could also result in our Bank having capital ratios that are below internally targeted levels or even levels that could cause our Bank to not be well capitalized and could affect liquidity levels. At the same time managing this risk by declining to respond fully to the needs of our customers could severely impact our business. We have responded to these variable funding demands by, among other things, increasing the extent of participations sold in our mortgage loan interests, as needed, and by maintaining a substantial borrowing relationship with the FHLB. Our mortgage finance customers have in recent periods provided significant low-cost deposit balances associated with the borrower escrow accounts created at the time certain mortgage loans are funded, which have benefitted our liquidity and net interest

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margin. Due to the rising rate environment and in response to competitive pressures, we have found it necessary to pay interest on some of these accounts, as regulations allow or require and this trend may continue, materially increasing our costs of funds. Individual escrow account balances also experience significant variability monthly as principal and interest payments, as well as ad valorem taxes and insurance premiums, are paid periodically. While the short average holding period of our mortgage interests of approximately 20 days will allow us, if necessitated by a funding shortfall, to rapidly decrease the size of the portfolio and its associated capital and funding requirements, any such action might significantly damage our business and important mortgage finance relationships.

*We must effectively manage our liquidity risk.* Our Bank requires liquidity in the form of available funds to meet its deposit, debt and other obligations as they come due, borrower requests to draw on committed credit facilities as well as unexpected demands for cash payments. While we are not subject to Basel III liquidity regulations, the adequacy of our liquidity is a matter of regulatory interest given the significant portion of our balance sheet represented by loans as opposed to securities and other more marketable investments. Our Bank's principal source of funding consists of customer deposits, supplemented by our short-term and long-term borrowings, including federal funds purchased and FHLB borrowings. We also rely on the availability of the mortgage secondary market provided by Ginnie Mae and the GSEs to support the liquidity of our residential mortgage assets. A substantial majority of our Bank's liabilities consist of demand, savings, checking and money market deposits, which are payable on demand or upon relatively short notice. By comparison, a substantial portion of our assets are loans, most of which, excluding our mortgage finance loans and mortgage loans held for sale, cannot be collected or sold in so short a time frame, creating the potential for an imbalance in the availability of liquid assets to satisfy depositors and loan funding requirements.

We hold smaller balances of marketable securities than many of our competitors, limiting our ability to increase our liquidity by completing market sales of these assets. An inability to raise funds through deposits, borrowings, the sale of securities and loans and other sources, or an inability to access the capital markets, could have a substantial negative effect on our Bank's liquidity. We actively manage our available sources of funds to meet our expected needs under normal and financially stressed conditions, but there is no assurance that our Bank will be able to make new loans, meet ongoing funding commitments to borrowers and replace maturing deposits and advances as necessary under all possible circumstances. Our Bank's ability to obtain funding could be impaired by factors beyond its control, such as disruptions in financial markets, negative expectations regarding the financial services industry generally or in our markets or negative perceptions of our Bank, including our credit ratings and in connection with the proposed Merger. See *Merger-Related Risks* for a discussion of risks related to the proposed merger.

Our Bank sources a significant volume of its demand deposits from financial services companies, mortgage finance customers and other commercial sources, resulting in a larger percentage of large deposits and a smaller number of sources of deposits than would be typical of other banks in our markets, creating concentrations of deposits that carry a greater risk of unexpected material withdrawals. In recent periods over half of our total deposits have been attributable to customers whose balances exceed the \$250,000 FDIC insurance limit. Many of these customers actively monitor our financial condition and results of operations and could withdraw their deposits quickly upon the occurrence of a material adverse development affecting our Bank or their businesses. Significant deterioration in our credit quality or a downgrade in our credit ratings could affect funding sources such as financial institutions and broker dealers. In response to this risk we have increased our liquidity and developed more sophisticated techniques for monitoring and planning for changes in liquidity and capital over the past several years, but there is no assurance that we will maintain or have access to sufficient funding and capital to fully mitigate our liquidity risk.

One potential source of liquidity for our Bank consists of "brokered deposits" arranged by brokers acting as intermediaries, typically larger money-center financial institutions. We receive deposits provided by certain of our customers in connection with our delivery of other financial services to them or their customers which are subject to regulatory classification as "brokered deposits" even though we consider these to be relationship deposits and they are not subject to the typical risks or market pricing associated with conventional brokered deposits.

If we do not maintain our regulatory capital above the level required to be well capitalized we would be required to obtain FDIC consent for us to continue to accept deposits classified as brokered deposits, and there can be no assurance that the FDIC would consent under any circumstances. We could also be required to suspend or eliminate deposit gathering from any source classified as "brokered" deposits. The FDIC can change the definition of brokered deposits or extend the classification to deposits not currently classified as brokered deposits. These non-traditional deposits are subject to greater operational and reputational risk of unexpected withdrawal than traditional demand and time deposits, particularly those provided by consumers. A significant decrease in our balances of relationship brokered deposits could have a material adverse effect upon our financial condition and results of operations. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* below for further discussion of our liquidity.

*We, our vendors and customers must effectively manage our information systems risk.* We, our vendors and customers all rely heavily on communications and information systems to conduct our respective businesses and work effectively together. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven

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products and services. Our ability to compete successfully depends in part upon our ability to use technology to provide products and services that will satisfy customer demands. Many of our larger competitors invest substantially greater resources in technological capabilities than we do. We may not be able to effectively protect, develop and manage mission critical systems and IT infrastructure to support strategic business initiatives, which could impair our ability to achieve financial, operational, compliance and strategic objectives and negatively affect our business, results of operations or financial condition.

Our communications and information systems and those of our vendors and customers remain vulnerable to unexpected disruptions, failures and cyber-attacks. The frequency and intensity of such attacks is escalating. Material failures or interruptions of these systems could impair our ability to serve our customers and to operate our business and could damage our reputation, result in a loss of business, subject us to additional regulatory scrutiny or enforcement or expose us to civil litigation and possible financial liability. While we have developed extensive recovery plans, we cannot assure that those plans will be effective to prevent adverse effects upon us and our customers resulting from system failures.

We collect and store sensitive data, including personally identifiable information of our customers and employees and in the ordinary course of business must allow certain of our vendors access to that data. Breaches of our systems or our vendors' or customers' systems, thefts of data and other breaches and criminal activity may result in significant costs to respond, liability for customer losses if we or our vendors are at fault, damage to our customer relationships, regulatory scrutiny and enforcement and loss of future business opportunities due to reputational damage. Breaches can be perpetrated by unknown third parties, but could also be facilitated by employees either inadvertently or by consciously attempting to create disruption or certain acts of fraud. Although we, with the help of third-party service providers, will continue to implement information security technology solutions and establish operational procedures to protect sensitive data, there can be no assurance that these measures will be effective. We advise and provide training to our customers and evaluate and impose security requirements on our vendors regarding protection of their respective information systems, but there is no assurance that these actions will have the intended positive effects or will be effective to prevent losses. In some cases we may elect to contribute to the cost of responding to cybercrime against our customers, even when we are not at fault, in order to maintain valuable customer relationships. Successful cyber-attacks on our Bank, vendors or customers may affect the reputation of our Bank, and failure to meet customer expectations could have a material impact on our ability to attract and retain deposits as a primary source of funding.

*Our operations rely extensively on a broad range of external vendors.* We rely on a large number of vendors to provide products and services necessary to maintain our day-to-day operations, particularly in the areas of operations, treasury management systems, information technology and security. This reliance exposes us to the risk that these vendors will not perform as required by our agreements as well as risks resulting from disruptions in communications with our vendors, cyber-attacks and security breaches at our vendors, failure of a vendor to provide services for other reasons and poor performance of services. An external vendor's failure to perform in any of these areas could be disruptive to our operations, which could have a material adverse impact on our business, financial condition and results of operations, as well as cause reputational damage. External vendors who must have access to our information systems in order to provide their services have been identified as significant sources of information technology security risk. While we have implemented an active program of oversight to address this risk, there can be no assurance that we will not experience material security breaches associated with our vendors.

*We must effectively manage our interest rate risk.* Our profitability is dependent to a large extent on our net interest income, which is the difference between the interest income paid to us on our loans and investments and the interest we pay to third parties such as our depositors, lenders and debtholders. Changes in interest rates can impact our profits and the fair values of certain of our assets and liabilities. Models that we use to forecast and plan for the impact of rising and falling interest rates may be incorrect or fail to consider the impact of competition and other conditions affecting our loans and deposits.

Periods of unusually low or volatile interest rates have a material effect on our earnings. The Federal Reserve began raising rates in late 2015 and continued through 2018 contributing to improvement in our net interest income as the increase in interest we receive on our assets exceeded the increase in interest we were required to pay our depositors. The Federal Reserve began to decrease interest rates and made changes in its approaches to financial market liquidity management in 2019, which had a negative impact on our earnings. Should interest rates remain unchanged or decline further in 2020, we expect a negative impact on our 2020 earnings to a greater degree than our peer group. There is uncertainty regarding the extent to which interest rates may change in 2020 and future periods and what the future effects of any such changes will be on our interest income and expense. Increases in market interest rates can negatively impact our business, including reducing our customers' desire to borrow money from us and their ability to repay their outstanding loans as their debt service obligations increase through the periodic reset of adjustable interest rate loans. If our borrowers' ability to pay their loans is impaired by increasing interest payment obligations, our level of non-performing assets would increase, producing an adverse effect on operating results. Asset values, especially commercial real estate collateral, securities or other fixed rate earning assets, can decline significantly with relatively minor changes in interest rates.

Increases in interest rates and economic conditions affecting consumer demand for housing can have a material impact on the volume of mortgage originations and refinancings, adversely affecting the profitability of our mortgage finance business. Interest rate risk can also result from mismatches between the dollar amounts of repricing or maturing assets and liabilities and

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from mismatches in the timing and rates at which our assets and liabilities reprice. We actively monitor and manage the balances of our maturing and repricing assets and liabilities to reduce the adverse impact of changes in interest rates, but there can be no assurance that we will be able to avoid material adverse effects on our net interest margin in all market conditions.

Rising interest rates in prior periods have increased our interest expense, with a commensurate adverse effect on our net interest income, and may be expected to do so in future periods. In a rising rate environment, competition for cost-effective deposits increase, making it more costly for us to fund loan growth. Rapid and unexpected volatility in interest rates creates additional uncertainty and potential for adverse financial effects. There can be no assurance that we will not be materially adversely affected by future changes in interest rates.

*We are subject to extensive government regulation and supervision.* We, as a bank holding company and financial holding company, and our Bank as a national bank, are subject to extensive federal and state regulation and supervision, and the potential for regulatory enforcement actions, that impact our business on a daily basis. See the discussion above at *Business - Regulation and Supervision*. These regulations affect our lending practices, permissible products and services and their terms and conditions, customer relationships, capital structure, investment practices, accounting, financial reporting, operations and our ability to grow, among other things. These regulations also impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of our customers.

Congress, state legislatures, and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Material changes in regulation and requirements imposed on financial institutions, such as the Dodd-Frank Act, Basel III Capital Rules, European Union's General Data Protection Regulations ("GDPR") and California Consumer Privacy Act ("CCPA") result in additional costs, impose more stringent capital, liquidity and leverage requirements, limit the types of financial services and products we may offer and increase the ability of non-bank financial services providers to offer competing financial services and products, among other things. Such changes could result in new regulatory obligations which could prove difficult, expensive or competitively impractical to comply with if not equally imposed upon non-bank financial services providers with whom we compete.

We are subject to a continuous program of examinations by our regulators concerning, among other things, lending practices, reserve methodology, compliance with changing regulations and interpretations, BSA/AML compliance, our management of interest rate, liquidity, capital and operational risk, enterprise risk management, regulatory and financial accounting practices and policies and related matters, which can divert management's time and attention from focusing on our business. We devote a significant amount of management time and expense to enhancing the infrastructure to support our compliance obligations, which can pose significant regulatory enforcement, financial and reputational risks if not appropriately addressed.

The Regulatory Relief Act passed on May 22, 2018 has provided a limited degree of regulatory relief for institutions of our size. Uncertainty regarding how our regulators will evaluate capital and liquidity planning going forward remains a risk. We continue to increase our capital and liquidity and expand our regulatory compliance staffing and systems in order to address continuing regulatory requirements. There is no assurance that our financial performance in future years will not be similarly burdened.

We expend substantial effort and incur costs to maintain and improve our systems, controls, accounting, operations, information security, compliance, audit effectiveness, analytical capabilities, staffing and training in order to satisfy regulatory requirements. We cannot offer assurance that these efforts will be accepted by our regulators as satisfying the legal and regulatory requirements applicable to us. Failure to comply with relevant laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

*We must effectively execute our business strategy in order to continue our asset and earnings growth.* Our core strategy is to develop our business principally through organic growth by offering a premier and differentiated banking experience to companies in high-value business segments. Our prospects for continued growth must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies. In order to execute our business strategy successfully, we must, among other things:

- continue to identify and expand into suitable markets and lines of business, in Texas, regionally and nationally;
- develop new products and services and execute our full range of products and services more efficiently and effectively;
- attract and retain qualified bankers in each of our targeted market segments to build our customer base;
- respond to market opportunities promptly and nimbly while balancing the demands of risk management and compliance with regulatory requirements;

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- expand our loan portfolio in an intensely competitive environment while maintaining credit quality;
- attract sufficient deposits and capital to fund our anticipated loan growth and satisfy regulatory requirements;
- control expenses;
- acquire and maintain sufficient qualified staffing and information technology and operational resources to support growth and compliance with regulatory requirements; and
- consummate the proposed merger of equals with IBTX, which requires stockholder and regulatory approval.

Failure to effectively execute our business strategy could have a material adverse effect on our business, future prospects, financial condition or results of operations. The merger agreement with IBTX restricts us from making certain acquisitions and taking other specified actions while the merger is pending without the consent of IBTX, and requires us to operate in the ordinary course of business. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger or may otherwise adversely affect our ongoing business and operations. See Merger-Related Risks for a discussion of additional risks related to the proposed merger.

*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.

*We must be effective in developing and executing new lines of business and new products and services while managing associated risks.* Our business strategy requires that we develop and grow new lines of business and offer new products and services within existing lines of business in order to compete successfully in offering a premier and differentiated client banking experience to ensure future client acquisition and retention of existing clients and realize our strategic priorities for both loans and deposits. Substantial costs, risks and uncertainties are associated with these efforts, particularly in instances where the markets are not fully developed. Developing and marketing new activities requires that we invest significant time and resources before new sources of revenues, funding and profits can be realized. Timetables for the development and launch of new activities may not be achieved and price and profitability targets may not prove feasible or their realization may be delayed. External factors, such as compliance with regulations, receipt of necessary licenses or permits, competitive alternatives and shifting market preferences, may also adversely impact the successful execution of new activities. New activities necessarily entail additional risks and may present additional risks to the effectiveness of our system of internal controls and risk management strategies. All service offerings, including current offerings and new activities, may become more risky due to changes in economic, competitive and market conditions beyond our control. Our regulators could determine that our risk management practices are not adequate or our capital levels are not sufficiently in excess of well-capitalized levels and take action to restrain our growth. Failure to successfully manage these risks, generally and to the satisfaction of our regulators, in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

*We must continue to attract, retain and develop key personnel.* Our success depends to a significant extent upon our ability to attract, develop and retain experienced bankers in each of our lines of business and markets as well as managers in operational areas, compliance and other support areas to build and maintain the infrastructure and controls required to support continuing loan and deposit growth. Competition for the best people in our industry can be intense, and there is no assurance that we will continue to have the same level of success in this effort that has supported our historical results. Factors that affect our ability to attract, develop and retain key employees include our compensation and benefits programs, our profitability, our ability to establish appropriate succession plans for key talent, our reputation for rewarding and promoting qualified employees and market competition for employees with certain skills, including information systems development and security. The cost of employee compensation is a significant portion of our operating expenses and can materially impact our results of operations.

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The unanticipated loss of the services of key personnel could have an adverse effect on our business. Although we have entered into employment agreements with certain key employees, we cannot assure you that we will be successful in retaining them. These risks may be exacerbated by the proposed merger with IBTX. See *Merger-Related Risks* for a discussion of additional risks related to the proposed merger with IBTX.

*We compete with many banks and other financial service providers.* Competition among providers of financial services in our markets, in Texas, regionally and nationally, is intense. We compete with other financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage banking companies, money market mutual funds, asset-based non-bank lenders, government sponsored or subsidized lenders and other financial services providers. Many of these competitors have substantially greater financial resources, lending limits and technological resources and larger branch networks than we do, and are able to offer a broader range of products and services than we can, including systems and services that could more effectively protect customers from cyber threats. Many competitors offer lower interest rates and more liberal loan terms that appeal to borrowers but adversely affect net interest margin and assurance of repayment. We are increasingly faced with competition in many of our products and services by non-bank providers who may have competitive advantages of size, access to potential customers and fewer regulatory requirements. Failure to compete effectively for deposit, loan and other banking customers in any of our lines of business could cause us to lose market share, slow or reverse our growth rate or suffer adverse effects on our financial condition and results of operations. We face the risk that our competitors may seek to use the proposed merger to target our customers. See *Merger-Related Risks* for a discussion of additional risks related to the proposed merger.

*Our mortgage correspondent aggregation business subjects us to additional risks.* We launched our mortgage correspondent aggregation business (“MCA”), a correspondent lending program that complements our mortgage warehouse lending business, in 2015. Volatility in the mortgage industry has caused uncertainty related to the pricing of the mortgage loans that we seek to purchase, as well as uncertainty in the pricing of those loans when they are sold or securitized. Similar uncertainty exists with respect to volatility in the value of mortgage servicing rights (“MSRs”) on our balance sheet. This volatility may cause the actual returns on mortgage sales or securitization transactions to be less than anticipated, which could adversely affect our overall loans held for sale volumes and the profitability of this line of business. Fluctuations in the value of MSRs that we hold on our balance sheet could require that we recognize impairments in the value of such assets and/or actual losses on the disposition of such assets. Additionally, non-bank competitors may have a pricing advantage as they are not subject to the same capital maintenance requirements relative to mortgage loans and MSRs as our Bank.

Our MCA business subjects us to additional interest rate risk and price risk, which may have an adverse effect on our business. The persistent low interest rate environment has in certain cases resulted in an increase in the value of MSRs, causing other market participants and competitors who are planning to hold MSRs for a longer term to be more aggressive in their pricing of the underlying loan purchases than a participant like our Bank that does not plan to hold MSRs on a long-term basis. While we believe market and competitive conditions may improve in the future, a prolonged low interest rate environment could adversely affect the economics of our MCA business over a longer period of time. Conversely, an environment of rising interest rates could have a significant effect on loan volumes in our MCA business if refinancing and home purchase activities are reduced.

We have entered into loan purchase commitments and forward sales commitments in connection with the MCA business. While we believe that our hedging strategies will be successful in mitigating our exposure to interest rate risk associated with the purchase of mortgage loans held for sale, no hedging strategy can completely protect us. Poorly designed strategies, improperly executed transactions, or inaccurate assumptions regarding future interest rates or market conditions could have a material adverse effect on our financial condition and results of operations.

We are from time to time required to hold or repurchase mortgage loans or reimburse investors as a result of breaches in contractual representations and warranties under the agreements pursuant to which we purchase and sell mortgage loans. While our agreements with the originators and sellers of mortgage loans provide us with legal recourse against them that may allow us to recover some or all of our losses, these companies are frequently not financially capable of paying large amounts of damages and as a result we can offer no assurance that we will not bear all of the risk of loss.

We may incur other costs and losses as a result of actual or alleged violations of regulations related to the origination and purchase of residential mortgage loans. The origination of residential mortgage loans is governed by a variety of federal and state laws and regulations, which are frequently changing. We sell residential mortgage loans that we have purchased or that we have originated to various parties, including Ginnie Mae and GSEs such as Fannie Mae or Freddie Mac and other financial institutions that purchase mortgage loans for investment or private label securitization. We may also pool FHA-insured and VA-guaranteed mortgage loans which back securities issued by Ginnie Mae. Our accrued mortgage repurchase liability represents management’s best estimate of the probable loss that we may expect to incur for the representations and warranties in the contractual provisions of our sales of mortgage loans, but there is no assurance that our losses will not materially exceed such amounts.

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*Our accounting estimates and risk management processes rely on management judgment, which may prove inadequate or be adversely impacted by inaccurate assumptions or models.* The processes we use to estimate probable credit losses for purposes of establishing the allowance for loan losses and to measure the fair value of financial instruments, certain of our liquidity and capital planning tools, as well as the processes we use to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, all depend upon management's judgment. Management's judgment and the data relied upon by management may be based on assumptions that prove to be inaccurate, particularly in times of market stress or other unforeseen circumstances. Additionally, the adoption of CECL methodology for determining our provision for credit losses and allowance for credit losses in 2020 is expected to increase the complexity, and associated risk, of the analysis and processes relying on management judgment.

*Our risk management strategies and processes may not be effective; our controls and procedures may fail or be circumvented.* We continue to invest in the development of risk management techniques, strategies, assessment methods and related controls and monitoring approaches on an ongoing basis. However, these risk management strategies and processes may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. Any failures in our risk management strategies and processes to accurately identify, quantify and monitor our risk exposure could limit our ability to effectively manage our risks. Management regularly reviews and updates our internal controls over financial reporting, disclosure controls and procedures; and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and management judgment and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

*We must effectively manage our counterparty risk.* Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. Our Bank has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other financial market participants. Many of these transactions expose our Bank to credit risk in the event of a default by a counterparty or client. In addition, our Bank's credit risk may be increased when the collateral securing its loans cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of its credit or derivative exposure. Any such losses could have a material adverse effect on our business, financial condition and results of operations.

*Our business is susceptible to fraud.* Our business exposes us to fraud risk from our loan and deposit customers, the parties they do business with, as well as from our employees, contractors and vendors. We rely on financial and other data from new and existing customers which could turn out to be fraudulent when accepting such customers, executing their financial transactions and making and purchasing loans and other financial assets. In times of increased economic stress we are at increased risk of fraud losses. We believe we have underwriting and operational controls in place to prevent or detect such fraud, but we cannot provide assurance that these controls will be effective in detecting fraud or that we will not experience fraud losses or incur costs or other damage related to such fraud, at levels that adversely affect our financial results or reputation. Our lending customers may also experience fraud in their businesses which could adversely affect their ability to repay their loans or make use of our services. Our exposure and the exposure of our customers to fraud may increase our financial risk and reputation risk as it may result in unexpected loan losses that exceed those that have been provided for in our allowance for loan losses.

*We must maintain adequate regulatory capital to support our business objectives.* Under regulatory capital adequacy guidelines and other regulatory requirements, we must satisfy capital requirements based upon quantitative measures of assets, liabilities and certain off-balance sheet items. Our satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from management's and that are subject to being determined retroactively for prior periods. Additionally, regulators can make subjective assessments about the adequacy of capital levels, even if our Bank's reported capital exceeds the "well-capitalized" requirements. Our ability to maintain our status as a financial holding company and to continue to operate our Bank as we have in recent periods is dependent upon a number of factors, including our Bank qualifying as "well capitalized" and "well managed" under applicable prompt corrective action regulations and upon our company qualifying on an ongoing basis as "well capitalized" and "well managed" under applicable Federal Reserve regulations.

Failure to meet regulatory capital standards could have a material adverse effect on our business, including damaging the confidence of customers in us, adversely impacting our reputation and competitive position and retention of key personnel. Any of these developments could limit our access to:

- brokered deposits;
- the Federal Reserve discount window;
- advances from the FHLB;

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- capital markets transactions; and
- development of new financial services.

Failure to meet regulatory capital standards may also result in higher FDIC assessments. If we fall below guidelines for being deemed “adequately capitalized” the OCC or Federal Reserve could impose restrictions on our activities and a broad range of regulatory requirements in order to effect “prompt corrective action.” The capital requirements applicable to us are in a process of continuous evaluation and revision in connection with actions of the Basel Committee, our regulators and the requirements of the Dodd-Frank Act. We cannot predict the final form, or the effects, of these regulations on our business, but among the possible effects are requirements that we slow our rate of growth or obtain additional capital which could reduce our earnings or dilute our existing stockholders.

*We are dependent on funds obtained from borrowing or capital transactions or from our Bank to fund our obligations.* We are a financial holding company engaged in the business of managing, controlling and operating our Bank. We conduct no material business or other activity at the parent company level other than activities incidental to holding equity and debt investments in our Bank. As a result, we rely on the proceeds of capital transactions, borrowings under our revolving line of credit, payments of interest and principal on loans made to our Bank and dividends on preferred stock issued by our Bank to pay our operating expenses, to satisfy our obligations to debtholders and to pay dividends on our preferred stock. The profitability of our Bank is subject to fluctuation based upon, among other things, the cost and availability of funds, changes in interest rates and economic conditions in general. Our Bank’s ability to pay dividends to us is subject to regulatory limitations that can, under certain adverse circumstances, prohibit the payment of dividends to us. Our right to participate in any distribution from the liquidation or sale of our Bank’s assets is subject to the prior claims of our Bank’s creditors.

If we are unable to access funds from capital transactions, borrowing under our revolving line of credit or dividends or interest on loan payments from our Bank, we may be unable to satisfy our obligations to creditors or debtholders or pay dividends on our preferred stock. Changes in our Bank’s operating results or capital requirements could require us to convert subordinated notes or preferred stock of our bank held by us into common equity, reducing our cash flow available to meet our obligations.

*We are subject to claims and litigation in the ordinary course of our business, including claims that may not be covered by our insurers, and may be subject to stockholder litigation in connection with the proposed merger with IBTX.* Customers and other parties we engage with assert claims and take legal action against us on a regular basis and we regularly take legal action to collect unpaid borrower obligations, realize on collateral and assert our rights in commercial and other contexts. These actions frequently result in counter-claims against us. Litigation arises in a variety of contexts, including lending activities, employment practices, commercial agreements, fiduciary responsibility related to our wealth management services, intellectual property rights and other general business matters. We may incur additional costs in connection with the defense or settlement of any stockholder lawsuits filed in connection with the proposed merger with IBTX. Such litigation could prevent the consummation of the Merger. See *Merger-Related Risks* for a discussion of additional risks related to the proposed merger.

Claims and legal actions may result in significant legal costs to defend us or assert our rights and may result in reputational damage that adversely affects existing and future customer relationships. If claims and legal actions are not resolved in a manner favorable to us we may suffer significant financial liability or adverse effects upon our reputation, which could have a material adverse effect on our business, financial condition and results of operations. See *Legal Proceedings* below for additional disclosures regarding legal proceedings.

We purchase insurance coverage to mitigate a wide range of operating risks, including general liability, errors and omissions, professional liability, business interruption, cyber-crime, fraud and property loss, for events that may be materially detrimental to our Bank or customers. There is no assurance that our insurance will be adequate to protect us against material losses in excess of our coverage limits or that insurers will perform their obligations under our policies without attempting to limit or exclude coverage. We could be required to pursue legal actions against insurers to obtain payment of amounts we are owed, and there is no assurance that such actions, if pursued, would be successful.

*We are subject to environmental liability risk associated with lending activities.* A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. There is a risk that hazardous or toxic substances could be found on these properties, and that we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value by limiting our ability to use or sell it. Although we have policies and procedures requiring environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations. Future laws or regulations or more stringent interpretations or enforcement policies with respect to existing laws and regulations may increase our exposure to environmental liability.

*Severe weather, earthquakes, other natural disasters, pandemics, acts of war or terrorism and other external events could significantly impact our business.* Severe weather, earthquakes, other natural disasters, pandemics, acts of war or terrorism

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and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Recent hurricanes caused extensive flooding and destruction along the coastal areas of Texas and in other areas in the US, including communities where we conduct business. Although management has established disaster recovery policies and procedures, the occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

### **Risks Relating to Our Securities**

*Our stock price can be volatile.* Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly and annual results of our operations or those of IBTX;
- changes in recommendations by securities analysts;
- delay or failure to close the pending merger of equals with IBTX, as well as failure to realize the expected benefits of the transaction;
- changes in composition and perceptions of the investors who own our stock and other securities;
- changes in ratings from national rating agencies on publicly or privately-owned debt securities and deposits in our Bank;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry, including regulatory actions against other financial institutions;
- actual or expected economic conditions that are perceived to affect our company such as changes in commodity prices, real estate values or interest rates;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors, including the proposed merger with IBTX;
- the stock price of IBTX (as a result of the proposed merger);
- changes in government regulations and interpretation of those regulations, changes in our practices requested or required by regulators and changes in regulatory enforcement focus; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

*The trading volume in our common stock is less than that of other larger financial services companies.* Although our common stock is traded on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other larger financial services companies. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall. In addition, a substantial majority of common stock outstanding is held by institutional investors, and trading activity involving large positions may increase volatility of the stock price. Concentration of ownership by institutional investors and inability to execute trades covering large numbers of shares can increase volatility of stock price. Changes in general economic outlook or perspectives on our business or prospects by our institutional investors, whether factual or speculative, can have a major impact on our stock price.

*Our preferred stock is thinly traded.* There is only a limited trading volume in our preferred stock due to the small size of the issue and its largely institutional holder base. Significant sales of our preferred stock, or the expectation of these sales, could cause the price of the preferred stock to fall substantially.

*An investment in our securities is not an insured deposit.* Our common stock, preferred stock and indebtedness are not bank deposits and, therefore, are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of securities of any company. As a result, if you acquire our common stock, preferred stock or indebtedness, you may lose some or all of your investment.

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*The holders of our indebtedness and preferred stock have rights that are senior to those of our common stockholders.* As of December 31, 2019, we had \$111.0 million outstanding in subordinated notes issued by our holding company and \$113.4 million outstanding in junior subordinated notes that are held by statutory trusts which issued trust preferred securities to investors. At December 31, 2019 our Bank had \$175.0 million in subordinated notes outstanding. Payments of the principal and interest on our trust preferred securities are conditionally guaranteed by us to the extent not paid by each trust, provided the trust has funds available for such obligations.

Our subordinated notes and junior subordinated notes are senior to our shares of preferred stock and common stock in right of payment of dividends and other distributions. We must be current on interest and principal payments on our indebtedness before any dividends can be paid on our preferred stock or our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our indebtedness must be satisfied before any distributions can be made to our preferred or common stockholders. If certain conditions are met, we have the right to defer interest payments on the junior subordinated debentures (and the related trust preferred securities) at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period, during which time no dividends may be paid to holders of our preferred stock or common stock. Because our Bank's subordinated notes are obligations of the Bank, they would in liquidation of our Bank or sale of its assets receive payment before any amounts would be payable to holders of our common stock, preferred stock or subordinated notes.

At December 31, 2019, we had issued and outstanding 6 million shares of our 6.50% Non-Cumulative Perpetual Preferred Stock, Series A, having an aggregate liquidation preference of \$150.0 million. Our preferred stock is senior to our shares of common stock in right of payment of dividends and other distributions. We must be current on dividends payable to holders of preferred stock before any dividends can be paid on our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our preferred stock must be satisfied before any distributions can be made to our common stockholders.

*We do not currently pay dividends on our common stock; the payment of dividends by the combined company following the merger is subject to future events and determinations by the board of directors and applicable regulatory limitations.* We have not paid dividends on our common stock and we do not expect to do so for the foreseeable future. Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of our Bank to pay dividends to us is limited by its obligation to maintain sufficient capital and by other regulatory restrictions as discussed above under the heading *Supervision and Regulation - Restrictions on Payment of Dividends by Our Bank*.

It is anticipated that following the merger of the Company and IBTX the combined company will pay dividends to stockholders at the rate of \$1.00 per share annually; however there is no assurance as to the amount and timing of any dividends that may be declared and paid by the combined company. The board of directors of the combined company may change its dividend policy at any time without notice to stockholders. Stockholders are entitled to receive only such dividends as the board of directors may declare out of funds legally available for such payments. Any declaration and payment of dividends will depend upon the earnings and financial condition, liquidity and capital requirements of the combined company, the general economic and regulatory climate, the ability of the combined company to service preferred stock and debt obligations and other factors deemed relevant by the board of directors at the time. The board of directors of the combined company may make capital management decisions and adopt policies that could adversely impact the amount of dividends, if any, paid to the combined company's stockholders.

*Restrictions on ownership.* The ability of a third party to acquire us is limited under applicable U.S. banking laws and regulations. The BHCA requires any bank holding company (as defined therein) to obtain the approval of the Federal Reserve prior to acquiring, directly or indirectly, more than 5% of our outstanding Common Stock. Any "company" (as defined in the BHCA) other than a bank holding company would be required to obtain Federal Reserve approval before acquiring "control" of us. "Control" generally means (i) the ownership or control of 25% or more of a class of voting securities, (ii) the ability to elect a majority of the directors or (iii) the ability otherwise to exercise a controlling influence over management and policies. A holder of 25% or more of our outstanding Common Stock, other than an individual, is subject to regulation and supervision as a bank holding company under the BHCA. In addition, under the Change in Bank Control Act of 1978, as amended, and the Federal Reserve's regulations thereunder, any person, either individually or acting through or in concert with one or more persons, is required to provide notice to the Federal Reserve prior to acquiring, directly or indirectly, 10% or more of our outstanding common stock.

*Anti-takeover provisions of our certificate of incorporation, bylaws and Delaware law may make it more difficult for you to receive a change in control premium.* Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions include advance notice for nominations of directors and stockholders' proposals, and authority to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a

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corporation's outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

*Limitations on payment of subordinated notes.* Under the FDIA, "critically undercapitalized" banks may not, beginning 60 days after becoming critically undercapitalized, make any payment of principal or interest on their subordinated debt (subject to certain limited exceptions). In addition, under Section 18(i) of the FDIA, our Bank is required to obtain the advance consent of the FDIC to retire any part of its subordinated notes. Under the FDIA, a bank may not pay interest on its subordinated notes if such interest is required to be paid only out of net profits, or distribute any of its capital assets, while it remains in default on any assessment due to the FDIC.

Our Bank's subordinated indebtedness is unsecured and subordinate and junior in right of payment to the Bank's obligations to its depositors, its obligations under banker's acceptances and letters of credit, its obligations to any Federal Reserve Bank, certain obligations to the FDIC, and its obligations to its other creditors, whether now outstanding or hereafter incurred, except any obligations which expressly rank on a parity with or junior to the subordinated notes.

**ITEM 1B. *UNRESOLVED STAFF COMMENTS***

None.

**ITEM 2. *PROPERTIES***

Our corporate headquarters is located in downtown Dallas, Texas. These facilities, which we lease, house our executive and primary administrative offices, as well as the principal banking headquarters of Texas Capital Bank. We also lease other facilities in our primary market regions of Dallas, Fort Worth, Houston, Austin and San Antonio, as well as in California, Illinois, Louisiana, Missouri and New York, some of which operate as full-service banking centers. We also lease an operations center in Richardson, Texas that houses our loan and deposit operations and our customer call center.

**ITEM 3. *LEGAL PROCEEDINGS***

The Company is subject to various claims and legal actions that may arise in the 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 4. *MINE SAFETY DISCLOSURES***

Not applicable.

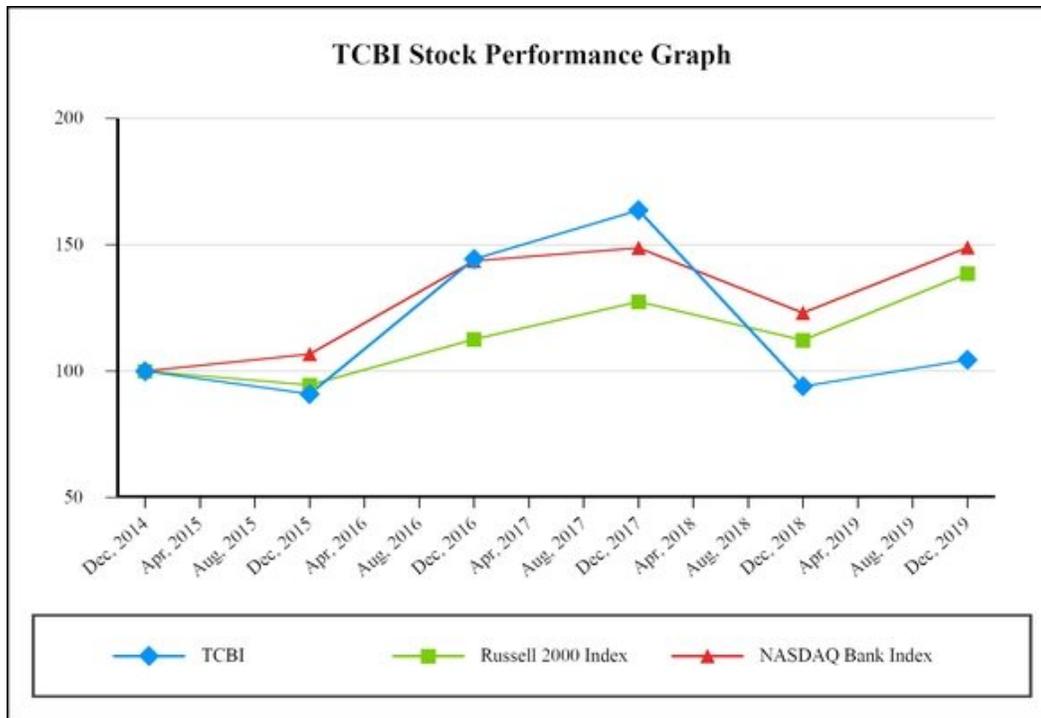
**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on The Nasdaq Global Select Market under the symbol "TCBI". On February 11, 2020, there were approximately 192 holders of record of our common stock.

**Stock Performance Graph**

The following table and graph sets forth the cumulative total stockholder return for the Company's common stock for the five-year period ending on December 31, 2019, compared to an overall stock market index (Russell 2000 Index) and the Company's peer group index (Nasdaq Bank Index). The Russell 2000 Index and Nasdaq Bank Index are based on total returns assuming reinvestment of dividends. The graph assumes an investment of \$100 on December 31, 2014. The performance graph represents past performance and should not be considered to be an indication of future performance.

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Texas Capital Bancshares, Inc.	\$ 100.00	\$ 90.96	\$ 144.30	\$ 163.63	\$ 94.04	\$ 104.49
Russell 2000 Index (RTY)	100.00	94.46	112.69	127.40	112.22	138.57
Nasdaq Bank Index (CBNK)	100.00	106.72	143.56	148.81	123.11	149.00



Source: Bloomberg

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

You should read the selected financial data presented below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing elsewhere in this Form 10-K.

<i>(in thousands, except per share, average share and percentage data)</i>	<b>At or For the Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Consolidated Operating Data</b>					
Interest income	\$ 1,365,312	\$ 1,164,193	\$ 879,299	\$ 703,408	\$ 602,958
Interest expense	385,592	249,333	117,971	63,594	46,428
Net interest income	979,720	914,860	761,328	639,814	556,530
Provision for credit losses	75,000	87,000	44,000	77,000	53,250
Net interest income after provision for credit losses	904,720	827,860	717,328	562,814	503,280
Non-interest income	92,440	78,024	74,256	60,780	47,738
Non-interest expense	589,999	525,096	465,876	382,397	326,523
Income before income taxes	407,161	380,788	325,708	241,197	224,495
Income tax expense	84,295	79,964	128,645	86,078	79,641
Net income	322,866	300,824	197,063	155,119	144,854
Preferred stock dividends	9,750	9,750	9,750	9,750	9,750
Net income available to common stockholders	\$ 313,116	\$ 291,074	\$ 187,313	\$ 145,369	\$ 135,104
<b>Consolidated Balance Sheet Data</b>					
Total assets	\$ 32,548,069	\$ 28,257,767	\$ 25,075,645	\$ 21,697,134	\$ 18,903,821
Loans held for sale	2,577,134	1,969,474	1,011,004	968,929	86,075
Loans held for investment (LHI)	16,476,413	16,690,550	15,366,252	13,001,011	11,745,674
Loans held for investment, mortgage finance	8,169,849	5,877,524	5,308,160	4,497,338	4,966,276
Liquidity assets(1)	4,263,766	2,865,874	2,727,581	2,725,645	1,681,374
Investment securities	239,871	120,216	23,511	24,874	29,992
Demand deposits	9,438,459	7,317,161	7,812,660	7,994,201	6,386,911
Total deposits	26,478,593	20,606,113	19,123,180	17,016,831	15,084,619
Federal funds purchased and repurchase agreements	141,766	641,174	365,040	109,575	143,051
Other borrowings	2,400,000	3,900,000	2,800,000	2,000,000	1,500,000
Subordinated notes	282,129	281,767	281,406	281,044	280,682
Trust preferred subordinated debentures	113,406	113,406	113,406	113,406	113,406
Stockholders’ equity	2,832,258	2,500,394	2,202,721	2,009,557	1,623,533

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At or For the Year Ended December 31,

(in thousands, except per share, average share and percentage data)

	2019	2018	2017	2016	2015
<b>Other Financial Data</b>					
Income per share					
Basic	\$ 6.23	\$ 5.83	\$ 3.78	\$ 3.14	\$ 2.95
Diluted	6.21	5.79	3.73	3.11	2.91
Book value per common share	53.29	46.82	41.35	37.56	32.12
Tangible book value per common share(2)	52.93	46.45	40.97	37.17	31.69
Weighted average shares					
Basic	50,286,300	49,936,702	49,587,169	46,239,210	45,808,440
Diluted	50,419,204	50,272,872	50,259,834	46,765,902	46,437,872
<b>Selected Financial Ratios</b>					
<b>Performance Ratios</b>					
Net interest margin	3.28%	3.78%	3.49%	3.14%	3.14%
Return on average assets	1.04%	1.19%	0.87%	0.74%	0.79%
Return on average common equity	12.38%	13.14%	9.51%	9.27%	9.65%
Efficiency ratio(3)	55.03%	52.89%	55.75%	54.58%	54.04%
Non-interest expense to average earning assets	1.96%	2.15%	2.12%	1.88%	1.84%
<b>Asset Quality Ratios</b>					
Allowance for loan losses to LHI	0.79%	0.85%	0.89%	0.96%	0.84%
Net charge-offs (recoveries) to average LHI	0.31%	0.37%	0.16%	0.29%	0.07%
Allowance for loan losses to non-accrual loans	.9x	2.4x	1.8x	1.0x	.8x
Non-accrual loans to LHI	0.91%	0.36%	0.49%	0.96%	1.08%
Total NPAs to LHI plus OREO	0.91%	0.36%	0.55%	1.07%	1.08%
<b>Capital and Liquidity Ratios</b>					
CET1	8.88%	8.58%	8.45%	8.97%	7.47%
Total capital ratio	11.37%	11.31%	11.50%	12.48%	11.05%
Tier 1 capital ratio	9.75%	9.53%	9.52%	10.23%	8.81%
Tier 1 leverage ratio	8.42%	9.87%	9.15%	9.34%	8.92%
Total common equity to total assets	8.24%	8.32%	8.19%	8.57%	7.79%
Tangible common equity to total tangible assets(4)	8.16%	8.26%	8.11%	8.49%	7.69%
Average LHI, net to average total deposits	95.73%	102.74%	97.56%	95.82%	101.71%

(1) Liquidity assets include federal funds sold and interest-bearing deposits in other banks.

(2) Stockholders' equity excluding preferred stock, less goodwill and intangibles, divided by shares outstanding at period end. See Supplemental Financial Data for a reconciliation of non-GAAP measures.

(3) Non-interest expense divided by the sum of net interest income and non-interest income.

(4) Stockholders' equity excluding preferred stock, less accumulated other comprehensive income and goodwill and intangibles, divided by total assets, less accumulated other comprehensive income and goodwill and intangibles. See Supplemental Financial Data for a reconciliation of non-GAAP measures.

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

The following discussion and analysis of the Company's financial condition and results of operations for the years ended December 31, 2019 and 2018 should be read in conjunction with the Company's Selected Consolidated Financial Data and the audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors" in Part I, Item 1A, and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from the results discussed in the forward-looking statements appearing in this discussion and analysis. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 Annual Report on Form 10K filed with the SEC on February 14, 2019, for discussion of our results of operations for the years ended December 31, 2018 and 2017.

**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, statements related to the proposed merger, including the expected timing of the consummation of the merger, the potential effects of the proposed merger on our business and operations upon or prior to the consummation thereof, the effects on us if the merger is not consummated and information regarding the combined business and operations of TCBI and IBTX following the merger, if consummated, 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, the financial impact of the Tax Act on our results of operations, 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.
- The possibility that the previously announced merger does not close when expected or at all because required regulatory, stockholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all.
- The possibility that the various federal and state regulatory agencies from which approval for the merger must be obtained impose conditions that could adversely affect us or cause the merger to be delayed or abandoned.
- The occurrence of any event, change or other circumstance that could give rise to the right of TCBI, IBTX or both to terminate the merger agreement.
- The negative impact on our stock price and our future business and financial results if the proposed merger is not consummated.
- The inability of our stockholders to be certain of the precise value of the merger consideration they may receive in the merger due to the fluctuation in the market price of IBTX and TCBI common stock, including as a result of the financial performance of TCBI prior to closing.
- The dilution caused by IBTX's issuance of additional shares of its capital stock in connection with the proposed merger.
- The outcome of pending or threatened litigation or of matters before regulatory agencies, whether currently existing or commencing in the future, including litigation related to the proposed merger.

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- The possibility that the anticipated benefits of the proposed merger, including anticipated cost savings and strategic gains, are not realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy, competitive factors in the areas where we and IBTX do business, or as a result of other unexpected factors or events.
- The possibility that the proposed merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events.
- The impact of purchase accounting with respect to the proposed merger, or any change in the assumptions used regarding the assets purchased and liabilities assumed to determine their fair value.
- Diversion of management's attention from ongoing business operations and opportunities as a result of the proposed merger.
- Potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the proposed merger.
- The ability to complete the transaction and integration of TCBI and IBTX successfully, which may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to TCBI's or IBTX's existing businesses.
- Operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which IBTX and TCBI are highly dependent.
- Changes in interest rates, which may affect TCBI's or IBTX's net income and other future cash flows, or the market value of TCBI's or IBTX's assets, including the market value of investment securities.
- Changes in the ability of TCBI or IBTX to access the capital markets, including changes in their respective credit ratings.
- 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 or decreases 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

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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.
- Changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of Treasury and the Federal Reserve.
- 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 MSRMs related to these loans and related interest rate risk or price risk resulting from retaining MSRMs, and the potential effects of higher interest rates on our MCA loan volumes.
- Changes in accounting principles, policies, practices or guidelines.
- 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. 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.

### **Additional Information about the Merger and Where to Find It**

In connection with the proposed merger between IBTX and TCBI, IBTX filed a registration statement on Form S-4 with the SEC on January 21, 2020 to register the shares of IBTX's capital stock to be issued in connection with the merger. The registration statement includes a joint proxy statement/prospectus. The registration statement has not yet become effective. After the Form S-4 is effective, a definitive joint proxy statement/prospectus will be sent to the stockholders of IBTX and TCBI seeking their approval of the proposed transaction.

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INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE REGISTRATION STATEMENT ON FORM S-4, THE JOINT PROXY STATEMENT/PROSPECTUS INCLUDED WITHIN THE REGISTRATION STATEMENT ON FORM S-4 AND ANY OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED TRANSACTION BECAUSE THESE DOCUMENTS DO AND WILL CONTAIN IMPORTANT INFORMATION ABOUT IBTX, TCBI AND THE PROPOSED TRANSACTION.

Investors and security holders may obtain copies of these documents free of charge through the website maintained by the SEC at [www.sec.gov](http://www.sec.gov) or from IBTX at its website, [www.ibtx.com](http://www.ibtx.com), or from TCBI at its website, [www.texascapitalbank.com](http://www.texascapitalbank.com). Documents filed with the SEC by IBTX will be available free of charge by accessing the Investor Relations page of IBTX's website at [www.ibtx.com](http://www.ibtx.com) or, alternatively, by directing a request by telephone or mail to Independent Bank Group, Inc., 7777 Henneman Way, McKinney, Texas 75070, (972) 562-9004, and documents filed with the SEC by TCBI will be available free of charge by accessing TCBI's website at [www.texascapitalbank.com](http://www.texascapitalbank.com) under the tab "About Us," and then under the heading "Investor Relations" or, alternatively, by directing a request by telephone or mail to Texas Capital Bancshares, Inc., 2000 McKinney Avenue, Suite 700, Dallas, Texas 75201, (214) 932-6600.

### **Participants in the Solicitation**

TCBI, IBTX and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the stockholders of TCBI and IBTX in connection with the proposed transaction under the rules of the SEC. Certain information regarding the interests of these participants and a description of their direct and indirect interests, by security holdings or otherwise, will be included in the joint proxy statement/prospectus regarding the proposed transaction when it becomes available. Additional information about IBTX, and its directors and executive officers, may be found in IBTX's definitive proxy statement relating to its 2019 Annual Meeting of Shareholders filed with the SEC on April 23, 2019, and other documents filed by IBTX with the SEC. Additional information about TCBI, and its directors and executive officers, may be found in TCBI's definitive proxy statement relating to its 2019 Annual Meeting of Shareholders filed with the SEC on March 7, 2019, and other documents filed by TCBI with the SEC. These documents can be obtained free of charge from the sources described above.

### **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.

On December 9, 2019, we and IBTX announced that both companies' boards of directors unanimously approved the merger agreement to combine the companies in an all-stock merger of equals. Upon closing of the merger, each share of TCBI common stock will be exchanged for 1.0311 shares of IBTX common stock. The corporate headquarters of the surviving entity and the surviving bank will be located in McKinney, Texas. The name of the surviving entity will be Independent Bank Group, Inc., and the name of the surviving bank will be Texas Capital Bank. The surviving bank will be operated under the name Independent Financial in Colorado and under the name Texas Capital Bank in Texas. The board of directors of the surviving entity and the surviving bank will be comprised of 13 directors, of which seven will be former members of the Board of Directors of TCBI and six will be former members of the board of directors of IBTX. The merger is expected to close in mid-2020, subject to satisfaction of customary closing conditions, including receipt of customary regulatory approvals and approval by the stockholders of each company. Refer to *Merger with Independent Bank Group, Inc.* in Item 1 for additional disclosures.

### **Year ended December 31, 2019 compared to year ended December 31, 2018**

We reported net income of \$322.9 million and net income available to common stockholders of \$313.1 million, or \$6.21 per diluted common share, for the year ended December 31, 2019, compared to net income of \$300.8 million and net income available to common stockholders of \$291.1 million, or \$5.79 per diluted common share, for 2018. Return on average common equity ("ROE") was 12.38% and return on average assets ("ROA") was 1.04% for the year ended December 31, 2019, compared to 13.14% and 1.19%, respectively, for 2018. The decreases in ROE and ROA were driven primarily by larger balances in total mortgage finance loans and liquidity assets.

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**Consolidated Daily Average Balances, Average Yields and Rates**

	Year ended December 31,								
	2019			2018			2017		
(in thousands except percentages)	Average Balance	Revenue / Expense	Yield / Rate	Average Balance	Revenue / Expense	Yield / Rate	Average Balance	Revenue / Expense	Yield / Rate
<b>Assets</b>									
Investment Securities—taxable	\$ 37,574	\$ 1,611	4.29%	\$ 24,142	\$ 849	3.52%	\$ 51,751	\$ 1,064	2.06%
Investment Securities—non-taxable(2)	176,328	8,915	5.06%	46,553	2,512	5.40%	55	3	4.85%
Federal funds sold and securities purchased under resale agreements	73,946	1,529	2.07%	201,236	3,792	1.88%	237,371	2,542	1.07%
Interest-bearing Deposits in other banks	3,483,254	71,093	2.04%	1,769,074	32,597	1.84%	2,715,669	29,399	1.08%
Loans held for sale	2,688,677	112,526	4.19%	1,561,530	71,240	4.56%	1,016,144	39,159	3.85%
Loans held for investment, mortgage finance	6,999,585	241,665	3.45%	4,875,860	181,438	3.72%	4,136,653	143,275	3.46%
Loans held for investment(1) (2)	16,803,930	934,228	5.56%	16,075,007	877,688	5.46%	14,040,965	670,265	4.77%
Less reserve for loan losses	200,283	—	—	183,863	—	—	174,105	—	—
Loans held for investment, net	23,603,232	1,175,893	4.98%	20,767,004	1,059,126	5.10%	18,003,513	813,540	4.52%
Total earning assets	30,063,011	1,371,567	4.56%	24,369,539	1,170,116	4.80%	22,024,503	885,707	4.02%
Cash and other assets	952,994			828,150			680,345		
<b>Total assets</b>	<b>\$ 31,016,005</b>			<b>\$ 25,197,689</b>			<b>\$ 22,704,848</b>		
<b>Liabilities and stockholders' equity</b>									
Transaction deposits	\$ 3,535,282	\$ 68,908	1.95%	\$ 3,044,300	\$ 47,738	1.57%	\$ 2,159,375	\$ 15,290	0.71%
Savings deposits	9,780,532	168,856	1.73%	7,986,135	114,255	1.43%	7,495,318	61,230	0.82%
Time deposits	2,351,698	55,773	2.37%	1,292,864	23,123	1.79%	478,513	3,366	0.70%
Total interest-bearing deposits	15,667,512	293,537	1.87%	12,323,299	185,116	1.50%	10,133,206	79,886	0.79%
Other borrowings	3,038,095	70,265	2.31%	2,102,404	42,738	2.03%	1,618,238	17,729	1.10%
Subordinated notes	281,936	16,764	5.95%	281,574	16,764	5.95%	281,213	16,764	5.96%
Trust preferred subordinated debentures	113,406	5,026	4.43%	113,406	4,715	4.16%	113,406	3,592	3.17%
Total interest-bearing liabilities	19,100,949	385,592	2.02%	14,820,683	249,333	1.68%	12,146,063	117,971	0.97%
Demand deposits	8,989,104			7,890,304			8,320,650		
Other liabilities	246,931			121,203			118,944		
Stockholders' equity	2,679,021			2,365,499			2,119,191		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 31,016,005</b>			<b>\$ 25,197,689</b>			<b>\$ 22,704,848</b>		
Net interest income(2)		\$ 985,975			\$ 920,783			\$ 767,736	
Net interest margin			3.28%			3.78%			3.49%
Net interest spread			2.54%			3.12%			3.05%
Loan spread(3)			3.59%			4.04%			4.00%

(1) The loan averages include non-accrual loans which are stated net of unearned income. Loan interest income includes loan fees totaling \$57.1 million, \$71.0 million and \$59.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

(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.

(in thousands)	Years Ended December 31,					
	2019/2018			2018/2017		
	Net Change	Change Due To(1)		Net Change	Change Due To(1)	
	Volume	Yield/Rate(2)		Volume	Yield/Rate(2)	
<b>Interest income:</b>						
Investment securities	\$ 7,165	\$ 5,787	\$ 1,378	\$ 2,294	\$ 722	\$ 1,572
Loans held for sale	41,286	51,381	(10,095)	32,081	21,385	10,696
Loans held for investment, mortgage finance loans	60,227	78,979	(18,752)	38,163	25,541	12,622
Loans held for investment	56,540	38,729	17,811	207,423	96,521	110,902
Federal funds sold and securities purchased under resale agreements	(2,263)	(2,329)	66	1,250	(435)	1,685
Interest-bearing deposits in other banks	38,496	36,304	2,192	3,198	(10,437)	13,635
<b>Total</b>	<b>201,451</b>	<b>208,851</b>	<b>(7,400)</b>	<b>284,409</b>	<b>133,297</b>	<b>151,112</b>
<b>Interest expense:</b>						
Transaction deposits	21,170	7,644	13,526	32,448	6,197	26,251
Savings deposits	54,601	27,534	27,067	53,025	3,382	49,643
Time deposits	32,650	15,517	17,133	19,757	6,181	13,576
Other borrowings	27,527	18,344	9,183	25,009	5,173	19,836
Long-term debt	311	20	291	1,123	20	1,103
<b>Total</b>	<b>136,259</b>	<b>69,059</b>	<b>67,200</b>	<b>131,362</b>	<b>20,953</b>	<b>110,409</b>
<b>Net interest income</b>	<b>\$ 65,192</b>	<b>\$ 139,792</b>	<b>\$ (74,600)</b>	<b>\$ 153,047</b>	<b>\$ 112,344</b>	<b>\$ 40,703</b>

(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 \$979.7 million for the year ended December 31, 2019 compared to \$914.9 million for 2018. The increase was primarily due to an increase in average earning assets of \$5.7 billion, offset by the effect of decreases in interest rates on loan yields, an increase in average interest-bearing liabilities of \$4.3 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 \$2.8 billion increase in average net loans held for investment, primarily from increases in average mortgage finance loans driven by lower long-term interest rates, a \$143.2 million increase in average investment securities, and a \$1.6 billion increase in average liquidity assets. The increase in average interest-bearing liabilities included a \$3.3 billion increase in interest-bearing deposits and a \$935.7 million increase in other borrowings. Average demand deposits for the year ended December 31, 2019 increased to \$9.0 billion from \$7.9 billion for 2018. Net interest margin for the year ended December 31, 2019 was 3.28% compared to 3.78% for 2018. The decrease was primarily due to the effect of decreases in interest rates during 2019 on loan yields and higher funding costs compared to 2018.

The yield on total loans held for investment decreased to 4.98% for the year ended December 31, 2019 compared to 5.10% for 2018 and the yield on earning assets decreased to 4.56% for the year ended December 31, 2019 compared to 4.80% for 2018. The average cost of total deposits and borrowed funds increased to 1.31% for 2019 from 1.02% for 2018. The spread on total earning assets, net of the cost of deposits and borrowed funds, was 3.25% for 2019 compared to 3.78% for 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 2019 compared to 0.99% for 2018.

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<i>(in thousands)</i>	Year ended December 31,		
	2019	2018	2017
Service charges on deposit accounts	\$ 11,320	\$ 12,787	\$ 12,432
Wealth management and trust fee income	8,810	8,148	6,153
Brokered loan fees	29,738	22,532	23,331
Servicing income	13,439	18,307	15,657
Swap fees	4,387	5,625	3,990
Net gain/(loss) on sale of loans held for sale	(20,259)	(15,934)	(2,387)
Other(1)	45,005	26,559	15,080
<b>Total non-interest income</b>	<b>\$ 92,440</b>	<b>\$ 78,024</b>	<b>\$ 74,256</b>

(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, income from legal settlements and other general operating income.

Non-interest income increased by \$14.4 million during the year ended December 31, 2019 to \$92.4 million, compared to \$78.0 million for 2018. Other non-interest income increased \$18.4 million, which included the settlement of \$15.0 million in legal claims during 2019. Brokered loan fees increased \$7.2 million due to an increase in total mortgage finance volumes during 2019 compared to 2018. Offsetting these increases was a \$4.9 million decrease in servicing income due to an overall decrease in average MSR balances held during 2019 as compared to 2018, a \$4.3 million decrease in net gain/(loss) on sale of loans held for sale, a \$1.5 million decrease in service charges and a \$1.2 million decrease in swap fees. Swap fees are based upon 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.

**Non-interest Expense**

<i>(in thousands)</i>	Year ended December 31,		
	2019	2018	2017
Salaries and employee benefits	\$ 315,080	\$ 291,768	\$ 264,231
Net occupancy expense	32,989	30,342	25,811
Marketing	53,355	39,335	26,787
Legal and professional	53,830	42,990	29,731
Communications and technology	44,826	30,056	31,004
FDIC insurance assessment	20,093	24,307	23,510
Servicing-related expenses	22,573	14,934	15,506
Allowance and other carrying costs for OREO	7	474	6,437
Other(1)	47,246	50,890	42,859
<b>Total non-interest expense</b>	<b>\$ 589,999</b>	<b>\$ 525,096</b>	<b>\$ 465,876</b>

(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 year ended December 31, 2019 increased \$64.9 million compared to 2018. The increase is primarily due to increases in salaries and employee benefits, net occupancy expense and communication and technology expenses, all of which were due to general business growth and continued build-out, as well as increases in marketing, legal and professional and servicing-related expenses, partially offset by decreases in FDIC insurance assessment and other non-interest expense. The increase in marketing expense was primarily due to an increase in variable expenses tied to deposit balances. The increase in legal and professional expense includes \$1.3 million in expenses related to our pending merger with IBTX, as well as increases related to investment in Bask Bank and new commercial loan verticals. 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.

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### Analysis of Financial Condition

#### Loans Held for Investment

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

<i>(in thousands)</i>	<b>December 31,</b>					
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	
Commercial	\$ 10,230,828	\$ 10,373,288	\$ 9,189,811	\$ 7,291,545	\$ 6,672,631	
Mortgage finance	8,169,849	5,877,524	5,308,160	4,497,338	4,966,276	
Construction	2,563,339	2,120,966	2,166,208	2,098,706	1,851,717	
Real estate	3,444,701	3,929,117	3,794,577	3,462,203	3,139,197	
Consumer	71,463	63,438	48,684	34,587	25,323	
Equipment leases	256,462	312,191	264,903	185,529	113,996	
Total loans held for investment	\$ 24,736,642	\$ 22,676,524	\$ 20,772,343	\$ 17,569,908	\$ 16,769,140	

Our total loans held for investment have grown at an annual rate of 9%, 9% and 18% in 2019, 2018 and 2017, respectively, with the majority of the growth in 2019 relating to mortgage finance loans. These 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 and represent 33% of total loans held for investment at December 31, 2019 compared to 26% at December 31, 2018.

Volumes fluctuate based on the level of market demand for the product and the number of days between purchase and sale of the loans, which can be affected by changes in overall market interest rates, and tend to peak at the end of each month. The significant growth in this portfolio during 2019 resulted from increases in volumes driven by continued lower long-term interest rates. Offsetting this increase was a slight decline in traditional loans held for investment in 2019. These declines reflect slower loan growth in 2019 as compared to 2018, as well as planned reductions in our leveraged lending and energy balances.

We originate a substantial majority of all loans held for investment. We also participate in syndicated loan relationships, both as a participant and as an agent. As of December 31, 2019, we had \$2.3 billion in syndicated loans, \$621.1 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 December 31, 2019, \$26.0 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 December 31, 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.

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The table below summarizes the industry concentrations of our loans held for investment on a gross basis at December 31, 2019.

<i>(in thousands except percentage data)</i>	<b>Amount</b>	<b>Percent of Total Loans Held for Investment</b>
Industry type:		
Mortgage finance loans	\$ 8,169,849	33.0%
Real estate and construction	5,430,580	22.0%
Financials excluding banks	5,053,285	20.4%
Oil & gas and pipelines	1,665,422	6.7%
Government and education	527,217	2.1%
Healthcare and pharmaceuticals	510,077	2.1%
Machinery, equipment and parts manufacturing	409,306	1.7%
Commercial services	368,394	1.5%
Retail	360,463	1.5%
Technology, telecom and media	309,237	1.3%
Materials and commodities	260,896	1.1%
Entertainment and recreation	200,181	0.8%
Food and beverage manufacturing and wholesale	193,964	0.8%
Consumer services	178,726	0.7%
Transportation services	98,813	0.4%
Auto-related	80,794	0.3%
Diversified or miscellaneous	919,438	3.6%
Total loans held for investment	\$ 24,736,642	100.0%

Our largest concentration of loans held for investment, excluding mortgage finance, in any single industry is in real estate and construction. Loans extended to borrowers within the real estate and construction industries generally include market risk real estate loans. We extend market risk real estate loans, including both construction/development financing and limited term financing, to builders, professional real estate developers and owners/managers of commercial real estate projects and properties who have a demonstrated record of past success with similar properties. Collateral properties include office buildings, warehouse/distribution buildings, shopping centers, apartment buildings and residential and commercial tract development located primarily within our five major metropolitan markets in Texas. These loans are generally repaid through the borrower's sale or lease of the properties or through refinancing by other institutional sources offering long-term fixed rate financing. Loan amounts are determined in part from an analysis of pro forma cash flows. Loans are also underwritten to comply with product-type specific advance rates against both cost and market value. Borrowers represented within the real estate and construction category are largely owners and managers of both residential and non-residential commercial real estate properties, including homebuilders.

Loans extended to borrowers in the financials excluding banks category are comprised largely of loans to companies who loan money to businesses and consumers for various purposes including, but not limited to, insurance, consumer goods and real estate. This category also includes loans to companies involved in investment management and securities and commodities trading.

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We believe the loans we originate are appropriately collateralized under our credit standards. Approximately 97% of our loans held for investment are secured by collateral. Over 61% of the real estate collateral is located in Texas. The table below sets forth information regarding the distribution of our loans held for investment on a gross basis among various types of collateral at December 31, 2019:

<i>(in thousands except percentage data)</i>	<b>Amount</b>	<b>Percent of Total Loans Held for Investment</b>
<b>Collateral type:</b>		
Mortgage finance loans	\$ 8,169,849	33.0%
Business assets	7,257,383	29.3%
Real property	6,008,040	24.3%
Energy	1,235,384	5.0%
Municipal tax- and revenue-secured	635,061	2.6%
Unsecured	782,993	3.2%
Highly liquid assets	210,082	0.8%
Other assets	383,591	1.6%
Rolling stock	45,982	0.2%
U. S. Government guaranty	8,277	—%
<b>Total loans held for investment</b>	<b>\$ 24,736,642</b>	<b>100.0%</b>

As noted in the table above, approximately 24.3% of our loans held for investment as of December 31, 2019 are secured by real property. The table below summarizes our total real estate loan portfolio, which includes real estate loans and construction loans, as segregated by the type of property securing the credit. Property type concentrations are stated as a percentage of year-end total real estate loans as of December 31, 2019:

<i>(in thousands except percentage data)</i>	<b>Amount</b>	<b>Percent of Total Real Estate Loans</b>
<b>Property type:</b>		
<b>Market risk</b>		
Apartment buildings	\$ 1,011,552	16.8%
1-4 Family dwellings (other than condominium)	731,220	12.2%
Commercial buildings	704,318	11.7%
Hotel/motel buildings	377,412	6.3%
Hospital/medical buildings	367,156	6.1%
Residential lots	348,282	5.8%
Shopping center/mall buildings	327,431	5.4%
Industrial buildings	294,315	4.9%
Commercial lots	94,214	1.6%
Unimproved land	54,657	0.9%
Other	476,194	7.9%
<b>Other than market risk</b>		
1-4 Family dwellings (other than condominium)	384,094	6.4%
Commercial buildings	311,948	5.2%
Industrial buildings	300,184	5.0%
Other	225,063	3.8%
<b>Total real estate loans</b>	<b>\$ 6,008,040</b>	<b>100.0%</b>

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The table below summarizes our market risk real estate portfolio at December 31, 2019 as segregated by the geographic region in which the property is located:

<i>(in thousands except percentage data)</i>	Amount	Percent of Total
<b>Geographic region:</b>		
Dallas/Fort Worth	\$ 1,095,967	22.9%
Houston	908,119	19.0%
San Antonio	411,146	8.6%
Austin	403,945	8.4%
Other Texas cities	108,281	2.3%
Other states	1,859,293	38.8%
<b>Total market risk real estate loans</b>	<b>\$ 4,786,751</b>	<b>100%</b>

The determination of collateral value is critically important when financing real estate. As a result, obtaining current and objectively prepared appraisals is a major part of our underwriting and monitoring processes. We engage a variety of professional firms to supply appraisals, market studies and feasibility reports, environmental assessments and project site inspections to complement our internal resources to underwrite and monitor these credit exposures. Generally, our policy requires a new appraisal every three years. However, in periods of economic uncertainty where real estate values can fluctuate rapidly, more current appraisals are obtained when warranted by conditions such as a borrower's deteriorating financial condition, their possible inability to perform on the loan or other indicators of increasing risk of reliance on collateral value as the sole source of repayment of the loan. Annual appraisals are generally obtained for loans graded substandard or worse where real estate is a material portion of the collateral value and/or the income from the real estate or sale of the real estate is the primary source of debt service.

Appraisals are, in substantially all cases, reviewed by a third party to determine the reasonableness of the appraised value. The third party reviewer will challenge whether or not the data used is appropriate and relevant, form an opinion as to the appropriateness of the appraisal methods and techniques used, and determine if overall the analysis and conclusions of the appraiser can be relied upon. Additionally, the third party reviewer provides a detailed report of that analysis. Further review may be conducted by our credit officers, as well as by the Bank's managed asset committee as conditions warrant. These additional steps of review are undertaken to confirm that the underlying appraisal and the third party analysis can be relied upon. If we have differences, we address those with the reviewer and determine an appropriate resolution. Both the appraisal process and the appraisal review process can be less reliable in establishing accurate collateral values during and following periods of economic weakness due to the lack of comparable sales and the limited availability of financing to support an active market of potential purchasers.

### Large Credit Relationships

We originate and maintain large credit relationships with numerous customers in the ordinary course of business. The legal lending limit of our Bank is approximately \$489.3 million. We employ much lower house limits which vary by assigned risk grade, product and collateral type. Such house limits, which generally range from \$20 million to \$50 million, may be exceeded with appropriate authorization for exceptionally strong borrowers and otherwise where business opportunity and perceived credit risk warrant a somewhat larger investment. We consider large credit relationships to be those with commitments equal to or in excess of \$20.0 million. The following table provides additional information on our large held for investment credit relationships, excluding mortgage finance, outstanding at year-end:

<i>(in thousands, except relationship data)</i>	Number of Relationships	December 31, 2019				December 31, 2018						
		Period End Balances				Period End Balances						
		Committed	Outstanding	Number of Relationships	Committed	Outstanding	Number of Relationships	Committed	Outstanding			
\$30.0 million and greater	177	\$ 8,254,124	\$ 4,251,321	152	\$ 6,995,259	\$ 3,678,155	196	4,708,982	3,103,200	224	5,272,529	3,362,732
\$20.0 million to \$29.9 million	196	4,708,982	3,103,200	224	5,272,529	3,362,732	196	4,708,982	3,103,200	224	5,272,529	3,362,732

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Growth in period-end outstanding balances related to large credit relationships primarily resulted from an increase in the number of commitments. The following table summarizes the average committed and outstanding loan balances per relationship related to our large held for investment credit relationships, excluding mortgage finance, at year-end:

<i>(in thousands)</i>	2019 Average Balance per Relationship		2018 Average Balance per Relationship	
	Committed	Outstanding	Committed	Outstanding
\$30.0 million and greater	\$ 46,633	\$ 24,019	\$ 46,021	\$ 24,198
\$20.0 million to \$29.9 million	24,025	15,833	23,538	15,012

## Loan Maturities and Interest Rate Sensitivity

<i>(in thousands)</i>	December 31, 2019			
	Total	Within 1 Year	1-5 Years	After 5 Years
<b>Loan maturity:</b>				
Commercial	\$ 10,230,828	\$ 3,563,035	\$ 5,807,416	\$ 860,377
Mortgage finance	8,169,849	8,169,849	—	—
Construction	2,563,339	731,908	1,766,100	65,331
Real estate	3,444,701	664,770	1,851,049	928,882
Consumer	71,463	56,182	7,740	7,541
Equipment leases	256,462	29,512	107,965	118,985
Total loans held for investment	\$ 24,736,642	\$ 13,215,256	\$ 9,540,270	\$ 1,981,116
<b>Interest rate sensitivity for selected loans with:</b>				
Predetermined interest rates	\$ 3,074,975	\$ 1,556,329	\$ 530,507	\$ 988,139
Floating or adjustable interest rates	21,661,667	11,658,927	9,009,763	992,977
Total loans held for investment	\$ 24,736,642	\$ 13,215,256	\$ 9,540,270	\$ 1,981,116

## Interest Reserve Loans

As of December 31, 2019 and December 31, 2018, we had \$743.8 million and \$718.5 million, respectively, in loans held for investment that included interest reserve arrangements, representing approximately 29% and 34%, respectively, of our construction loans. Interest reserve provisions are common in construction loans. The use of interest reserves is carefully controlled by our underwriting standards, which consider the feasibility of the project, the creditworthiness of the borrower and guarantors and the loan-to-value coverage of the collateral. The interest reserve allows the borrower to draw loan funds to pay interest charges on the outstanding balance of the loan when financial conditions precedent are met. When drawn, the interest is capitalized and added to the loan balance, subject to conditions specified during the initial underwriting and at the time the credit is approved. We have ongoing controls for monitoring compliance with loan covenants, advancing funds and determining default conditions.

When we finance land on which improvements will be constructed, construction funds are generally not advanced until the borrower has received lease or purchase commitments which will meet cash flow coverage requirements and/or our analysis of market conditions and project feasibility indicates to our satisfaction that such lease or purchase commitments are forthcoming or other sources of repayment have been identified to repay the loan. It is our general policy to require a substantial equity investment by the borrower to complement the Bank's credit commitment. Any such required borrower investment is first contributed and invested in the project before any draws are allowed under the Bank's credit commitment. We require current financial statements of the borrowing entity and guarantors, as well as conduct periodic inspections of the project and analysis of whether the project is on schedule or delayed. Updated appraisals are ordered when necessary to validate the collateral values to support advances, including reserve interest. Advances of interest reserves are discontinued if collateral values do not support the advances or if the borrower does not comply with other terms and conditions in the loan agreements. In addition, most of our construction lending is performed in Texas and our lenders are very familiar with trends in local real estate. If at any time we believe that our collateral position is jeopardized, we retain the right to stop the use of interest reserves. As of December 31, 2019 and December 31, 2018, none of our loans with interest reserves were on non-accrual.

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### 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>	As of December 31,		
	2019	2018	2017
Non-accrual loans(1)			
Commercial			
Oil and gas properties	\$ 125,049	\$ 37,532	\$ 64,192
Assets of the borrowers	54,538	16,538	7,571
Accounts receivable and inventory	29,789	21,300	24,399
Other	4,084	2,493	3,569
Total commercial	213,460	77,863	99,731
Real estate			
Commercial property	1,751	988	1,096
Single family residences	1,449	1,469	118
Hotel/motel	8,500	—	—
Other	—	—	499
Total real estate	11,700	2,457	1,713
Consumer	34	55	—
Equipment leases	190	—	—
Total non-accrual loans	225,384	80,375	101,444
OREO(2)	—	79	11,742
Total non-performing assets	\$ 225,384	\$ 80,454	\$ 113,186
Restructured loans - accruing	\$ —	\$ —	\$ —
Loans held for investment past due 90 days and accruing(3)	\$ 17,584	\$ 9,353	\$ 8,429
Loans held for sale past due 90 days and accruing(4)	\$ 8,207	\$ 16,829	\$ 19,737

(1) As of December 31, 2019, 2018 and 2017, non-accrual loans included \$35.1 million, \$20.0 million and \$18.8 million, respectively, in loans that met the criteria for restructured.

(2) At December 31, 2019, 2018 and 2017, there was no valuation allowance recorded against the OREO balance.

(3) At December 31, 2019, 2018 and 2017, loans past due 90 days and still accruing includes premium finance loans of \$8.5 million, \$9.2 million and \$5.5 million, respectively.

(4) 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.

Total non-performing assets at December 31, 2019 increased \$144.9 million from December 31, 2018. The increase during 2019 primarily related to increases in our energy and leveraged loan portfolios. Energy non-performing assets totaled \$125.0 million at December 31, 2019 compared to \$37.5 million at December 31, 2018, and leveraged lending non-performing assets totaled \$73.2 million and \$28.8 million for the same periods, respectively.

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 December 31, 2019, we had \$46.6 million in loans of this type, compared to \$81.7 million at December 31, 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 \$75.0 million for the year ended December 31, 2019, \$87.0 million for the year ended December 31, 2018, and \$44.0 million for the year ended December 31, 2017. The decrease in provision recorded during 2019 compared to 2018 was primarily related to decreases in charge-offs and loans held for investment, excluding mortgage finance, balances.

The table below presents a summary of our loan loss experience for the past five years:

<i>(in thousands except percentage and multiple data)</i>	Year Ended December 31,				
	2019	2018	2017	2016	2015
Allowance for loan losses:					
Beginning balance	\$ 191,522	\$ 184,655	\$ 168,126	\$ 141,111	\$ 100,954
Loans charged-off:					
Commercial	76,958	79,692	34,145	56,558	16,254
Construction	—	—	59	—	—
Real estate	662	—	290	528	389
Consumer	—	767	180	47	62
Equipment leases	19	319	—	—	25
Total charge-offs	77,639	80,778	34,674	57,133	16,730
Recoveries:					
Commercial	3,290	2,468	4,593	9,364	4,944
Construction	—	—	104	34	400
Real estate	—	69	75	63	33
Consumer	69	438	70	21	173
Equipment leases	11	33	10	77	38
Total recoveries	3,370	3,008	4,852	9,559	5,588
Net charge-offs	74,269	77,770	29,822	47,574	11,142
Provision for loan losses	77,794	84,637	46,351	74,589	51,299
Ending balance	\$ 195,047	\$ 191,522	\$ 184,655	\$ 168,126	\$ 141,111
Allowance for off-balance sheet credit losses:					
Beginning balance	\$ 11,434	\$ 9,071	\$ 11,422	\$ 9,011	\$ 7,060
Provision for off-balance sheet credit losses	(2,794)	2,363	(2,351)	2,411	1,951
Ending balance	\$ 8,640	\$ 11,434	\$ 9,071	\$ 11,422	\$ 9,011
Total allowance for credit losses	\$ 203,687	\$ 202,956	\$ 193,726	\$ 179,548	\$ 150,122
Total provision for credit losses	\$ 75,000	\$ 87,000	\$ 44,000	\$ 77,000	\$ 53,250
Allowance for loan losses to LHI	0.79 %	0.85 %	0.89 %	0.96 %	0.84 %
Net charge-offs to average LHI	0.31 %	0.37 %	0.16 %	0.29 %	0.07 %
Total provision for credit losses to average LHI	0.32 %	0.42 %	0.24 %	0.46 %	0.35 %
Recoveries to total charge-offs	4.34 %	3.72 %	13.99 %	16.73 %	33.40 %
Allowance for off-balance sheet credit losses to off-balance sheet credit commitments	0.10 %	0.14 %	0.13 %	0.19 %	0.16 %
Combined allowance for credit losses to LHI	0.83 %	0.90 %	0.94 %	1.03 %	0.90 %
Allowance as a multiple of non-performing loans	0.9 x	2.4 x	1.8 x	1.0 x	0.8 x

The allowance for credit losses, including the allowance for losses on unfunded commitments reported on the consolidated balance sheets in other liabilities, totaled \$203.7 million at December 31, 2019, \$203.0 million at December 31, 2018 and \$193.7 million at December 31, 2017. The combined allowance as a percentage of loans held for investment decreased to 0.83% at December 31, 2019 from 0.90% and 0.94% at December 31, 2018 and 2017, respectively. The downward trend in the combined allowance as a percentage of loans held for investment that began in 2017 continued during 2018 and 2019 due primarily to growth in mortgage finance loans held for investment.

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The following table presents a summary of our allowance for loan losses by portfolio segment for the past five years:

	December 31,									
	2019		2018		2017		2016		2015	
<i>(in thousands except percentage data)</i>	Reserve	% of Loans	Reserve	% of Loans	Reserve	% of Loans	Reserve	% of Loans	Reserve	% of Loans
Loan category:										
Commercial	\$ 162,119	42%	\$ 129,442	46%	\$ 118,806	45%	\$ 128,768	41%	\$ 112,446	40%
Mortgage finance loans	2,265	33%	—	26%	—	26%	—	26%	—	29%
Construction	14,773	10%	19,242	9%	19,273	10%	13,144	12%	6,836	11%
Real estate	15,502	14%	33,353	18%	34,287	18%	19,149	20%	13,381	19%
Consumer	53	—	425	—	357	—	241	—	338	—
Equipment leases	335	1%	1,829	1%	3,542	1%	1,124	1%	3,931	1%
Additional qualitative reserve	—	—	7,231	—	8,390	—	5,700	—	4,179	—
Total allowance for loan losses	\$ 195,047	100%	\$ 191,522	100%	\$ 184,655	100%	\$ 168,126	100%	\$ 141,111	100%

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 allowance and provision for loan losses to our mortgage finance loan portfolio for the first time in 2019.

The increase in allowance allocated to commercial loans recorded at December 31, 2019 compared to 2018 is due to an increase in total criticized loans, primarily related to our energy and leveraged lending portfolios. The decrease in allowance allocated to construction and real estate loans recorded at December 31, 2019 compared to 2018 is primarily related to a decrease in applied risk weights specific to these product types. This decrease was the result of the refinements discussed above as well as management's continued evaluation of changing market conditions in these product types relative to historical loss experience.

At December 31, 2019, we believe the allowance is appropriate and has been derived from consistent application of our methodology. Should any of the factors considered by management in evaluating the appropriateness of the allowance for loan losses change, our estimate of inherent losses in the portfolio could also change, which would affect the level of future provisions for loan losses.

See Note 1 - Operations and Summary of Significant Accounting Policies 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 details of the allowance for loan losses.

### 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 1 - Operations and Summary of Significant Accounting Policies and Note 6 - Certain Transfers of Financial Assets in the accompanying notes to the consolidated financial statements included elsewhere in this report.

### Deposits

We compete for deposits by offering a broad range of products and services to our customers. While this includes offering competitive interest rates and fees, the primary means of competing for deposits is convenience and service to our customers. However, our strategy to provide service and convenience to customers does not include a large branch network. Our Bank offers banking centers, courier services and online and mobile banking. BankDirect and Bask Bank, our online banking divisions, serve customers on a 24 hours-a-day, 7 days-a-week basis solely through online banking.

Average total deposits for the year ended December 31, 2019 increased \$4.4 billion compared to 2018. Average demand deposits for the year ended December 31, 2019 increased \$1.1 billion compared to 2018, and average interest-bearing deposits increased \$3.3 billion. The average cost of deposits increased to 1.19% in 2019 from 0.92% in 2018 due to increased

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competition for deposits, as well as higher interest rates during the first half of 2019 prior to the interest rate reductions that began in August 2019.

The following table discloses our average deposits:

<i>(in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Non-interest-bearing	\$ 8,989,104	\$ 7,890,304	\$ 8,320,650
Interest-bearing transaction	3,535,282	3,044,300	2,159,375
Savings	9,780,532	7,986,135	7,495,318
Time deposits	2,351,698	1,292,864	478,513
Total average deposits	\$ 24,656,616	\$ 20,213,603	\$ 18,453,856

Uninsured deposits at December 31, 2019 were 53% of total deposits, compared to 57% of total deposits at December 31, 2018 and 59% of total deposits at December 31, 2017. The insured deposit data for 2019, 2018 and 2017 reflect the deposit insurance impact of "combined ownership segregation" of escrow and other accounts at an aggregate level but do not reflect an evaluation of all of the account styling distinctions that would determine the availability of deposit insurance to individual accounts based on FDIC regulations.

### **Maturity of Domestic CDs and Other Time Deposits in Amounts of \$100,000 or More**

<i>(in thousands)</i>	December 31,		
	2019	2018	2017
Months to maturity:			
3 or less	\$ 215,991	\$ 193,982	\$ 161,523
Over 3 through 6	75,632	89,529	146,027
Over 6 through 12	165,973	100,177	128,817
Over 12	50,619	15,834	28,965
Total	\$ 508,215	\$ 399,522	\$ 465,332

### **Liquidity and Capital Resources**

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objectives in managing our liquidity are to maintain our ability to meet loan commitments, repurchase investment securities and 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 Asset and Liability Management Committee ("ALCO"), 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 years ended December 31, 2019 and 2018, 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.

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In accordance with our liquidity strategy, deposit growth and increases in borrowing capacity related to our mortgage finance loans have resulted in increased liquidity assets in recent periods, which were \$4.3 billion at December 31, 2019 and \$2.9 billion at December 31, 2018. The following table summarizes the growth in and composition of liquidity assets:

<i>(in thousands except percentage data)</i>	<b>December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Federal funds sold and securities purchased under resale agreements	\$ 30,000	\$ 50,190	\$ 30,000
Interest-bearing deposits	4,233,766	2,815,684	2,697,581
<b>Total liquidity assets</b>	<b>\$ 4,263,766</b>	<b>\$ 2,865,874</b>	<b>\$ 2,727,581</b>

Total liquidity assets as a percent of:			
Total loans held for investment	17.3%	12.7%	13.2%
Total earning assets	13.5%	10.5%	11.2%
Total deposits	16.1%	13.9%	14.3%

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.

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 core customer deposits, relationship brokered deposits and traditional brokered deposits:

<i>(in thousands)</i>	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Deposits from core customers	\$ 22,549,568	\$ 17,015,541
Deposits from core customers as a percent of total deposits	85.2%	82.6%
Relationship brokered deposits	\$ 1,617,247	\$ 2,027,850
Relationship brokered deposits as a percent of average total deposits	6.1%	9.8%
Traditional brokered deposits	\$ 2,311,778	\$ 1,562,722
Traditional brokered deposits as a percent of total deposits	8.7%	7.6%
Average deposits from core customers	\$ 20,747,292	\$ 17,504,922
Average deposits from core customers as a percent of average total deposits	84.1%	86.6%
Average relationship brokered deposits	\$ 2,096,287	\$ 1,890,824
Average relationship brokered deposits as a percent of average total deposits	8.5%	9.4%
Average traditional brokered deposits	\$ 1,813,037	\$ 817,857
Average traditional brokered deposits as a percent of average total deposits	7.4%	4.0%

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.

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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>	December 31,		
	2019	2018	2017
Federal funds purchased	\$ 132,270	\$ 629,169	\$ 359,338
Repurchase agreements	9,496	12,005	5,702
FHLB borrowings	2,400,000	3,900,000	2,800,000
Line of credit	—	—	—
<b>Total short-term and other borrowings</b>	<b>\$ 2,541,766</b>	<b>\$ 4,541,174</b>	<b>\$ 3,165,040</b>

For additional information on our short-term and other borrowings, see Note 11 - Short-Term and Other Borrowings in the accompanying notes to the consolidated financial statements included elsewhere in this report.

From November 2002 to September 2006 various Texas Capital Statutory Trusts were created and subsequently issued floating rate trust preferred securities in various private offerings totaling \$113.4 million. 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.

Our equity capital averaged \$2.7 billion for the year ended December 31, 2019 as compared to \$2.4 billion in 2018 and \$2.1 billion in 2017. We have not paid any cash dividends on our common stock since we commenced operations. While we have no plans to pay dividends on our common stock in the foreseeable future, it is anticipated that following the merger of the Company and IBTX the combined company will pay dividends to stockholders at the rate of \$1.00 per share annually. See the discussion at *Risk Factors – Risks Relating to Our Securities*.

For additional information on our capital, see Note 14 - 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 December 31, 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 in the accompanying notes to the consolidated financial statements included elsewhere in this report for details of contractual lease obligations. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements included elsewhere in this report.

<i>(in thousands)</i>	Note Reference	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
Deposits without a stated maturity	10	\$ 23,607,562	\$ —	\$ —	\$ —	\$ 23,607,562
Time deposits	10	2,810,219	55,923	2,034	2,855	2,871,031
Federal funds purchased and customer repurchase agreements	11	141,766	—	—	—	141,766
FHLB borrowings	11	2,400,000	—	—	—	2,400,000
Subordinated notes	12	—	—	—	282,129	282,129
Trust preferred subordinated debentures	12	—	—	—	113,406	113,406
<b>Total contractual obligations</b>		<b>\$ 28,959,547</b>	<b>\$ 55,923</b>	<b>\$ 2,034</b>	<b>\$ 398,390</b>	<b>\$ 29,415,894</b>

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### Off-Balance Sheet Arrangements

We had the following off-balance sheet contractual obligations as of December 31, 2019:

<i>(in thousands)</i>	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
Commitments to extend credit	\$ 2,672,791	\$ 3,112,661	\$ 2,066,169	\$ 215,034	\$ 8,066,655
Standby and commercial letters of credit	186,377	58,301	16,727	—	261,405
Total financial instruments with off-balance sheet risk	\$ 2,859,168	\$ 3,170,962	\$ 2,082,896	\$ 215,034	\$ 8,328,060

Due to the nature of our unfunded loan commitments, including unfunded lines of credit, the amounts presented in the table above do not necessarily represent amounts that we anticipate funding in the periods presented above. Commitments to extend credit do not include our mortgage finance arrangements with mortgage loan originators through our mortgage warehouse lending division, which are established as uncommitted "guidance" purchase and sale facilities under which the mortgage originator has no obligation to offer and we have no obligation to purchase interests in the mortgage loans subject to the arrangements. See Note 1 - Operations and Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report.

### 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 elsewhere in this report. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC's definition of a critical accounting policy.

#### *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.

### New Accounting Standards

ASU 2018-15 "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40 - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract)" ("ASU 2018-15") aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 will be effective for us on January 1, 2020 and is not expected to have an impact on our consolidated financial statements as we currently apply this guidance in practice.

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ASU 2018-13 "Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13") removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 fair value measurement methodologies, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. It also adds a requirement to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. For certain unobservable inputs, entities may disclose other quantitative information in lieu of the weighted average if the other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 will be effective for us on January 1, 2020 and is not expected to have a significant 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, as updated, became effective for us on January 1, 2020. Through the date of adoption, we held steering committee and working group meetings that included individuals from various functional areas relevant to the implementation of CECL. Additionally, an assessment of our primary modeling tool was completed, which enabled us to complete parallel runs utilizing second and third quarter data, during which preliminary operational procedures and internal controls were designed. Management's steering committee and working group also validated the appropriateness of, among other things, management's decisions regarding portfolio segmentation, life of loan considerations, and reasonable and supportable forecasting methodology. Based on our fourth quarter parallel run, review of the portfolio, including the composition, characteristics and quality of the underlying loans, and the prevailing economic conditions and forecasts as of the adoption date, we believe that adoption of ASU 2016-13 will result in an immaterial increase of approximately 5-6% to our allowance for credit losses. This is consistent with our expectations given that our current portfolio is of shorter duration and commercially focused.

### Supplemental Financial Data

The following tables present the calculation of certain non-GAAP measures that we consider to be key performance measures that management uses in assessing our financial performance. While these non-GAAP measures may be widely used by investors, analysts and bank regulatory agencies to assess the financial performance of our company, they may not be comparable to similarly-titled measures reported by other companies. These non-GAAP measures are individually identified and calculations are explained in the footnotes below the tables. The following tables present reconciliations of these non-GAAP measures to the applicable amounts measured in accordance with GAAP.

	December 31,					
<i>(in thousands, except per share data)</i>	2019	2018	2017	2016	2015	
Total common equity	\$ 2,682,258	\$ 2,350,394	\$ 2,052,721	\$ 1,859,557	\$ 1,473,533	
Adjustments:						
Goodwill and intangibles	(18,099)	(18,570)	(19,040)	(19,512)	(19,960)	
Tangible common equity	\$ 2,664,159	\$ 2,331,824	\$ 2,033,681	\$ 1,840,045	\$ 1,453,573	
Common shares outstanding	50,337,741	50,200,710	49,643,344	49,503,662	45,873,807	
Book value per common share	\$ 53.29	\$ 46.82	\$ 41.35	\$ 37.56	\$ 32.12	
Tangible book value per common share(1)	\$ 52.93	\$ 46.45	\$ 40.97	\$ 37.17	\$ 31.69	

(1) Stockholders' equity excluding preferred stock, less goodwill and intangibles, divided by shares outstanding at period end.

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	December 31,					
<i>(in thousands, except percentage data)</i>	2019	2018	2017	2016	2015	
Total common equity	\$ 2,682,258	\$ 2,350,394	\$ 2,052,721	\$ 1,859,557	\$ 1,473,533	
Adjustments:						
AOCI	(8,950)	(518)	(428)	(415)	(718)	
Goodwill and intangibles	(18,099)	(18,570)	(19,040)	(19,512)	(19,960)	
Tangible common equity	\$ 2,655,209	\$ 2,331,306	\$ 2,033,253	\$ 1,839,630	\$ 1,452,855	
Total Assets	\$ 32,548,069	\$ 28,257,767	\$ 25,075,645	\$ 21,697,134	\$ 18,903,821	
Adjustments:						
AOCI	(8,950)	(518)	(428)	(415)	(718)	
Goodwill and intangibles	(18,099)	(18,570)	(19,040)	(19,512)	(19,960)	
Tangible common equity	\$ 32,521,020	\$ 28,238,679	\$ 25,056,177	\$ 21,677,207	\$ 18,883,143	
<b>Total common equity to total assets</b>	8.24%	8.32%	8.19%	8.57%	7.79%	
<b>Tangible common equity to total tangible assets(1)</b>	8.16%	8.26%	8.11%	8.49%	7.69%	

(1) Stockholders' equity excluding preferred stock, less accumulated other comprehensive income and goodwill and intangibles, divided by total assets, less accumulated other comprehensive income and goodwill and intangibles.

**ITEM 7A. 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 ALCO, which operates under policy guidelines established by our board of directors. The acceptable negative variation in net interest revenue due to a 100 basis point increase or decrease in interest rates is generally limited by these guidelines to plus or minus 10-12%. These guidelines establish maximum levels for

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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 ALCO, 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 December 31, 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 December 31, 2019

<i>(in thousands)</i>	<b>0-3 mo Balance</b>	<b>4-12 mo Balance</b>	<b>1-3 yr Balance</b>	<b>3+ yr Balance</b>	<b>Total Balance</b>
<b>Assets:</b>					
Interest-bearing deposits in other banks, federal funds sold and securities purchased under resale agreements	\$ 4,263,766	\$ —	\$ —	\$ —	\$ 4,263,766
Investment securities(1)	27,021	2,680	352	209,818	239,871
Total variable loans	23,716,946	173,143	32,628	316,084	24,238,801
Total fixed loans	259,483	1,296,845	300,767	1,217,880	3,074,975
Total loans(2)	23,976,429	1,469,988	333,395	1,533,964	27,313,776
Total interest sensitive assets	\$ 28,267,216	\$ 1,472,668	\$ 333,747	\$ 1,743,782	\$ 31,817,413
<b>Liabilities:</b>					
Interest-bearing customer deposits	\$ 14,169,103	\$ —	\$ —	\$ —	\$ 14,169,103
CDs & IRAs	229,827	268,614	55,923	4,889	559,253
Traditional brokered deposits	400,000	1,911,778	—	—	2,311,778
Total interest-bearing deposits	14,798,930	2,180,392	55,923	4,889	17,040,134
Repurchase agreements, federal funds purchased, FHLB borrowings	2,541,766	—	—	—	2,541,766
Subordinated notes	—	—	—	282,129	282,129
Trust preferred subordinated debentures	—	—	—	113,406	113,406
Total borrowings	2,541,766	—	—	395,535	2,937,301
Total interest sensitive liabilities	\$ 17,340,696	\$ 2,180,392	\$ 55,923	\$ 400,424	\$ 19,977,435
GAP	\$ 10,926,520	\$ (707,724)	\$ 277,824	\$ 1,343,358	\$ —
Cumulative GAP	\$ 10,926,520	\$ 10,218,796	\$ 10,496,620	\$ 11,839,978	\$ 11,839,978
Demand deposits					9,438,459
Stockholders' equity					2,832,258
Total					<u>\$ 12,270,717</u>

(1) Investment securities based on fair market value.

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

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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 over the next twelve months based on three interest rate scenarios. These are a static rate scenario and two "shock test" scenarios.

These scenarios are based on interest rates as of the last day of a reporting period published by independent sources and incorporate 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 although we may do so in the future if that appears advisable.

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 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 decreasing 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 these changes is factored into the simulation model. This modeling indicated interest rate sensitivity as follows:

<i>(in thousands)</i>	Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario					
	December 31, 2019			December 31, 2018		
	100 bps Increase	200 bps Increase	100 bps Decrease	100 bps Increase	200 bps Increase	100 bps Decrease
Change in net interest income	\$ 93,290	\$ 187,968	\$ (81,988)	\$ 101,888	\$ 204,279	\$ (105,505)

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.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Report of Ernst & Young, LLP, Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Texas Capital Bancshares, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Texas Capital Bancshares, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income and other comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as "the consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 12, 2020 expressed an unqualified opinion thereon.

**Basis for Opinion**

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

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

**Critical Audit Matter**

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

*Allowance for Loan Losses (“ALL”)*

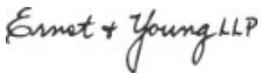
**Description of the Matter** The Company’s loans held for investment (“LHFI”) portfolio totaled \$24.6 billion as of December 31, 2019, and the associated ALL was \$195.0 million. As discussed in both Notes 1 and 4 to the consolidated financial statements, the ALL is comprised of general reserves and specific reserves for impaired loans. The Company’s ALL methodology for its general reserve employs a loss migration technique to determine historical loss percentages applicable to all defined credit risk grades and portfolio segments, whereby a segment weight is computed as a measure of the relative risk of loans in each segment compared to the entire LHFI portfolio. The Company’s ALL methodology allows for management to adjust historical credit loss experience to be more reflective of losses inherent in its LHFI portfolio.

Management has identified certain measures in addition to historical credit loss experience that are believed to offer guidance as leading, concurrent and trailing indicators respectively of general economic health that in turn are thought to be relevant to the measure of incurred loss in the Company’s LHFI portfolio (individually referred to as “Q Factors”). Ranges for individual Q Factors have been quantified and aggregated into a single adjustment (referred to as “the Q Factor adjustment”). Within the LHFI portfolio, management may also adjust segment weights applied for specific portfolio segments whereby historical loss experience may not be a measure reflective of incurred losses for the specific portfolio segment.

Auditing management’s estimate of the ALL involved a high degree of subjectivity due to the judgmental nature of adjustments made to the historical loss experience through (1) the quantification and aggregation of the Q Factor adjustment applied to the portfolio as well as (2) the determination of segment loss weight adjustments applied to specific portfolio segments. Such judgments (collectively referred to herein as “the judgmental adjustments”) could have a significant impact to the ALL.

**How We Addressed the Matter in Our Audit** We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company’s controls over the ALL process, including those over the identification and determination of individual Q Factors, the precision of management’s review and approval of the computation of the Q Factor adjustment, the identification and determination of segment weight adjustments, and the precision of management’s review and approval of the computed segment weight adjustments.

To test the judgmental adjustments made to historical loss experience in the ALL, our audit procedures included, among others, evaluating the Company’s ALL methodology and the underlying data used by management in developing the judgmental adjustments to the ALL. We compared the judgmental adjustments made by management to both internal portfolio metrics and external macroeconomic data (as applicable) to support the judgmental adjustments and evaluate trends in such adjustments period over period. We evaluated the data and information utilized by management to support the judgmental adjustments by independently obtaining internal and external data and information to assess the reliability and appropriateness of the data and information used by management. We confirmed that the judgmental adjustments were appropriately input into the Company’s ALL computation by recomputing the impact of such adjustments. We performed an analytical review of the ALL in aggregate using both internal and external information to evaluate the overall reasonableness of the ALL, including the judgmental adjustments.



We have served as the Company's auditor since 1999.

Dallas, TX  
February 12, 2020

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

<i>(in thousands except per share data)</i>	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and due from banks	\$ 161,817	\$ 214,191
Interest-bearing deposits in other banks	4,233,766	2,815,684
Federal funds sold and securities purchased under resale agreements	30,000	50,190
Investment securities	239,871	120,216
Loans held for sale (\$2,571.3 million and \$1,969.2 million at December 2019 and 2018, respectively, at fair value)	2,577,134	1,969,474
Loans held for investment, mortgage finance	8,169,849	5,877,524
Loans held for investment (net of unearned income)	16,476,413	16,690,550
Less: Allowance for loan losses	195,047	191,522
Loans held for investment, net	24,451,215	22,376,552
Mortgage servicing rights, net	64,904	42,474
Premises and equipment, net	31,212	23,802
Accrued interest receivable and other assets	740,051	626,614
Goodwill and intangible assets, net	18,099	18,570
<b>Total assets</b>	<b>\$ 32,548,069</b>	<b>\$ 28,257,767</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Non-interest-bearing	\$ 9,438,459	\$ 7,317,161
Interest-bearing	17,040,134	13,288,952
<b>Total deposits</b>	<b>26,478,593</b>	<b>20,606,113</b>
Accrued interest payable	12,760	20,675
Other liabilities	287,157	194,238
Federal funds purchased and repurchase agreements	141,766	641,174
Other borrowings	2,400,000	3,900,000
Subordinated notes, net	282,129	281,767
Trust preferred subordinated debentures	113,406	113,406
<b>Total liabilities</b>	<b>29,715,811</b>	<b>25,757,373</b>
<b>Stockholders' equity:</b>		
<b>Preferred stock, \$.01 par value, \$1,000 liquidation value:</b>		
Authorized shares—10,000,000		
Issued shares—6,000,000 shares issued at December 31, 2019 and 2018	150,000	150,000
<b>Common stock, \$.01 par value:</b>		
Authorized shares—100,000,000		
Issued shares—50,338,158 and 50,201,127 at December 31, 2019 and 2018, respectively	503	502
Additional paid-in capital	978,205	967,890
Retained earnings	1,694,608	1,381,492
Treasury stock (shares at cost: 417 at December 31, 2019 and 2018)	(8)	(8)
Accumulated other comprehensive income, net of taxes	8,950	518
<b>Total stockholders' equity</b>	<b>2,832,258</b>	<b>2,500,394</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 32,548,069</b>	<b>\$ 28,257,767</b>

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
<i>(in thousands except per share data)</i>	2019	2018	2017
<b>Interest income</b>			
Interest and fees on loans	\$ 1,284,036	\$ 1,124,970	\$ 846,292
Investment securities	8,654	2,834	1,066
Federal funds sold and securities purchased under resale agreements	1,529	3,792	2,542
Interest-bearing deposits in other banks	71,093	32,597	29,399
Total interest income	1,365,312	1,164,193	879,299
<b>Interest expense</b>			
Deposits	293,537	185,116	79,886
Federal funds purchased	11,872	6,531	2,592
Other borrowings	58,393	36,207	15,137
Subordinated notes	16,764	16,764	16,764
Trust preferred subordinated debentures	5,026	4,715	3,592
Total interest expense	385,592	249,333	117,971
<b>Net interest income</b>	979,720	914,860	761,328
<b>Provision for credit losses</b>	75,000	87,000	44,000
<b>Net interest income after provision for credit losses</b>	904,720	827,860	717,328
<b>Non-interest income</b>			
Service charges on deposit accounts	11,320	12,787	12,432
Wealth management and trust fee income	8,810	8,148	6,153
Brokered loan fees	29,738	22,532	23,331
Servicing income	13,439	18,307	15,657
Swap fees	4,387	5,625	3,990
Net gain/(loss) on sale of loans held for sale	(20,259)	(15,934)	(2,387)
Other	45,005	26,559	15,080
Total non-interest income	92,440	78,024	74,256
<b>Non-interest expense</b>			
Salaries and employee benefits	315,080	291,768	264,231
Net occupancy expense	32,989	30,342	25,811
Marketing	53,355	39,335	26,787
Legal and professional	53,830	42,990	29,731
Communications and technology	44,826	30,056	31,004
FDIC insurance assessment	20,093	24,307	23,510
Servicing related expenses	22,573	14,934	15,506
Allowance and other carrying costs for other real estate owned	7	474	6,437
Other	47,246	50,890	42,859
Total non-interest expense	589,999	525,096	465,876
<b>Income before income taxes</b>	407,161	380,788	325,708
Income tax expense	84,295	79,964	128,645
<b>Net income</b>	322,866	300,824	197,063
<b>Preferred stock dividends</b>	9,750	9,750	9,750
<b>Net income available to common stockholders</b>	\$ 313,116	\$ 291,074	\$ 187,313
<b>Other comprehensive income (loss)</b>			
Change in unrealized gain (loss) on available-for-sale debt securities arising during period, before tax	\$ 10,674	\$ 7	\$ 19
Income tax expense (benefit) related to unrealized loss on available-for-sale debt securities	2,242	1	6
Other comprehensive income (loss), net of tax	8,432	6	13
<b>Comprehensive income</b>	\$ 331,298	\$ 300,830	\$ 197,076
<b>Basic earnings per common share</b>	\$ 6.23	\$ 5.83	\$ 3.78
<b>Diluted earnings per common share</b>	\$ 6.21	\$ 5.79	\$ 3.73

See accompanying notes to consolidated financial statements.

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

<i>(in thousands except share data)</i>	Preferred Stock		Common Stock		Additional	Retained	Treasury Stock		Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in	Earnings	Shares	Amount	Other	
					Capital				Comprehensive	
									Income	
Balance at December 31, 2016	6,000,000	\$150,000	49,504,079	\$ 495	\$ 955,468	\$ 903,187	(417)	\$ (8)	\$ 415	\$2,009,557
Comprehensive income:										
Net income	—	—	—	—	—	197,063	—	—	—	197,063
Change in unrealized gain (loss) on available-for-sale debt securities, net of taxes of \$6	—	—	—	—	—	—	—	—	13	13
Total comprehensive income										197,076
Stock-based compensation expense recognized in earnings	—	—	—	—	8,079	—	—	—	—	8,079
Preferred stock dividend	—	—	—	—	—	(9,750)	—	—	—	(9,750)
Issuance of stock related to stock-based awards	—	—	106,087	1	(2,242)	—	—	—	—	(2,241)
Issuance of common stock related to warrants	—	—	33,595	—	—	—	—	—	—	—
Balance at December 31, 2017	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	—	—	—	—	—	300,824	—	—	—	300,824
Change in unrealized gain (loss) on available-for-sale debt securities, net of taxes of \$1	—	—	—	—	—	—	—	—	6	6
Total comprehensive income										300,830
Stock-based compensation expense recognized in earnings	—	—	—	—	8,973	—	—	—	—	8,973
Preferred stock dividend	—	—	—	—	—	(9,750)	—	—	—	(9,750)
Issuance of stock related to stock-based awards	—	—	120,242	1	(2,383)	—	—	—	—	(2,382)
Issuance of common stock related to warrants	—	—	437,124	5	(5)	—	—	—	—	—
Balance at December 31, 2018	6,000,000	150,000	50,201,127	502	967,890	1,381,492	(417)	(8)	518	2,500,394
Comprehensive income:										
Net income	—	—	—	—	—	322,866	—	—	—	322,866
Change in unrealized gain (loss) on available-for-sale debt securities, net of taxes of \$2,242	—	—	—	—	—	—	—	—	8,432	8,432
Total comprehensive income										331,298
Stock-based compensation expense recognized in earnings	—	—	—	—	11,775	—	—	—	—	11,775
Preferred stock dividend	—	—	—	—	—	(9,750)	—	—	—	(9,750)
Issuance of stock related to stock-based awards	—	—	128,263	1	(1,460)	—	—	—	—	(1,459)
Issuance of common stock related to warrants	—	—	8,768	—	—	—	—	—	—	—
Balance at December 31, 2019	6,000,000	\$150,000	50,338,158	\$ 503	\$ 978,205	\$1,694,608	(417)	\$ (8)	\$ 8,950	\$2,832,258

(1) Represents the impact of adopting Accounting Standard Update ("ASU") 2018-02 and ASU 2016-01. See Note 1 to the consolidated financial statements for more information.

See accompanying notes to consolidated financial statements.

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

<i>(in thousands)</i>	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>			
Net income	\$ 322,866	\$ 300,824	\$ 197,063
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	75,000	87,000	44,000
Deferred tax expense (benefit)	10,796	(6,400)	31,276
Depreciation and amortization	37,267	32,022	27,871
Net (gain)/loss on sale of loans held for sale	20,259	15,934	2,387
Increase (decrease) in valuation allowance on mortgage servicing rights	5,803	(2,823)	2,823
Stock-based compensation expense	17,604	16,938	22,019
Purchases and originations of loans held for sale	(10,183,057)	(6,753,709)	(5,556,964)
Proceeds from sales and repayments of loans held for sale	9,508,927	5,759,067	5,457,117
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(143,617)	(123,542)	(105,720)
Accrued interest payable and other liabilities	87,884	(5,026)	10,289
<b>Net cash (used in)/provided by operating activities</b>	<b>(240,268)</b>	<b>(679,715)</b>	<b>132,161</b>
<b>Investing activities</b>			
Purchases of investment securities	(113,233)	(101,558)	(97,776)
Maturities and calls of available-for-sale securities	—	—	94,775
Principal payments received on investment securities	6,185	3,426	4,383
Originations of mortgage finance loans	(138,759,289)	(99,151,237)	(86,931,566)
Proceeds from pay-offs of mortgage finance loans	136,466,964	98,581,873	86,120,744
Net (increase)/decrease in loans held for investment, excluding mortgage finance loans	139,868	(1,402,068)	(2,395,063)
Purchase of premises and equipment, net	(16,651)	(7,651)	(12,265)
Proceeds from sale of MSRs	—	70,824	—
Proceeds from sale of other real estate owned, net	79	13,645	1,023
<b>Net cash used in investing activities</b>	<b>(2,276,077)</b>	<b>(1,992,746)</b>	<b>(3,215,745)</b>
<b>Financing activities</b>			
Net increase in deposits	5,872,480	1,482,933	2,106,349
Costs from issuance of stock related to stock-based awards and warrants	(1,459)	(2,382)	(2,241)
Preferred dividends paid	(9,750)	(9,750)	(9,750)
Net increase/(decrease) in other borrowings	(1,500,000)	1,100,000	800,000
Net increase/(decrease) in federal funds purchased and repurchase agreements	(499,408)	276,134	255,465
<b>Net cash provided by financing activities</b>	<b>3,861,863</b>	<b>2,846,935</b>	<b>3,149,823</b>
Net increase in cash and cash equivalents	1,345,518	174,474	66,239
Cash and cash equivalents at beginning of period	3,080,065	2,905,591	2,839,352
Cash and cash equivalents at end of period	\$ 4,425,583	\$ 3,080,065	\$ 2,905,591
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 393,507	\$ 236,338	\$ 115,789
Cash paid during the period for income taxes	89,967	75,405	103,871

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 leading products to businesses throughout the United States.

On December 9, 2019, the Company entered into a merger agreement with IBTX, the holding company for Independent Bank, under which TCBI and IBTX will combine in an all-stock merger of equals. Under the terms of the merger agreement, each share of TCBI common stock outstanding immediately prior to the effective time, other than certain shares held by TCBI or IBTX, will be converted into the right to receive the merger consideration of 1.0311 shares of IBTX common stock. At the effective time, each outstanding share of TCBI preferred stock will be automatically converted into the right to receive one share of IBTX preferred stock having substantially the same terms as such share of TCBI preferred stock. The name of the surviving entity will be Independent Bank Group, Inc. and the name of the surviving bank will be Texas Capital Bank. The surviving bank will be operated under the name Independent Financial in Colorado and under the name Texas Capital Bank in Texas.

The merger agreement was unanimously approved by the board of directors of TCBI and the board of directors of IBTX. The merger is expected to close in mid-2020, subject to satisfaction of customary closing conditions, including receipt of customary regulatory approvals and approval of the merger agreement by the stockholders of TCBI and the shareholders of IBTX, respectively. For more information on the merger agreement and the merger, see Part I, Item 1, *Business-Merger with Independent Bank Group, Inc.*

### **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.

### **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.

### **Basic and Diluted Earnings Per Common Share**

Basic earnings per common share is based on net income available to common stockholders divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of non-vested stock-based awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 2 — Earnings Per Share.

### **Accumulated Other Comprehensive Income**

Unrealized gains or losses on our available-for-sale debt securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income (loss), net ("AOCI"). AOCI is reported in the accompanying consolidated statements of stockholders' equity and consolidated statements of income and other comprehensive income.

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

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### **Cash and Cash Equivalents**

Cash equivalents include amounts due from banks, interest-bearing deposits in other banks, federal funds sold and securities purchased under resale agreements.

### **Investment Securities**

Investment securities include available-for-sale debt securities and equity securities at fair value.

#### *Debt Securities*

Debt securities are classified as trading, available-for-sale or held-to-maturity. Management classifies securities at the time of purchase and re-assesses such designation at each balance sheet date; however, transfers between categories from this re-assessment are rare.

#### Trading Account

Debt securities acquired for resale in anticipation of short-term market movements are classified as trading, with realized and unrealized gains and losses recognized in income. To date, we have not had any activity in our trading account.

#### Held-to-Maturity

Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale.

#### Available-for-Sale

Available-for-sale debt securities are stated at fair value, with the unrealized gains and losses reported as a separate component of AOCI, net of tax. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion are included in interest income from securities. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

All debt securities are available-for-sale as of December 31, 2019 and 2018.

#### *Equity Securities*

Beginning January 1, 2018, upon adoption of ASU 2016-01 "*Recognition and Measurement of Financial Assets and Financial Liabilities*," equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in income. For periods prior to January 1, 2018, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of AOCI, net of tax. Equity securities without readily determinable fair values are recorded at cost less any impairment, if any.

### **Loans**

#### *Loans Held for Sale*

Through our mortgage correspondent aggregation ("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 third parties such as Ginnie Mae or to government sponsored entities such as Fannie Mae or Freddie Mac ("GSEs"). In some cases, we retain the mortgage servicing rights. Once purchased, these loans are classified as held for sale and are carried at fair value pursuant to our election of the fair value option in accordance with Accounting Standards Codification ("ASC") 825, *Financial Instruments*. At the commitment date, we enter into a corresponding forward sale commitment with a third party, typically Ginnie Mae or a GSE, to deliver the loans within a specified timeframe. The estimated gain/loss for the entire transaction (from initial purchase commitment to final delivery of loans) is recorded as an asset or liability. The fair value of loans held for sale is derived from observable current market prices, when available, and includes the fair value of the mortgage servicing rights. Adjustments to reflect unrealized gains and losses resulting from changes in fair value and realized gains and losses upon ultimate sale of the loans are classified as gain/(loss) on sale of loans held for sale in the consolidated statements of income and other comprehensive income.

Residential mortgage loans held for sale are subject to both credit and interest rate risk. Credit risk is managed through underwriting policies and procedures, including collateral requirements, which are generally accepted by the secondary loan markets. Exposure to interest rate fluctuations is partially managed through forward sales contracts, which set the price for loans that will be delivered in the next 60 to 90 days.

Pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase certain delinquent loans securitized in Ginnie Mae pools, if they meet defined delinquent loan criteria. Once the delinquency criteria

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have been met, and regardless of whether the repurchase option has been exercised, we account for these loans as if they had been repurchased and recognize the loans and a corresponding liability as held for sale and other liabilities, respectively, in the consolidated balance sheets. If the loans are actually repurchased, the liability is extinguished and the loans continue to be reported as held for sale. As a Ginnie Mae approved lender, we may recover losses incurred on repurchased loans through a claims process with the government agency.

From time to time we hold for sale the guaranteed portion of Small Business Administration 7(a) loans, which are carried at lower of cost or market.

### *Loans Held for Investment*

Loans held for investment (including financing leases) are stated at the amount of unpaid principal reduced by deferred income (net of costs). Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Loan origination fees, net of direct loan origination costs, and commitment fees, are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. Reserves on impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral, less cost to sell. Impaired loans, or portions thereof, are charged off when a confirmed loss exists.

Restructured loans are loans on which, due to the borrower's financial difficulties, we have granted a concession that we would not otherwise consider for borrowers of similar credit quality. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current rate for new debt with similar risk, a reduction of the face amount of debt or forgiveness of either principal or accrued interest. A loan continues to qualify as restructured until a consistent payment history or change in borrower's financial condition has been evidenced, generally for no less than twelve months. Assuming that the restructuring agreement specifies an interest rate at the time of the restructuring that is greater than or equal to the rate that we are willing to accept for a new extension of credit with comparable risk, then the loan no longer has to be considered a restructuring if it is in compliance with the modified terms in calendar years after the year of the restructure.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Loans held for investment includes legal ownership interests in mortgage loans that we purchase through our mortgage warehouse lending division. The ownership interests are purchased from unaffiliated mortgage originators who are seeking additional funding through sale of the undivided ownership interests to facilitate their ability to originate loans. The mortgage originator has no obligation to offer and we have no obligation to purchase these interests. The originator closes mortgage loans consistent with underwriting standards established by approved investors, and, at the time of the sale to the investor, our ownership interest and that of the originator are delivered by us to the investor selected by the originator and approved by us. We typically purchase up to a 99% ownership interest in each mortgage with the originator owning the remaining percentage. These mortgage ownership interests are generally held by us for a period of less than 30 days and more typically 10-20 days. Because of conditions in agreements with originators designed to reduce transaction risks, under ASC 860, *Transfers and Servicing of Financial Assets* ("ASC 860"), the ownership interests do not qualify as participating interests. Under ASC 860, the ownership interests are deemed to be loans to the originators and payments we receive from investors are deemed to be payments made by or on behalf of the originator to repay the loan deemed made to the originator. Because we have an actual, legal ownership interest in the underlying residential mortgage loan, these interests are reported as extensions of credit to the originators that are secured by the mortgage loans as collateral.

Due to market conditions or events of default by the investor or the originator, we could be required to purchase the remaining interests in the mortgage loans and hold them beyond the expected 10-20 days. Mortgage loans acquired under these conditions would require mark-to-market adjustments to income and could require further allocations of the allowance for loan losses or be subject to charge off in the event the loans become impaired.

## **Allowance for Loan Losses**

The allowance for loan losses is comprised of general reserves and specific reserves for impaired loans, all based on our estimate of losses inherent in the portfolio at the balance sheet date. In order to determine the allowance for loan losses, all loans are assigned a credit grade. Loan commitments graded substandard or worse and greater than \$500,000 are specifically reviewed for loss potential. Loans deemed to be impaired, as well as restructured loans and loans formerly reported as restructured, are assigned a specific reserve based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the remainder of the portfolio is segregated by product types to recognize differing risk profiles among portfolio segments, and then further segregated by credit grades. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance of each loan and risk-weighted by product type to calculate a required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit, and any needed reserve is recorded in other liabilities. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management's judgment, should be charged off.

We have several pass credit grades that are assigned to loans based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring. Within our criticized/classified credit grades are special mention, substandard, and doubtful. Special mention loans are those that are currently protected by the sound worth and paying capacity of the borrower, but that are potentially weak and constitute an additional credit risk. These loans have the potential to deteriorate to a substandard grade due to the existence of financial or administrative deficiencies. Substandard loans have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Some substandard loans are inappropriately protected by the sound worth and paying capacity of the borrower and of the collateral pledged and may be considered impaired. Substandard loans can be accruing or can be on non-accrual depending on the circumstances of the individual loans. Loans classified as doubtful have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable. The possibility of loss is extremely high. All doubtful loans are on non-accrual.

The allowance allocation percentages assigned to each credit grade have been developed based primarily on an analysis of our historical loss rates. The level of the allowance reflects management's continuing evaluation of conditions likely to impact the amount of losses expected to be incurred in the Bank's loan portfolio. Such conditions include, without limitation, credit quality indicators such as amounts and percentages of loans classified as past due, criticized and non-performing, conditions internal to the Bank such as the skill and experience of lending and credit personnel and effectiveness of credit review processes, the rate of portfolio growth, the extent of hold limits and loan concentrations, such as loans to specific borrowers, loans to groups of affiliated borrowers, loans to borrowers in defined industry groups and loans to borrowers, and collateral, in defined geographic locations. Conditions external to the Bank that may impact incurred losses that are also considered by management in the evaluation of the allowance include the general health of the national economy and regional economies where the Bank operates, international economic conditions, domestic and international political events that may impact the Bank's loan portfolio, regulatory developments deemed relevant to risk assessment and classification of credits and circumstances that may have negative consequences for industries or specific borrowers where the Bank has exposure.

Management's assessment of the allowance begins with a review of historical credit loss experience as a baseline before consideration of current environmental issues both internal and external to the Bank that might reasonably cause the measure of incurred loss to differ from historical experience. The Bank's allowance methodology employs a loss migration technique to determine historical loss percentages applicable to all defined credit risk grades. The methodology also calculates historical loss percentages by portfolio segment and computes segment weights as a measure of the relative risk of loans in each segment compared to the entire portfolio. Management may adjust segment weights by applying overlays to specific portfolio segments whereby historical loss experience may not be a measure reflective of incurred losses for the specific portfolio segment. These overlays are quantified by management at the portfolio segment level and added or subtracted from historical loss rates. These processes allow for a continuous review of not only absolute historical loss percentages but also an assessment of credit risk grade migration, positive and negative, and changes in portfolio composition as defined by portfolio segment.

Because credit risk grade migration, both positive and negative, can significantly trail triggering events such as change in economic conditions, commodity prices or interest rates, changes in collateral values or changes in regulatory interpretation or applicable laws or standards impacting the Bank's lending activities, management has identified certain measures that are believed to offer guidance as leading, concurrent and trailing indicators respectively of general economic health that in turn are thought to be relevant to the measure of incurred loss in the Bank's loan portfolio (individually referred to as "Q Factors"). Each individual Q Factor is individually quantified by management and then aggregated into a single qualitative adjustment (referred to as the "Q Factor adjustment"). This Q Factor adjustment is added or subtracted from historical loss rates, as relevant, to compute an appropriate reserve based upon actual portfolio composition as defined by portfolio segment and credit risk grade composition.

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The single Q Factor adjustment and application of any management overlay to model calculated segment weights reflects management's determination that the allowance model is calculating an appropriate level of the allowance in the context of all known loan portfolio quality and concentration issues as well as other environmental factors that are reasonably believed to cause the measure of incurred loss, inclusive of unidentified losses inherent in the current portfolio, to differ from historical experience.

The methodology used in the periodic review of the appropriateness of the allowance, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality. Changes are reflected in the general allowance and in specific reserves as the collectability of classified loans is evaluated with new information. As our portfolio has matured, historical loss ratios have been closely monitored. Our reserve appropriateness relies primarily on our loss history. The review of the appropriateness of the allowance is performed by executive management and presented to the audit and risk committees of our board of directors for their review. The committees report to the board as part of the board's review on a quarterly basis of the Company's consolidated financial statements.

### **Other Real Estate Owned**

Other real estate owned ("OREO"), which is included in other assets on the consolidated balance sheet, consists of real estate that has been foreclosed. When foreclosure occurs, the acquired asset is recorded at fair value less selling costs, generally based on appraised value, which may result in partial charge-off of the loan through a charge to the allowance for loan losses, if necessary. Subsequent write-downs required for declines in value are recorded through a valuation allowance, or taken directly to the asset, and are recorded in allowance and other carrying costs for OREO in the consolidated statements of income and other comprehensive income. Gains or losses on sale of OREO are recorded in other non-interest income in the consolidated statements of income and other comprehensive income.

### **Mortgage Servicing Rights, Net**

Mortgage servicing rights ("MSRs") are created by selling mortgage loans with servicing rights retained. We identify classes of servicing rights based upon the nature of the underlying assumptions used to value the asset along with the risks associated with the underlying asset. Based upon these criteria we have one class of MSRs, residential.

MSRs are recognized based on the estimated fair value of the mortgage loans and the related servicing rights at the date of sale using values derived from a valuation model. MSRs are reported on the consolidated balance sheets at amortized cost, less a valuation allowance if the fair value of identified strata within the MSR portfolio are determined to have a fair value that is less than amortized cost. MSRs are amortized proportionally over the estimated life of the projected net servicing revenue and are periodically evaluated for impairment. Loan servicing fee income represents income earned for servicing mortgage loans owned by investors and includes mortgage servicing fees and other ancillary servicing income. Servicing fees are recorded as income when earned and are reported in non-interest income on the consolidated statements of income and other comprehensive income. MSR valuation allowance expense and servicing related expenses are recorded in servicing related expenses in the consolidated statements of income and other comprehensive income.

### **Goodwill and Other Intangible Assets, Net**

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. Our intangible assets relate primarily to loan customer relationships purchased as part of business acquisitions. Intangible assets with definite useful lives are amortized over their estimated life. Goodwill and intangible assets are tested for impairment at least annually or whenever changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

### **Premises and Equipment, Net**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment is generally depreciated over three to five years, while leasehold improvements are generally depreciated over the term of their respective lease. Gains or losses on disposals of premises and equipment are included in other non-interest income in the consolidated statements of income and other comprehensive income.

### **Software**

Costs incurred in connection with development or purchase of internal use software and cloud computing arrangements, including in-substance software licenses, are capitalized. Amortization is computed on a straight-line basis over the estimated useful life of the asset, which generally ranges from one to five years. Capitalized software is included in other assets in the consolidated balance sheets.

### **Financial Instruments with Off-Balance Sheet Risk**

The Company has undertaken certain guarantee obligations in the ordinary course of business which include liabilities with off-balance sheet risk. We consider the following arrangements to be guarantees: commitments to extend credit, standby letters of credit and indemnification agreements included within third party contractual arrangements.

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit that involve varying degrees of credit risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

In conjunction with the sale and securitization of loans held for sale and their related servicing rights, we may be exposed to liability resulting from recourse and repurchase agreements. If it is determined subsequent to our sale of a loan or its related servicing rights that a breach of the representations or warranties made in the applicable sale agreement has occurred, which may include guarantees that prepayments will not occur within a specified and customary time frame, we may have an obligation to either (a) repurchase the loan for the unpaid principal balance, accrued interest and related advances, (b) indemnify the purchaser against any loss it suffers or (c) make the purchaser whole for the economic benefits of the loan and its related servicing rights.

Our repurchase, indemnification and make-whole obligations vary based upon the terms of the applicable agreements, the nature of the asserted breach and the status of the mortgage loan at the time a claim is made. We establish reserves for estimated losses of this nature inherent in the origination of mortgage loans by estimating the losses inherent in the population of all loans sold based on trends in claims and actual loss severities experienced. The reserve will include accruals for probable contingent losses in addition to those identified in the pipeline of claims received. The estimation process is designed to include amounts based on actual losses experienced from actual activity.

### **Leases**

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 became 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 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 adopted all expedients except for the hindsight practical expedient. 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 statements of income or consolidated statements of cash flows compared to the prior lease accounting model.

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, which is based on our collateralized borrowing capabilities over a similar term as the related lease payments. ROU assets are further adjusted for lease incentives.

Our operating leases relate primarily to office space and bank branches. 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. 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. See Note 7 – Leases for additional information.

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### **Revenue Recognition**

ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income are as follows:

- Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payments for such performance obligations are generally received at the time the performance obligations are satisfied.
- Wealth management and trust fee income - this represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, escrow services, fees for trust services and similar fiduciary activities. Revenue is recognized when our performance obligation is completed each month, which is generally the time that payment is received. Also included are fees received from a third party broker-dealer as part of a revenue-sharing agreement for fees earned from customers that we refer to the third party. These fees are paid to us by the third party on a quarterly basis and recognized ratably throughout the quarter as our performance obligation is satisfied.
- Brokered loan fees - these represent fees for the administration and funding of purchased mortgage loan interests as well as facility renewal and application fees received from mortgage originator customers in our mortgage warehouse lending business. Also included are fees received from independent correspondent mortgage lenders as consideration for our purchase of individual residential mortgage loans through our MCA business. Revenue related to the mortgage warehouse lending business is recognized when the related loan interest is disposed (i.e., through sale or payoff) or upon receipt of the facility renewal or application. Revenue related to our MCA business is recognized at the time a loan is purchased.
- Other non-interest income primarily includes items such as letter of credit fees, bank owned life insurance income, dividends on FHLB and FRB stock and other general operating income, none of which are subject to the requirements of ASC 606.

### **Stock-based Compensation**

We account for all stock-based compensation transactions in accordance with ASC 718, *Compensation — Stock Compensation* ("ASC 718"), which requires that stock compensation transactions be recognized as compensation expense in the consolidated statements of income and other comprehensive income based on their fair values on the measurement date, which is the date of the grant.

### **Income Taxes**

The Company and its subsidiary file a consolidated federal income tax return. We utilize the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance is provided against deferred tax assets unless it is more likely than not that such deferred tax assets will be realized.

### **Fair Values of Financial Instruments**

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is 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.

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### Derivative Financial Instruments

All contracts that satisfy the definition of a derivative are recorded at fair value in other assets and other liabilities in the consolidated balance sheets. We record the derivatives on a net basis when a right of offset exists with a single counterparty that is subject to a legally enforceable master netting agreement.

We enter into interest rate derivative contracts that are not designated as hedging instruments. These derivative positions relate to transactions in which we enter into an interest rate swap, cap and/or floor with a customer while at the same time entering into an offsetting interest rate swap, cap and/or floor with another financial institution. In connection with each swap transaction, we agree to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate. Because we act as an intermediary for our customer, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on our results of operations.

We also enter into foreign currency forward contracts that are not designed as hedging instruments. These derivative instruments relate to transactions in which we enter into a contract with a customer to buy or sell a foreign currency at a future date for a specified price while at the same time entering into an offsetting contract with a financial institution to buy or sell the same currency at the same future date for a specified price. These transactions allow our customers to manage their exposure to foreign currency exchange rate fluctuations. Because we act as an intermediary for our customer, changes in the fair value of the underlying derivative instruments substantially offset each other and do not have a material impact on our results of operations.

We also enter into loan purchase commitment contracts with mortgage originators to purchase residential mortgage loans at a future date, as well as forward sales commitment contracts to sell residential mortgage loans at a future date, as part of our MCA program. The objective of these transactions is to mitigate our exposure to interest rate risk associated with the purchase of mortgage loans held for sale. Any changes in fair value are recorded in other non-interest expense in the consolidated statements of income and other comprehensive income.

### Segment Reporting

We have determined that all of our lending divisions and subsidiaries meet the aggregation criteria of ASC 280, *Segment Reporting*, since all offer similar products and services, operate with similar processes, have similar customers and are collectively reviewed by the chief operating decision maker.

### (2) Earnings Per Share

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

<i>(in thousands except per share data)</i>	Year ended December 31,		
	2019	2018	2017
<b>Numerator:</b>			
Net income	\$ 322,866	\$ 300,824	\$ 197,063
Preferred stock dividends	9,750	9,750	9,750
Net income available to common stockholders	\$ 313,116	\$ 291,074	\$ 187,313
<b>Denominator:</b>			
Denominator for basic earnings per share—weighted average shares	50,286,300	49,936,702	49,587,169
Effect of employee stock-based awards(1)	132,904	218,275	239,008
Effect of warrants to purchase common stock	—	117,895	433,657
Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions	50,419,204	50,272,872	50,259,834
Basic earnings per common share	\$ 6.23	\$ 5.83	\$ 3.78
Diluted earnings per common share	\$ 6.21	\$ 5.79	\$ 3.73

(1) SARs and RSUs outstanding of 86,308, 27,100 and 13,500 in 2019, 2018 and 2017, respectively, 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:

<i>(in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>December 31, 2019</b>				
Available-for-sale debt securities:				
Residential mortgage-backed securities	\$ 4,991	\$ 275	\$ —	\$ 5,266
Tax-exempt asset-backed securities	183,225	13,802	—	197,027
Credit risk transfer securities	14,713	—	(2,749)	11,964
	\$ 202,929	\$ 14,077	\$ (2,749)	\$ 214,257
<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 December 31, 2019.

CRT securities represent unsecured obligations issued by 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.

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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>	<b>Less Than One Year</b>	<b>After One Through Five Years</b>	<b>After Five Through Ten Years</b>	<b>After Ten Years</b>	<b>Total</b>
<b>December 31, 2019</b>					
Available-for-sale:					
Residential mortgage-backed securities:(1)					
Amortized cost	\$ —	\$ 1,005	\$ —	\$ 3,986	\$ 4,991
Estimated fair value	—	1,088	—	4,178	5,266
Weighted average yield(3)	—%	5.54%	—%	4.31%	4.55%
Tax-exempt asset-backed securities:(1)					
Amortized Cost	—	—	—	183,225	183,225
Estimated fair value	—	—	—	197,027	197,027
Weighted average yield(2)(3)	—%	—%	—%	4.20%	4.20%
CRT securities:(1)					
Amortized Cost	—	—	—	14,713	14,713
Estimated fair value	—	—	—	11,964	11,964
Weighted average yield(3)	—%	—%	—%	1.71%	1.71%
Total available-for-sale debt securities:					
Amortized cost				\$	202,929
Estimated fair value				\$	214,257

**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 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:

<i>(in thousands)</i>	<b>Less Than 12 Months</b>		<b>12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
CRT securities	\$ 11,964	\$ (2,749)	\$ —	\$ —	\$ 11,964	\$ (2,749)

At December 31, 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.

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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 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 cost 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 December 31, 2019, no additional other-than-temporary credit-related impairment was recorded on the CRT securities, as the remaining loss position is not believed to be other-than-temporary. Our periodic review at December 31, 2019 included an evaluation of the near-term prospects of the investments in relation to the severity and duration of the unrealized losses. Based on that evaluation we 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 \$3.5 million and \$1.2 million were pledged to secure certain customer repurchase agreements and deposits, respectively, at December 31, 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 December 31, 2019 and December 31, 2018, we had \$25.6 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:

<i>(in thousands)</i>	Year Ended December 31,	
	2019	2018
Net gains/(losses) recognized during the period	\$ 2,383	\$ (975)
Less: Realized net gains/(losses) recognized during the period on equity securities sold	119	460
Unrealized net gains/(losses) recognized during the period on equity securities still held	\$ 2,264	\$ (1,435)

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

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

<i>(in thousands)</i>	December 31,	
	2019	2018
Commercial	\$ 10,230,828	\$ 10,373,288
Mortgage finance(1)	8,169,849	5,877,524
Construction	2,563,339	2,120,966
Real estate	3,444,701	3,929,117
Consumer	71,463	63,438
Equipment leases	256,462	312,191
Gross loans held for investment	24,736,642	22,676,524
Deferred income (net of direct origination costs)	(90,380)	(108,450)
Allowance for loan losses	(195,047)	(191,522)
Total loans held for investment, net	\$ 24,451,215	\$ 22,376,552

(1) Balances at December 31, 2019 and December 31, 2018 are stated net of \$682.7 million and \$193.0 million of participations sold, respectively.

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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 Finance	Construction	Real Estate	Consumer	Equipment Leases	Total
<b>December 31, 2019</b>							
Grade:							
Pass	\$ 9,751,645	\$ 8,169,849	\$ 2,540,059	\$ 3,364,554	\$ 71,289	\$ 255,171	\$ 24,152,567
Special mention	198,269	—	6,590	52,919	140	1,062	258,980
Substandard-accruing	67,454	—	16,690	15,528	—	39	99,711
Non-accrual	213,460	—	—	11,700	34	190	225,384
Total loans held for investment	\$ 10,230,828	\$ 8,169,849	\$ 2,563,339	\$ 3,444,701	\$ 71,463	\$ 256,462	\$ 24,736,642

<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. For further discussion of the components of the allowance for loan losses as well as details regarding how the estimate of inherent losses is determined, refer to the Allowance for Loan Losses subheading in Note 1 – Operations and Summary of Significant Accounting Policies. We believe the allowance at December 31, 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.

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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>Year ended December 31, 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	106,345	2,265	(4,469)	(17,189)	(441)	(1,486)	(7,231)	77,794
Charge-offs	76,958	—	—	662	—	19	—	77,639
Recoveries	3,290	—	—	—	69	11	—	3,370
Net charge-offs (recoveries)	73,668	—	—	662	(69)	8	—	74,269
Ending balance	\$ 162,119	\$ 2,265	\$ 14,773	\$ 15,502	\$ 53	\$ 335	\$ —	\$ 195,047
Period end allowance for loan losses allocated to:								
Loans individually evaluated for impairment	\$ 59,832	\$ —	\$ —	\$ 549	\$ 7	\$ 36	\$ —	\$ 60,424
Loans collectively evaluated for impairment	102,287	2,265	14,773	14,953	46	299	—	134,623
Total	\$ 162,119	\$ 2,265	\$ 14,773	\$ 15,502	\$ 53	\$ 335	\$ —	\$ 195,047
Period end loans allocated to:								
Loans individually evaluated for impairment	\$ 213,460	\$ —	\$ —	\$ 11,700	\$ 34	\$ 190	\$ —	\$ 225,384
Loans collectively evaluated for impairment	10,017,368	8,169,849	2,563,339	3,433,001	71,429	256,272	—	24,511,258
Total	\$ 10,230,828	\$ 8,169,849	\$ 2,563,339	\$ 3,444,701	\$ 71,463	\$ 256,462	\$ —	\$ 24,736,642
<b>Year ended December 31, 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	87,860	—	(31)	(1,003)	397	(1,427)	(1,159)	84,637
Charge-offs	79,692	—	—	—	767	319	—	80,778
Recoveries	2,468	—	—	69	438	33	—	3,008
Net charge-offs (recoveries)	77,224	—	—	(69)	329	286	—	77,770
Ending balance	\$ 129,442	\$ —	\$ 19,242	\$ 33,353	\$ 425	\$ 1,829	\$ 7,231	\$ 191,522
Period end allowance for loan losses allocated to:								
Loans individually evaluated for impairment	\$ 8,252	\$ —	\$ —	\$ 48	\$ 10	\$ —	\$ —	\$ 8,310
Loans collectively evaluated for impairment	121,190	—	19,242	33,305	415	1,829	7,231	183,212
Total	\$ 129,442	\$ —	\$ 19,242	\$ 33,353	\$ 425	\$ 1,829	\$ 7,231	\$ 191,522
Period end loans allocated to:								
Loans individually evaluated for impairment	\$ 78,428	\$ —	\$ —	\$ 8,857	\$ 55	\$ —	\$ —	\$ 87,340
Loans collectively evaluated for impairment	10,294,860	5,877,524	2,120,966	3,920,260	63,383	312,191	—	22,589,184
Total	\$ 10,373,288	\$ 5,877,524	\$ 2,120,966	\$ 3,929,117	\$ 63,438	\$ 312,191	\$ —	\$ 22,676,524

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 allowance and provision for loan losses to our mortgage finance loan portfolio for the first time in 2019.

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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 Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>December 31, 2019</b>					
With no related allowance recorded:					
Commercial					
Business loans	\$ 35,932	\$ 51,172	\$ —	\$ 20,074	\$ —
Energy loans	57,722	58,519	—	15,692	—
Real estate					
Market risk	8,500	8,806	—	4,980	—
Commercial	881	881	—	5,100	—
Secured by 1-4 family	1,218	1,218	—	1,226	—
Consumer	—	—	—	—	—
Equipment leases	—	—	—	—	—
Total impaired loans with no allowance recorded	\$ 104,253	\$ 120,596	\$ —	\$ 47,072	\$ —
With an allowance recorded:					
Commercial					
Business loans	\$ 52,479	\$ 55,422	\$ 29,467	\$ 27,288	\$ —
Energy loans	67,327	87,067	30,365	51,232	—
Real estate					
Market risk	870	870	499	2,257	—
Commercial	—	—	—	—	—
Secured by 1-4 family	231	231	50	621	—
Consumer	34	34	7	63	—
Equipment leases	190	190	36	16	—
Total impaired loans with an allowance recorded	\$ 121,131	\$ 143,814	\$ 60,424	\$ 81,477	\$ —
Combined:					
Commercial					
Business loans	\$ 88,411	\$ 106,594	\$ 29,467	\$ 47,362	\$ —
Energy loans	125,049	145,586	30,365	66,924	—
Real estate					
Market risk	9,370	9,676	499	7,237	—
Commercial	881	881	—	5,100	—
Secured by 1-4 family	1,449	1,449	50	1,847	—
Consumer	34	34	7	63	—
Equipment leases	190	190	36	16	—
Total impaired loans	\$ 225,384	\$ 264,410	\$ 60,424	\$ 128,549	\$ —

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<i>(in thousands)</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income 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 years ended December 31, 2019, 2018 and 2017 totaled \$128.5 million, \$105.1 million and \$130.8 million, respectively. For the year ended December 31, 2019, we recognized no interest income on non-accrual loans, compared to \$133,000 and \$6,000, for the years ended December 31, 2018 and 2017 respectively. Additional interest income that would have been recorded if the loans had been current during the years ended December 31, 2019, 2018 and 2017 totaled \$12.0 million, \$8.5 million and \$19.0 million, respectively. As of December 31, 2019 and 2018, none of our non-accrual loans were earning interest income on a cash basis.

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

<i>(in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Non-accrual	Current	Total
<b>December 31, 2019</b>							
Commercial							
Business loans	\$ 8,746	\$ 9,299	\$ 17,285	\$ 35,330	\$ 88,411	\$ 8,681,989	\$ 8,805,730
Energy	—	—	—	—	125,049	1,300,049	1,425,098
Mortgage finance loans	—	—	—	—	—	8,169,849	8,169,849
Construction							
Market risk	—	—	—	—	—	2,457,986	2,457,986
Commercial	—	—	—	—	—	93,764	93,764
Secured by 1-4 family	—	—	—	—	—	11,589	11,589
Real estate							
Market risk	10,786	—	—	10,786	9,370	2,238,384	2,258,540
Commercial	—	495	193	688	881	810,149	811,718
Secured by 1-4 family	104	179	106	389	1,449	372,605	374,443
Consumer	—	212	—	212	34	71,217	71,463
Equipment leases	304	—	—	304	190	255,968	256,462
Total loans held for investment	\$ 19,940	\$ 10,185	\$ 17,584	\$ 47,709	\$ 225,384	\$ 24,463,549	\$ 24,736,642

(1) Loans past due 90 days and still accruing includes premium finance loans of \$8.5 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 December 31, 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 December 31, 2019 and 2018, \$35.1 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 December 31, 2019 and 2018 of loans that have been restructured during the years ended December 31, 2019 and 2018 by type of modification:

<i>(in thousands, except number of contracts)</i>	Extended Maturity		Adjusted Payment Schedule		Total	
	Number of Contracts	Balance at Period End	Number of Contracts	Balance at Period End	Number of Contracts	Balance at Period End
<b>Year Ended December 31, 2019</b>						
Commercial						
Business loans	1	\$ 1,753	3	\$ 21,193	4	\$ 22,946
Energy loans	1	3,935	—	—	1	3,935
Total	2	\$ 5,688	3	\$ 21,193	5	\$ 26,881
<b>Year Ended December 31, 2018</b>						
Commercial						
Business loans	—	\$ —	2	\$ 2,411	2	\$ 2,411
Energy loans	—	—	5	10,047	5	10,047
Total	—	\$ —	7	\$ 12,458	7	\$ 12,458

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 December 31, 2019, all of the above loans restructured in 2019 were on non-accrual. The restructuring of the loans did not have a significant impact on our allowance for

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loan losses at December 31, 2019 or 2018. As of December 31, 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:

<i>(in thousands)</i>	Year ended December 31,		
	2019	2018	2017
Beginning balance	\$ 79	\$ 11,742	\$ 18,961
Additions	—	—	—
Sales	(79)	(11,663)	(1,108)
Valuation allowance for OREO	—	—	—
Direct write-downs	—	—	(6,111)
Ending balance	\$ —	\$ 79	\$ 11,742

During 2017, we recorded a \$6.1 million write-down on one asset. In 2018, we sold this asset and recorded a \$2.0 million gain on sale. The gain on sale was recorded in other non-interest income.

### (6) Certain Transfers of Financial Assets

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

<i>(in thousands)</i>	Year Ended December 31,	
	2019	2018
Outstanding balance(1):		
Beginning balance	\$ 1,949,785	\$ 1,012,580
Loans purchased and originated	10,183,057	6,753,709
Payments and loans sold	(9,564,480)	(5,816,504)
Ending balance	2,568,362	1,949,785
Fair value adjustment:		
Beginning balance	19,689	(1,576)
Increase/(decrease) to fair value	(10,917)	21,265
Ending balance	8,772	19,689
Loans held for sale at fair value	\$ 2,577,134	\$ 1,969,474

(1) Includes \$5.8 million and \$299,000 of loans held for sale that are carried at lower of cost or market as of December 31, 2019 and 2018, respectively, as well as \$3.3 million as of December 31, 2017.

No loans held for sale were on non-accrual as of December 31, 2019 or December 31, 2018. At December 31, 2019 and December 31, 2018, we had \$8.2 million and \$16.8 million, respectively, in loans held for sale that were 90 days or more past due. The \$8.2 million in loans held for sale that were 90 days or more past due at December 31, 2019 included \$6.0 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 \$8.2 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.

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

<i>(in thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>MSRs:</b>		
Balance, beginning of year	\$ 42,474	\$ 88,150
Capitalized servicing rights	39,774	39,149
Amortization	(11,541)	(9,278)
Sales	—	(75,547)
Balance, end of period	\$ 70,707	\$ 42,474
<b>Valuation allowance:</b>		
Balance, beginning of year	\$ —	\$ 2,823
Increase (decrease) in valuation allowance	5,803	(2,823)
Balance, end of period	\$ 5,803	\$ —
MSRs, net	\$ 64,904	\$ 42,474
MSRs, fair value	\$ 64,904	\$ 44,502

At December 31, 2019 and 2018, our servicing portfolio of residential mortgage loans had an outstanding principal balance of \$6.7 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 \$63.7 million at December 31, 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 December 31, 2019, the estimated fair value of MSRs was adjusted as a result of the decline in mortgage interest rates during the year, which resulted in an impairment charge of \$5.8 million. There was no impairment at December 31, 2018. The following summarizes the assumptions used by management to determine the fair value of MSRs:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Average discount rates	9.06%	9.55%
Expected prepayment speeds	13.11%	9.77%
Weighted-average life, in years	5.8	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>	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
50 bp adverse change in prepayment speed	\$ (10,768)	\$ (6,028)
100 bp adverse change in prepayment speed	(17,965)	(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 change in 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.

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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 \$3.6 million and \$1.6 million at December 31, 2019 and December 31, 2018, respectively, and is recorded in other liabilities in the consolidated balance sheets. We incurred \$9.0 million in losses due to make-whole obligations during the year ended December 31, 2019 compared to \$258,000 in 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

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 December 31, 2019, operating lease ROU assets and liabilities were \$80.0 million and \$95.9 million, respectively. We do not currently have any significant finance leases in which we are the lessee.

The table below summarizes our net lease cost:

<i>(in thousands)</i>	<b>Year Ended December 31, 2019</b>	
Operating lease cost	\$	14,844
Short-term lease cost		19
Variable lease cost		3,918
Sublease income		(126)
Net lease cost	\$	18,656
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	14,711
Non-cash changes in ROU assets	\$	98,369
Non-cash changes in lease liabilities(1)	\$	108,189

(1) Includes \$87.9 million in lease liabilities from new ROU assets obtained during the year ended December 31, 2019.

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

	<b>December 31, 2019</b>
Weighted-average remaining lease term - operating leases, in years	7.2
Weighted-average discount rate - operating leases	2.75%

The table below summarizes the maturity of remaining lease liabilities:

<i>(in thousands)</i>	<b>December 31, 2019</b>	
2020	\$	16,586
2021		17,136
2022		16,338
2023		16,377
2024		11,619
2025 and thereafter		28,018
Total lease payments		106,074
Less: Interest		(10,187)
Present value of lease liabilities	\$	95,887

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**(8) Goodwill and Other Intangible Assets**

Goodwill and other intangible assets are summarized as follows:

<i>(in thousands)</i>	Gross Goodwill and Intangible Assets	Accumulated Amortization	Net Goodwill and Intangible Assets
<b>December 31, 2019</b>			
Goodwill	\$ 15,468	\$ (374)	\$ 15,094
Intangible assets—customer relationships and trademarks	9,006	(6,001)	3,005
Total goodwill and intangible assets	\$ 24,474	\$ (6,375)	\$ 18,099
<b>December 31, 2018</b>			
Goodwill	\$ 15,468	\$ (374)	\$ 15,094
Intangible assets—customer relationships and trademarks	9,006	(5,530)	3,476
Total goodwill and intangible assets	\$ 24,474	\$ (5,904)	\$ 18,570

Amortization expense related to intangible assets totaled \$471,000 in 2019, \$470,000 in 2018 and \$472,000 in 2017. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2019 is as follows:

<i>(in thousands)</i>	
2020	\$ 432
2021	405
2022	405
2023	382
2024	268
Thereafter	1,113
Total	\$ 3,005

**(9) Premises and Equipment**

Premises and equipment are summarized as follows:

<i>(in thousands)</i>	December 31,	
	2019	2018
Premises	\$ 30,181	\$ 27,999
Furniture and equipment	42,176	35,130
Total cost	72,357	63,129
Accumulated depreciation	(41,145)	(39,327)
Total premises and equipment, net	\$ 31,212	\$ 23,802

Depreciation expense for the above premises and equipment was approximately \$9.2 million, \$9.0 million and \$6.9 million in 2019, 2018 and 2017, respectively.

[Table of Contents](#)**(10) Deposits**

Deposits are summarized as follows:

<i>(in thousands)</i>	December 31,	
	2019	2018
Non-interest-bearing demand deposits	\$ 9,438,459	\$ 7,317,161
Interest-bearing deposits		
Transaction	3,651,128	3,051,535
Savings	10,517,975	8,222,893
Time	2,871,031	2,014,524
Total interest-bearing deposits	17,040,134	13,288,952
Total deposits	\$ 26,478,593	\$ 20,606,113

The scheduled maturities of interest-bearing time deposits were as follows at December 31, 2019:

<i>(in thousands)</i>	
2020	\$ 2,810,219
2021	49,275
2022	6,648
2023	271
2024	1,763
2025 and after	2,855
Total	\$ 2,871,031

At December 31, 2019 and 2018, interest-bearing time deposits of \$250,000 or more were approximately \$347.7 million and \$270.2 million, respectively.

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**(11) Short-Term and Other Borrowings**

The following table summarizes our short-term and other borrowings:

<i>(dollar amounts in thousands)</i>	<b>Federal Funds Purchased</b>	<b>Customer Repurchase Agreements</b>	<b>FHLB Borrowings</b>
<b>December 31, 2019</b>			
Amount outstanding at year-end	\$ 132,270	\$ 9,496	\$ 2,400,000
Interest rate at year-end	1.66%	0.61%	1.68%
Average balance outstanding during the year	\$ 502,604	\$ 11,655	\$ 2,523,836
Weighted-average interest rate during the year	2.36%	0.51%	2.31%
Maximum month-end outstanding during the year	\$ 905,473	\$ 14,208	\$ 5,000,000
<b>December 31, 2018</b>			
Amount outstanding at year-end	\$ 629,169	\$ 12,005	\$ 3,900,000
Interest rate at year-end	2.54%	0.09%	2.56%
Average balance outstanding during the year	\$ 323,140	\$ 9,812	\$ 1,769,452
Weighted-average interest rate during the year	2.02%	0.09%	2.05%
Maximum month-end outstanding during the year	\$ 629,169	\$ 13,835	\$ 4,000,000
<b>December 31, 2017</b>			
Amount outstanding at year-end	\$ 359,338	\$ 5,702	\$ 2,800,000
Interest rate at year-end	1.45%	0.03%	1.35%
Average balance outstanding during the year	\$ 215,895	\$ 6,590	\$ 1,395,753
Weighted-average interest rate during the year	1.20%	0.04%	1.08%
Maximum month-end outstanding during the year	\$ 544,203	\$ 8,727	\$ 2,800,000

The following table summarizes our other borrowing capacities net of balances outstanding. As of December 31, 2019, all are scheduled to mature within one year.

<i>(in thousands)</i>	<b>December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
FHLB borrowing capacity relating to loans	\$ 8,964,019	\$ 4,568,842	\$ 3,890,995
FHLB borrowing capacity relating to securities	589	721	2,071
<b>Total FHLB borrowing capacity(1)</b>	<b>\$ 8,964,608</b>	<b>\$ 4,569,563</b>	<b>\$ 3,893,066</b>
Unused federal funds lines available from commercial banks	\$ 1,432,000	\$ 620,000	\$ 885,000
Unused Federal Reserve borrowings capacity	\$ 3,637,238	\$ 4,933,965	\$ 4,114,594
Unused revolving line of credit(2)	\$ 130,000	\$ 130,000	\$ 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 15, 2020. 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 2019, 2018, or 2017.

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**(12) Long-Term Debt**

From November 2002 to September 2006 various Texas Capital Statutory Trusts were created and subsequently issued floating rate trust preferred securities in various private offerings totaling \$113.4 million. As of December 31, 2019, the details of the trust preferred subordinated debentures are summarized below:

<i>(dollar amounts in thousands)</i>	Texas Capital Bancshares Statutory Trust I	Texas Capital Statutory Trust II	Texas Capital Statutory Trust III	Texas Capital Statutory Trust IV	Texas Capital Statutory Trust V
Date issued	November 19, 2002	April 10, 2003	October 6, 2005	April 28, 2006	September 29, 2006
Trust preferred securities issued	\$10,310	\$10,310	\$25,774	\$25,774	\$41,238
Floating or fixed rate securities	Floating	Floating	Floating	Floating	Floating
Interest rate on subordinated debentures	3 month LIBOR + 3.35%	3 month LIBOR + 3.25%	3 month LIBOR + 1.51%	3 month LIBOR + 1.60%	3 month LIBOR + 1.71%
Maturity date	November 2032	April 2033	December 2035	June 2036	December 2036

On September 21, 2012, the Company issued \$111.0 million of subordinated notes. The notes mature in September 2042 and bear interest at a rate of 6.50% per annum, payable quarterly. The indenture governing the notes contains customary covenants and restrictions.

On January 31, 2014, the Bank issued \$175.0 million of subordinated notes in an offering to institutional investors exempt from registration under Section 3(a)(2) of the Securities Act of 1933 and 12 C.F.R. Part 16. The notes mature in January 2026 and bear interest at a rate of 5.25% per annum, payable semi-annually. The notes are unsecured and are subordinate to the Bank's obligations to its depositors, its obligations under banker's acceptances and letters of credit, certain obligations to Federal Reserve Banks and the FDIC and the Bank's obligations to its other creditors, except any obligations which expressly rank on a parity with or junior to the notes. The notes qualify as Tier 2 capital for regulatory capital purposes, subject to applicable limitations.

**(13) 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>	Year Ended December 31,	
	2019	2018
Beginning balance of allowance for off-balance sheet credit losses	\$ 11,434	\$ 9,071
Provision for off-balance sheet credit losses	(2,794)	2,363
Ending balance of allowance for off-balance sheet credit losses	\$ 8,640	\$ 11,434
Commitments to extend credit - period end balance	\$ 8,066,655	\$ 8,030,198
Standby letters of credit - period end balance	\$ 261,405	\$ 236,537

**(14) 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 became fully phased in on January 1, 2019.

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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 was subject to a three year phase-in period that began on January 1, 2016 and became fully phased-in on January 1, 2019 at 2.5%. The required 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 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 December 31, 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 "well capitalized" as of December 31, 2019 and 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 effect on our condition and results of operations.

Because the 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.

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

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
<i>(dollars in thousands)</i>								
<b>December 31, 2019</b>								
CET1								
Company	\$ 2,653,999	8.88%	\$ 1,344,825	4.50%	\$ 2,091,591	7.00%	N/A	N/A
Bank	2,676,513	8.96%	1,344,131	4.50%	2,090,870	7.00%	1,941,522	6.50%
Total capital (to risk-weighted assets)								
Company	3,398,345	11.37%	2,390,801	8.00%	3,137,926	10.50%	N/A	N/A
Bank	3,262,144	10.92%	2,389,565	8.00%	3,136,305	10.50%	2,986,957	10.00%
Tier 1 capital (to risk-weighted assets)								
Company	2,912,529	9.75%	1,793,101	6.00%	2,540,226	8.50%	N/A	N/A
Bank	2,835,043	9.49%	1,792,174	6.00%	2,538,913	8.50%	2,389,565	8.00%
Tier 1 capital (to average assets)(1)								
Company	2,912,529	8.42%	1,383,640	4.00%	1,383,640	4.00%	N/A	N/A
Bank	2,835,043	8.20%	1,383,190	4.00%	1,383,190	4.00%	1,728,988	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 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 December 31, 2019, our mortgage finance loans were \$8.2 billion compared to the average for the quarter ended December 31, 2019 of \$7.9 billion. As CET1, Tier 1 and total capital ratios are calculated 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 2019, 2018 or 2017.

The required reserve balances at the Federal Reserve at December 31, 2019 and 2018 were approximately \$283.4 million and \$157.7 million, respectively.

**(15) Stock-Based Compensation and Employee Benefits**

We have a qualified retirement plan with a salary deferral feature designed to qualify under Section 401 of the Internal Revenue Code (“the 401(k) Plan”). The 401(k) Plan permits our employees to defer a portion of their compensation. Matching contributions may be made in amounts and at times determined by the Company. We contributed approximately \$9.5 million, \$9.6 million, and \$8.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Employees are eligible to participate in the 401(k) Plan when they meet certain requirements concerning minimum age and period of credited service. All contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options.

We also offer a non-qualified deferred compensation plan for our executives and key members of management in order to assist us in attracting and retaining these individuals. Participants in the plan may elect to defer up to 75% of their annual salary and/or short-term incentive payout into deferral accounts that mirror the gains or losses of investments selected by the participants. The plan allows us to make discretionary contributions on behalf of a participant as well as matching contributions. We made matching contributions of \$1.0 million in both 2019 and 2018 and made discretionary contributions of \$260,000 in 2017. All participant contributions to the plan and any related earnings are immediately vested and may be withdrawn upon the participant's separation from service, death or disability or upon a date specified by the participant. Salary deferrals are recorded as salaries and employee benefits expense in the consolidated statements of income with an offsetting payable to participants in other liabilities on the consolidated balance sheets.

We have an Employee Stock Purchase Plan (“ESPP”). Employees are eligible for the ESPP when they meet certain requirements concerning period of credited service and minimum hours worked. Eligible employees may contribute a between 1% and 10% of eligible compensation up to the Section 423 of the Internal Revenue Code limit of \$25,000. In 2006, stockholders approved the ESPP, which allocated 400,000 shares for purchase. As of December 31, 2019, 2018 and 2017, 155,933, 143,348 and 132,285 shares had been purchased on behalf of employees under the ESPP.

We have stock-based compensation plans under which equity-based compensation grants are made by the board of directors, or its designated committee. Grants are subject to vesting requirements. Under the plans, we may grant, among other things, non-qualified stock options, incentive stock options, restricted stock, restricted stock units (“RSUs”), stock appreciation rights (“SARs”), cash-settled performance units or any combination thereof to employees and non-employee directors. A total of 2,550,000 shares are authorized for grant under the plans. Total shares remaining available for grant under the plans at December 31, 2019 were 1,772,070.

A summary of our SAR activity and related information is as follows. Grants of SARs include time-based vesting conditions that generally vest ratably over a period of five years.

	December 31, 2019		December 31, 2018		December 31, 2017	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
SARs outstanding at beginning of year	41,350	\$ 29.13	74,363	\$ 30.12	125,863	\$ 31.68
SARs exercised	(20,150)	24.07	(33,013)	31.35	(51,500)	33.94
SARs outstanding at year-end	21,200	\$ 33.95	41,350	\$ 29.13	74,363	\$ 30.12
SARs vested and exercisable at year-end	21,200	\$ 33.95	39,750	\$ 27.81	60,463	\$ 26.02
Weighted average remaining contractual life of SARs vested (in years)		2.14		2.33		2.82
Weighted average remaining contractual life of SARs outstanding (in years)		2.14		2.44		3.35
Compensation expense	\$ 6,000		\$ 121,000		\$ 265,000	
Unrecognized compensation expense	\$ —		\$ 6,000		\$ 127,000	
Weighted average period over which unrecognized compensation expense is expected to be recognized (in years)		0.00		0.17		0.75
Fair value of shares vested during the year	\$ 37,000		\$ 211,000		\$ 294,000	
Intrinsic value of SARs exercised	\$ 724,000		\$ 1,919,000		\$ 3,802,000	

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A summary of our RSU activity and related information is as follows. Grants of RSUs include time-based vesting conditions that generally vest ratably over a period of three to five years. Additionally, from time to time, grants of RSUs with both time-based and performance-based vesting conditions are made that generally vest at the end of a three or four year period.

	December 31, 2019		December 31, 2018		December 31, 2017	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
RSUs outstanding at beginning of year	349,533	\$ 69.11	423,732	\$ 60.01	425,055	\$ 51.28
RSUs granted	386,913	59.28	95,891	88.07	121,243	80.40
RSUs vested	(140,666)	59.97	(121,507)	54.97	(102,057)	48.93
RSUs forfeited	(37,468)	62.73	(48,583)	63.60	(20,509)	54.75
RSUs outstanding at year-end	558,312	\$ 64.95	349,533	\$ 69.11	423,732	\$ 60.01
Compensation expense	\$ 11,733,000		\$ 8,803,000		\$ 7,790,000	
Unrecognized compensation expense	\$ 25,305,000		\$ 16,538,000		\$ 18,730,000	
Weighted average period over which unrecognized compensation expense is expected to be recognized (in years)		3.09		2.90		3.15

New non-employee directors receive grants of restricted common stock as to which restrictions lapse ratably over a period of three years. Compensation expense for these grants was \$36,000, \$62,000 and \$61,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Total compensation cost for all share-based arrangements was \$11.8 million, \$9.0 million and \$8.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Cash-settled units totaling 163,856 were outstanding at December 31, 2019, all of which are time-based and vest ratably over a period of four years. We granted 138,773 and 121,260 cash-settled units in 2018 and 2017, respectively. No grants were made in 2019. Since these units have a cash payout feature, they are accounted for under the liability method with related expense based on the stock price at period end. Compensation cost for the cash-settled units was \$5.8 million, \$8.0 million and \$13.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

[Table of Contents](#)**(16) Income Taxes**

Income tax expense/(benefit) consists of the following:

<i>(in thousands)</i>	Year ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 69,427	\$ 82,556	\$ 94,112
State	4,072	3,808	3,257
Total	73,499	86,364	97,369
Deferred:			
Federal	10,796	(6,400)	31,276
State	—	—	—
Total	10,796	(6,400)	31,276
Total expense:			
Federal	80,223	76,156	125,388
State	4,072	3,808	3,257
Total	\$ 84,295	\$ 79,964	\$ 128,645

The reconciliation of our effective income tax rate to the U.S. federal statutory tax rate is as follows:

	Year ended December 31,		
	2019	2018	2017
U.S. statutory rate	21 %	21 %	35 %
State taxes	1 %	1 %	1 %
Non-deductible expenses	1 %	1 %	1 %
Deferred tax asset remeasurement write-off	— %	— %	5 %
Non-taxable income	(1)%	(1)%	(1)%
Other	(1)%	(1)%	(1)%
Effective tax rate	21 %	21 %	40 %

The tax effect of unrealized gains and losses on available-for-sale debt securities is recorded to other comprehensive income and is not a component of income tax expense/(benefit).

We are no longer subject to U.S. federal income tax examinations for years before 2016 or state and local income tax examinations for years before 2015.

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The table below summarizes significant components of our deferred tax assets and liabilities utilizing the federal corporate income tax rate of 21%. Management believes it is more likely than not that all of the deferred tax assets will be realized. Our net deferred tax assets are included in other assets in the consolidated balance sheets.

<i>(in thousands)</i>	December 31,	
	2019	2018
Deferred tax assets:		
Allowance for credit losses	\$ 44,383	\$ 44,224
Operating lease liabilities	20,894	—
Loan origination fees	10,638	11,328
Stock compensation	3,605	3,363
Non-accrual interest	2,351	1,724
Non-qualified deferred compensation	4,027	2,211
Other	2,544	2,517
Total deferred tax assets	88,442	65,367
Deferred tax liabilities:		
Loan origination costs	(2,686)	(2,049)
Leases	(7,912)	(9,000)
Operating lease ROU assets	(19,644)	—
MSRs	(13,818)	(9,184)
Depreciation	(17,602)	(8,233)
Unrealized gain on securities	(2,379)	(138)
Other	(3,337)	(2,662)
Total deferred tax liabilities	(67,378)	(31,266)
Net deferred tax asset	\$ 21,064	\$ 34,101

### (17) 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.

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Assets and liabilities measured at fair value are as follows:

<i>(in thousands)</i>	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<b>December 31, 2019</b>			
Available-for-sale debt securities:(1)			
Residential mortgage-backed securities	\$ —	\$ 5,266	\$ —
Tax-exempt asset-backed securities	—	—	197,027
CRT Securities	—	—	11,964
Equity securities(1)(2)	18,484	7,130	—
Loans held for sale(3)	—	2,564,281	7,043
Loans held for investment(4)(6)	—	—	109,585
Derivative assets(7)	—	48,684	—
Derivative liabilities(7)	—	51,310	—
Non-qualified deferred compensation plan liabilities(8)	18,484	—	—
<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 correspond to the fair value of the invested assets, and are measured at fair value on a recurring basis, generally monthly.

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**Level 3 Valuations**

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

<i>(in thousands)</i>	Balance at Beginning of Period	Purchases / Additions	Sales / Reductions	Net Realized/Unrealized Gains (Losses)		Balance at End of Period
				Realized	Unrealized	
<b>Year ended December 31, 2019</b>						
Available-for-sale debt securities:(1)						
Tax-exempt asset-backed securities	\$ 95,804	\$ 92,010	\$ (4,302)	\$ —	\$ 13,515	\$ 197,027
CRT Securities	\$ —	\$ 15,044	\$ —	\$ (331)	\$ (2,749)	\$ 11,964
Loans held for sale(2)	\$ 16,415	\$ 321	\$ (10,690)	\$ 190	\$ 807	\$ 7,043
<b>Year ended December 31, 2018</b>						
Tax-exempt asset-backed securities(1)	\$ —	\$ 95,521	\$ (3)	\$ —	\$ 286	\$ 95,804
Loans held for sale(2)	\$ —	\$ 38,430	\$ (20,591)	\$ (173)	\$ (1,251)	\$ 16,415

(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 December 31, 2019, a discount rate of 2.99% and a weighted-average life of 7.0 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 December 31, 2019, a discount rate of 4.54% and a weighted-average life of 9.3 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 December 31, 2019, the fair value of these loans was calculated using a weighted-average discounted price of 94.1%, compared to 92.9% at December 31, 2018.

*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 \$109.6 million fair value of loans held for investment at December 31, 2019 reported above includes impaired loans held for investment with a carrying value of \$145.4 million that were reduced by specific valuation allowance allocations totaling \$35.8 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, 2019 and 2018, OREO had a carrying value of \$0 and \$79,000, respectively, with no specific valuation allowance. The fair value of OREO was computed based on third party appraisals, which are Level 3 valuation inputs.

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**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>	December 31, 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	\$ 4,425,583	\$ 4,425,583	\$ 3,080,065	\$ 3,080,065
Investment securities	18,484	18,484	10,262	10,262
Level 2 inputs:				
Investment securities	12,396	12,396	14,150	14,150
Loans held for sale	2,570,091	2,570,091	1,953,059	1,953,059
Derivative assets	48,684	48,684	21,806	21,806
Level 3 inputs:				
Investment securities	208,991	208,991	95,804	95,804
Loans held for sale	7,043	7,043	16,415	16,415
Loans held for investment, net	24,451,215	24,478,586	22,376,552	22,347,876
<b>Financial liabilities:</b>				
Level 2 inputs:				
Federal funds purchased	132,270	132,270	629,169	629,169
Customer repurchase agreements	9,496	9,496	12,005	12,005
Other borrowings	2,400,000	2,400,000	3,900,000	3,900,000
Subordinated notes	282,129	292,302	281,767	283,349
Trust preferred subordinated debentures	113,406	113,406	113,406	113,406
Derivative liabilities	51,310	51,310	41,375	41,375
Level 3 inputs:				
Deposits	26,478,593	29,357,121	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*

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.

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*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.

**(18) Derivative Financial Instruments**

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

<i>(in thousands)</i>	December 31, 2019			December 31, 2018		
	Notional Amount	Estimated Fair Value		Notional Amount	Estimated Fair Value	
		Asset Derivative	Liability Derivative		Asset Derivative	Liability Derivative
Non-hedging derivatives:						
Financial institution counterparties:						
Commercial loan/lease interest rate swaps	\$ 1,548,234	\$ 182	\$ 46,518	\$ 1,579,328	\$ 7,978	\$ 16,719
Commercial loan/lease interest rate caps	639,163	32	—	606,950	1,109	4
Foreign currency forward contracts	2,219	169	—	39,737	2,263	59
Customer counterparties:						
Commercial loan/lease interest rate swaps	1,548,234	46,518	182	1,579,328	16,719	7,978
Commercial loan/lease interest rate caps	639,163	—	32	606,950	4	1,109
Foreign currency forward contracts	2,219	—	169	39,737	59	2,263
Economic hedging interest rate derivatives:						
Loan purchase commitments	214,012	1,965	4	167,984	1,442	6
Forward sale commitments	2,654,653	—	4,587	1,928,527	—	21,005
Gross derivatives		48,866	51,492		29,574	49,143
Offsetting derivative assets/liabilities		(182)	(182)		(7,768)	(7,768)
Net derivatives included in the consolidated balance sheets		\$ 48,684	\$ 51,310		\$ 21,806	\$ 41,375

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

	December 31, 2019		December 31, 2018	
	Weighted-Average Interest Rate		Weighted-Average Interest Rate	
	Received	Paid	Received	Paid
Non-hedging interest rate swaps	3.94%	3.26%	4.24%	4.20%

The weighted-average strike rate for outstanding interest rate caps was 3.29% at December 31, 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

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\$48.7 million at December 31, 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 December 31, 2019, we had \$56.6 million in cash collateral pledged for these derivatives, of which \$54.3 million was included in interest-bearing deposits in other banks and \$2.3 million 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 \$146.7 million at December 31, 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 \$3.6 million at December 31, 2019 and \$1.5 million at December 31, 2018. The fair value of these exposures was insignificant to the consolidated financial statements at both December 31, 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 12 risk participation agreements where we are the lead bank having a notional amount of \$145.9 million at December 31, 2019, compared to 9 agreements having a notional amount of \$114.8 million at December 31, 2018.

### **(19) Related Party Transactions**

During 2019 and 2018, we have had transactions with our directors, executive officers and their affiliates and our employees. These transactions were made in the ordinary course of business and include extensions of credit and deposit transactions. The Bank had approximately \$13.0 million in deposits from related parties, including directors, stockholders and their affiliates at December 31, 2019 and \$13.5 million at December 31, 2018.

### **(20) Parent Company Only**

Summarized financial information for Texas Capital Bancshares, Inc. – Parent Company Only are as follows:

#### **Balance Sheet**

<i>(in thousands)</i>	December 31,	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 71,462	\$ 89,561
Loans held for investment (net of unearned income)	10,500	7,500
Investment in subsidiaries	2,878,330	2,534,341
Other assets	88,639	87,451
Total assets	\$ 3,048,931	\$ 2,718,853
<b>Liabilities and Stockholders' Equity</b>		
Other liabilities	\$ 1,768	\$ 1,471
Subordinated notes	108,715	108,614
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	223,889	223,491
Preferred stock	150,000	150,000
Common stock	503	502
Additional paid-in capital	988,357	978,042
Retained earnings	1,677,240	1,366,308
Treasury stock	(8)	(8)
Accumulated other comprehensive income	8,950	518
Total stockholders' equity	2,825,042	2,495,362
Total liabilities and stockholders' equity	\$ 3,048,931	\$ 2,718,853

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**Statement of Earnings**

<i>(in thousands)</i>	Year ended December 31,		
	2019	2018	2017
Interest on loans	\$ 3,401	\$ 3,398	\$ 3,271
Dividend income	10,400	10,400	10,400
Other income	151	142	108
Total income	13,952	13,940	13,779
Other non-interest income	17	7	13
Interest expense	12,342	12,031	10,908
Salaries and employee benefits	607	588	489
Legal and professional	3,093	2,020	1,700
Other non-interest expense	1,889	2,013	1,761
Total expense	17,931	16,652	14,858
Income (loss) before income taxes and equity in undistributed income of subsidiary	(3,962)	(2,705)	(1,066)
Income tax expense (benefit)	(861)	(587)	(371)
Income (loss) before equity in undistributed income of subsidiary	(3,101)	(2,118)	(695)
Equity in undistributed income of subsidiary	323,783	300,758	194,118
Net income	320,682	298,640	193,423
Preferred stock dividends	9,750	9,750	9,750
Net income available to common stockholders	\$ 310,932	\$ 288,890	\$ 183,673

**Statements of Cash Flows**

<i>(in thousands)</i>	Year ended December 31,		
	2019	2018	2017
<b>Operating Activities</b>			
Net income	\$ 320,682	\$ 298,640	\$ 193,423
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed income of subsidiary	(323,783)	(300,758)	(194,118)
Amortization	101	101	101
Increase in other assets	(1,187)	(1,152)	(739)
Increase (decrease) in other liabilities	297	227	(40)
Net cash used in operating activities	(3,890)	(2,942)	(1,373)
<b>Investing Activities</b>			
Net increase in loans held for investment	(3,000)	—	(7,500)
Investments in and advances to subsidiaries	—	(40,000)	(55,000)
Net cash used in investing activities	(3,000)	(40,000)	(62,500)
<b>Financing Activities</b>			
Proceeds from sale of stock related to stock-based awards	(1,459)	(2,382)	(2,241)
Preferred dividends paid	(9,750)	(9,750)	(9,750)
Net cash used in financing activities	(11,209)	(12,132)	(11,991)
Net increase (decrease) in cash and cash equivalents	(18,099)	(55,074)	(75,864)
Cash and cash equivalents at beginning of year	89,561	144,635	220,499
Cash and cash equivalents at end of year	\$ 71,462	\$ 89,561	\$ 144,635

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The tables below summarize our quarterly financial information:

<i>(in thousands, except per share data)</i>	<b>2019 Selected Quarterly Financial Data</b>			
	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
Interest income	\$ 337,757	\$ 355,101	\$ 346,893	\$ 325,561
Interest expense	89,372	102,933	103,340	89,947
Net interest income	248,385	252,168	243,553	235,614
Provision for credit losses	17,000	11,000	27,000	20,000
Net interest income after provision for credit losses	231,385	241,168	216,553	215,614
Non-interest income	17,761	20,301	24,364	30,014
Non-interest expense	158,690	149,370	141,561	140,378
Income before income taxes	90,456	112,099	99,356	105,250
Income tax expense	16,539	23,958	21,387	22,411
Net income	73,917	88,141	77,969	82,839
Preferred stock dividends	2,437	2,438	2,437	2,438
Net income available to common stockholders	\$ 71,480	\$ 85,703	\$ 75,532	\$ 80,401
Basic earnings per share:	\$ 1.42	\$ 1.70	\$ 1.50	\$ 1.60
Diluted earnings per share:	\$ 1.42	\$ 1.70	\$ 1.50	\$ 1.60

<i>(in thousands, except per share data)</i>	<b>2018 Selected Quarterly Financial Data</b>			
	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
Interest income	\$ 321,718	\$ 301,754	\$ 286,852	\$ 253,869
Interest expense	81,045	69,579	55,140	43,569
Net interest income	240,673	232,175	231,712	210,300
Provision for credit losses	35,000	13,000	27,000	12,000
Net interest income after provision for credit losses	205,673	219,175	204,712	198,300
Non-interest income	15,280	25,518	17,279	19,947
Non-interest expense	129,862	136,143	132,131	126,960
Income before income taxes	91,091	108,550	89,860	91,287
Income tax expense	19,200	22,998	18,424	19,342
Net income	71,891	85,552	71,436	71,945
Preferred stock dividends	2,437	2,438	2,437	2,438
Net income available to common stockholders	\$ 69,454	\$ 83,114	\$ 68,999	\$ 69,507
Basic earnings per share:	\$ 1.38	\$ 1.66	\$ 1.39	\$ 1.40
Diluted earnings per share:	\$ 1.38	\$ 1.65	\$ 1.38	\$ 1.38

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 9A. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

Our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. 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

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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.

### **Management's Report on Internal Control over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2019, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control—Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2019.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

**Report of Ernst & Young LLP, Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Texas Capital Bancshares, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited Texas Capital Bancshares, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Texas Capital Bancshares, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income and other comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 12, 2020 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

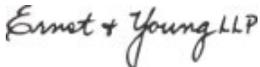
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script.

Dallas, TX  
February 12, 2020

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item relating to Texas Capital Bancshares, Inc.'s directors, executive officers, code of ethics, audit committee and audit committee financial experts of the Company and Section 16(a) beneficial ownership reporting compliance will be included in an amendment to this Annual Report on Form 10-K/A filed within 120 days after the end of our 2019 fiscal year.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item relating to compensation of our directors and executive officers will be included in an amendment to this Annual Report on Form 10-K/A filed within 120 days after the end of our 2019 fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item relating to security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans will be included in an amendment to this Annual Report on Form 10-K/A filed within 120 days after the end of our 2019 fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item relating to security ownership of certain relationships and related transactions and director independence will be included in an amendment to this Annual Report on Form 10-K/A filed within 120 days after the end of our 2019 fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item relating to principal accountant fees and services will be included in an amendment to this Annual Report on Form 10-K/A filed within 120 days after the end of our 2019 fiscal year.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this report

(1) All financial statements

Independent Registered Public Accounting Firm's Report of Ernst & Young LLP

(2) All financial statements required by Item 8

Independent Registered Public Accounting Firm's Report of Ernst & Young LLP

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- (3) Exhibits
- 2.1 [Agreement and Plan of Merger, dated December 9, 2019, by and between Texas Capital Bancshares, Inc. and Independent Bank Group, Inc., incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed December 13, 2019](#)
- 3.1 [Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our registration statement on Form 10 dated August 24, 2000](#)
- 3.2 [Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.2 to our registration statement on Form 10 dated August 24, 2000](#)
- 3.3 [Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.3 to our registration statement on Form 10 dated August 24, 2000](#)
- 3.4 [Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.4 to our registration statement on Form 10 dated August 24, 2000](#)
- 3.5 [Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q dated October 30, 2008](#)
- 3.6 [Amendment to amended and Restated Bylaws of Texas Capital Bancshares, Inc. which is incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated July 11, 2019](#)
- 3.7 [Certificate of Designation of 6.50% Non-Cumulative Perpetual Preferred Stock, Series A, which is incorporated by reference to Exhibit 4.1 to our Current Report on form 8-K dated March 28, 2013](#)
- 3.8 [Form of Preferred Stock Certificate for 6.50% Non-Cumulative Perpetual Preferred Stock, Series A, which is incorporated by reference to Exhibit 4.2 to our Current report on Form 8-K dated March 28, 2013](#)
- 4.1 [Description of our common stock and 6.5% Non-Cumulative Perpetual Preferred Stock, Series A, which are registered pursuant to Section 12 of the Securities Exchange Act of 1934\\*](#)
- 4.2 [Placement Agreement by and between Texas Capital Bancshares Statutory Trust I and SunTrust Capital Markets, Inc., which is incorporated by reference to Exhibit 1.1 to our Current Report on Form 8-K dated December 4, 2002](#)
- 4.3 [Certificate of Trust of Texas Capital Bancshares Statutory Trust I, dated November 12, 2002 which is incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated December 4, 2002](#)
- 4.4 [Amended and Restated Declaration of Trust by and among State Street Bank and Trust Company of Connecticut, National Association, Texas Capital Bancshares, Inc. and Joseph M. Grant, Raleigh Hortensine III and Gregory B. Hultgren, dated November 19, 2002 which is incorporated by reference to Exhibit 3.3 to our Current Report on Form 8- K dated December 4, 2002](#)
- 4.5 [Indenture dated November 19, 2002 which is incorporated by reference to our Current Report on Form 8-K dated December 4, 2002](#)
- 4.6 [Guarantee Agreement between Texas Capital Bancshares, Inc. and State Street Bank and Trust of Connecticut, National Association dated November 19, 2002, which is incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated December 4, 2002](#)
- 4.7 [Placement Agreement by and among Texas Capital Bancshares, Inc., Texas Capital Statutory Trust II and Sandler O’Neill & Partners, L.P., which is incorporated by reference to Exhibit 1.1 to our Current Report Form 8-K dated June 11, 2003](#)
- 4.8 [Certificate of Trust of Texas Capital Statutory Trust II, which is incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated June 11, 2003](#)
- 4.9 [Amended and Restated Declaration of Trust by and among Wilmington Trust Company, Texas Capital Bancshares, Inc., and Joseph M. Grant and Gregory B. Hultgren, dated April 10, 2003, which is incorporated by reference to Exhibit 3.3 to our Current Report on Form 8-K dated June 11, 2003](#)
- 4.1 [Indenture between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated April 10, 2003, which is incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated June 11, 2003](#)
- 4.11 [Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated April 10, 2003, which is incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated June 11, 2003](#)
- 4.12 [Amended and Restated Declaration of Trust for Texas Capital Statutory Trust III by and among Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, Texas Capital Bancshares, Inc. as Sponsor, and the Administrators named therein, dated as of October 6, 2005, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated October 13, 2005](#)
- 4.13 [Indenture between Texas Capital Bancshares, Inc., as Issuer, and Wilmington Trust Company, as Trustee, for Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures, dated as of October 6, 2005, which is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated October 13, 2005](#)

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- 4.14 [Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated as of October 6, 2005, which is incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K dated October 13, 2005](#)
- 4.15 [Amended and Restated Declaration of Trust for Texas Capital Statutory Trust IV by and among Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, Texas Capital Bancshares, Inc. as Sponsor, and the Administrators named therein, dated as of April 28, 2006, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated May 3, 2006](#)
- 4.16 [Indenture between Texas Capital Bancshares, Inc., as Issuer, and Wilmington Trust Company, as Trustee, for Floating Rate Junior Subordinated Deferrable Interest Debentures dated as of April 28, 2006, which is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated May 3, 2006](#)
- 4.17 [Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated as of April 28, 2006, which is incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K dated May 3, 2006](#)
- 4.18 [Amended and Restated Trust Agreement for Texas Capital Statutory Trust V by and among Wilmington Trust Company, as Property Trustee and Delaware Trustee, Texas Capital Bancshares, Inc., as Depositor, and the Administrative Trustees named therein, dated as of September 29, 2006, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated October 5, 2006](#)
- 4.19 [Junior Subordinated Indenture between Texas Capital Bancshares, Inc. and Wilmington Trust Company, as Trustee, for Floating Rate Junior Subordinated Note dated as of September 29, 2006, which is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated October 5, 2006](#)
- 4.20 [Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated as of September 29, 2006, which is incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K dated October 5, 2006](#)
- 4.21 [Subordinated Indenture between Texas Capital Bancshares, Inc. and U.S. Bank National Association, as Trustee, dated September 21, 2012, which is incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated September 18, 2012](#)
- 4.22 [Issuing and Paying Agency Agreement, dated January 31, 2014, between Texas Capital Bank, N.A., as Issuer, and U.S. Bank National Association, as Agent, which is incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated January 31, 2014.](#)
- 4.23 [Form of Global 5.25% Subordinated Note due 2026, which is incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated January 31, 2014.](#)
- 10.1 [Amended and Restated Executive Employment Agreement between C. Keith Cargill and Texas Capital Bancshares, Inc. dated December 18, 2014, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated December 18, 2014+](#)
- 10.2 [Form of Amended and Restated Executive Employment Agreement for executive officers of Texas Capital Bancshares, Inc., which is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated December 18, 2014+](#)
- 10.3 [Form of Indemnity Agreement for directors and officers of Texas Capital Bancshares, Inc., which is incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K dated February 21, 2014+](#)
- 10.4 [Amended and Restated Executive Employment Agreement dated May 30, 2017, between Texas Capital Bancshares, Inc. and Julie Anderson, which is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated June 1, 2017+](#)
- 10.5 [Retirement Transition and Award Agreement effective August 14, 2018 between Texas Capital Bancshares, Inc. and John Hudgens, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated August 6, 2018+](#)
- 10.6 [Retirement Transition effective July 29, 2019 between Texas Capital Bancshares, Inc. and Vince Ackerson, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated July 29, 2019+](#)
- 10.7 [Form of Executive Employment Agreement for executive officers of Texas Capital Bancshares, Inc.+\\*](#)
- 10.8 [Texas Capital Bancshares, Inc. 2006 Employee Stock Purchase Plan, which is incorporated by reference to Exhibit 10.1 to our Form 8-K dated February 2, 2006+](#)
- 10.9 [Texas Capital Bancshares, Inc. 2010 Long-Term Incentive Plan, which is incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14A dated April 8, 2010+](#)
- 10.10 [Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated May 21, 2015+](#)
- 10.11 [Texas Capital Bancshares, Inc. Nonqualified Deferred Compensation Plan, which is incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K dated February 17, 2017+](#)
- 10.12 [Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q dated April 19, 2018+](#)

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10.13	<a href="#"><u>Form of Stock Appreciation Rights Agreement under the Texas Capital Bancshares, Inc. 2010 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K dated February 21, 2014+</u></a>
10.14	<a href="#"><u>Special Retention Restricted Stock Unit Award Agreement between Julie Anderson and Texas Capital Bancshares, Inc. dated May 17, 2016, which is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q dated July 21, 2016+</u></a>
10.15	<a href="#"><u>Form of 2017 Performance Award Agreement for Executive Officers, pursuant to the Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q dated April 20, 2017+</u></a>
10.16	<a href="#"><u>Form of 2018 Performance Award Agreement for Executive Officers pursuant to the Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q dated April 19, 2018+</u></a>
10.17	<a href="#"><u>Form of 2018 Restricted Stock Unit Award Agreement for Non-Employee Directors pursuant to the Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q dated April 19, 2018+</u></a>
10.18	<a href="#"><u>Form of 2019 Performance Award Agreement for Executive Officers pursuant to the Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q dated April 18, 2019+</u></a>
21	<a href="#"><u>Subsidiaries of the Registrant*</u></a>
23.1	<a href="#"><u>Consent of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm*</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act*</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act*</u></a>
32.1	<a href="#"><u>Section 1350 Certification of Chief Executive Officer**</u></a>
32.2	<a href="#"><u>Section 1350 Certification of Chief Financial Officer**</u></a>
101.INS	XBRL Instance 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

+ Management contract or compensatory plan arrangement

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 12, 2020

TEXAS CAPITAL BANCSHARES, INC.

By: /S/ C. KEITH CARGILL

C. Keith Cargill  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 12, 2020

/S/ LARRY L. HELM

Larry L. Helm  
Chairman of the Board and Director

Date: February 12, 2020

/S/ JULIE ANDERSON

Julie Anderson  
Chief Financial Officer  
(principal financial officer)

Date: February 12, 2020

/S/ ELLEN DETRICH

Ellen Detrich  
Controller  
(principal accounting officer)

Date: February 12, 2020

/S/ JONATHAN E. BALIFF

Jonathan E. Baliff  
Director

Date: February 12, 2020

/S/ JAMES H. BROWNING

James H. Browning  
Director

Date: February 12, 2020

/S/ DAVID S. HUNTLEY

David S. Huntley  
Director

Date: February 12, 2020

/S/ CHARLES S. HYLE

Charles S. Hyle  
Director

Date: February 12, 2020

/S/ ELYSIA H. RAGUSA

Elysia H. Ragusa  
Director

Date: February 12, 2020

/S/ STEVEN P. ROSENBERG

Steven P. Rosenberg  
Director

Date: February 12, 2020

/S/ ROBERT W. STALLINGS

Robert W. Stallings  
Director

Date: February 12, 2020

/S/ DALE W. TREMBLAY

Dale W. Tremblay  
Director

Date: February 12, 2020

/S/ IAN J. TURPIN

Ian J. Turpin  
Director

Date: February 12, 2020

/S/ PATRICIA A. WATSON

Patricia A. Watson  
Director



**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

*Texas Capital Bancshares, Inc. has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, our common stock and our 6.50% Non-Cumulative Perpetual Preferred Stock, Series A.*

**DESCRIPTION OF CAPITAL STOCK**

*The following descriptions are summaries of the material terms of our Certificate of Incorporation, as amended, and Amended and Restated Bylaws and include all material information with respect to our capital stock. Reference is made to the more detailed provisions of our Certificate of Incorporation, as amended, and Amended and Restated Bylaws, which are filed as exhibits to this Annual Report on Form 10-K and are incorporated by reference herein.*

**General**

Under our certificate of incorporation, as amended, we have authority to issue up to 100.0 million shares of common stock, \$0.01 par value per share, and 10.0 million shares of preferred stock, par value \$0.01 per share. As of April 30, 2014 we had issued and outstanding 43,065,301 shares of common stock and 6.0 million shares of our 6.50% Non-Cumulative Perpetual Preferred Stock, or 6.50% Preferred, having an aggregate liquidation preference of \$150.0 million.

**Common Stock**

Each holder of our common stock is entitled to one vote for each share held on all matters with respect to which the holders of our common stock are entitled to vote. Our common stock has no preemptive or conversion rights and is not subject to redemption. Holders of our common stock are not entitled to cumulative voting in the election of directors. In the event of dissolution or liquidation, after payment of all creditors and payment of liquidation preferences on preferred stock, the holders of our common stock (subject to the prior rights of the holders of any outstanding preferred stock) will be entitled to receive pro rata any assets distributable to stockholders in respect of the number of shares held by them.

The holders of shares of our common stock are entitled to such dividends as our board of directors, in its discretion, may declare out of funds legally available therefor, subject to certain limitations under the Delaware General Corporation Law, or DGCL. We have not paid dividends on our common stock to date, and we do not anticipate paying dividends in the near future. However, the payment of dividends on our common stock is subject to the prior rights of the holders of any preferred stock. Payment of dividends on both our common stock and any preferred stock will be dependent upon, among other things, our earnings and financial condition, our cash flow requirements and the prevailing economic and regulatory climate.

*Anti-Takeover Provisions.*

Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions are more fully set forth in our Registration Statement on Form 10, as amended, which was filed with the SEC on August 24, 2000, and is incorporated by reference into this prospectus. These provisions include advance notice for nominations of directors and stockholders' proposals, and authority to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation's

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outstanding voting stock, from engaging in a business combination with TBCI for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

*Restrictions on Ownership.*

The ability of a third party to acquire us is limited under applicable U.S. banking laws and regulations. The Bank Holding Company Act, or BHC Act, requires any bank holding company (as defined therein) to obtain the approval of the Board of Governors of the Federal Reserve prior to acquiring, directly or indirectly, more than 5% of our outstanding Common Stock. Any “company” (as defined in the BHC Act) other than a bank holding company would be required to obtain Federal Reserve approval before acquiring “control” of us. “Control” generally means (i) the ownership or control of 25% or more of a class of voting securities, (ii) the ability to elect a majority of the directors or (iii) the ability otherwise to exercise a controlling influence over management and policies. A holder of 25% or more of our outstanding common stock, other than an individual, is subject to regulation and supervision as a bank holding company under the BHC Act. In addition, under the Change in Bank Control Act of 1978, as amended, and the Federal Reserve’s regulations thereunder, any person, either individually or acting through or in concert with one or more persons, is required to provide notice to the Federal Reserve prior to acquiring, directly or indirectly, 10% or more of our outstanding Common Stock.

*Listing.*

Our common stock is listed on the Nasdaq Global Select Market.

*Transfer Agent and Registrar.*

The transfer agent and registrar for our common stock is Computershare Investor Services LLC.

**Preferred Stock**

Our board of directors is authorized to designate and issue shares of preferred stock in one or more series. Subject to the provisions of our certificate of incorporation and limitations prescribed by law and the rules of the Nasdaq Global Select Market, if applicable, our board of directors has the discretion to adopt resolutions to issue shares, establish the number of shares, change the number of shares constituting any series, and provide or change the voting powers, designations, preferences and relative rights, qualifications, limitations or restrictions on shares of our preferred stock, including dividend rights, terms of redemption, conversion rights and liquidation preferences, in each case without any action or vote by our stockholders.

If we offer to sell preferred stock, we will file with the SEC the certificate of designation setting forth the terms of the preferred stock and the prospectus supplement relating to that offering will include a description of the specific terms of the preferred stock, including:

- the series, the number of shares offered and the liquidation value of the preferred stock;
  - the price at which the preferred stock will be issued;
  - the dividend rate, the dates on which the dividends will be payable and other terms relating to the payment of dividends on the preferred stock;
  - the liquidation preference of the preferred stock;
  - the voting rights of the preferred stock;
  - whether the preferred stock is redeemable or subject to a sinking fund, and the terms of any such redemption or sinking fund;
  - whether the preferred stock is convertible or exchangeable for any other securities, and the terms of any such conversion; and
  - any additional rights, preferences, qualifications, limitations and restrictions of the preferred stock.
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It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until the board of directors determines the specific terms of the preferred stock. However, these effects might include:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; and
- delaying or preventing a change in control of our company.

In March 2013 we issued 6.0 million shares of 6.50% Preferred having a liquidation preference of \$150.0 million. Holders of 6.50% Preferred do not have voting rights, except with respect to the right to elect two directors upon non-payment of dividends for six or more quarterly dividend periods, authorizing or increasing the authorized amount of senior stock, certain changes in the terms of the 6.50% Preferred, and as otherwise required by applicable law. The 6.50% Preferred ranks senior to our common stock as to the payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up.

During any dividend period, so long as any share of 6.50% Preferred remains outstanding and except as otherwise provided below, (i) no dividend may be paid, declared or set apart for any payment on and no distribution shall be made on our common stock or any other class or series of capital stock over which the 6.50% Preferred has preference or priority in the payment of dividends (other than a dividend payable solely in stock that ranks junior to the 6.50% Preferred with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding-up) and (ii) no shares of common stock or any other class or series of capital stock over which the 6.50% Preferred has preference or priority or is in parity with in the payment of dividends, may be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly, unless full dividends on all outstanding shares of the 6.50% Preferred for the most recently completed quarterly dividend period have been declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set apart for such payment) and any prior redemption requirements with respect to shares of the 6.50% Preferred have been complied with.

A dividend period for the 6.50% Preferred is the period from and including a dividend payment date to but excluding the next dividend payment date.

The limitations on dividends and other distributions described in the paragraph above do not apply to:

- redemptions, purchases or other acquisitions of shares of common stock or any other class or series of capital stock over which the 6.50% Preferred has preference or priority in the payment of dividends in connection with the administration of any employee benefit plan in the ordinary course of business;
- any dividends or distributions of rights or common stock or any other class or series of capital stock over which the 6.50% Preferred has preference or priority in the payment of dividends in connection with a shareholders' rights plan or any redemption or repurchase of rights pursuant to any stockholders' rights plan;
- the acquisition by us or any of our subsidiaries of record ownership in common stock or any other class or series of capital stock over which the 6.50% Preferred has preference or priority or is in parity with in the payment of dividends for the beneficial ownership of any other persons (other than for the beneficial ownership by us or any of our subsidiaries), including as trustees or custodians; and
- the exchange or conversion of common stock for or into other capital stock that is junior to the 6.50% Preferred and the payment of cash solely in lieu of fractional shares.

Subject to the restrictions described above, and not otherwise, dividends (payable in cash, stock, or otherwise), as may be determined by our board of directors or a duly authorized committee of the board, may be declared and paid on our common stock and other stock ranking equally with or junior to the 6.50% Preferred from time to time out of any assets legally available for such payment in amounts permitted by applicable regulatory authorities, and the holders of the 6.50% Preferred will not be entitled to participate in those dividends.

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So long as any shares of 6.50% Preferred are outstanding, the vote or consent of the holders of at least 66 2/3% of the then-outstanding shares of 6.50% Preferred, voting separately as a single class, shall be necessary for effecting or validating:

- any amendment, alteration or repeal of any provision of our certificate of formation (including the certificate of designations creating the 6.50% Preferred), or bylaws that would significantly and adversely affect the designations, preferences, limitations or relative rights of the 6.50% Preferred;
- any amendment or alteration of our certificate of incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series or any securities convertible into shares of any class or series of our capital stock ranking senior to the 6.50% Preferred with respect to the payment of dividends and/or the distribution of assets upon our liquidation, dissolution or winding-up; or
- any consummation of a binding share exchange or reclassification involving the 6.50% Preferred, or of a merger or consolidation of TCBI with or into another corporation or other entity, unless (x) the shares of 6.50% Preferred remain outstanding or, in the case of any such merger or consolidation with respect to which TCBI is not the surviving corporation, are converted into or exchanged for preference securities of the surviving corporation or other entity or of an entity controlling such surviving corporation or other entity that is an entity organized and existing under the laws of the United States, any state thereof or the District of Columbia and (y) the shares of 6.50% Preferred remaining outstanding or such new preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers of the 6.50% Preferred.

The foregoing provisions will not apply if, at or prior to the time when any such vote or consent would otherwise be required, all outstanding shares of 6.50% Preferred have been redeemed or have been called for redemption upon proper notice, and sufficient funds have been set aside for such redemption.

**FORM OF EXECUTIVE EMPLOYMENT AGREEMENT**

**THIS EXECUTIVE EMPLOYMENT AGREEMENT** (this “*Agreement*”) is dated as of [ ] and is entered into by and between [ ] (“*Executive*”), and Texas Capital Bancshares, Inc. (“*TCBF*”), which is the holding company of Texas Capital Bank, N.A. (“*TCB*”) (TCBI and TCB collectively, the “*Company*”). The Company and Executive shall each be referred to herein individually as a “*Party*” and collectively as the “*Parties*.”

**RECITALS**

**WHEREAS**, the Company desires to employ Executive as the [ ] of the Company and Executive desires to be employed by the Company in such position;

**WHEREAS**, the Parties desire to set forth in writing the terms and conditions of their agreement and understandings with respect to Executive’s employment; and

**WHEREAS**, the Company hereby employs Executive, and Executive hereby accepts employment with the Company for the period and upon the terms and conditions contained in this Agreement.

**NOW, THEREFORE**, in consideration of the mutual promises and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the Parties hereby agree as follows:

**ARTICLE I.**

**SERVICES TO BE PROVIDED BY EXECUTIVE**

**A. Position and Responsibilities.** During the Term, Executive shall serve as the [ ] of [ ]. Executive agrees to serve in such other capacities as the Company may from time to time request. The duties of Executive shall be those duties which can reasonably be expected to be performed by a person in such position, and the duties directed by the Company.

**B. Performance.** During Executive’s employment with the Company, Executive shall devote on a full-time basis all of Executive’s professional time, energy, skill and efforts to the performance of Executive’s duties to the Company. Executive shall exercise reasonable best efforts to perform Executive’s duties in a diligent, trustworthy, good faith and business-like manner, all for the purpose of advancing the interests of the Company. Executive shall at all times act in a manner consistent with Executive’s position with the Company. During Executive’s employment with the Company, Executive (i) shall not be employed with any other entity, (ii) shall not serve as a member of any board of directors, or as a trustee of, or in any manner be affiliated with, any present or future agency or organization (except for civic, religious, and not for profit organizations) without the Company’s consent, and (iii) shall not, directly or indirectly, have any interest in, or perform any services for, any business competing with or similar in nature to the Company’s

business. Executive shall use reasonable best efforts to assure that any civic responsibilities or charitable activities do not interfere with Executive's duties to the Company.

C. **Compliance.** Executive shall act in accordance with high business and ethical standards at all times. Executive shall comply with the policies, codes of conduct, codes of ethics, written manuals and lawful directives of the Company (collectively, the "**Policies**"). Executive shall comply with all laws of any jurisdiction in which the Company does business (collectively, "**Laws**"). Executive shall keep the Chief Executive Officer ("**CEO**") promptly and fully informed of Executive's conduct in connection with the business affairs of the Company. Executive shall report Executive's own violation of Policies or Laws and any violation of Policies or Laws or proposed violation of Policies or Laws of any other employee, director or contractor of the Company or other person performing services on behalf of the Company to the Company's CEO promptly upon Executive becoming aware of such violation or proposed violation of Policies or Laws. Additionally, Executive shall inform the CEO promptly in writing of any threatened legal, regulatory action or financial loss that arises from or is otherwise related in any way to any violation of Policies or Laws.

D. **Representations.** Executive represents and warrants to the Company that Executive (i) is not violating and will not violate any contractual, legal, or fiduciary obligations or burdens to which Executive is subject by entering into this Agreement or by providing services for the Company; (ii) is under no contractual, legal, or fiduciary obligation or burden that will interfere with Executive's ability to perform services for the Company; (iii) has no previous convictions under any law, disputes with regulatory agencies, or other similar circumstances that would reasonably be expected to have an adverse effect on the Company. Executive shall not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others.

## **ARTICLE II.** **COMPENSATION FOR SERVICES**

As compensation for all services Executive will perform for the Company, the Company will pay Executive, and Executive shall accept as full compensation, the following:

A. **Compensation.** During the Term, the Company shall pay Executive a base monthly salary in the amount of \$[ ] ("**Base Salary**"), less applicable payroll taxes and withholdings, payable in accordance with the Company's normal payroll practices. The Company will review Executive's Base Salary annually, and, in the sole discretion of the Company, may increase such Base Salary from time to time, but shall not be obligated to effectuate any increase.

B. **Discretionary Bonus.** The Company and the Board may establish an incentive bonus plan for its key executives based on various targets and performance criteria established by the Company. With respect to the Company's fiscal years beginning after [ ], Executive shall be permitted to participate in the plan, if adopted by the Board. The evaluation of Executive's performance, as measured by the applicable targets and the awarding of applicable bonuses, if any, shall be at the Company's sole discretion. The annual discretionary incentive bonus may be awarded

in whole or in part, based on the level of incentive bonus plan performance criteria achieved by Executive, in the Company's sole judgment. With respect to the Company's 2018 fiscal year, Executive shall be eligible to receive a fixed incentive bonus of \$[ ], less any required federal and state withholding taxes, payable in the first calendar quarter of [ ], subject to the terms of set forth in this Article II.B. Executive must be employed on the date of payout to be eligible for any bonus. If Executive terminates this Agreement without Good Reason, or if the Company terminates Executive's employment at any time for Cause, Executive will not be paid any bonus, in whole or in part, for the year in which the employment termination occurred. Any bonus paid pursuant to this Article II.B. shall be paid to Executive in the calendar year immediately following the calendar year to which the payment relates. The payment of a bonus with respect to a particular calendar or fiscal year does not guarantee payment of a bonus in any subsequent year.

C. **Equity Compensation.** The Company establishes equity-based incentives for its executives from time to time under its long-term incentive plans (the Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan and any successor plan thereto) (the "**Plan**"). The Company may in its sole discretion, but is not obligated to, make grants of equity-based incentive compensation to Executive under the terms of the Plan. On or as soon as administratively practicable after the first date of the Initial Term, the Company agrees to grant to Executive, subject to the approval of the Board, a restricted stock unit award with respect to [ ] shares of the Company's common stock, subject to the terms and conditions of the Plan and the Company's form of time-based restricted stock unit award agreement, which terms shall include, without limitation, vesting of the award pro rata over five years, beginning on the first anniversary of the date of grant (subject to forfeiture in accordance with the terms of the award agreement).

D. **Expenses.** The Company agrees that, during Executive's employment, the Company shall reimburse Executive for out-of-pocket expenses reasonably incurred in connection with Executive's performance of Executive's services hereunder, upon the presentation by Executive of an itemized accounting of such expenditures, with supporting receipts, provided that Executive submits such expenses for reimbursement within 60 days of the date such expenses were incurred in accordance with the Company's expense reimbursement policy. Subject to Article V.M., reimbursements shall be in compliance with the Company's expense reimbursement policies.

E. **Vacation.** Executive shall be entitled to paid vacation pursuant to the Company's standard written policies as may be amended by the Company. Vacation shall be taken at such times and intervals as shall be determined by Executive, subject to the reasonable business needs of the Company. Vacation that is unused shall lapse at the end of the calendar year and shall not carry forward.

F. **Benefits.** Executive may participate in any group health insurance plan, 401k plan, disability plan, group life plan and any other benefit or welfare program or policy that is made generally available, from time to time, to other employees of the Company, on a basis consistent with such participation and subject to the terms of the documents governing such plan, program or policy, as such plans, programs or policies may be modified, amended, terminated, or replaced from time to time by the Company, in its sole discretion.

**ARTICLE III.**  
**TERM; TERMINATION**

A. **Term of Employment.** The term of Executive's employment under this Agreement shall begin on [ ] (the "**Effective Date**") and shall continue in effect for three years following the Effective Date (the "**Initial Term**"), unless earlier terminated by any Party in accordance with Article III.B. Upon the expiration of the Initial Term, the Agreement will automatically renew, subject to earlier termination as herein provided, for successive one year periods (each an "**Additional Term**"), unless either Executive or the Company provide notice of non-renewal at least 30 days prior to the expiration of the Initial Term or the then Additional Term, whichever is applicable. The Initial Term and any Additional Term(s) shall be referred to collectively as the "**Term.**"

B. **Termination.** Any Party may terminate Executive's employment at any time upon written notice; provided however, that the Company shall provide Executive 30 days written notice of termination without Cause or due to Executive's Disability. The date of Executive's termination shall be (i) if Executive's employment is terminated by his death, the date of his death; or (ii) the date stated in the notice of termination. Upon termination of Executive's employment, the Company shall pay Executive (i) any unpaid Base Salary accrued through the date of termination; (ii) any accrued, unused vacation through the date of termination; and (iii) any unreimbursed expenses properly incurred prior to the date of termination (the "**Accrued Obligations**"), within the time period required by applicable law.

(i) **Termination for Cause by the Company or by Executive without Good Reason or Non-Renewal by Any Party.** In the event the Company terminates Executive's employment with the Company for Cause (as defined below) at any time during the Term, Executive terminates his employment with the Company for a reason other than Good Reason (as defined below), or non-renewal by any Party, the Company shall have no further liability or obligation to Executive under this Agreement or in connection with Executive's employment hereunder, except that the Company shall pay the Accrued Obligations and any amounts to which Executive is entitled under the Company's benefit plans in accordance with their terms. The Accrued Obligations shall be payable in a lump sum within the time period required by applicable law.

For purposes of this Agreement:

(a) "**Cause**" means the occurrence of any of the following events: (i) an act or acts of theft, embezzlement, fraud, or dishonesty by Executive, regardless of whether such act(s) relate to the Company; (ii) a willful or material misrepresentation by Executive that relates to the Company, or has a material adverse effect on the Company; (iii) any willful misconduct or gross negligence by Executive that is injurious to the Company, including violation of any Laws; (iv) any violation by Executive of any fiduciary duties owed by Executive to the Company; (v) Executive's conviction of, or pleading *nolo contendere* or guilty to, a felony or a misdemeanor that involves moral turpitude (other than a minor traffic infraction); (vi) a material or repeated violation of the Company's Policies, which Executive failed to cure within 30 days after receiving written notice from the Company; (vii) Executive's continued performance below the Company's

expectations, which Executive failed to cure within 30 days after receiving written notice from the Company; (viii) the failure or refusal of Executive to follow the lawful directives of the Company, which, if curable (as determined by the Company), Executive failed or refused to cure within 30 days after receiving written notice from the Company; (ix) a material breach by Executive of this Agreement or any other agreement to which Executive and the Company are parties that is not cured by Executive within 30 days after receipt by Executive of a written notice from the Company; or (x) the unlawful use (including being under the influence) or possession of illegal drugs by Executive on the premises of the Company or while performing any duties or responsibilities for the Company.

(b) “**Good Reason**” means the occurrence of any of the following events: (i) without Executive’s prior consent, the assignment of Executive to a position constituting a material demotion with loss of compensation and job duties by comparison to Executive’s position with the Company on the date of this Agreement; provided, however, that changes in Executive’s job duties and reporting relationships, at the Company’s or Board of Directors’ discretion, and without a material loss in Executive’s compensation, will not constitute “Good Reason”; (ii) the change of the location where Executive performs the majority of Executive’s job duties at the time Executive executes this Agreement (“**Base Location**”) to a location that is more than 50 miles from the Base Location, without Executive’s written consent; (iii) a reduction by the Company in Executive’s Base Salary, unless the reduction is a proportionate reduction of the compensation of Executive and all other senior officers of the Company as a part of a company-wide effort to enhance the Company’s financial condition; or (iv) after the occurrence of a Change in Control (defined below), a significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities, or duties attached to the position(s) with the Company which Executive held immediately before the Change in Control, or a material reduction in total compensation, including incentive compensation, stock-based compensation and benefits Executive received from the Company compared to the total compensation and benefits to which Executive was entitled immediately before the Change in Control. Executive shall give the Company 30 business days’ notice of an intent to terminate this Agreement for Good Reason, and provide the Company with 30 calendar days after receipt of such notice from Executive to remedy the alleged action(s) giving rising to Good Reason. In the event the Company does not cure the violation, if Executive does not terminate Executive’s employment within 60 days following the last day of the cure period, the occurrence of the violation shall not subsequently serve as Good Reason for purposes of this Agreement.

(ii) **Termination Without Cause by the Company or by Executive for Good Reason.** In the event the Company terminates Executive’s employment with the Company without Cause or Executive resigns for Good Reason at any time during the Term, the Company shall have no further liability or obligation to Executive under this Agreement, but the Company shall pay the following amounts to Executive: (a) the Accrued Obligations, payable in a lump sum within the time period required by applicable law; (b) any amounts to which Executive is entitled under the Company’s benefit plans in accordance with their terms; and (c) subject to Executive’s compliance with Article IV of this Agreement and the execution and timely return by Executive of a release of claims in a form and substance reasonably requested by the Company (the “**Release**”), which shall be executed and delivered by Executive within 60 days of Executive’s termination of employment and which shall be irrevocable, the Company shall pay Executive (1) a cash payment equal to 12

months' Base Salary payable in equal semi-monthly installments over a 12 month period, (2) a cash payment equal to the average annual incentive bonus paid to Executive for the two full calendar years immediately preceding the date Executive's employment terminates, and (3) for a period of 12 months, at the Company's expense, health and other welfare benefits that are not less favorable to Executive than the health and other welfare benefits to which Executive was entitled immediately before Executive's employment termination triggering the severance payment; provided that such benefits shall be modified to the extent benefits under an applicable plan are modified for active employees of the Company. The payments in the preceding clauses (1), (2) and (3) are collectively referred to as the "**Severance Payments**". The first installment of any Severance Payments shall commence on the first payroll day after the 60<sup>th</sup> day following the date of termination of Executive's employment; provided, however, that the first payment shall include all installments that would have been paid from the date of Executive's termination of employment through the first payment date. In the event Executive fails to comply with the terms of Article IV or does not timely execute and return (or otherwise attempts to revoke) the Release, no amount shall be payable to Executive pursuant to this Article III.B.(ii).

(iii) **Termination Due to Death or Disability.** In the event Executive's employment is terminated due to death or Disability at any time during the Term, Executive's employment shall immediately terminate and the Company shall have no further liability or obligation to Executive under this Agreement or in connection with Executive's employment hereunder, except that the Company shall pay (a) the Accrued Obligations, and (b) any amounts to which Executive is entitled under the Company's benefit plans or other agreements in accordance with their terms. The Accrued Obligations shall be payable in a lump sum within the time period required by applicable law. All amounts that may be due to Executive under this Article III.B.(iii) shall be paid to Executive or to Executive's administrators, personal representatives, heirs and legatees, as may be appropriate. Payments under Article III.B.(iii)(c) shall be paid in accordance with the Company's regular payroll practices, beginning on the first payroll date coinciding with or next following the date that is 60 days after the date this Agreement terminates. Payment of any amounts in Article III.B.(iii)(c) due to Executive's Disability is conditioned upon Executive's execution and non-revocation of a Release within 60 days of Executive's termination of employment. For purposes of this Agreement, "**Disability**" means the inability of Executive to perform Executive's essential duties and responsibilities under this Agreement with or without reasonable accommodation for a continuous period exceeding 90 days or for a total of 180 days during any period of 12 consecutive months as a result of a physical or mental illness, disease or personal injury. During the period of Executive's incapacity, Executive shall be entitled to leaves of absence from the Company in accordance with the policy of the Company generally applicable to executives for illness or temporary disabilities for a period or periods not exceeding three months on a cumulative basis in any calendar year or as otherwise provided by applicable law, and Executive's status as an Executive shall continue during such periods. However, if Executive qualifies for short term disability payments under the Company's standard short term disability plan during such leave, Executive shall apply to receive such short term disability payments. The Company shall supplement such short term disability payments so that Executive receives such monthly amounts, when combined with the short term disability payments, equal to Executive's Base Salary. If during the period of Executive's incapacity, Executive is deemed to have incurred a "separation from service" under Section 409A of the Code because there is no reasonable expectation that Executive will

return to perform services for the Company, Executive shall be entitled, as a disability benefit, to continuation of Executive's Base Salary until the date on which this Agreement is terminated (the "**Disability Period**"); provided, however, that such payments shall be reduced on a dollar-for-dollar basis by the amount of bona fide disability pay (within the meaning of Treas. Reg. section 1.409A-1(a)(5)) received or receivable by Executive during the Disability Period, provided such disability payments are made pursuant to a plan sponsored by the Company or TCB that covers a substantial number of employees of the Company or TCB and was established prior to the date Executive incurred a Disability, and further provided that such reduction does not otherwise affect the time of payment of Executive's Base Salary pursuant to this Article III.B.(iii).

C. **Change in Control.** The severance benefits provided for in this Article III.C.(i) and (ii) are referred to collectively as the "**Change in Control Payments**" and are conditioned upon Executive's execution and non-revocation of a Release within 60 days of Executive's termination from employment.

(i) **Severance Benefits.** If Executive's employment with the Company is terminated (A) by the Company (or by the acquiring or successor business entity following a Change in Control (defined below)) other than for Cause, death or Disability, or (B) by Executive for Good Reason, any time during the period beginning 90 days before a Change in Control and ending 18 months after the date of a Change in Control (the "**Change Period**"), Executive shall receive, in lieu of the severance benefits described in Article III.B.(ii)(1) and (2), a severance benefit in an amount equal to the sum of 250% of (1) Executive's Base Salary for the year immediately preceding the Change in Control plus (2) the average incentive bonus amount paid to Executive for the two years immediately preceding the Change in Control. Payment under this Article III.C.(i) shall be paid to Executive within 60 days of Executive's termination from employment provided that Executive has executed and not revoked a Release.

(ii) **Other Benefits.** In lieu of the severance benefits described in Article III.B.(ii)(3), for 18 months following the date of termination of Executive's employment in circumstances in which a severance payment is due pursuant to Article III.C.(i), the Company shall provide Executive, at the Company's expense, health and other welfare benefits that are not less favorable to Executive than those to which Executive was entitled immediately before the Change in Control. Benefits provided under this Article III.C.(ii) to Executive or to Executive's spouse or dependents shall be modified to the extent benefits under an applicable plan are modified for active employees of the Company.

(iii) **No Duplication of Payment.** For clarity, the payment of severance benefits under this Article III.C. shall be in lieu of, and not in addition to, any payments under Article III.B.(ii).

(iv) **Excess Parachute Payments.** Notwithstanding the other provisions of this Agreement, in the event that:

(a) the aggregate payments or benefits to be made or afforded to Executive, which are deemed to be parachute payments as defined in Section 280G of the Code or

any successor thereof, (the “**Termination Benefits**”) would be deemed to include an “excess parachute payment” under Section 280G of the Code, and;

(b) if such Termination Benefits were reduced to an amount (the “**Non-Triggering Amount**”), the value of which is one dollar (\$1.00) less than an amount equal to three times Executive’s “base amount,” as determined in accordance with Section 280G of the Code and the Non-Triggering Amount less the product of the marginal rate of any applicable state and federal income tax and the Non-Triggering Amount would be greater than the aggregate value of the Termination Benefits (without such reduction) minus (a) the amount of tax required to be paid by Executive thereon by Section 4999 of the Code and further minus (b) the product of the Termination Benefits and the marginal rate of any applicable state and federal income tax, then the Termination Benefits shall be reduced to the Non-Triggering Amount. The allocation of the reduction required hereby among the Termination Benefits shall be determined by Executive.

(v) Notwithstanding the foregoing, with respect to any stock options or other plans or programs in which Executive is participating at the time of termination of his employment, Executive’s rights and benefits under each such plan shall be determined in accordance with the terms, conditions, and limitations of the plan and any separate agreement executed by Executive which may then be in effect.

(vii) For purposes of this Agreement, a “**Change in Control**” of the Company shall be deemed to have occurred at such time as:

(a) on the date that any “**Person**” (as defined below), other than (1) the Company or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding stock pursuant to an offering of such stock, or (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Company’s stock, acquires ownership of the Company’s stock that, together with stock held by such Person, constitutes more than 50% of the total fair market value or total voting power of the Company’s stock. However, if any Person is considered to own already more than 50% of the total fair market value or total voting power of the Company’s stock, the acquisition of additional stock by the same Person is not considered to be a Change in Control. In addition, if any Person has effective control of the Company through ownership of 50% or more of the total voting power of the Company’s stock, the acquisition of additional control of the Company by the same Person is not considered to cause a Change in Control pursuant to this Article III.C.; or

(b) on the date during any 12-month period when a majority of members of the Board is replaced by directors whose appointment or election is not endorsed by a majority of the Board before the date of the appointment or election; provided, however, that any such director shall not be considered to be endorsed by the Board if his or her initial assumption of office occurs as a result of an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) on the date a plan of reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or similar transaction occurs or is effectuated in which the Company is not the resulting entity; provided, however, that such an event listed above will be deemed to have occurred or to have been effectuated upon receipt of all required regulatory approvals not including the lapse of any required waiting periods. However, there is no Change in Control when there is such a transfer to (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock; (ii) an entity, at least 50% of the total value or voting power of the stock of which is owned, directly or indirectly, by the Company; (iii) a Person that owns directly or indirectly, at least 50% of the total value or voting power of the Company's outstanding stock; or (iv) an entity, at least 50% of the total value or voting power of the stock of which is owned by a Person that owns, directly or indirectly, at least 50% of the total value or voting power of the Company's outstanding stock.

For purposes of subparagraphs (a), (b) and (c) above:

“**Person**” shall have the meaning given in Section 7701(a)(1) of the Code. Person shall include more than one Person acting as a group as defined by the Final Treasury Regulations issued under Section 409A of the Code.

“**Affiliate**” shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended.

Notwithstanding anything to the contrary contained in this Agreement, a Change in Control for purposes of this Agreement shall not include any of the events described herein if the event is in connection with (i) a complete dissolution or liquidation of the Company; (ii) a Title 11 bankruptcy proceeding, the appointment of a trustee or receiver or the conversion of a case involving the Company to a case under Chapter 7; or (iii) any distressed sale of the Company's assets or stock (as defined herein). For purposes of this Agreement, a “**distressed sale of assets or stock**” shall mean a sale effected for the purpose of avoiding bankruptcy or receivership, or any sale that is recommended to the Company by the Office of the Comptroller of Currency (or any other similar governmental agency with regulatory or oversight authority over the Company or TCB).

D. **Shareholder Protection Provision.** Notwithstanding anything to the contrary contained herein, in the event any of the following events occur, Executive shall be entitled to receive the amounts described in Article III.B.; provided, however, that “six (6) months” shall be substituted in lieu of “twelve (12) months” in Article II.B.(ii) above: (i) a complete dissolution or liquidation of the Company; (ii) a Title 11 bankruptcy proceeding, the appointment of a trustee or the conversion of a case involving the Company to a case under Chapter 7; or (iii) any distressed sale of the Company's assets or stock (as defined below). For purposes of this Agreement, a “distressed sale of assets or stock” shall mean a sale effected for the purpose of avoiding bankruptcy or receivership, or any sale that is recommended to the Company by the Office of the Comptroller of Currency (or any other similar governmental agency with regulatory or oversight authority over the Company). In the event any amounts are received by Executive pursuant to this Article III that are calculated on the basis of the Company's statement of earnings or gains, and if the Company is later required to prepare a restatement of its earnings or gains (other than a restatement caused by

the retroactive application of accounting rules or other regulatory requirements) which the Board in good faith determines was due to the intentional misconduct of Executive or as to which the Board determines that Executive had actual knowledge of material inaccuracies in, Executive shall be required to reimburse the Company, net of taxes, for all severance payments made to Executive pursuant to this Article III that were calculated based on such statement of earnings or gains and Executive shall not be entitled to any additional payments pursuant to this Article III that would be calculated on the basis of a statement of earnings or gains. Notwithstanding the foregoing, in the event the Board in good faith determines that such restatement of the Company's earnings or gains was not due to the intentional misconduct of Executive and that Executive had no actual knowledge of any material inaccuracies in such statement of earnings or gains, then Executive only shall be required to reimburse the Company, net of taxes, for the excess severance remuneration (as defined below). "Excess severance remuneration" shall mean the excess of the severance payments made to Executive pursuant to this Article III over the amount of severance payments calculated based on the Company's statement of earnings as restated, as determined in the good faith discretion of the Board.

#### **ARTICLE IV, RESTRICTIVE COVENANTS**

##### **A. Confidentiality.**

(i) **Confidential Information.** Executive acknowledges and agrees that the Company has developed and will continue to develop unique concepts, lending practices, sales presentations, marketing programs, marketing strategies, business practices, methods of operation, pricing information, cost information, trademarks, licenses, technical information, proprietary information, computer software programs, computer tapes and disks concerning its operations systems, electronically stored information, customer lists, customer leads, documents identifying past, present and future customers, customer profiles and preference data, hiring and training methods, investment policies, financial and other confidential, proprietary and/or trade secret information concerning their operations and expansion plans ("***Confidential Information***"). The Confidential Information includes, without limitation, information about the Company's business, proprietary, and technical information not known to others that could have economic value to others if improperly disclosed. Confidential Information also means any information disclosed to Executive by the Company, either directly or indirectly, in writing, orally, electronically or by inspection of tangible objects, including, without limitation, all ideas, materials, documents, information, data, methods, strategies, equipment or plans, in any format, location or media, which are developed or used by or in the Company's possession, whether pertaining to or belonging to the Company, its Affiliates, clients, customers, business partners, consultants, or vendors, and which is not generally known to the public and outside of the Company. Confidential Information specifically includes, without limitation, the Company's, its Affiliates', clients', customers', business partners', consultants', or vendors' information regarding the following: client and potential client identity and history; current or potential business opportunities; business partners and potential business partners identity and history; business proposals; methods and practices of doing business and strategic growth plans; pricing formulas, structures or practices; proprietary information; calculations, rates, costs, and gross and net profit margins; finances, budgets,

advertising, sales/services plans, forecasts, strategies, methods, statistics, reports and data; design plans, models, drawings, specifications, experiments, technical data, software, know-how, and research data; marketing methods; and any other information, materials, documents, data or other intellectual property of any kind whatsoever that the Company, its Affiliates, clients, customers, business partners, consultants or vendors designate or treat as confidential. "**Affiliate**," as used in this Article IV, means any parent or subsidiary company of the Company, or any other entity in any form, of which the Company has any controlling ownership interest or management control in the operation of its business, or vice-versa, as determined by the Company. Executive acknowledges that the Company does not voluntarily disclose Confidential Information, but rather takes precautions to prevent dissemination of Confidential Information beyond those employees such as Executive entrusted with such information. For purposes of this Agreement, Confidential Information shall not include (i) information that is or becomes publicly available (other than as a result of a breach of this Agreement by Executive), and (ii) information that is generally available in the industry through no fault of Executive.

(ii) **No Unauthorized Use or Disclosure.** Executive acknowledges and agrees that Confidential Information is proprietary to and a trade secret of the Company and, as such, is a special and unique asset of the Company and that any disclosure or unauthorized use of any Confidential Information by Executive will cause irreparable harm and loss to the Company. Executive understands and acknowledges that each and every component of the Confidential Information (i) has been developed by the Company at significant effort and expense and is sufficiently secret to derive economic value from not being generally known to other parties; and (ii) constitutes a protectable business interest of the Company. Executive acknowledges and agrees that the Company owns the Confidential Information. Executive shall not dispute, contest, or deny any such ownership rights either during or after Executive's employment with the Company. Executive shall preserve and protect the confidentiality of all Confidential Information. During the period of Executive's employment with the Company and after Executive's termination from employment for any reason, Executive shall not directly or indirectly disclose to any unauthorized person or use for Executive's own account any Confidential Information without the Board's written consent. Throughout Executive's employment with the Company and thereafter: (i) Executive shall hold all Confidential Information in the strictest confidence, take all reasonable precautions to prevent its inadvertent disclosure to any unauthorized person, and follow all Company policies protecting the Confidential Information; and (ii) Executive shall not, directly or indirectly, utilize, disclose to anyone, or publish, use for any purpose, exploit, or allow or assist another person or entity to use, disclose or exploit, without prior written authorization of the Board, any Confidential Information or part thereof, except: (1) as permitted in the proper performance of Executive's duties for the Company, or (2) as otherwise permitted or required by law. Executive shall use reasonable best efforts to obligate all persons to whom any Confidential Information shall be disclosed by Executive hereunder to preserve and protect the confidentiality of such Confidential Information. If Executive learns that any person or entity is taking or threatening to take any actions that would compromise any Confidential Information except as permitted by law, Executive shall promptly advise the CEO of all facts concerning such action or threatened action. Executive shall not, directly or indirectly, use the Company's Confidential Information or information regarding the names, contact information, skills and compensation of employees and contractors of the Company to: (1) call upon, solicit business from, attempt to conduct business with, conduct business with, interfere

with or divert business away from any customer, client, vendor or supplier of the Company with whom or which the Company conducted business within the 18 months prior to Executive's termination from employment with the Company; and/or (2) recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company. Confidential Information prepared or compiled by Executive and/or the Company or furnished to Executive during Executive's employment with the Company shall be the sole and exclusive property of the Company, and none of such Confidential Information or copies thereof, shall be retained by Executive. Executive shall not remove any documents or electronically stored information that contains Confidential Information from any Company property except as may be required in the performance of Executive's duties as a Company Executive. Executive shall not place or save any Confidential Information on any computer or electronic storage system that is not in compliance with the Company's Information Security Policy.

(iii) **Third Party Confidential Information.** During Executive's employment with the Company, the Company will receive from third parties their confidential and/or proprietary information, subject to a duty on the Company's part to maintain the confidentiality of and to use such information only for certain limited purposes. Executive shall hold all such confidential or proprietary information in strict confidence and shall not disclose it to any person or organization or use it except as necessary in the course of Executive's employment with the Company and in accordance with the Company's agreement with such third party.

(iv) **No Interference.** Notwithstanding any other provision of this Agreement, that Executive may disclose Confidential Information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over Executive or the business of the Company or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information. Executive and the Company agree that nothing in this Agreement is intended to interfere with Executive's right to (i) report possible violations of federal, state or local law or regulation to any governmental agency or entity charged with the enforcement of any laws; (ii) make other disclosures that are protected under the whistleblower provisions of federal, state or local law or regulation; (iii) file a claim or charge with any federal, state or local government agency or entity; or (iv) testify, assist, or participate in an investigation, hearing, or proceeding conducted by any federal, state or local government or law enforcement agency, entity or court. In making or initiating any such reports or disclosures, Executive need not seek the Company's prior authorization and is not required to notify the Company of any such reports or disclosures.

(v) **Defend Trade Secrets Act.** Executive is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

(vi) **Return of Property and Information.** Upon the termination of Executive's employment for any reason, Executive shall immediately return and deliver to the Company any

and all property of the Company in Executive's possession, custody or control, including, without limitation, Confidential Information, software, devices, credit cards, data, reports, proposals, lists, correspondence, materials, equipment, computers, hard drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in Executive's possession, custody or control, whether prepared by Executive or others. If at any time after the termination or resignation of Executive's employment for any reason, Executive determines that Executive has any Confidential Information or Company property in Executive's possession or control, Executive shall immediately return it to the Company, including all copies and portions of the information or property.

**B. Restrictive Covenants.** In consideration for (i) the Company's provision of Confidential Information to Executive; (ii) the substantial economic investment made by the Company in the Confidential Information and goodwill of the Company, and/or the business opportunities disclosed or entrusted to Executive; (iii) access to the Company's proprietary information, customers, employees and associates; (iv) access to information regarding the salary, pay scale, capabilities, experiences, skill and desires of the employees and independent contractors of the Company; and (v) the Company's employment of Executive pursuant to this Agreement and the compensation and other benefits provided to Executive, to protect the Company's Confidential Information and business goodwill of the Company and the Company's Affiliates (including, without limitation, BankDirect), Executive agrees to the following restrictive covenants:

(i) **Non-Solicitation.** Executive agrees that during Executive's employment and for a period of 12 months following the termination of Executive's employment for any reason ("the **Restricted Period**"), other than in connection with Executive's duties under this Agreement, Executive shall not, and shall not use any Confidential Information to, directly or indirectly, either as a principal, manager, agent, employee, consultant, officer, director, stockholder, partner, investor or lender or in any other capacity, and whether personally or through other persons, solicit business from, interfere with, or induce to curtail or cancel any business or contracts with the Company, or attempt to solicit business with, interfere with, or induce to curtail or cancel any business or contracts with the Company, or do business with or accept business from any actual or prospective customer of the Company with whom the Company did business or whom the Company solicited within the preceding 12 months, and whom or which: (1) Executive contacted, called on, serviced or did business with during Executive's employment with the Company; (2) Executive learned of as a result of Executive's employment with the Company; or (3) about whom Executive received Confidential Information. This restriction applies only to business which is in the scope of services or products provided by the Company.

(ii) **Non-Recruitment.** During the Restricted Period, other than in connection with Executive's duties under this Agreement, Executive shall not, and shall not use any Confidential Information to, on behalf of Executive or on behalf of any other person or entity, directly or indirectly, hire, solicit, induce, recruit, engage, go into business with, or attempt to hire, solicit, induce, recruit, engage, go into business with, or encourage to leave or otherwise cease his/her employment with the Company, any individual who is an employee of the Company or who was an employee of the

Company within the 12-month period prior to Executive's termination from employment with the Company.

(iii) **Non-Disparagement.** Executive agrees that the Company's goodwill and reputation are assets of great value to the Company which have been obtained and maintained through great costs, time and effort. Therefore, during Executive's employment and after the termination of Executive's employment for any reason, Executive shall not in any way disparage, libel or defame the Company, its business or business practices, its products or services, or its shareholders, managers, officers, directors, employees, investors, members, contributors, sponsors or affiliates. Nothing in this Article IV.B.(iii) is intended to interfere with Executive's right to engage in the conduct set forth in Article IV.A.(iv).

**C. Works.**

(i) **Assignment of Work Product.** For the purposes of this Agreement, the term "***Work Product***" shall mean, collectively, all work product, information, inventions, original works of authorship, ideas, know-how, processes, designs, computer programs, photographs, illustrations, developments, trade secrets and discoveries, including improvements thereto, and all other intellectual property, including patents, trademarks, copyrights and trade secrets, that the Executive conceives, creates, develops, makes, reduces to practice, or fixes in a tangible medium of expression, either alone or with others. During the Executive's employment with the Company and for a period of 12 months following the termination of the Executive's employment for any reason, Executive shall promptly make full written disclosure to the Company of all Work Product conceived, created, developed, made, reduced to practice, or fixed in a tangible medium of expression during the period of the Executive's employment with the Company. Executive hereby assigns and shall be deemed to have assigned to the Company or its designee, all of the Executive's right, title, and interest in and to any and all Work Product conceived, created, developed, made, reduced to practice, or fixed in a tangible medium of expression during the period of the Executive's employment with the Company that (a) relates in any manner to the previous, existing or contemplated business, work, or investigations of the Company; (b) is or was suggested by, has resulted or will result from, or has arisen or will arise out of any work that the Executive has done or may do for or on behalf of the Company; (c) has resulted or will result from or has arisen or will arise out of any materials or information that may have been disclosed or otherwise made available to the Executive as a result of duties assigned to the Executive by the Company; or (d) has been or will be otherwise made through the use of the Company's time, information, facilities, or materials, even if conceived, created, developed, made, reduced to practice, or fixed during other than working hours. All original works of authorship that have been or will be made or fixed in a tangible medium of expression by the Executive (solely or jointly with others) within the scope of the Executive's employment with the Company will be considered "Works Made for Hire," as that term is defined in the United States Copyright Act. Executive understands and agrees that the decision whether or not to commercialize or market any Work Product is within the Company's sole discretion and for the Company's sole benefit, and that no royalty will be due to the Executive based on commercialization of any Work Product.

(ii) **Maintenance of Records.** Executive agrees to keep and maintain adequate and current hard-copy and electronic records of all Work Product made by the Executive (solely or jointly with others) during the term of the Executive's employment with the Company. The records will be available to and remain the sole property of the Company during the Executive's employment with the Company and at all times thereafter.

(iii) **Patent and Copyright Registrations.** Executive agrees to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in Work Product in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, affidavits, and all other instruments which the Company shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Work Product. The Executive further agrees that the Executive's obligation to execute or cause to be executed, when it is in the Executive's power to do so, any such instrument or papers shall continue after the termination of this Agreement.

**D. Business Opportunities.** Executive assigns and agrees to assign without further compensation to the Company and its successors, assigns or designees, all of Executive's right, title and interest in and to all Business Opportunities (defined below), and further acknowledges and agrees that all Business Opportunities constitute the exclusive property of the Company. Executive shall present all Business Opportunities to the CEO, and shall not exploit a Business Opportunity. For purposes of this Agreement, "**Business Opportunities**" means all business ideas, prospects, or proposals pertaining to any aspect of the Company's business and any business the Company prepared to conduct, or contemplated conducting during Executive's employment with the Company, which are developed by Executive or originated by any employee or third party and brought to the attention of Executive, together with information relating thereto. For the avoidance of doubt, this Article IV.D. is not intended to limit or narrow Executive's duties or obligations under federal or state law with respect to corporate opportunities.

**E. Tolling.** If Executive violates any of the restrictions contained in this Article IV, the Restricted Period shall be suspended and shall not run in favor of Executive from the time of the commencement of any violation until the time when Executive cures the violation to the satisfaction of the Company. The period of time during which Executive is in breach shall be added to the Restricted Period.

**F. Remedies.** Executive acknowledges that the restrictions contained in Article IV of this Agreement, in view of the nature of the Company's business and Executive's position with the Company, are reasonable and necessary to protect the Company's legitimate business interests. Executive further acknowledges and agrees that the covenants, obligations and agreements of Executive contained in Article IV concern special, unique and extraordinary matters and that a violation of any of the terms of these covenants, obligations or agreements will cause the Company irreparable injury for which adequate remedies at law are not available. In the event of a breach by Executive of Article IV of this Agreement, Executive immediately forfeits any unpaid portion of the Severance Payments or Change in Control Payments, as applicable, from the date of such

breach and the Company shall be entitled to (i) cease payment of any unpaid portion of the Severance Payments or Change in Control Payments, as applicable; and (ii) recover any portion of the Severance Payment or Change in Control Payments, as applicable, paid to Executive from the date of such breach or threatened breach. Additionally, Executive agrees that the Company shall be entitled to an injunction, restraining order, and all other relief (without the requirement to post bond) as a court of competent jurisdiction may deem necessary or appropriate, in addition to damages, attorneys' fees and costs. The remedies in this Article IV.F shall not be deemed the exclusive remedies for a breach or threatened breach of this Article IV but shall be in addition to all remedies available at law or in equity. The existence of any claim or cause of action Executive may have against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the Company's enforcement of the covenants in Article IV. No modification or waiver of any covenant contained in Article IV shall be valid unless the Company's Board approves the waiver or modification in writing. A Dispute, as defined in Article V, regarding a breach or threatened breach of this Article IV is not subject to the Dispute Resolution provisions in Article V; rather, the Company may apply to a court of competent jurisdiction to enforce the covenants set forth in this Article IV. The Company and Executive irrevocably submit to the exclusive jurisdiction of the state courts and federal courts in the city of the Company's headquarters (Dallas, Texas) regarding the injunctive remedies set forth in this Article IV, provided that such court(s) has authority to issue injunctive relief restraining any alleged violation of Article IV. Each party waives all objections and defenses based on service of process, forum, venue, or personal or subject matter jurisdiction, as these defenses may relate to an application for injunctive relief in a suit or proceeding under this Article IV.

**G. Reasonableness.** Executive hereby represents to the Company that Executive has read and understands, and agrees to be bound by, the terms of this Article IV. Executive acknowledges that the geographic area, scope and duration of the covenants contained in this Article IV are fair and reasonable in light of (i) the nature of the operations of the Company's business; (ii) Executive's level of control over and contact with the business in the Restricted Area; and (iii) the amount of compensation and Confidential Information that Executive is receiving in connection with Executive's employment with the Company. It is the desire and intent of the Parties that the provisions of Article IV be enforced to the fullest extent permitted under applicable law, whether now or hereafter in effect and therefore, to the extent permitted by applicable law, the Parties hereby waive any provision of applicable law that would render any provision of Article IV invalid or unenforceable.

**H. Reformation.** The Parties agree that the foregoing restrictions set forth in Article IV are reasonable under the circumstances and that any breach of the covenants contained in Article IV would cause irreparable injury to the Company. Executive understands that the foregoing restrictions may limit Executive's ability to engage in certain businesses anywhere in or involving the Restricted Area during the Restricted Period, but acknowledges that Executive shall receive Confidential Information and sufficiently high remuneration and other benefits to justify such restrictions. If any of the aforesaid restrictions are found by a court of competent jurisdiction to be unreasonable, overly broad, or otherwise unenforceable, the Parties intend for the restrictions herein set forth to be modified by the court making such determination so as to be reasonable and enforceable and, as so modified, to be fully enforced. By agreeing to this contractual modification

prospectively at this time, the Parties intend to make this provision enforceable under the law or laws of all applicable jurisdictions so that the entire agreement not to compete and this Agreement as prospectively modified shall remain in full force and effect and shall not be rendered void or illegal.

I. **Survival.** Executive's post-termination obligations in Article IV shall survive the termination of this Agreement and Executive's termination of employment with the Company for any reason.

**ARTICLE V.**  
**MISCELLANEOUS PROVISIONS**

A. **Governing Law.** This Agreement shall be governed by and construed under the laws of the State of Texas, without regard to any conflict of law or choice of law rules.

B. **Dispute Resolution.** In the event of any dispute, controversy or claim arising out of, or in connection with or relating to this Agreement or any other agreement, Executive's employment, the termination of Executive's employment for any reason, or Executive's relationship with the Company, or any of its predecessors, successors, affiliates, assigns, agents, directors, officers, employees, consultants, committees, employee benefit plans and committees, fiduciaries, representatives, insurers, attorneys, and all persons and entities acting by, through, under or in concert with any of them (any such matter, a "**Dispute**"), *except for any Dispute arising under Article IV of this Agreement:*

(i) The parties to such Dispute shall use commercially reasonable efforts to resolve such Dispute through negotiation between individuals with the authority to settle the Dispute on behalf of the parties (each, an "**Authorized Decision-Maker**"). To this end, each such party shall cause an Authorized Decision-Maker to consult and negotiate with an Authorized Decision-Maker of the other party, and the parties shall attempt to reach a resolution satisfactory to both parties, recognizing that their mutual interests may not be aligned (and that each such party shall be entitled to reasonably seek to promote such party's own interests in such resolution).

(ii) If the parties do not resolve such Dispute within 30 days of the first negotiation between Authorized Decision-Makers, then upon written notice by either party to the other, the Dispute shall be submitted to non-binding mediation to be administered in Dallas, Texas, by the American Arbitration Association or its successor (the "**AAA**") (or another mediator upon the mutual agreement of Executive and the Company). Such mediation session shall take place within 60 days of the date of receipt of the written request for mediation. If the parties are not able to agree regarding the identity of the mediator within 20 days from the party's delivery of the mediation demand to the other party, the AAA shall appoint a neutral mediator upon written request to the AAA by either party.

(iii) In the event the Company and Executive are unable to resolve any Dispute pursuant to Article V.B.(i) or (ii) above, the parties hereto shall resolve such Dispute by binding arbitration under the Employment Arbitration rules of the AAA then in effect, and in accordance

with applicable law, including the Federal Arbitration Act and the Federal Rules of Civil Procedure, but subject to the following agreed provisions and except where applicable federal or state law requires otherwise. Subject to legal privileges, the arbitrator shall have the power to permit discovery as allowed under the Federal Rules of Civil Procedure. The arbitration shall be conducted in Dallas, Texas, and the proceedings shall be kept strictly confidential by the parties, their respective attorneys and the arbitrator. Notice of papers or processes relating to any arbitration proceeding, or for the confirmation of award and entry of judgment on an award may be served on each of the parties by registered or certified mail. The arbitrator shall be selected by agreement of the parties; but if no agreement can be reached, the arbitrator shall be appointed pursuant to the procedures of the AAA. The Company, on the one hand, and Executive, on the other hand, shall each pay one-half of the arbitrator's expenses. Each party shall pay its own legal expenses, except where prohibited by law. The arbitrator shall have no authority to consolidate the claims of other employees into a class action or otherwise fashion, consider, preside over, or award relief to any form of a representative, collective, or class proceeding. The arbitrator shall provide a written opinion supporting his/her conclusions, including detailed findings of fact and conclusions of law. Such findings of fact shall be final and binding on the parties. The arbitrator may award damages and/or permanent injunctive relief, but in no event shall the arbitrator have the authority to award punitive or exemplary damages, except where authorized by statute. Notwithstanding anything to the contrary in this Article V, the Company may apply to a court of competent jurisdiction to enforce the covenants set forth in Article IV. If proper notice of any hearing has been given, the arbitrator shall have full power to proceed to take evidence or to perform any other acts necessary to arbitrate the matter in the absence of any party who fails to appear. If any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect and validity of the remaining portion hereof.

C. **Cooperation.** After the termination of Executive's employment, Executive shall cooperate and provide reasonable assistance, at the request of the Company, in the transitioning of Executive's job duties and responsibilities, and any and all investigations or other legal, equitable or business matters or proceedings which involve any matters for which Executive worked on or had responsibility during Executive's employment with the Company. Executive also agrees to be reasonably available to the Company or its representatives to provide general advice or assistance as requested by the Company. This includes but is not limited to testifying (and preparing to testify) as a witness in any proceeding or otherwise providing information or reasonable assistance to the Company in connection with any investigation, claim or suit, and cooperating with the Company regarding any investigation, litigation, claims or other disputed items involving the Company that relate to matters within the knowledge or responsibility of Executive. Specifically, Executive agrees (i) to meet with the Company's representatives, its counsel or other designees at reasonable times and places with respect to any items within the scope of this provision; (ii) to provide truthful testimony regarding same to any court, agency or other adjudicatory body; (iii) to provide the Company with immediate notice of contact or subpoena by any non-governmental adverse party as to matters relating to the Company; and (iv) to not voluntarily assist any such non-governmental adverse party or such non-governmental adverse party's representatives. Executive acknowledges and understands that Executive's obligations of reasonable cooperation under this Article V.C. are

not limited in time and may include, but shall not be limited to, the need for or availability for testimony. Executive shall receive no additional compensation for time spent assisting the Company pursuant to this Article V.C. other than the compensation and benefits provided for in this Agreement, provided that Executive shall be entitled to be reimbursed by the Company for any reasonable out-of-pocket expenses incurred in fulfilling Executive's obligations pursuant to subsections (i) and (ii) above. Nothing in this Article V.C. is intended to interfere with Executive's right to engage in the conduct outlined in Article IV.A.(iv).

D. **Headings.** The paragraph headings contained in this Agreement are for convenience only and shall in no way or manner be construed as a part of this Agreement.

E. **Severability.** In the event that any court of competent jurisdiction or arbitrator holds any provision in this Agreement to be invalid, illegal or unenforceable in any respect, the remaining provisions shall not be affected or invalidated and shall remain in full force and effect.

F. **Reformation.** In the event any court of competent jurisdiction or arbitrator holds any restriction in this Agreement to be unreasonable and/or unenforceable as written, the court or arbitrator may reform this Agreement to make it enforceable, and this Agreement shall remain in full force and effect as reformed by the court or arbitrator.

G. **Entire Agreement.** This Agreement constitutes the entire agreement among the Parties, and fully supersedes any and all prior agreements, understanding or representations among the Parties pertaining to or concerning the subject matter of this Agreement, including, without limitation, Executive's employment with the Company; provided, however, Executive's obligations under this Agreement are in addition to Executive's obligations under the Company's policies and procedures. No oral statements or prior written material not specifically incorporated in this Agreement shall be of any force and effect, and no changes in or additions to this Agreement shall be recognized, unless incorporated in this Agreement by written amendment, such amendment to become effective on the date stipulated in it. Any amendment to this Agreement must be in writing and must be signed by all parties to this Agreement.

H. **Disclaimer of Reliance.** Except for the specific representations expressly made by the Company in this Agreement, Executive specifically disclaims that Executive is relying upon or has relied upon any communications, promises, statements, inducements, or representation(s) that may have been made, oral or written, regarding the subject matter of this Agreement, the terms of Executive's employment, and any compensation or benefits to which Executive may be entitled. Executive represents that Executive relied solely and only on Executive's own judgment in making the decision to enter into this Agreement.

I. **No Fiduciary Relationship by the Company.** This Agreement does not create, nor shall it be construed as creating, any principal and agent, trust, or other fiduciary duty or special relationship running from the Company (or any of its officers or directors) to Executive.

J. **Waiver.** No waiver of any breach of this Agreement shall be construed to be a waiver as to succeeding breaches. The failure of any Party to insist in any one or more instances upon

performance of any terms or conditions of this Agreement shall not be construed as a waiver of future performance of any such term, covenant or condition but the obligations of the Parties with respect thereto shall continue in full force and effect. The breach by one Party to this Agreement shall not preclude equitable relief, injunctive relief, damages or the obligations in Article IV.

K. **Modification.** The provisions of this Agreement may be amended, modified or waived only with the prior written consent of the Company and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall be construed as a waiver of such provisions or affect the validity, binding effect or enforceability of this Agreement or any provision hereof.

L. **Assignment.** This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective heirs, successors and permitted assigns. Executive may not assign this Agreement to a third party. Except as provided in this Agreement, nothing in this Agreement entitles any person other than the Parties to the Agreement to any claim, cause of action, remedy, or right of any kind.

M. **Section 409A.** This Agreement is intended to be interpreted and applied so that the payments and benefits set forth herein shall either be exempt from the requirements of Section 409A of the Code, or shall comply with the requirements of Section 409A of the Code. In no event may Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement or otherwise which constitutes a “deferral of compensation” within the meaning of Section 409A of the Code. Notwithstanding anything in this Agreement or elsewhere to the contrary, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “non-qualified deferred compensation” within the meaning of Section 409A of the Code upon or following a termination of Executive’s employment unless such termination is also a “separation from service” within the meaning of Section 409A of the Code and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service” within the meaning of Section 409A of the Code. Notwithstanding any provision in this Agreement or elsewhere to the contrary, if on Executive’s termination of employment, Executive is deemed to be a “specified employee” within the meaning of Section 409A of the Code, any payments or benefits due upon a termination of Executive’s employment under any arrangement that constitutes a “deferral of compensation” within the meaning of Section 409A of the Code (whether under this Agreement, any other plan, program, payroll practice or any equity grant) and which do not otherwise qualify under the exemptions under Treasury Regulation section 1.409A-1 (including without limitation, the short-term deferral exemption and the permitted payments under Treasury Regulation section 1.409A-1(b)(9)(iii)(A)), shall be delayed and paid or provided to Executive in a lump sum (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) on the earlier of (x) the date which is six months and one day after Executive’s separation from service for any reason other than death, and (y) the date of Executive’s death, and any remaining payments and benefits shall be paid or provided in accordance with the normal payment dates specified for such payment or benefit. With respect to any expense reimbursement benefit provided pursuant to this Agreement, (1) the amount of expenses eligible for reimbursement provided to Executive during any calendar year shall not affect the

amount of expenses eligible for reimbursement provided to Executive in any other calendar year, (2) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred, and (3) the right to payment or reimbursement hereunder may not be liquidated or exchanged for any other benefit. Each payment under this Agreement to Executive shall be deemed a separate payment. To the extent the benefits provided under Article III.B.(ii) or Article III.C.(ii) are otherwise taxable to Executive, such benefits, for purposes of Section 409A of the Code shall be provided as separate monthly in-kind payments of those benefits, and to the extent those benefits are subject to and not otherwise excepted from Section 409A of the Code, the provision of the in-kind benefits during one calendar year shall not affect the in-kind benefits to be provided in any other calendar year.

N. **Further Acts.** Whether or not specifically required under the terms of this Agreement, each party shall execute and deliver such documents and take such further actions as shall be necessary in order for such party to perform all of his or its obligations specified in the Agreement or reasonably implied from the Agreement's terms.

O. **Publicity and Advertising.** Executive agrees that the Company may use his name, picture, or likeness for any advertising, publicity or other business purpose at any time, during the term of this Agreement and may continue to use materials generated during the term of this Agreement for a period of six months thereafter. The use of Executive's name, picture, or likeness shall not be deemed to result in any invasion of Executive's privacy or in violation of any property right Executive may have; and Executive shall receive no additional consideration if his name, picture or likeness is so used. Executive further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his name, picture or likeness by the Company shall be and are the sole property of the Company.

P. **Indemnification.** The Company agrees that it shall indemnify and hold harmless Executive to the fullest extent permitted by Texas law from and against any and all liabilities, costs, claims and expenses including without limitation all costs and expenses incurred in defense of litigation, including attorneys' fees, arising out of the employment of Executive hereunder, except to the extent arising out of or based upon the willful misconduct, fraud, or gross negligence of Executive. Costs and expenses incurred by Executive in defense of any such litigation, including attorneys' fees, shall be paid by the Company in advance of the final disposition of such litigation promptly upon receipt by the Company of (i) a written request for payment, (ii) appropriate documentation evidencing the incurrence, amount and nature of the costs and expenses for which payment is being sought, and (iii) an undertaking adequate under Texas law made by or on behalf of Executive to repay the amounts so paid if it shall ultimately be determined that Executive is not entitled to be indemnified by the Company under this Agreement. THE FOREGOING INDEMNIFICATION SPECIFICALLY INCLUDES CLAIMS THAT ARISE OUT OF EXECUTIVE'S SOLE, JOINT OR CONTRIBUTORY NEGLIGENCE, BUT SPECIFICALLY EXCLUDES THOSE CLAIMS THAT ARISE OUT OF EXECUTIVE'S WILLFUL MISCONDUCT, FRAUD OR GROSS NEGLIGENCE. EXECUTIVE WOULD NOT HAVE ENTERED INTO THIS AGREEMENT IF NOT FOR THIS INDEMNIFICATION.

Q. **Execution in Multiple Counterparts.** This Agreement may be executed in multiple counterparts, whether or not all signatories appear on these counterparts, and each counterpart shall be deemed an original for all purposes.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Executive have caused this Agreement to be executed on the date first set forth above, to be effective as of the Effective Date.

**EXECUTIVE:** Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

**THE COMPANY:** **TEXAS CAPITAL BANCSHARES, INC.**

Signature:

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**SUBSIDIARIES OF THE REGISTRANT**

Texas Capital Bank, National Association

**Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-131503) pertaining to the 2005 Long-Term Incentive Plan and 2006 Employee Stock Purchase Plan of Texas Capital Bancshares, Inc.,
- (2) Registration Statement (Form S-8 No. 333-166954) pertaining to the 2010 Long-Term Incentive Plan of Texas Capital Bancshares, Inc., and
- (3) Registration Statement (Form S-8 No. 333-204357) pertaining to the 2015 Long-Term Incentive Plan of Texas Capital Bancshares, Inc.

of our reports dated February 12, 2020, with respect to the consolidated financial statements of Texas Capital Bancshares, Inc. (the Company) and the effectiveness of internal control over financial reporting of the Company included in this Annual Report (Form 10-K) of the Company for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Dallas, Texas  
February 12, 2020

## 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: February 12, 2020

/S/ C. Keith Cargill

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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: February 12, 2020

/s/ Julie Anderson

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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 December 31, 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

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C. Keith Cargill

Chief Executive Officer

Date: February 12, 2020

**CERTIFICATION**

In connection with the Annual Report on Form 10-K of Texas Capital Bancshares, Inc. (the "Company") for the period ending December 31, 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

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Julie Anderson

Chief Financial Officer

Date: February 12, 2020