# Section 1: 10-Q (10-Q 9-30-16 10Q)

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

## FORM 10-Q

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

**For the quarterly period ended September 30, 2016**

☐ **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, Texas, U.S.A.** | **75201** |
| **(Address of principal executive officers)** | **(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)**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | Accelerated Filer | ☐ |

| Non-Accelerated Filer | ☐ | Smaller Reporting Company | ☐ |
|---|---|---|---|

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

On October 20, 2016, the number of shares set forth below was outstanding with respect to each of the issuer’s classes of common stock:

Common Stock, par value $0.01 per share 46,013,269

Texas Capital Bancshares, Inc.
Form 10-Q
Quarter Ended September 30, 2016

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Part I. Financial Information

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**PART I – FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**
**TEXAS CAPITAL BANCSHARES, INC.**
**CONSOLIDATED BALANCE SHEETS**
(In thousands except share data)

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Cash and due from banks | $ 117,345 | $ 109,496 |
| Interest-bearing deposits | 3,441,074 | 1,626,374 |
| Federal funds sold and securities purchased under resale agreements | 30,000 | 55,000 |
| Securities, available-for-sale | 26,356 | 29,992 |
| Loans held for sale, at fair value | 648,684 | 86,075 |
| Loans held for investment, mortgage finance | 4,961,159 | 4,966,276 |
| Loans held for investment (net of unearned income) | 12,662,394 | 11,745,674 |
| Less: Allowance for loan losses | 180,436 | 141,111 |
| Loans held for investment, net | 17,443,117 | 16,570,839 |
| Mortgage servicing rights, net | 15,462 | 423 |
| Premises and equipment, net | 20,604 | 23,561 |
| Accrued interest receivable and other assets | 454,116 | 382,101 |
| Goodwill and intangible assets, net | 19,630 | 19,960 |
| Total assets | $ 22,216,388 | $ 18,903,821 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest-bearing | $ 8,789,740 | $ 6,386,911 |
| Interest-bearing | 9,355,383 | 8,697,708 |
| Total deposits | 18,145,123 | 15,084,619 |
| Accrued interest payable | 3,124 | 5,097 |
| Other liabilities | 196,579 | 153,433 |
| Federal funds purchased and repurchase agreements | 81,420 | 143,051 |
| Other borrowings | 1,670,000 | 1,500,000 |
| Subordinated notes, net | 280,954 | 280,682 |
| Trust preferred subordinated debentures | 113,406 | 113,406 |
| Total liabilities | 20,490,606 | 17,280,288 |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value, $1,000 liquidation value: | | |
| Authorized shares – 10,000,000 | | |
| Issued shares – 6,000,000 shares issued at September 30, 2016 and December 31, 2015 | 150,000 | 150,000 |
| Common stock, $.01 par value: | | |
| Authorized shares – 100,000,000 | | |
| Issued shares – 46,009,912 and 45,874,224 at September 30, 2016 and December 31, 2015, respectively | 460 | 459 |
| Additional paid-in capital | 717,452 | 714,546 |
| Retained earnings | 857,238 | 757,818 |
| Treasury stock (shares at cost: 417 at September 30, 2016 and December 31, 2015) | (8) | (8) |
| Accumulated other comprehensive income, net of taxes | 640 | 718 |
| Total stockholders' equity | 1,725,782 | 1,623,533 |
| Total liabilities and stockholders' equity | $ 22,216,388 | $ 18,903,821 |

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**
**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME – UNAUDITED**
(In thousands except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Interest income** | | | | |
| Interest and fees on loans | $ 177,724 | $ 151,749 | $ 501,673 | $ 442,529 |
| Securities | 232 | 298 | 739 | 979 |
| Federal funds sold and securities purchased under resale agreements | 455 | 193 | 1,209 | 427 |
| Deposits in other banks | 4,081 | 1,616 | 11,116 | 4,203 |
| Total interest income | 182,492 | 153,856 | 514,737 | 448,138 |
| **Interest expense** | | | | |
| Deposits | 8,950 | 6,240 | 26,743 | 17,510 |
| Federal funds purchased | 126 | 56 | 362 | 217 |
| Repurchase agreements | 3 | 6 | 8 | 14 |
| Other borrowings | 1,730 | 672 | 4,257 | 1,590 |
| Subordinated notes | 4,191 | 4,191 | 12,573 | 12,573 |
| Trust preferred subordinated debentures | 753 | 643 | 2,203 | 1,892 |
| Total interest expense | 15,753 | 11,808 | 46,146 | 33,796 |
| **Net interest income** | 166,739 | 142,048 | 468,591 | 414,342 |
| **Provision for credit losses** | 22,000 | 13,750 | 68,000 | 39,250 |
| **Net interest income after provision for credit losses** | 144,739 | 128,298 | 400,591 | 375,092 |
| **Non-interest income** | | | | |
| Service charges on deposit accounts | 2,880 | 2,096 | 7,401 | 6,339 |
| Trust fee income | 1,113 | 1,222 | 3,024 | 3,709 |
| Bank owned life insurance (BOLI) income | 520 | 484 | 1,592 | 1,444 |
| Brokered loan fees | 7,581 | 4,885 | 18,090 | 14,394 |
| Swap fees | 918 | 254 | 2,330 | 3,275 |
| Other | 3,704 | 2,439 | 9,508 | 7,257 |
| Total non-interest income | 16,716 | 11,380 | 41,945 | 36,418 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | 56,722 | 48,583 | 162,904 | 142,611 |
| Net occupancy expense | 5,634 | 5,874 | 17,284 | 17,373 |
| Marketing | 4,292 | 3,999 | 12,686 | 12,142 |
| Legal and professional | 5,333 | 5,510 | 16,883 | 15,176 |
| Communications and technology | 6,620 | 5,180 | 19,228 | 15,905 |
| FDIC insurance assessment | 6,355 | 4,489 | 17,867 | 12,490 |
| Allowance and other carrying costs for OREO | 269 | 1 | 765 | 16 |
| Other | 9,574 | 8,052 | 28,257 | 23,768 |
| Total non-interest expense | 94,799 | 81,688 | 275,874 | 239,481 |
| **Income before income taxes** | 66,656 | 57,990 | 166,662 | 172,029 |
| Income tax expense | 23,931 | 20,876 | 59,929 | 61,928 |
| **Net income** | 42,725 | 37,114 | 106,733 | 110,101 |
| **Preferred stock dividends** | 2,438 | 2,438 | 7,313 | 7,313 |
| **Net income available to common stockholders** | $ 40,287 | $ 34,676 | $ 99,420 | $ 102,788 |
| **Other comprehensive income (loss)** | | | | |
| Change in net unrealized gain on available-for-sale securities arising during period, before-tax | $ (63) | $ (216) | $ (121) | $ (613) |
| Income tax benefit related to net unrealized gain on available-for-sale securities | (23) | (75) | (43) | (214) |
| Other comprehensive loss, net of tax | (40) | (141) | (78) | (399) |
| **Comprehensive income** | $ 42,685 | $ 36,973 | $ 106,655 | $ 109,702 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Basic earnings per common share** | $ | 0.88 | $ | 0.76 | $ | 2.16 | $ | 2.24 |
| **Diluted earnings per common share** | $ | 0.87 | $ | 0.75 | $ | 2.14 | $ | 2.21 |

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED**
(In thousands except share data)

| | Preferred Stock | | Common Stock | | | | Treasury Stock | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Shares | Amount | Accumulated Other Comprehensive Income (Loss), Net of Taxes | Total |
| Balance at December 31, 2014 (audited) | 6,000,000 | $150,000 | 45,735,424 | $ 457 | $709,738 | $622,714 | (417) | $ (8) | $ 1,289 | $1,484,190 |
| Comprehensive income: | | | | | | | | | | |
| Net income | — | — | — | — | — | 110,101 | — | — | — | 110,101 |
| Change in unrealized gain on available-for-sale securities, net of taxes of $214 | — | — | — | — | — | — | — | — | (399) | (399) |
| Total comprehensive income | | | | | | | | | | 109,702 |
| Tax benefit related to exercise of stock-based awards | — | — | — | — | 1,092 | — | — | — | — | 1,092 |
| Stock-based compensation expense recognized in earnings | — | — | — | — | 3,328 | — | — | — | — | 3,328 |
| Issuance of preferred stock | — | — | — | — | — | — | — | — | — | — |
| Preferred stock dividend | — | — | — | — | — | (7,313) | — | — | — | (7,313) |
| Issuance of stock related to stock-based awards | — | — | 135,688 | 1 | (949) | — | — | — | — | (948) |
| Balance at September 30, 2015 | 6,000,000 | $150,000 | 45,871,112 | $ 458 | $713,209 | $725,502 | (417) | $ (8) | $ 890 | $1,590,051 |
| | | | | | | | | | | |
| Balance at December 31, 2015 (audited) | 6,000,000 | $150,000 | 45,874,224 | $ 459 | $714,546 | $757,818 | (417) | $ (8) | $ 718 | $1,623,533 |
| Comprehensive income: | | | | | | | | | | |
| Net income | — | — | — | — | — | 106,733 | — | — | — | 106,733 |
| Change in unrealized gain on available-for-sale securities, net of taxes of $43 | — | — | — | — | — | — | — | — | (78) | (78) |
| Total comprehensive income | | | | | | | | | | 106,655 |
| Tax benefit related to exercise of stock-based awards | — | — | — | — | 1,213 | — | — | — | — | 1,213 |
| Stock-based compensation expense recognized in earnings | — | — | — | — | 3,466 | — | — | — | — | 3,466 |
| Preferred stock dividend | — | — | — | — | — | (7,313) | — | — | — | (7,313) |
| Issuance of stock related to stock-based awards | — | — | 135,688 | 1 | (1,773) | — | — | — | — | (1,772) |
| Balance at September 30, 2016 | 6,000,000 | $150,000 | 46,009,912 | $ 460 | $717,452 | $857,238 | (417) | $ (8) | $ 640 | $1,725,782 |

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS—UNAUDITED**
(In thousands)

| | Nine months ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| **Operating activities** | | |
| Net income | $ 106,733 | $ 110,101 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 68,000 | 39,250 |
| Depreciation and amortization | 16,179 | 12,230 |
| Increase in valuation allowance on mortgage servicing rights | 414 | — |
| Bank owned life insurance (BOLI) income | (1,592) | (1,444) |
| Stock-based compensation expense | 6,175 | 9,286 |
| Excess tax benefits from stock-based compensation arrangements | (1,328) | (1,134) |
| Purchases of loans held for sale | (1,927,702) | (4,440) |
| Proceeds from sales and repayments of loans held for sale | 1,368,666 | 3,378 |
| Capitalization of mortgage servicing rights | (16,344) | — |
| (Gain) loss on sale of loans held for sale and other assets | (1,307) | 134 |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable and other assets | (79,267) | (77,873) |
| Accrued interest payable and other liabilities | 34,172 | 2,339 |
| Net cash provided by (used in) operating activities | (427,201) | 91,827 |
| **Investing activities** | | |
| Purchases of available-for-sale securities | (1,278) | — |
| Maturities and calls of available-for-sale securities | 265 | 2,430 |
| Principal payments received on available-for-sale securities | 4,528 | 6,677 |
| Originations of mortgage finance loans | (74,594,117) | (66,786,322) |
| Proceeds from pay-offs of mortgage finance loans | 74,599,234 | 66,575,657 |
| Net increase in loans held for investment, excluding mortgage finance loans | (943,534) | (1,417,605) |
| Purchase of premises and equipment, net | (1,526) | (3,729) |
| Proceeds from sale of foreclosed assets | 62 | 1,430 |
| Net cash used in investing activities | (936,366) | (1,621,462) |
| **Financing activities** | | |
| Net increase in deposits | 3,060,504 | 2,492,045 |
| Costs from issuance of stock related to stock-based awards and warrants | (1,772) | (948) |
| Preferred dividends paid | (7,313) | (7,313) |
| Net increase in other borrowings | 170,000 | 149,995 |
| Excess tax benefits from stock-based compensation arrangements | 1,328 | 1,134 |
| Net increase (decrease) in Federal funds purchased and repurchase agreements | (61,631) | 11,158 |
| Net cash provided by financing activities | 3,161,116 | 2,646,071 |
| Net increase in cash and cash equivalents | 1,797,549 | 1,116,436 |
| Cash and cash equivalents at beginning of period | 1,790,870 | 1,330,514 |
| Cash and cash equivalents at end of period | $ 3,588,419 | $ 2,446,950 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for interest | $ 48,119 | $ 35,849 |
| Cash paid during the period for income taxes | 68,716 | 70,208 |
| Transfers from loans/leases to OREO and other repossessed assets | 18,822 | 1,177 |

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED**

**(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 and national clientèle of commercial borrowers. We are primarily a secured lender, with our greatest concentration of loans in Texas.

**Basis of Presentation**

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

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the SEC on February 18, 2016 (the “2015 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

**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 stock-based compensation awards, the fair values of certain assets and liabilities and the status of contingencies are particularly susceptible to significant change in the near term.

**(2) EARNINGS PER COMMON SHARE**

The following table presents the computation of basic and diluted earnings per share (in thousands except per share data):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net income | $ 42,725 | $ 37,114 | $ 106,733 | $ 110,101 |
| Preferred stock dividends | 2,438 | 2,438 | 7,313 | 7,313 |
| Net income available to common stockholders | 40,287 | 34,676 | $ 99,420 | 102,788 |
| Denominator: | | | | |
| Denominator for basic earnings per share— weighted average shares | 45,980,517 | 45,827,902 | 45,931,357 | 45,792,470 |
| Effect of employee stock-based awards(1) | 118,885 | 216,499 | 119,021 | 216,448 |
| Effect of warrants to purchase common stock | 410,281 | 426,989 | 382,578 | 416,574 |
| Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions | 46,509,683 | 46,471,390 | 46,432,956 | 46,425,492 |
| Basic earnings per common share | $ 0.88 | $ 0.76 | $ 2.16 | $ 2.24 |
| Diluted earnings per common share | $ 0.87 | $ 0.75 | $ 2.14 | $ 2.21 |

(1) Stock options, SARs and RSUs outstanding of 319,476 at September 30, 2016 and 101,100 at September 30, 2015 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

**(3) SECURITIES**

At September 30, 2016, our net unrealized gain on the available-for-sale securities portfolio was $985,000 compared to $1.1 million at December 31, 2015. As a percent of outstanding balances, the unrealized gain was 3.88% and 3.83% at September 30, 2016, and December 31, 2015, respectively. The increase in the unrealized gain percentage at September 30, 2016 results from the reduction in the portfolio balance due to paydowns and maturities.

The following is a summary of available-for-sale securities (in thousands):

| | September 30, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-sale securities: | | | | |
| Residential mortgage-backed securities | $ 16,007 | $ 1,139 | $ — | $ 17,146 |
| Municipals | 564 | 2 | — | 566 |
| Equity securities(1) | 8,800 | 49 | (205) | 8,644 |
| | $ 25,371 | $ 1,190 | $ (205) | $ 26,356 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-sale securities: | | | | |
| Residential mortgage-backed securities | $ 20,536 | $ 1,365 | $ — | $ 21,901 |
| Municipals | 828 | 3 | — | 831 |
| Equity securities(1) | 7,522 | 11 | (273) | 7,260 |
| | $ 28,886 | $ 1,379 | $ (273) | $ 29,992 |

(1) Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan.

The amortized cost and estimated fair value of available-for-sale securities are presented below by contractual maturity (in thousands, except percentage data):

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | Total |
| Available-for-sale: | | | | | |
| Residential mortgage-backed securities:(1) | | | | | |
| Amortized cost | $ 50 | $ 2,565 | $ 3,418 | $ 9,974 | $ 16,007 |
| Estimated fair value | 50 | 2,649 | 3,856 | 10,591 | 17,146 |
| Weighted average yield(3) | 5.50% | 4.70% | 5.54% | 2.69% | 3.63% |
| Municipals:(2) | | | | | |
| Amortized cost | 275 | 289 | — | — | 564 |
| Estimated fair value | 275 | 291 | — | — | 566 |
| Weighted average yield(3) | 5.61% | 5.76% | — | — | 5.69% |
| Equity securities:(4) | | | | | |
| Amortized cost | 8,800 | — | — | — | 8,800 |
| Estimated fair value | 8,644 | — | — | — | 8,644 |
| Total available-for-sale securities: | | | | | |
| Amortized cost | | | | | $ 25,371 |
| Estimated fair value | | | | | $ 26,356 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | Total |
| Available-for-sale: | | | | | |
| Residential mortgage-backed securities:(1) | | | | | |
| Amortized cost | $ 214 | $ 4,655 | $ 4,265 | $ 11,402 | $ 20,536 |
| Estimated fair value | 217 | 4,837 | 4,747 | 12,100 | 21,901 |
| Weighted average yield(3) | 5.62% | 4.71% | 5.54% | 2.53% | 3.68% |
| Municipals:(2) | | | | | |
| Amortized cost | 265 | 563 | — | — | 828 |
| Estimated fair value | 265 | 566 | — | — | 831 |
| Weighted average yield(3) | 5.46% | 5.69% | —% | —% | 5.62% |
| Equity securities:(4) | | | | | |
| Amortized cost | 7,522 | — | — | — | 7,522 |
| Estimated fair value | 7,260 | — | — | — | 7,260 |
| Total available-for-sale securities: | | | | | |
| Amortized cost | | | | | $ 28,886 |
| Estimated fair value | | | | | $ 29,992 |

(1) Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

(2) Yields have been adjusted to a tax equivalent basis assuming a 35% federal tax rate.

(3) Yields are calculated based on amortized cost.

(4) These equity securities do not have a stated maturity.

Securities with carrying values of approximately $15.2 million were pledged to secure certain borrowings and deposits at September 30, 2016. Of the pledged securities at September 30, 2016, approximately $4.0 million were pledged for certain deposits, and approximately $11.2 million were pledged for repurchase agreements.

The following table discloses, as of September 30, 2016 and December 31, 2015, our investment 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 (in thousands):

| September 30, 2016 | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Equity securities | $ — | $ — | $ 6,295 | $ (205) | $ 6,295 | $ (205) |

| December 31, 2015 | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Equity securities | $ — | $ — | $ 6,227 | $ (273) | $ 6,227 | $ (273) |

At September 30, 2016, we owned one security with an unrealized loss position. This security is a publicly traded equity fund and is subject to market pricing volatility. We do not believe this unrealized loss is “other-than-temporary”. We have evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and based on that evaluation have the ability and intent to hold the investment until recovery of fair value.

**(4) LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR LOAN LOSSES**

At September 30, 2016 and December 31, 2015, loans held for investment were as follows (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Commercial | $ 7,053,979 | $ 6,672,631 |
| Mortgage finance | 4,961,159 | 4,966,276 |
| Construction | 2,150,453 | 1,851,717 |
| Real estate | 3,391,831 | 3,139,197 |
| Consumer | 27,554 | 25,323 |
| Leases | 96,878 | 113,996 |
| Gross loans held for investment | 17,681,854 | 16,769,140 |
| Deferred income (net of direct origination costs) | (58,301) | (57,190) |
| Allowance for loan losses | (180,436) | (141,111) |
| Total loans held for investment | $ 17,443,117 | $ 16,570,839 |

*Commercial Loans and Leases.* Our commercial loan portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards and take into account the risk of oil and gas price volatility. Our commercial loans and leases are underwritten after carefully evaluating and understanding the borrower’s ability to operate profitably. Our underwriting standards are designed to promote relationship banking rather than to make loans on a transaction basis. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually, or more frequently, as needed, and are supported by accounts receivable, inventory, equipment and other assets of our clients’ businesses.

*Mortgage Finance Loans.* Our mortgage finance loans consist of ownership interests purchased in single-family residential mortgages funded through our mortgage finance group. These loans are typically held on our balance sheet for 10 to 20 days. We have agreements with mortgage lenders and purchase interests in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans. September 30, 2016 and December 31, 2015 balances are stated net of $1.0 billion and $454.8 million participations sold, respectively.

*Construction Loans.* Our construction loan portfolio consists primarily of single- and multi-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial equity investment in the borrowers. Loan amounts are derived primarily from the Bank's evaluation of expected cash flows available to service debt from stabilized projects under hypothetically stressed conditions. Construction loans are also based in part upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment sensitive to overall economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, non-performing status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees.

*Real Estate Loans.* A portion of our real estate loan portfolio is comprised of loans secured by properties other than market risk or investment-type real estate. Market risk loans are real estate loans where the primary source of repayment is expected to come from the sale, permanent financing or lease of the real property collateral. We generally provide temporary financing for commercial and residential property. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Our real estate loans generally have maximum terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Appraised values may be highly variable due to market conditions and the impact of the inability of potential purchasers and lessees to obtain financing and a lack of transactions at comparable values.

At September 30, 2016 and December 31, 2015, we had a blanket floating lien on certain real estate-secured loans, mortgage finance loans and certain securities used as collateral for Federal Home Loan Bank (“FHLB”) borrowings.

**Summary of Loan Loss Experience**

The allowance for loan losses is comprised of specific reserves for impaired loans and an additional qualitative reserve based on our estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We consider the allowance at September 30, 2016 to be appropriate, given management's assessment of losses inherent in the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in our market areas and other factors.

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades and non-accrual status as of September 30, 2016 and December 31, 2015 (in thousands):

September 30, 2016

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|
| Grade: | | | | | | | |
| Pass | $ 6,605,475 | $ 4,961,159 | $ 2,130,826 | $ 3,348,510 | $ 27,210 | $ 92,875 | $ 17,166,055 |
| Special mention | 128,785 | — | 7,361 | 34,581 | — | 37 | 170,764 |
| Substandard-accruing | 153,386 | — | 12,107 | 6,319 | 144 | 3,966 | 175,922 |
| Non-accrual | 166,333 | — | 159 | 2,421 | 200 | — | 169,113 |
| Total loans held for investment | $ 7,053,979 | $ 4,961,159 | $ 2,150,453 | $ 3,391,831 | $ 27,554 | $ 96,878 | $ 17,681,854 |

December 31, 2015

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|
| Grade: | | | | | | | |
| Pass | $ 6,375,332 | $ 4,966,276 | $ 1,821,678 | $ 3,085,463 | $ 25,093 | $ 103,560 | $ 16,377,402 |
| Special mention | 111,911 | — | 13,090 | 30,585 | 3 | 334 | 155,923 |
| Substandard-accruing | 46,731 | — | 281 | 3,837 | 227 | 4,951 | 56,027 |
| Non-accrual | 138,657 | — | 16,668 | 19,312 | — | 5,151 | 179,788 |
| Total loans held for investment | $ 6,672,631 | $ 4,966,276 | $ 1,851,717 | $ 3,139,197 | $ 25,323 | $ 113,996 | $ 16,769,140 |

The following table details activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2016 and September 30, 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2016

| (in thousands) | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Additional Qualitative Reserve | Total |
|---|---|---|---|---|---|---|---|---|
| Beginning balance | $ 112,446 | $ — | $ 6,836 | $ 13,381 | $ 338 | $ 3,931 | $ 4,179 | $ 141,111 |
| Provision for loan losses | 65,446 | — | 1,607 | 1,981 | (23) | (2,646) | (226) | 66,139 |
| Charge-offs | 34,232 | — | — | 528 | 40 | — | — | 34,800 |
| Recoveries | 7,829 | — | 34 | 36 | 16 | 71 | — | 7,986 |
| Net charge-offs (recoveries) | 26,403 | — | (34) | 492 | 24 | (71) | — | 26,814 |
| Ending balance | $ 151,489 | $ — | $ 8,477 | $ 14,870 | $ 291 | $ 1,356 | $ 3,953 | $ 180,436 |
| Period end amount allocated to: | | | | | | | | |
| Loans individually evaluated for impairment | $ 42,674 | $ — | $ 24 | $ 136 | $ 30 | $ — | $ — | $ 42,864 |
| Loans collectively evaluated for impairment | 108,815 | — | 8,453 | 14,734 | 261 | 1,356 | 3,953 | 137,572 |
| Ending balance | $ 151,489 | $ — | $ 8,477 | $ 14,870 | $ 291 | $ 1,356 | $ 3,953 | $ 180,436 |

September 30, 2015

| (in thousands) | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Additional Qualitative Reserve | Total |
|---|---|---|---|---|---|---|---|---|
| Beginning balance | $ 70,654 | $ — | $ 7,935 | $ 15,582 | $ 240 | $ 1,141 | $ 5,402 | $ 100,954 |
| Provision for loan losses | 48,689 | — | (3,944) | (4,328) | 154 | (221) | (1,622) | 38,728 |
| Charge-offs | 11,278 | — | — | 346 | 62 | 25 | — | 11,711 |
| Recoveries | 2,098 | — | 397 | 28 | 19 | 27 | — | 2,569 |
| Net charge-offs (recoveries) | 9,180 | — | (397) | 318 | 43 | (2) | — | 9,142 |
| Ending balance | $ 110,163 | $ — | $ 4,388 | $ 10,936 | $ 351 | $ 922 | $ 3,780 | $ 130,540 |
| Period end amount allocated to: | | | | | | | | |
| Loans individually evaluated for impairment | $ 9,304 | $ — | $ — | $ 254 | $ — | $ 1 | $ — | $ 9,559 |
| Loans collectively evaluated for impairment | 100,859 | — | 4,388 | 10,682 | 351 | 921 | 3,780 | 120,981 |
| Ending balance | $ 110,163 | $ — | $ 4,388 | $ 10,936 | $ 351 | $ 922 | $ 3,780 | $ 130,540 |

We have traditionally maintained an additional qualitative reserve component to compensate for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We believe the level of additional qualitative reserve at September 30, 2016 is warranted due to the continued uncertain economic environment which has produced losses, including those resulting from borrowers' misstatement of financial information or inaccurate certification of collateral values. Such losses are not necessarily correlated with historical loss trends or general economic conditions. Our methodology used to calculate the allowance considers historical losses; however, the historical loss rates for specific product types or credit risk grades may not fully incorporate the effects of continued weakness in the economy and continued volatility in the energy sector.

Our recorded investment in loans as of September 30, 2016, December 31, 2015 and September 30, 2015 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows (in thousands):

| September 30, 2016 | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | $ 168,014 | $ — | $ 159 | $ 3,787 | $ 200 | $ — | $ 172,160 |
| Loans collectively evaluated for impairment | 6,885,965 | 4,961,159 | 2,150,294 | 3,388,044 | 27,354 | 96,878 | 17,509,694 |
| Total | $ 7,053,979 | $ 4,961,159 | $ 2,150,453 | $ 3,391,831 | $ 27,554 | $ 96,878 | $ 17,681,854 |

| December 31, 2015 | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | $ 140,479 | $ — | $ 16,668 | $ 21,042 | $ — | $ 5,151 | $ 183,340 |
| Loans collectively evaluated for impairment | 6,532,152 | 4,966,276 | 1,835,049 | 3,118,155 | 25,323 | 108,845 | 16,585,800 |
| Total | $ 6,672,631 | $ 4,966,276 | $ 1,851,717 | $ 3,139,197 | $ 25,323 | $ 113,996 | $ 16,769,140 |

| September 30, 2015 | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | $ 82,050 | $ — | $ 16,749 | $ 9,895 | $ — | $ 5,699 | $ 114,393 |
| Loans collectively evaluated for impairment | 6,471,589 | 4,312,790 | 1,847,429 | 3,048,679 | 24,757 | 112,945 | 15,818,189 |
| Total | $ 6,553,639 | $ 4,312,790 | $ 1,864,178 | $ 3,058,574 | $ 24,757 | $ 118,644 | $ 15,932,582 |

Generally we place loans on non-accrual 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 unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. As of September 30, 2016, $816,000 of our non-accrual loans were earning on a cash basis compared to $884,000 at December 31, 2015. 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.

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 original loan agreement. In accordance with ASC 310 *Receivables* ("ASC 310"), we have also included all restructured loans in our impaired loan totals. The following tables detail our impaired loans, by portfolio class, as of September 30, 2016 and December 31, 2015 (in thousands):

| September 30, 2016 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | $ 15,615 | $ 18,839 | $ — | $ 10,359 | $ — |
| Energy | 61,339 | 71,100 | — | 53,274 | — |
| Construction | | | | | |
| Market risk | — | — | — | 3,704 | — |
| Real estate | | | | | |
| Market risk | — | — | — | — | — |
| Commercial | 2,087 | 2,087 | — | 5,282 | 28 |
| Secured by 1-4 family | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Leases | — | — | — | 537 | — |
| Total impaired loans with no allowance recorded | $ 79,041 | $ 92,026 | $ — | $ 73,156 | $ 28 |
| With an allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | $ 23,079 | $ 23,154 | $ 9,516 | $ 22,207 | $ — |
| Energy | 67,981 | 72,535 | 33,158 | 74,770 | 18 |
| Construction | | | | | |
| Market risk | 159 | 159 | 24 | 18 | — |
| Real estate | | | | | |
| Market risk | 1,366 | 1,366 | 20 | 3,548 | — |
| Commercial | — | — | — | — | — |
| Secured by 1-4 family | 334 | 334 | 116 | 469 | — |
| Consumer | 200 | 200 | 30 | 22 | — |
| Leases | — | — | — | 722 | — |
| Total impaired loans with an allowance recorded | $ 93,119 | $ 97,748 | $ 42,864 | $ 101,756 | $ 18 |
| Combined: | | | | | |
| Commercial | | | | | |
| Business loans | $ 38,694 | $ 41,993 | $ 9,516 | $ 32,566 | $ — |
| Energy | 129,320 | 143,635 | 33,158 | 128,044 | 18 |
| Construction | | | | | |
| Market risk | 159 | 159 | 24 | 3,722 | — |
| Real estate | | | | | |
| Market risk | 1,366 | 1,366 | 20 | 3,548 | — |
| Commercial | 2,087 | 2,087 | — | 5,282 | 28 |
| Secured by 1-4 family | 334 | 334 | 116 | 469 | — |
| Consumer | 200 | 200 | 30 | 22 | — |
| Leases | — | — | — | 1,259 | — |
| Total impaired loans | $ 172,160 | $ 189,774 | $ 42,864 | $ 174,912 | $ 46 |

December 31, 2015

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | $ 11,097 | $ 13,529 | $ — | $ 17,311 | $ — |
| Energy | 37,968 | 37,968 | — | 21,791 | 36 |
| Construction | | | | | |
| Market risk | 16,668 | 16,668 | — | 9,764 | — |
| Real estate | | | | | |
| Market risk | — | — | — | 3,352 | — |
| Commercial | 15,353 | 15,353 | — | 4,364 | 24 |
| Secured by 1-4 family | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Leases | 2,417 | 2,417 | — | 3,233 | — |
| Total impaired loans with no allowance recorded | $ 83,503 | $ 85,935 | $ — | $ 59,815 | $ 60 |
| With an allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | $ 20,983 | $ 25,300 | $ 5,737 | $ 31,131 | $ — |
| Energy | 70,431 | 70,431 | 14,103 | 6,641 | — |
| Construction | | | | | |
| Market risk | — | — | — | — | — |
| Real estate | | | | | |
| Market risk | 5,335 | 5,335 | 1,066 | 2,558 | — |
| Commercial | — | — | — | 306 | — |
| Secured by 1-4 family | 354 | 354 | 125 | 1,580 | — |
| Consumer | — | — | — | 10 | — |
| Leases | 2,734 | 2,734 | 2,436 | 302 | — |
| Total impaired loans with an allowance recorded | $ 99,837 | $ 104,154 | $ 23,467 | $ 42,528 | $ — |
| Combined: | | | | | |
| Commercial | | | | | |
| Business loans | $ 32,080 | $ 38,829 | $ 5,737 | $ 48,442 | $ — |
| Energy | 108,399 | 108,399 | 14,103 | 28,432 | 36 |
| Construction | | | | | |
| Market risk | 16,668 | 16,668 | — | 9,764 | — |
| Real estate | | | | | |
| Market risk | 5,335 | 5,335 | 1,066 | 5,910 | — |
| Commercial | 15,353 | 15,353 | — | 4,670 | 24 |
| Secured by 1-4 family | 354 | 354 | 125 | 1,580 | — |
| Consumer | — | — | — | 10 | — |
| Leases | 5,151 | 5,151 | 2,436 | 3,535 | — |
| Total impaired loans | $ 183,340 | $ 190,089 | $ 23,467 | $ 102,343 | $ 60 |

Average impaired loans outstanding during the nine months ended September 30, 2016 and 2015 totaled $174.9 million and $90.7 million, respectively.

The table below provides an age analysis of our loans held for investment as of September 30, 2016 (in thousands):

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days and Accruing(1) | Total Past Due | Non-accrual | Current | Total |
|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | |
| Business loans | $ 37,993 | $ 14,827 | $ 9,593 | $ 62,413 | $ 37,013 | $ 6,012,367 | $ 6,111,793 |
| Energy | 1,179 | — | — | 1,179 | 129,320 | 811,687 | 942,186 |
| Mortgage finance loans | — | — | — | — | — | 4,961,159 | 4,961,159 |
| Construction | | | | | | | |
| Market risk | 14,015 | 334 | — | 14,349 | 159 | 2,125,683 | 2,140,191 |
| Secured by 1-4 family | 1,063 | — | — | 1,063 | — | 9,199 | 10,262 |
| Real estate | | | | | | | |
| Market risk | — | 639 | — | 639 | — | 2,548,337 | 2,548,976 |
| Commercial | — | — | — | — | 2,087 | 654,029 | 656,116 |
| Secured by 1-4 family | 382 | 47 | 107 | 536 | 334 | 185,869 | 186,739 |
| Consumer | — | 7 | 6 | 13 | 200 | 27,341 | 27,554 |
| Leases | 41 | — | — | 41 | — | 96,837 | 96,878 |
| Total loans held for investment | $ 54,673 | $ 15,854 | $ 9,706 | $ 80,233 | $ 169,113 | $ 17,432,508 | $ 17,681,854 |

(1) Loans past due 90 days and still accruing includes premium finance loans of $7.1 million. These loans are generally secured by obligations of insurance carriers to refund premiums on canceled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

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 the 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. At September 30, 2016, we did not have any loans considered restructured that were not on non-accrual compared to $249,000 at December 31, 2015. These loans did not have unfunded commitments at September 30, 2016 or December 31, 2015. Of the non-accrual loans at September 30, 2016 and December 31, 2015, $19.7 million and $24.9 million, respectively, met the criteria for restructured. These loans had no unfunded commitments at their respective balance sheet dates. A loan continues to qualify as restructured until a consistent payment history or change in borrower's financial condition has been evidenced, generally over 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 following tables summarize, for the nine months ended September 30, 2016 and 2015, loans that were restructured during 2016 and 2015 (in thousands):

| September 30, 2016 | Number of Restructured Loans | Pre-Restructuring Outstanding Recorded Investment | Post-Restructuring Outstanding Recorded Investment |
|---|---|---|---|
| Energy loans | 2 | $ 14,235 | $ 13,289 |
| Commercial business loans | — | $ — | $ — |
| Real estate - market risk | — | $ — | $ — |
| Total new restructured loans in 2016 | 2 | $ 14,235 | $ 13,289 |

| September 30, 2015 | Number of Restructured Loans | Pre-Restructuring Outstanding Recorded Investment | Post-Restructuring Outstanding Recorded Investment |
|---|---|---|---|
| Commercial business loans | 5 | $ 20,459 | $ 15,438 |
| Total new restructured loans in 2015 | 5 | $ 20,459 | $ 15,438 |

The restructured loans generally include terms to temporarily place loans on interest only, extend the payment terms or reduce the interest rate. We did not forgive any principal on the above loans. The restructuring of the loans did not have a significant impact on our allowance for loan losses at September 30, 2016 or 2015.

The following table provides information on how restructured loans were modified during the nine months ended September 30, 2016 and 2015 (in thousands):

| | Nine months ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Extended maturity | $ — | $ — |
| Adjusted payment schedule | 12,647 | — |
| Combination of maturity extension and payment schedule adjustment | 642 | 15,438 |
| Total | $ 13,289 | $ 15,438 |

As of September 30, 2016 and 2015, we did not have any loans that were restructured within the last 12 months that subsequently defaulted.

**(5) OREO AND VALUATION ALLOWANCE FOR LOSSES ON OREO**

The table below presents a summary of the activity related to OREO (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning balance | $ 18,727 | $ 609 | $ 278 | $ 568 |
| Additions | 282 | — | 18,822 | 1,177 |
| Sales | — | (422) | (91) | (1,558) |
| Valuation allowance for OREO | — | — | — | — |
| Direct write-downs | — | — | — | — |
| Ending balance | $ 19,009 | $ 187 | $ 19,009 | $ 187 |

The addition to OREO during the nine months ended September 30, 2016 relates to the foreclosure of three commercial properties.

**(6) CERTAIN TRANSFERS OF FINANCIAL ASSETS**

Through our Mortgage Correspondent Aggregation ("MCA") business, we commit to purchase residential mortgage loans from correspondent lenders and deliver those loans into the secondary market via whole loan sales to independent third parties or in securitization transactions to government sponsored entities ("GSEs") such as Fannie Mae, Freddie Mac or Ginnie Mae. We have elected to carry these loans at fair value based on sales commitments and market quotes. Changes in the fair value of the loans held for sale are included in other non-interest income.

Residential mortgage loans 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.

The table below presents the unpaid principal balance of loans held for sale and related fair values at September 30, 2016 and December 31, 2015 (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Unpaid principal balance | $ 620,207 | $ 82,853 |
| Fair value | 648,684 | 86,075 |
| Fair value over/(under) unpaid principal balance | $ 28,477 | $ 3,222 |

No loans held for sale were 90 days or more past due or on non-accrual as of September 30, 2016 and December 31, 2015.

The differences between the fair value and the aggregate unpaid principal balance include changes in fair value recorded at and subsequent to purchase, gains and losses on the related loan purchase commitment prior to purchase and premiums or discounts on acquired loans.

We generally retain the right to service the loans sold, creating mortgage servicing rights ("MSRs") which are recorded as assets on our balance sheet. A summary of MSR activities for the nine months ended September 30, 2016 is as follows (in thousands):

| | |
|---|---|
| Servicing asset: | |
| Balance, beginning of year(1) | $ 423 |
| Capitalized servicing rights | 16,344 |
| Amortization | (891) |
| Balance, end of period | $ 15,876 |
| Valuation allowance: | |
| Balance, beginning of year | $ — |
| Increase in valuation allowance | 414 |
| Balance, end of period | $ 414 |
| Servicing asset, net(1) | $ 15,462 |
| Fair value | $ 15,970 |

(1) Mortgage servicing rights are reported on the consolidated balance sheets at lower of cost or market. Carrying value and fair value were the same at December 31, 2015, respectively.

At September 30, 2016 and December 31, 2015, our servicing portfolio of residential mortgage loans sold included 4,954 and 168 loans, respectively, with an outstanding principal balance of $1.3 billion and $39.0 million, respectively. In connection with the servicing of these loans, we maintain escrow funds for taxes and insurance in the name of investors, as well as collections in transit to investors. These escrow funds are segregated and held in separate non-interest-bearing accounts at the Bank. These deposits, included in total non-interest-bearing deposits on the consolidated balance sheets, were $18.5 million at September 30, 2016 and $240,000 at December 31, 2015.

As of September 30, 2016 and December 31, 2015, management used the following assumptions to determine the fair value of MSRs:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Average discount rates | 10.09% | 9.76% |
| Expected prepayment speeds | 11.18% | 9.66% |
| Weighted average life, in years | 6.5 | 7.3 |

In conjunction with the sale and securitization of loans held for sale, we may be exposed to liability resulting from recourse agreements and repurchase agreements. If it is determined subsequent to our sale of a loan that the loan sold is in breach of the representations or warranties made in the applicable sale agreement, 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. During the nine months ended September 30, 2016, we originated or purchased and sold approximately $1.4 billion of mortgage loans.

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 any actual losses experienced from actual repurchase activity.

Because the MCA business commenced in late 2015, we have no historical data to support the establishment of a reserve. The baseline for the repurchase reserve uses historical loss factors obtained from industry data that are applied to loan pools originated and sold from September 2015 through September 30, 2016. The historical industry data loss factors and experienced losses are accumulated for each sale vintage (year loan was sold) and applied to more recent sale vintages to estimate inherent losses not yet realized. Our estimated exposure related to these loans was $621,000 at September 30, 2016 and is recorded in other liabilities in the consolidated balance sheets. We had no losses due to repurchase, indemnification or make-whole obligations during the nine months ended September 30, 2016 as it relates to our MCA program.

**(7) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

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 credit-worthiness 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.

The table below summarizes our off-balance sheet financial instruments whose contract amounts represented credit risk (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Commitments to extend credit | $ 5,604,322 | $ 5,542,363 |
| Standby letters of credit | 179,447 | 182,219 |

**(8) REGULATORY MATTERS**

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 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 applicable to the Company and the Bank (the "Basel III Capital Rules") specifies, among other things, (i) a "Common Equity Tier 1" ("CET1") capital measure, (ii) a Tier 1 capital measure consisting of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) capital conservation buffers with respect to each of the CET1, Tier 1 risk-based and total risk-based capital ratios providing for capital levels that exceed the minimum risk-based capital adequacy requirements and (iv) a Tier 1 leverage ratio requirement of 5.0%.

In order to be well capitalized under the Basel III Capital Rules, our Bank must maintain a CET1 capital ratio, Tier 1 capital ratio and total capital ratio of greater than or equal to 6.5%, 8.0% and 10.0%, respectively. The capital conservation buffers required by the Basel III Capital Rules are subject to a three year phase-in period that began on January 1, 2016 and will be fully phased-in on January 1, 2019 at 2.5%. A financial institution with a conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments and stock repurchases and executive bonus payments.

Quantitative measures established by these regulations to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of CET1, Tier 1 and total capital to risk-weighted assets, and of Tier 1 capital to average assets, each as defined in the regulations. Management believes, as of September 30, 2016, that the Company and the Bank met 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 capital, Tier 1 risk-based capital, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company’s capital ratios exceeded the regulatory definition of adequately capitalized as of September 30, 2016, and December 31, 2015. 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 changes could result in reducing one or more capital ratios below well-capitalized status. In addition, a change may result in imposition of additional assessments by the FDIC or could result in regulatory actions that could have a material adverse effect on our financial condition and results of operations.

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

The table below summarizes our capital ratios:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| **Company** | | |
| Risk-based capital: | | |
| CET1 | 7.55% | 7.47% |
| Tier 1 capital | 8.80% | 8.81% |
| Total capital | 11.09% | 11.05% |
| Tier 1 leverage | 8.38% | 8.92% |

Our mortgage finance loan volumes can increase significantly at month-end, causing a meaningful difference between ending balance and average balance for any period. At September 30, 2016, our total mortgage finance loans were $5.0 billion compared to the average for the quarter ended September 30, 2016 of $4.7 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, the quarter-end fluctuation in these balances can significantly impact our reported ratios. We manage capital allocated to mortgage finance loans based on changing trends in average balances, as well as the inherent risk associated with the assets which implies a risk weight that is significantly different than the regulatory risk weight, and do not believe that the quarter-end balance is representative of risk characteristics that would justify higher capital allocations. However, we continue to monitor our capital allocation to confirm that all capital levels remain above well-capitalized levels.

Dividends that may be paid by subsidiary banks are routinely restricted by various regulatory authorities. The amount that can be paid in any calendar year without prior approval of the 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 common stock during the nine months ended September 30, 2016 or 2015.

**(9) STOCK-BASED COMPENSATION**

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, nonqualified stock options, incentive stock options, restricted stock units ("RSUs"), stock appreciation rights ("SARs"), cash-based performance units or any combination thereof. Plans include grants for employees and directors. There are 2,550,000 total shares authorized under the plans.

The fair value of our option and stock appreciation right ("SAR") grants are estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide the best single measure of the fair value of employee stock options.

Stock-based compensation consists of SARs, RSUs and cash-based performance units granted from 2010 through September 30, 2016.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2016 | 2015 | 2016 | 2015 |
| Stock- based compensation expense recognized: | | | | |
| SARs | $ 74 | $ 85 | $ 233 | $ 282 |
| RSUs | 1,149 | 1,140 | 3,233 | 3,046 |
| Cash-based performance units | 1,227 | 1,420 | 2,709 | 5,958 |
| Total compensation expense recognized | $ 2,450 | $ 2,645 | $ 6,175 | $ 9,286 |

| | September 30, 2016 |
|---|---|
| (in thousands) | SARs and RSUs |
| Unrecognized compensation expense related to unvested awards | $ 17,378 |
| Weighted average period over which expense is expected to be recognized, in years | 3.3 |

**(10) FAIR VALUE DISCLOSURES**

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value, establishes a framework for measuring fair value under GAAP and requires enhanced disclosures about fair value measurements. Fair value is defined under ASC 820 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date.

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. This category includes the assets and liabilities related to our non-qualified deferred compensation plan where values are based on quoted market prices for identical equity securities in an active market.

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 2 assets include U.S. government and agency mortgage-backed debt securities, municipal

bonds, and Community Reinvestment Act funds. This category includes loans held for sale and derivative assets and liabilities where values are obtained from independent pricing services.

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. This category also includes impaired loans, MSRs and OREO where collateral values have been based on third party appraisals; however, due to current economic conditions, comparative sales data typically used in appraisals may be unavailable or more subjective due to lack of market activity.

Assets and liabilities measured at fair value at September 30, 2016 and December 31, 2015 are as follows (in thousands):

| | Fair Value Measurements Using | | |
|---|---|---|---|
| September 30, 2016 | Level 1 | Level 2 | Level 3 |
| Available-for-sale securities:(1) | | | |
| Residential mortgage-backed securities | $ — | $ 17,146 | $ — |
| Municipals | — | 566 | — |
| Equity securities(2) | 1,300 | 7,344 | — |
| Loans held for sale (3) | — | 648,684 | — |
| Loans held for investment(4) (6) | — | — | 36,449 |
| OREO(5) (6) | — | — | 19,009 |
| Derivative assets(7) | — | 58,158 | — |
| Derivative liabilities(7) | — | 60,548 | — |
| Non-qualified deferred compensation plan liabilities (8) | 1,300 | — | — |
| | | | |
| December 31, 2015 | | | |
| Available-for-sale securities:(1) | | | |
| Residential mortgage-backed securities | $ — | $ 21,901 | $ — |
| Municipals | — | 831 | — |
| Equity securities(2) | — | 7,260 | — |
| Loans held for sale(3) | — | 86,075 | — |
| Loans(4) (6) | — | — | 41,420 |
| OREO(5) (6) | — | — | 278 |
| Derivative assets(7) | — | 35,292 | — |
| Derivative liabilities(7) | — | 35,420 | — |

(1) Securities are measured at fair value on a recurring basis, generally monthly.
(2) Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan.
(3) Loans held for sale 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 corresponds to the fair value of the invested assets, and are measured at fair value on a recurring basis, generally monthly.

**Level 3 Valuations**

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. Currently, we measure the fair value for certain loans and OREO on a nonrecurring basis as described below.

*Loans held for investment*

During the nine months ended September 30, 2016 and the year ended December 31, 2015, certain impaired loans held for investment were re-evaluated and reported at fair value through a specific allocation of the allowance for loan losses based upon the fair value of the underlying collateral. The $36.4 million reported fair value above includes impaired loans held for investment at September 30, 2016 with a carrying value of $61.7 million that were reduced by specific allowance allocations totaling $25.3 million based on collateral valuations utilizing Level 3 valuation inputs. The $41.4 million reported fair value above includes impaired loans held for investment at December 31, 2015 with a carrying value of $49.7 million that were reduced by specific valuation allowance allocations totaling $8.3 million based on collateral valuations utilizing Level 3 valuation inputs. Fair values were based on third party appraisals.

*OREO*

Certain foreclosed assets, upon initial recognition, are recorded at fair value less estimated selling costs. At September 30, 2016 and December 31, 2015, OREO had a carrying value of $19.0 million and $278,000, respectively, with no specific valuation allowance. The fair value of OREO was computed based on third party appraisals, which are Level 3 valuation inputs.

**Fair Value of Financial Instruments**

GAAP require 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 (in thousands):

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Cash and cash equivalents | $ 3,588,419 | $ 3,588,419 | $ 1,790,870 | $ 1,790,870 |
| Securities, available-for-sale | 26,356 | 26,356 | 29,992 | 29,992 |
| Loans held for sale | 648,684 | 648,684 | 86,075 | 86,075 |
| Loans held for investment, net | 17,443,117 | 17,445,311 | 16,570,839 | 16,576,297 |
| Derivative assets | 58,158 | 58,158 | 35,292 | 35,292 |
| Deposits | 18,145,123 | 18,145,619 | 15,084,619 | 15,085,080 |
| Federal funds purchased | 73,768 | 73,768 | 74,164 | 74,164 |
| Customer repurchase agreements | 7,652 | 7,652 | 68,887 | 68,887 |
| Other borrowings | 1,670,000 | 1,670,000 | 1,500,000 | 1,500,000 |
| Subordinated notes | 280,954 | 284,230 | 280,682 | 285,773 |
| Trust preferred subordinated debentures | 113,406 | 113,406 | 113,406 | 113,406 |
| Derivative liabilities | 60,548 | 60,548 | 35,420 | 35,420 |

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

*Cash and cash equivalents*

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value, and these financial instruments are characterized as Level 1 assets in the fair value hierarchy.

*Securities, available-for-sale*

Within the securities available-for-sale portfolio, we hold equity securities related to our non-qualified deferred compensation plan which are valued using quoted market prices for identical equity securities in an active market. These financial instruments are classified as Level 1 assets in the fair value hierarchy. The fair value of the remaining investment portfolio is based on prices obtained from independent pricing services which are based on quoted market prices for the same or similar securities, and these financial instruments are characterized as Level 2 assets in the fair value hierarchy. We have obtained documentation from the primary pricing service we use about their processes and controls over pricing. In addition, on a quarterly basis we independently verify the prices that we receive from the service provider using two additional independent pricing sources. Any significant differences are investigated and resolved.

*Loans held for sale*

Fair value for loans held for sale valued under the fair value option is derived from quoted market prices for similar loans, and these financial instruments are characterized as Level 2 assets in the fair value hierarchy.

*Loans held for investment, net*

Loans held for investment are characterized as Level 3 assets in the fair value hierarchy. For variable-rate loans held for investment that reprice frequently with no significant change in credit risk, fair values are generally based on carrying values. The fair value for all other loans held for investment is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest approximates its fair value.

*Derivatives*

The estimated fair value of the 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 in the fair value hierarchy. On a quarterly basis, we independently verify the fair value using an additional independent pricing source. Any significant differences are investigated and resolved. 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 the quoted market prices from brokers. As such, these loan purchase commitments and forward sales commitments are classified as Level 2 assets in the fair value hierarchy.

*Deposits*

Deposits are characterized as Level 3 liabilities in the fair value hierarchy. The carrying amounts for variable-rate money market accounts approximate their fair value. Fixed-term certificates of deposit fair values are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities.

*Federal funds purchased, customer repurchase agreements, other borrowings, subordinated notes and trust preferred subordinated debentures*

The carrying value reported in the consolidated balance sheets for Federal funds purchased, customer repurchase agreements and other short-term, floating rate borrowings approximates their fair value, and these financial instruments are characterized as Level 2 assets in the fair value hierarchy. The fair value of any fixed rate short-term borrowings and trust preferred subordinated debentures are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar borrowings, and these financial instruments are characterized as Level 3 liabilities in the fair value hierarchy. The subordinated notes are publicly, though infrequently, traded and are valued based on market prices, and are characterized as Level 2 liabilities in the fair value hierarchy.

**(11) DERIVATIVE FINANCIAL INSTRUMENTS**

The fair value of derivative positions outstanding is included in accrued interest receivable and other assets and other liabilities in the accompanying consolidated balance sheets on a net basis when a right of offset exists, based on transactions with a single counterparty that are subject to a legally enforceable master netting agreement.

During the three and nine months ended September 30, 2016 and 2015, we entered into certain interest rate derivative positions that were 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.

During the three and nine months ended September 30, 2016, we entered 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.

The notional amounts and estimated fair values of interest rate derivative positions outstanding at September 30, 2016 and December 31, 2015 are presented in the following tables (in thousands):

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | | Estimated Fair Value | | | Estimated Fair Value | |
| | Notional Amount | Asset Derivative | Liability Derivative | Notional Amount | Asset Derivative | Liability Derivative |
| Non-hedging interest rate derivatives: | | | | | | |
| Financial institution counterparties: | | | | | | |
| Commercial loan/lease interest rate swaps | $ 1,070,684 | $ — | $ 56,503 | $ 976,389 | $ — | $ 33,851 |
| Commercial loan/lease interest rate caps | 211,854 | 230 | — | 194,304 | 1,441 | — |
| Customer counterparties: | | | | | | |
| Commercial loan/lease interest rate swaps | 1,070,684 | 56,503 | — | 976,389 | 33,851 | — |
| Commercial loan/lease interest rate caps | 211,854 | — | 230 | 194,304 | — | 1,441 |
| Economic hedging interest rate derivatives: | | | | | | |
| Loan purchase commitments | 310,534 | 1,425 | — | 62,835 | — | 109 |
| Forward sales commitments | 941,963 | — | 3,815 | 143,200 | — | 19 |
| Gross derivatives | | 58,158 | 60,548 | | 35,292 | 35,420 |
| Offsetting derivative assets/liabilities | | — | — | | — | — |
| Net derivatives included in the consolidated balance sheets | | $ 58,158 | $ 60,548 | | $ 35,292 | $ 35,420 |

The weighted average received and paid interest rates for interest rate swaps outstanding at September 30, 2016 and December 31, 2015 were as follows:

| | September 30, 2016 Weighted Average Interest Rate | | December 31, 2015 Weighted Average Interest Rate | |
|---|---|---|---|---|
| | Received | Paid | Received | Paid |
| Non-hedging interest rate swaps | 3.00% | 4.61% | 2.96% | 4.72% |

The weighted average strike rate for outstanding interest rate caps was 2.45% at September 30, 2016 and 2.34% at December 31, 2015.

Our credit exposure on derivative instruments is limited to the net favorable value and interest payments by each counterparty. In such cases collateral may be required from the counterparties involved if the net value of the derivative instruments exceed a nominal amount considered to be immaterial. Our credit exposure, net of any collateral pledged, was approximately $58.2 million at September 30, 2016 and approximately $35.3 million at December 31, 2015, which primarily relates to Bank customers. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap and cap values. At September 30, 2016, we had $65.5 million in cash collateral pledged for these derivatives, of which $62.1 million was included in interest-bearing deposits and $3.4 million was included in accrued interest receivable and other assets. At December 31, 2015, we had $37.1 million in cash collateral pledged for these derivatives, all of which was included in interest-bearing deposits.

**(12) NEW ACCOUNTING PRONOUNCEMENTS**

ASU 2016-15 *"Statement of Cash Flows (Topic 230)"* ("ASU 2016-15") is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. ASU 2016-15 is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted with retrospective application. We are evaluating the impact adoption of ASU 2016-15 will have 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. ASU 2016-13 is effective for public companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. 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. We are in the process of evaluating the impact adoption of ASU 2016-13 will have on our consolidated financial statements and disclosures.

ASU 2016-09 *"Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting"* ("ASU 2016-09") amended guidance with the intent to simplify accounting for share-based payment transaction, including the income tax consequences and classification of awards. Among other items, the update requires excess tax benefits and deficiencies to be recognized as a component of income taxes within the income statement rather than other comprehensive income as required in current guidance. ASU 2016-09 is effective for public companies for annual periods beginning after December 31, 2016 and is not expected to have a significant impact on our financial statements.

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 is effective for public companies for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. We have not yet selected a transition method as we are in the process of determining the effect of the standard on our financial statements and disclosures.

ASU 2015-03 "*Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs*" ("ASU 2015-03") requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. We adopted ASU 2015-03 effective January 1, 2016 and applied its provisions retrospectively. The adoption of ASU 2015-03 resulted in the reclassification of $5.0 million and $5.3 million of unamortized debt issuance costs related to our subordinated notes from other assets to subordinated notes within the consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively. Other than this reclassification, the adoption of ASU 2015-03 did not have a material impact on our consolidated financial statements.

*ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)"* ("ASU 2014-09") implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. ASU 2014-09 was originally going to be effective for annual and interim periods beginning after December 15, 2016; however, the FASB issued *ASU 2015-14 - "Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date"* which deferred the effective date of ASU 2014-09 by one year to annual and interim periods beginning after December 15, 2017. We are in the process of evaluating the impact adoption of ASU 2014-09 will have on our consolidated financial statements and disclosures.

**QUARTERLY FINANCIAL SUMMARIES – UNAUDITED**
Consolidated Daily Average Balances, Average Yields and Rates
(In thousands)

| | For the three months ended September 30, 2016 | | | For the three months ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Revenue/ Expense(1) | Yield/ Rate | Average Balance | Revenue/ Expense(1) | Yield/ Rate |
| **Assets** | | | | | | |
| Securities – taxable | $ 26,051 | $ 228 | 3.47% | $ 32,358 | $ 287 | 3.52% |
| Securities – non-taxable(2) | 564 | 8 | 5.82% | 1,162 | 17 | 5.80% |
| Federal funds sold and securities purchased under resale agreements | 369,215 | 455 | 0.49% | 308,822 | 193 | 0.25% |
| Deposits in other banks | 3,192,141 | 4,080 | 0.51% | 2,537,033 | 1,616 | 0.25% |
| Loans held for sale | 430,869 | 3,662 | 3.38% | 570 | 6 | 4.18 |
| Loans held for investment, mortgage finance | 4,658,804 | 36,655 | 3.13% | 3,981,731 | 30,427 | 3.03% |
| Loans held for investment | 12,591,561 | 137,407 | 4.34% | 11,302,248 | 121,316 | 4.26% |
| Less allowance for loan losses | 168,086 | — | — | 118,543 | — | — |
| Loans held for investment, net of allowance for loan losses | 17,082,279 | 174,062 | 4.05% | 15,165,436 | 151,743 | 3.97% |
| Total earning assets | 21,101,119 | 182,495 | 3.44% | 18,045,381 | 153,862 | 3.38% |
| Cash and other assets | 588,440 | | | 481,378 | | |
| Total assets | $ 21,689,559 | | | $ 18,526,759 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Transaction deposits | $ 2,301,362 | $ 1,960 | 0.34% | $ 1,754,940 | $ 763 | 0.17% |
| Savings deposits | 6,177,681 | 6,228 | 0.40% | 5,858,381 | 4,616 | 0.31% |
| Time deposits | 501,701 | 763 | 0.61% | 536,531 | 723 | 0.53% |
| Deposits in foreign branches | — | — | —% | 179,731 | 138 | 0.30% |
| Total interest-bearing deposits | 8,980,744 | 8,951 | 0.40% | 8,329,583 | 6,240 | 0.30% |
| Other borrowings | 1,607,613 | 1,860 | 0.46% | 1,459,864 | 734 | 0.20% |
| Subordinated notes | 280,895 | 4,191 | 5.94% | 280,532 | 4,191 | 5.93% |
| Trust preferred subordinated debentures | 113,406 | 752 | 2.64% | 113,406 | 643 | 2.25% |
| Total interest-bearing liabilities | 10,982,658 | 15,754 | 0.57% | 10,183,385 | 11,808 | 0.46% |
| Demand deposits | 8,849,725 | | | 6,621,159 | | |
| Other liabilities | 135,141 | | | 152,154 | | |
| Stockholders' equity | 1,722,035 | | | 1,570,061 | | |
| Total liabilities and stockholders' equity | $ 21,689,559 | | | $ 18,526,759 | | |
| Net interest income(2) | | $ 166,741 | | | $ 142,054 | |
| Net interest margin | | | 3.14% | | | 3.12% |
| Net interest spread | | | 2.87% | | | 2.92% |
| Loans held for investment spread | | | 3.83% | | | 3.80% |

(1) The loan averages include non-accrual loans and are stated net of unearned income.
(2) Taxable equivalent rates used where applicable.

| | For the nine months ended September 30, 2016 | | | For the nine months ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Revenue/ Expense(1) | Yield/ Rate | Average Balance | Revenue/ Expense(1) | Yield/ Rate |
| **Assets** | | | | | | |
| Securities – taxable | $ 27,160 | $ 722 | 3.55% | $ 34,844 | $ 930 | 3.57% |
| Securities – non-taxable(2) | 629 | 27 | 5.74% | 1,785 | 75 | 5.62% |
| Federal funds sold and securities purchased under resale agreements | 328,971 | 1,209 | 0.49% | 234,033 | 427 | 0.24% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Deposits in other banks | 2,905,251 | 11,115 | 0.51% | 2,222,006 | 4,203 | 0.25% |
| Loans held for sale | 238,987 | 6,106 | 3.41% | 192 | 6 | 4.18% |
| Loans held for investment, mortgage finance | 4,266,573 | 99,666 | 3.12% | 4,101,576 | 91,831 | 2.99% |
| Loans held for investment | 12,260,752 | 395,901 | 4.31% | 10,918,080 | 350,692 | 4.29% |
| Less allowance for loan losses | 157,880 | — | — | 109,621 | — | — |
| Loans held for investment, net of allowance for loan losses | 16,369,445 | 495,567 | 4.04% | 14,910,035 | 442,523 | 3.97% |
| Total earning assets | 19,870,443 | 514,746 | 3.46% | 17,402,895 | 448,164 | 3.44% |
| Cash and other assets | 546,553 | | | 474,181 | | |
| Total assets | $ 20,416,996 | | | $ 17,877,076 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Transaction deposits | $ 2,171,776 | $ 5,085 | 0.31% | $ 1,521,657 | $ 1,665 | 0.15% |
| Savings deposits | 6,299,965 | 19,441 | 0.41% | 5,786,547 | 13,368 | 0.31% |
| Time deposits | 499,366 | 2,217 | 0.59% | 500,590 | 1,886 | 0.50% |
| Deposits in foreign branches | — | — | —% | 242,874 | 591 | 0.33% |
| Total interest-bearing deposits | 8,971,107 | 26,743 | 0.40% | 8,051,668 | 17,510 | 0.29% |
| Other borrowings | 1,455,888 | 4,628 | 0.25% | 1,400,523 | 1,821 | 0.17% |
| Subordinated notes | 280,805 | 12,573 | 5.98% | 280,442 | 12,573 | 5.99% |
| Trust preferred subordinated debentures | 113,406 | 2,203 | 2.59% | 113,406 | 1,892 | 2.23% |
| Total interest bearing liabilities | 10,821,206 | 46,147 | 0.55% | 9,846,039 | 33,796 | 0.46% |
| Demand deposits | 7,786,562 | | | 6,343,195 | | |
| Other liabilities | 132,506 | | | 155,466 | | |
| Stockholders' equity | 1,676,722 | | | 1,532,376 | | |
| Total liabilities and stockholders' equity | $ 20,416,996 | | | $ 17,877,076 | | |
| Net interest income(2) | | $ 468,599 | | | $ 414,368 | |
| Net interest margin | | | 3.15% | | | 3.18% |
| Net interest spread | | | 2.91% | | | 2.98% |
| Loans held for investment spread | | | 3.82% | | | 3.80% |

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

(2) Taxable equivalent rates used where applicable.

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

***Forward-Looking Statements***

Certain statements and financial analysis contained in this report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Forward-looking statements may also be contained in our future filings with SEC, in press releases and in oral and written statements made by us or with our approval that are not statements of historical fact. These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. 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, economic conditions, including the continued impact on our customers from declines and volatility in oil and gas prices, expectations regarding rates of default or 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 credit losses, the impact of increased regulatory requirements 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 or interest rates, increased default rates and loan losses or adverse changes in the industry concentrations of our loan portfolio.
- Changes in the U.S. economy in general or the Texas economy specifically resulting in deterioration of credit quality or reduced demand for credit or other financial services we offer, including declines and volatility in oil and gas prices.
- Changing economic conditions or other developments adversely affecting our commercial, entrepreneurial and professional customers.
- 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.
- The failure to correctly assess and model the assumptions supporting our allowance for loan losses, causing it to become inadequate in the event of decreases in loan quality and increases in charge-offs.
- Adverse changes in economic or market conditions, or our operating performance, which 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 effectively manage our interest rate risk resulting from unexpectedly large or sudden changes in interest rates or rate or maturity imbalances in our assets and liabilities.
- The failure to successfully expand into new markets, develop and launch 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.
- The failure to manage our information systems risk or to prevent cyber attacks against us or our third party vendors.
- Legislative and regulatory changes imposing further restrictions and costs on our business, a failure to remain well capitalized or well managed or regulatory enforcement actions against us.
- Adverse changes in economic or business conditions that impact the financial markets or our customers.

- Increased or more effective competition from banks and other financial service providers in our markets.
- Uncertainty in the pricing of mortgage loans that we purchase, and later sell or securitize, as well as competition for the mortgage servicing rights ("MSRs") related to these loans and related interest rate and market risk resulting from retaining MSRs.
- 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.
- An increase in the incidence or severity of fraud, illegal payments, security breaches and other illegal acts impacting our Bank and our customers.
- Structural changes in the markets for origination, sale and servicing of residential mortgages.
- Unavailability of funds obtained from capital transactions or from our Bank to fund our obligations.
- Failures of counterparties or third party vendors to perform their obligations.
- Environmental liability associated with properties related to our lending activities.
- Severe weather, natural disasters, acts of war or terrorism and other external events.
- 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.

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.

**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 service and manage effectively 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.

In the third quarter of 2015, we launched a correspondent lending program, MCA, to complement our warehouse lending program. 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 GSEs such as Fannie Mae, Freddie Mac and Ginnie Mae. We retain the MSRs in some cases with the expectation that they will be sold from time to time. 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. At the commitment date, we enter into a corresponding forward sale commitment with a third party, typically a GSE, to deliver the loans to the third party 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. Fair value is derived from observable current market prices, when available, and includes the fair value of the MSRs. At September 30, 2016 and December 31, 2015, we had $648.7 million and $86.1 million in loans held for sale related to MCA.

The following discussion and analysis presents the significant factors affecting our financial condition as of September 30, 2016 and December 31, 2015 and results of operations for the three and nine months in the periods ended September 30, 2016 and 2015. This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements appearing in Part I, Item 1 of this report.

***Results of Operations***

**Summary of Performance**

We reported net income of $42.7 million and net income available to common stockholders of $40.3 million, or $0.87 per diluted common share, for the third quarter of 2016 compared to net income of $37.1 million and net income available to common stockholders of $34.7 million, or $0.75 per diluted common share, for the third quarter of 2015. Return on average common equity ("ROE") was 10.20% and return on average assets ("ROA") was 0.78% for the third quarter of 2016, compared to 9.69% and 0.79%, respectively, for the third quarter of 2015. The increase in ROE resulted from an increase in net interest income for the third quarter of 2016, despite a higher provision for credit losses. ROA remains low as a result of the increased provision for credit losses and higher liquidity assets. Net income and net income available to common stockholders for the nine months ended September 30, 2016 totaled $106.7 million and $99.4 million, respectively, or $2.14 per diluted common share, compared to net income and net income available to common stockholders of $110.1 million and $102.8 million, respectively, or $2.21 per diluted common share, for the same period in 2015. ROE was 8.70% and ROA was 0.70% for the nine months ended September 30, 2016 compared to 9.94% and 0.82%, respectively, for the nine months ended September 30, 2015. The ROE decrease resulted from the increased provision for credit losses. The ROA decrease resulted from the increased provision for credit losses, as well as a $778.2 million increase in average liquidity assets during the nine months ended September 30, 2016 compared to the same period of 2015.

Net income increased $5.6 million, or 15%, for the three months ended September 30, 2016, as compared to the same period in 2015. The increase was primarily the result of a $24.7 million increase in net interest income and a $5.3 million increase in non-interest income, offset by an $8.3 million increase in the provision for credit losses, a $13.1 million increase in non-interest expense and a $3.1 million increase in income tax expense. Net income decreased $3.4 million or 3%, during the nine months ended September 30, 2016 compared to the same period in 2015, primarily as a result of a $54.2 million increase in net interest income, a $5.5 million increase in non-interest income and a $2.0 million decrease in income tax expense, offset by a $28.8 million increase in the provision for credit losses and a $36.4 million increase in non-interest expense.

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

**Net Interest Income**

Net interest income was $166.7 million for the third quarter of 2016, compared to $142.0 million for the third quarter of 2015. The increase was due to an increase in average earning assets of $3.1 billion as compared to the third quarter of 2015. The increase in average earning assets included a $1.9 billion increase in average net loans and a $715.5 million increase in average liquidity assets, offset by a $6.9 million decrease in average securities. For the quarter ended September 30, 2016, average net loans, liquidity assets and securities represented approximately 81%, 17% and less than 1%, respectively, of average earning assets compared to approximately 84%, 16% and less than 1% for the same quarter of 2015.

Average interest-bearing liabilities for the quarter ended September 30, 2016 increased $799.3 million from the third quarter of 2015, which included a $651.2 million increase in interest-bearing deposits offset by a $147.7 million decrease in other borrowings. Average demand deposits increased from $6.6 billion at September 30, 2015 to $8.8 billion at September 30, 2016. The average cost of total deposits and borrowed funds increased to 0.22% for the third quarter of 2016 compared to 0.17% for the same period of 2015. The cost of interest-bearing liabilities increased from 0.46% for the quarter ended September 30, 2015 to 0.57% for the same period of 2016.

Net interest income was $468.6 million for the nine months ended September 30, 2016, compared to $414.3 million for the same period in 2015. The increase was due to an increase in average earning assets of $2.5 billion as compared to the nine months ended September 30, 2015. The increase in average earning assets included a $1.5 billion increase in average net loans and a $778.2 million increase in average liquidity assets, offset by an $8.8 million decrease in average securities. For the nine months ended September 30, 2016, average net loans, liquidity assets and securities represented approximately 82%, 16% and less than 1%, respectively, of average earning assets compared to approximately 86%, 14% and less than 1% for the same period of 2015.

Average interest-bearing liabilities for the nine months ended September 30, 2016 increased $975.2 million from the same period of 2015, which included a $919.4 million increase in interest-bearing deposits and a $55.4 million increase in other borrowings. Average demand deposits increased from $6.3 billion at September 30, 2015 to $7.8 billion at September 30, 2016. The average cost of total deposits and borrowed funds increased to 0.22% for the nine months ended September 30, 2016 compared to 0.16% for the same period of 2015. The cost of interest-bearing liabilities increased from 0.46% for the nine months ended September 30, 2015 to 0.55% for the same period of 2016.

The following table (in thousands) presents changes in taxable-equivalent net interest income between the three and nine month periods ended September 30, 2016 and September 30, 2015 and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and changes due to differences in the average interest rate on those assets and liabilities.

| | Three months ended September 30, 2016/2015 | | | Nine months ended September 30, 2016/2015 | | |
|---|---|---|---|---|---|---|
| | Net | Change Due To(1) | | Net | Change Due To(1) | |
| | Change | Volume | Yield/Rate | Change | Volume | Yield/Rate |
| Interest income: | | | | | | |
| Securities(2) | $ (68) | $ (65) | $ (3) | $ (256) | $ (253) | $ (3) |
| Loans held for sale | 3,656 | 4,518 | (862) | 6,100 | 7,466 | (1,366) |
| Loans held for investment, mortgage finance loans | 6,228 | 5,092 | 1,136 | 7,835 | 3,738 | 4,097 |
| Loans held for investment | 16,091 | 13,558 | 2,533 | 45,209 | 43,478 | 1,731 |
| Federal funds sold | 262 | 38 | 224 | 782 | 173 | 609 |
| Deposits in other banks | 2,464 | 413 | 2,051 | 6,912 | 1,295 | 5,617 |
| Total | 28,633 | 23,554 | 5,079 | 66,582 | 55,897 | 10,685 |
| Interest expense: | | | | | | |
| Transaction deposits | 1,197 | 235 | 962 | 3,420 | 712 | 2,708 |
| Savings deposits | 1,612 | 252 | 1,360 | 6,073 | 1,189 | 4,884 |
| Time deposits | 40 | (39) | 79 | 331 | (5) | 336 |
| Deposits in foreign branches | (138) | (138) | — | (591) | (591) | — |
| Borrowed funds | 1,126 | 74 | 1,052 | 2,807 | 72 | 2,735 |
| Long-term debt | 109 | — | 109 | 311 | — | 311 |
| Total | 3,946 | 384 | 3,562 | 12,351 | 1,377 | 10,974 |
| Net interest income | $ 24,687 | $ 23,170 | $ 1,517 | $ 54,231 | $ 54,520 | $ (289) |

(1) Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.
(2) Taxable equivalent rates are used where applicable and assume a 35% tax rate.

Net interest margin, which is defined as the ratio of net interest income to average earning assets, was 3.14% for the third quarter of 2016 compared to 3.12% for the third quarter of 2015. The year-over-year increase was primarily due to the growth in loans held for investment with higher yields. Funding costs, including demand deposits and borrowed funds, increased to 0.22% for the third quarter of 2016 compared to 0.17% for the third quarter of 2015. The spread on total earning assets, net of the cost of deposits and borrowed funds, was 3.22% for the third quarter of 2016 compared to 3.21% for the third quarter of 2015. The increase resulted primarily from the increase in earning assets and rates on earning assets. Total funding costs, including all deposits, long-term debt and stockholders' equity, increased to 0.29% for the third quarter of 2016 compared to 0.25% for the third quarter of 2015.

**Non-interest Income**

The components of non-interest income were as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Service charges on deposit accounts | $ 2,880 | $ 2,096 | $ 7,401 | $ 6,339 |
| Trust fee income | 1,113 | 1,222 | 3,024 | 3,709 |
| Bank owned life insurance (BOLI) income | 520 | 484 | 1,592 | 1,444 |
| Brokered loan fees | 7,581 | 4,885 | 18,090 | 14,394 |
| Swap fees | 918 | 254 | 2,330 | 3,275 |
| Other | 3,704 | 2,439 | 9,508 | 7,257 |
| Total non-interest income | $ 16,716 | $ 11,380 | $ 41,945 | $ 36,418 |

Non-interest income increased $5.3 million during the three months ended September 30, 2016 compared to the same period of 2015. This increase was primarily due to a $2.7 million increase in brokered loan fees during the three months ended September 30, 2016 compared to the same period of 2015 as a result of an increase in mortgage finance and loans held for sale volumes. Service charges increased $784,000 during the three months ended September 30, 2016 compared to the same period of 2015 as a result of the increase in deposit balances and improved pricing. Swap fees increased $664,000 during the three months ended September 30, 2016 compared to the same period of 2015. Swap fees are fees related to customer swap transactions and are received from the institution that is our counterparty on the transaction. These fees fluctuate from quarter to quarter based on the number and volume of transactions closed during the quarter. Other non-interest income increased $1.3 million during the three months ended September 30, 2016 compared to the same period of 2015. Other non-interest income includes such items as letter of credit fees, other general operating income and changes in the fair value of loans held for sale, none of which account for 1% or more of total interest income and non-interest income.

Non-interest income increased $5.5 million during the nine months ended September 30, 2016 compared to the same period of 2015. This increase was primarily due to a $3.7 million increase in brokered loan fees during the nine months ended September 30, 2016 compared to the same period of 2015 as a result of an increase in mortgage finance and loans held for sale volumes. Service charges increased $1.1 million during the nine months ended September 30, 2016 compared to the same period of 2015 as a result of the increase in deposit balances and improved pricing. Other non-interest income increased $2.3 million during the nine months ended September 30, 2016 compared to the same period of 2015. Other non-interest income includes such items as letter of credit fees, other general operating income and changes in the fair value of loans held for sale, none of which account for 1% or more of total interest income and non-interest income. Offsetting these increases was a $945,000 decrease in swap fees during the nine months ended September 30, 2016 compared to the same period of 2015.

While management expects continued growth in certain components of non-interest income, the future rate of growth could be affected by increased competition from nationwide and regional financial institutions. In order to achieve growth in non-interest income, we may need to introduce new products or enter into new lines of business or expand existing lines of business. Any new product introduction or new market entry could place additional demands on capital and managerial resources.

**Non-interest Expense**

The components of non-interest expense were as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Salaries and employee benefits | $ 56,722 | $ 48,583 | $ 162,904 | $ 142,611 |
| Net occupancy expense | 5,634 | 5,874 | 17,284 | 17,373 |
| Marketing | 4,292 | 3,999 | 12,686 | 12,142 |
| Legal and professional | 5,333 | 5,510 | 16,883 | 15,176 |
| Communications and technology | 6,620 | 5,180 | 19,228 | 15,905 |
| FDIC insurance assessment | 6,355 | 4,489 | 17,867 | 12,490 |
| Allowance and other carrying costs for OREO | 269 | 1 | 765 | 16 |
| Other(1) | 9,574 | 8,052 | 28,257 | 23,768 |
| Total non-interest expense | $ 94,799 | $ 81,688 | $ 275,874 | $ 239,481 |

(1) Other expense includes such items as courier expenses, regulatory assessments other than FDIC insurance, due from bank charges and other general operating expenses, none of which account for 1% or more of total interest income and non-interest income.

Non-interest expense for the third quarter of 2016 increased $13.1 million, or 16%, to $94.8 million from $81.7 million in the third quarter of 2015. The increase is primarily attributable to an $8.1 million increase in salaries and employee benefits expense due to general business growth and continued build-out.

Communications and technology expense for the three months ended September 30, 2016 increased $1.4 million as a result of general business and customer growth and continued build-out needed to support that growth, including investment in IT security.

FDIC insurance assessment expense for the three months ended September 30, 2016 increased $1.9 million compared to the same quarter in 2015 as a result of the increase in total assets from September 30, 2015 to September 30, 2016.

Non-interest expense for the nine months ended September 30, 2016 increased $36.4 million, or 15%, to $275.9 million from $239.5 million for the same period of 2015. The increase is primarily attributable to a $20.3 million increase in salaries and employee benefits expense due to general business growth and continued build-out.

Legal and professional expense for the nine months ended September 30, 2016 increased $1.7 million compared to the same period of 2015. Our legal and professional expense will continue to fluctuate and could increase in the future due to additional growth and as we respond to continued regulatory changes and strategic initiatives.

Communications and technology expense for the nine months ended September 30, 2016 increased $3.3 million as a result of general business and customer growth and continued build-out needed to support that growth, including investment in IT security.

FDIC insurance assessment expense for the nine months ended September 30, 2016 increased $5.4 million compared to the same period in 2015 as a result of the increase in total assets from September 30, 2015 to September 30, 2016.

***Analysis of Financial Condition***

**Loans Held for Investment**

Loans were as follows as of the dates indicated (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Commercial | $ 7,053,979 | $ 6,672,631 |
| Mortgage finance | 4,961,159 | 4,966,276 |
| Construction | 2,150,453 | 1,851,717 |
| Real estate | 3,391,831 | 3,139,197 |
| Consumer | 27,554 | 25,323 |
| Leases | 96,878 | 113,996 |
| Gross loans held for investment | 17,681,854 | 16,769,140 |
| Deferred income (net of direct origination costs) | (58,301) | (57,190) |
| Allowance for loan losses | (180,436) | (141,111) |
| Total loans held for investment, net | $ 17,443,117 | $ 16,570,839 |

Total loans held for investment net of allowance for loan losses at September 30, 2016 increased $872.3 million from December 31, 2015 to $17.4 billion. Our business plan focuses primarily on lending to middle market businesses and successful professionals and entrepreneurs, and as such, commercial, real estate and construction loans have comprised a majority of our loan portfolio. Consumer loans generally have represented 1% or less of the portfolio. Mortgage finance loans relate to our mortgage warehouse lending operations in which we invest in mortgage loan ownership interests that are typically sold within 10 to 20 days. Volumes fluctuate based on the level of market demand for the product and the number of days between purchase and sale of the loans as well as overall market interest rates and tend to peak at the end of each month.

We originate a substantial majority of all loans held for investment (excluding mortgage finance loans). We also participate in syndicated loan relationships, both as a participant and as an agent. As of September 30, 2016, we had $2.1 billion in syndicated loans, $548.4 million of which we administer as agent. All syndicated loans, whether we act as agent or participant, are underwritten to the same standards as all other loans we originate. As of September 30, 2016, $82.7 million of our syndicated loans were on non-accrual.

**Portfolio Geographic Concentration**

When considering our mortgage finance loans and other national lines of business, more than 50% of our borrowers and the value of collateral securing our loans held for investment are located outside of Texas. However, as of September 30, 2016, a majority of our loans held for investment, excluding our mortgage finance loans and other national lines of business, were to businesses with headquarters and operations in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. We also make loans to these 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 adequacy of the allowance for loan losses.

**Summary of Loan Loss Experience**

The provision for credit losses is a charge to earnings to maintain the allowance for loan losses at a level consistent with management's assessment of the collectability of the loan portfolio in light of current economic conditions and market trends. We recorded a provision of $22.0 million during the third quarter of 2016 compared to $13.8 million in the third quarter of 2015 and $16.0 million in the second quarter of 2016. The increase in provision recorded during the third quarter of 2016 compared to the same period in 2015 is related to the deterioration in our energy portfolio, growth in loans held for investment, excluding mortgage finance loans, and an increase in total criticized loans, as well as changes in applied risk weights. Risk weights are based on historical loss experience as well as changes in the composition of our pass-rated loan portfolio.

The allowance for credit losses, which includes a liability for losses on unfunded commitments, totaled $191.3 million at September 30, 2016, $150.1 million at December 31, 2015 and $138.1 million at September 30, 2015. The combined allowance percentage increased to 1.51% at September 30, 2016 from 1.28% and 1.19% at December 31, 2015 and September 30, 2015, respectively. The combined allowance as a percent of loans held for investment, excluding mortgage finance loans, has trended up during 2015 and into 2016 primarily as a result of the increasing provision for credit losses driven by deterioration in our energy portfolio and management's allocation of a higher reserve to the Bank's pass-rated portfolio as deemed appropriate in light of current environmental conditions.

The overall allowance for loan losses results from consistent application of our loan loss reserve methodology. At September 30, 2016, we believe the allowance is appropriate to cover all inherent losses in the portfolio and has been derived from consistent application of our methodology. Should any of the factors considered by management in evaluating the

adequacy 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.

Activity in the allowance for loan losses is presented in the following table (in thousands, except percentage and multiple data):

| | Nine months ended September 30, 2016 | Year ended December 31, 2015 | Nine months ended September 30, 2015 |
|---|---|---|---|
| Allowance for loan losses: | | | |
| Beginning balance | $ 141,111 | $ 100,954 | $ 100,954 |
| Loans charged-off: | | | |
| Commercial | 34,232 | 16,254 | 11,278 |
| Real estate | 528 | 389 | 346 |
| Consumer | 40 | 62 | 62 |
| Leases | — | 25 | 25 |
| Total charge-offs | 34,800 | 16,730 | 11,711 |
| Recoveries: | | | |
| Commercial | 7,829 | 4,944 | 2,098 |
| Construction | 34 | 400 | 28 |
| Real estate | 36 | 33 | 397 |
| Consumer | 16 | 173 | 19 |
| Leases | 71 | 38 | 27 |
| Total recoveries | 7,986 | 5,588 | 2,569 |
| Net charge-offs | 26,814 | 11,142 | 9,142 |
| Provision for loan losses | 66,139 | 51,299 | 38,728 |
| Ending balance | $ 180,436 | $ 141,111 | $ 130,540 |
| Allowance for off-balance sheet credit losses: | | | |
| Beginning balance | $ 9,011 | $ 7,060 | $ 7,060 |
| Provision for off-balance sheet credit losses | 1,861 | 1,951 | 522 |
| Ending balance | $ 10,872 | $ 9,011 | $ 7,582 |
| Total allowance for credit losses | $ 191,308 | $ 150,122 | $ 138,122 |
| Total provision for credit losses | $ 68,000 | $ 53,250 | $ 39,250 |
| Allowance for loan losses to LHI | 1.02% | 0.84% | 0.82% |
| Allowance for loan losses to LHI excluding mortgage finance loans | 1.42% | 1.20% | 1.13% |
| Net charge-offs to average LHI(1) | 0.22% | 0.07% | 0.08% |
| Net charge-offs to average LHI excluding mortgage finance loans(1) | 0.29% | 0.10% | 0.11% |
| Total provision for credit losses to average LHI | 0.55% | 0.35% | 0.35% |
| Total provision for credit losses to average LHI excluding mortgage finance loans | 0.74% | 0.48% | 0.49% |
| Recoveries to total charge-offs | 22.95% | 33.40% | 21.94% |
| Allowance for off-balance sheet credit losses to off-balance sheet credit commitments | 0.19% | 0.16% | 0.14% |
| Combined allowance for credit losses to LHI | 1.09% | 0.90% | 0.87% |
| Combined allowance for credit losses to LHI excluding mortgage finance loans | 1.51% | 1.28% | 1.19% |
| Non-performing assets: | | | |
| Non-accrual loans(4) | $ 169,113 | $ 179,788 | $ 109,674 |
| OREO(3) | 19,009 | 278 | 187 |
| Other repossessed assets | — | 230 | — |
| Total | $ 188,122 | $ 180,296 | $ 109,861 |
| Restructured loans | $ — | $ 249 | $ 249 |
| Loans past due 90 days and still accruing(2) | 9,706 | 7,013 | 7,558 |
| Allowance for loan losses to non-accrual loans | 1.1x | 0.8x | 1.2x |

(1) Interim period ratios are annualized.

(2) At September 30, 2016, December 31, 2015 and September 30, 2015, loans past due 90 days and still accruing include premium finance loans of $7.7 million, $6.6 million and $6.2 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

(3) We did not have a valuation allowance recorded against the OREO balance at September 30, 2016, December 31, 2015 or September 30, 2015.

(4) As of September 30, 2016, December 31, 2015 and September 30, 2015, non-accrual loans included $19.7 million, $24.9 million and $26.1 million, respectively, in loans that met the criteria for restructured.

**Non-performing Assets**

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Non-accrual loans(1) | | | |
| Commercial | | | |
| Oil and gas properties | $ 143,372 | $ 104,179 | $ 32,476 |
| Assets of the borrowers | 17,335 | 30,360 | 43,870 |
| Inventory | 2,020 | 2,099 | 2,130 |
| Other | 3,606 | 2,020 | 1,722 |
| Total commercial | 166,333 | 138,658 | 80,198 |
| Construction | | | |
| Commercial buildings | — | 16,667 | 16,749 |
| Unimproved land | — | — | — |
| Other | 159 | — | — |
| Total construction | 159 | 16,667 | 16,749 |
| Real estate | | | |
| Commercial property | 2,087 | 2,867 | 2,909 |
| Unimproved land and/or developed residential lots | — | 3,576 | 3,591 |
| Farm land | — | 12,486 | — |
| Other | 334 | 383 | 528 |
| Total real estate | 2,421 | 19,312 | 7,028 |
| Consumer | 200 | — | — |
| Leases | — | 5,151 | 5,699 |
| Total non-accrual loans | 169,113 | 179,788 | 109,674 |
| Repossessed assets: | | | |
| OREO(2) | 19,009 | 278 | 187 |
| Other repossessed assets | — | 230 | — |
| Total non-performing assets | $ 188,122 | $ 180,296 | $ 109,861 |

(1) As of September 30, 2016, December 31, 2015 and September 30, 2015, non-accrual loans included $19.7 million, $24.9 million and $26.1 million, respectively, in loans that met the criteria for restructured.

(2) We did not have a valuation allowance recorded against the OREO balance at September 30, 2016, December 31, 2015 or September 30, 2015.

Total non-performing assets at September 30, 2016 increased $78.3 million from September 30, 2015 and $7.8 million from December 31, 2015. We experienced a significant increase in levels of non-performing assets during the nine months ended September 30, 2016 compared to the same period in 2015, primarily related to deterioration in our energy portfolio, which was expected as energy prices remain low. Energy non-performing assets totaled $150.0 million at September 30, 2016 compared to

$36.9 million at September 30, 2015 and $120.4 million at December 31, 2015. Our provision for credit losses increased as a result of changes in the applied risk weights, an increase in total criticized loans, primarily related to the energy portfolio, and continuing growth in loans held for investment, excluding mortgage finance loans. Risk weights are based on historical loss experience as adjusted for current environmental factors as well as changes in the composition of our pass-rated loan portfolio. This resulted in an increase in the allowance for loan losses as a percent of loans excluding mortgage finance loans for September 30, 2016 compared to December 31, 2015 and September 30, 2015.

Generally, we place loans held for investment on non-accrual 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 unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. As of September 30, 2016, 816,000 of our non-accrual loans were earning on a cash basis. 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.

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which we have concerns about the borrower's ability to comply with repayment terms because of the borrower's potential financial difficulties. We monitor these loans closely and review their performance on a regular basis. At September 30, 2016, we had $26.3 million in loans of this type, compared to none at December 31, 2015, which were not included in either non-accrual or 90 days past due categories.

The table below summarizes the assets held in OREO at September 30, 2016 (in thousands):

| | | |
|---|---|---|
| Medical building | $ | 17,398 |
| Oil and gas property | $ | 1,141 |
| Other | $ | 470 |
| Total OREO | $ | 19,009 |

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. So long as the property is retained, further reductions in appraised value will result in valuation adjustments being taken as non-interest expense. If the decline in value is believed to be permanent and not just driven by short-term market conditions, a direct write-down of the OREO balance may be taken. We generally pursue sales of OREO when conditions warrant, but we may choose to hold certain properties for a longer term, which can result in additional exposure to decreases in the appraised value of the asset and the incurrence of carrying costs during that holding period. We did not record a valuation expense during the nine months ended September 30, 2016 and 2015.

**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 GSEs such as Fannie Mae, Freddie Mac or Ginnie Mae. We have elected to carry these loans at fair value based on sales commitments and market quotes. Changes in the fair value of the loans held for sale are included in other non-interest income.

Residential mortgage loans 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.

The table below presents the unpaid principal balance of loans held for sale and related fair values at September 30, 2016 and December 31, 2015 (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Unpaid principal balance | 620,207 | 82,853 |
| Fair value | 648,684 | 86,075 |
| Fair value over/(under) unpaid principal balance | 28,477 | 3,222 |

No loans held for sale were 90 days or more past due or on non-accrual as of September 30, 2016 and December 31, 2015.

The differences between the fair value carrying amount and the aggregate unpaid principal balance include changes in fair value recorded at and subsequent to funding, gains and losses on the related loan commitment prior to funding and premiums or discounts on acquired loans.

We generally retain the right to service the loans sold, creating MSR assets on our balance sheet. A summary of MSR activities for the nine months ended September 30, 2016 is as follows (in thousands):

| | | |
|---|---|---|
| Servicing asset:(1) | | |
| Balance, beginning of year | $ | 423 |
| Capitalized servicing rights | | 16,344 |
| Amortization | | (891) |
| Balance, end of period | | 15,876 |
| Valuation allowance: | | |
| Balance, beginning of year | $ | — |
| Increase in valuation allowance | $ | 414 |
| Balance, end of period | $ | 414 |
| Servicing asset, net(1) | $ | 15,462 |
| Fair value | $ | 15,970 |

(1) Mortgage servicing rights are reported on the consolidated balance sheets at lower of cost or market. Carrying value and fair value were the same at December 31, 2015, respectively.

At September 30, 2016 and December 31, 2015, our servicing portfolio of residential mortgage loans sold included 4,954 and 168 loans, respectively, with an outstanding principal balance of $1.3 billion and $39.0 million, respectively. In connection with the servicing of these loans, we maintain escrow funds for taxes and insurance in the name of investors, as well as collections in transit to investors. These escrow funds are segregated and held in separate non-interest-bearing accounts at the Bank. These deposits, included in total non-interest-bearing deposits on the consolidated balance sheets, were $18.5 million at September 30, 2016.

As of September 30, 2016 and December 31, 2015, management used the following assumptions to determine the fair value of MSRs:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Average discount rates | 10.09% | 9.76% |
| Expected prepayment speeds | 11.18% | 9.66% |
| Weighted average life, in years | 6.5 | 7.3 |

In conjunction with the sale and securitization of loans held for sale, we may be exposed to liability resulting from recourse agreements and repurchase agreements. If it is determined subsequent to our sale of a loan that the loan sold is in breach of the representations or warranties made in the applicable sale agreement, we may have an obligation to (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. During the nine months ended September 30, 2016, we originated or purchased and sold approximately $1.4 billion of mortgage loans.

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 probable 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 any actual losses experienced from actual repurchase activity.

Because the MCA business commenced in 2015, we have no historical data to support the establishment of a reserve. The baseline for the repurchase reserve uses historical loss factors obtained from industry data that are applied to loan pools originated and sold during the nine months ended September 30, 2016. The historical industry data loss factors and experienced losses will be accumulated for each sale vintage (year loan was sold) and applied to more recent sale vintages to estimate inherent losses not yet realized. Our estimated exposure related to these loans was $621,000 at September 30, 2016 and is recorded in other liabilities in the consolidated balance sheet. We had no losses due to repurchase, indemnification or make-whole obligations during the year ended September 30, 2016 as it relates to our MCA program.

**Liquidity and Capital Resources**

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, formulated and monitored by our senior management and our Balance Sheet Management Committee (“BSMC”), which take into account the demonstrated marketability of assets, the sources and stability of our funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost effectiveness. For the year ended December 31, 2015 and for the nine months ended September 30, 2016 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 Federal Home Loan Bank ("FHLB") borrowings, which are generally used to fund mortgage finance assets.

Deposit growth and increases in borrowing capacity related to our mortgage finance loans have resulted in an increase in liquidity assets to $3.5 billion at September 30, 2016. The following table summarizes the growth in and composition of liquidity assets (in thousands):

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Federal funds sold and securities purchased under resale agreements | $ 30,000 | $ 55,000 | $ 25,000 |
| Interest-bearing deposits | 3,441,074 | 1,626,374 | 2,320,192 |
| Total liquidity assets | $ 3,471,074 | $ 1,681,374 | $ 2,345,192 |
| | | | |
| Total liquidity assets as a percent of: | | | |
| Total loans held for investment, excluding mortgage finance loans | 27.8% | 14.3% | 20.3% |
| Total loans held for investment | 19.5% | 10.1% | 14.8% |
| Total earning assets | 17.0% | 9.2% | 12.9% |
| Total deposits | 20.8% | 11.1% | 15.5% |

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 relationships with customers, 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, 30 to 90 days, and are used to fund temporary differences in the growth in loans balances, including growth in loans held for sale or other specific categories of loans as compared to customer deposits. The following table summarizes our period-end and average year-to-date core customer deposits, relationship brokered deposits and traditional brokered deposits (in millions):

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Deposits from core customers | $ 16,383.1 | $ 13,743.8 | $ 13,554.2 |
| Deposits from core customers as a percent of total deposits | 90.3% | 91.1% | 89.4% |
| Relationship brokered deposits | $ 1,762.0 | $ 1,340.8 | $ 1,611.1 |
| Relationship brokered deposits as a percent of total deposits | 9.7% | 8.9% | 10.6% |
| Traditional brokered deposits | $ — | $ — | $ — |
| Traditional brokered deposits as a percent of total deposits | —% | —% | —% |
| Average deposits from core customers(1) | $ 15,058.0 | $ 13,172.6 | $ 12,764.9 |
| Average deposits from core customers as a percent of total quarterly average deposits(1) | 89.9% | 89.4% | 88.7% |
| Average relationship brokered deposits(1) | $ 1,699.7 | $ 1,566.8 | $ 1,630.0 |
| Average relationship brokered deposits as a percent of total quarterly average deposits(1) | 10.1% | 10.6% | 11.3% |
| Average traditional brokered deposits(1) | $ — | $ — | $ — |
| Average traditional brokered deposits as a percent of total quarterly average deposits (1) | —% | —% | —% |

(1) Annual averages presented for December 31, 2015.

We have access to sources of traditional brokered deposits that we estimate to be $3.5 billion. Based on our internal guidelines, we have chosen to limit our use of these sources to a lesser amount. Customer deposits (total deposits, including relationship brokered deposits, minus brokered CDs) at September 30, 2016 increased by $3.1 billion from December 31, 2015 and increased $3.0 billion from September 30, 2015.

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 assets, 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, treasury, tax and loan notes and advances from the FHLB and the Federal Reserve. The following table summarizes our short-term borrowings as of September 30, 2016 (in thousands):

| | |
|---|---|
| Federal funds purchased | $ 73,768 |
| Repurchase agreements | 7,652 |
| FHLB borrowings | 1,650,000 |
| Line of credit | 20,000 |
| Total short-term borrowings | $ 1,751,420 |
| Maximum short-term borrowings outstanding at any month-end during 2016 | $ 2,117,280 |

The following table summarizes our other borrowing capacities in excess of balances outstanding at September 30, 2016 (in thousands):

| | |
|---|---|
| FHLB borrowing capacity relating to loans | $ 3,645,669 |
| FHLB borrowing capacity relating to securities | 1,867 |
| Total FHLB borrowing capacity | $ 3,647,536 |
| Unused Federal funds lines available from commercial banks | $ 1,161,000 |

The following table summarizes our long-term borrowings as of September 30, 2016 (in thousands):

| | | |
|---|---|---|
| Subordinated notes | $ | 280,954 |
| Trust preferred subordinated debentures | | 113,406 |
| Total long-term borrowings | $ | 394,360 |

At September 30, 2016, we had a revolving, non-amortizing line of credit with a maximum availability of $130.0 million. This line of credit matures on December 21, 2016. The loan 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. As of September 30, 2016, $20.0 million in borrowings were outstanding compared to none at December 31, 2015.

Our equity capital, including $150 million in preferred stock, averaged $1.7 billion for the nine months ended September 30, 2016, as compared to $1.5 billion for the same period in 2015. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the foreseeable future.

As of September 30, 2016, our capital ratios were above the levels required to be well capitalized. We believe that our earnings, periodic capital raising transactions and the addition of loan and deposit relationships will allow us to continue to grow organically.

**Commitments and Contractual Obligations**

The following table presents significant fixed and determinable contractual payment obligations to third parties by payment date. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. As of September 30, 2016, our significant fixed and determinable contractual obligations to third parties, excluding interest, were as follows (in thousands):

| | Within One Year | After One but Within Three Years | After Three but Within Five Years | After Five Years | Total |
|---|---|---|---|---|---|
| Deposits without a stated maturity | $ 17,657,225 | $ — | $ — | $ — | $ 17,657,225 |
| Time deposits | 462,635 | 18,628 | 6,635 | — | 487,898 |
| Federal funds purchased and customer repurchase agreements | 81,420 | — | — | — | 81,420 |
| FHLB borrowings | 1,650,000 | — | — | — | 1,650,000 |
| Line of credit | 20,000 | — | — | — | 20,000 |
| Operating lease obligations(1) | 15,665 | 15,723 | 43,061 | 30,681 | 105,130 |
| Subordinated notes | — | — | — | 280,954 | 280,954 |
| Trust preferred subordinated debentures | — | — | — | 113,406 | 113,406 |
| Total contractual obligations | $ 19,886,945 | $ 34,351 | $ 49,696 | $ 425,041 | $ 20,396,033 |

(1) Non-balance sheet item.

**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 GAAP and generally accepted practice within the banking industry. The more significant of these policies are summarized in Note 1 - Operations and Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policies 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 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. The allowance for loan losses is comprised of specific reserves assigned to certain classified loans and general reserves. Factors contributing to the determination of specific reserves include the creditworthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan’s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of determining the general allowance, 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” and Note 4 – Loans Held for Investment and Allowance for Loan Losses in the accompanying notes to the consolidated financial statements included elsewhere in this report for further discussion of the risk factors considered by management in establishing the allowance for loan losses.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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. Petroleum and natural gas commodity prices declined substantially during 2014 and 2015, and prices have continued to be suppressed through 2016. Such declines in commodity prices, have and, if continued, could negatively impact our energy clients' ability to perform on their loan obligations. Management does not currently expect the current decline in commodity prices to have a material adverse effect on our financial position. Foreign exchange rates, commodity prices and/or equity prices do not pose significant market risk to us.

The responsibility for managing market risk rests with the BSMC, which operates under policy guidelines established by our board of directors. The negative acceptable variation in net interest revenue due to a 200 basis point increase or decrease in interest rates is generally limited by these guidelines to +/- 5%. These guidelines also establish maximum levels for short-term borrowings, short-term assets and public and brokered deposits. They also establish minimum levels for unpledged assets, among other things. Oversight of our compliance with these guidelines is the ongoing responsibility of the BSMC, with exceptions reported to our board of directors on a quarterly basis. Additionally, the Credit Policy Committee ("CPC") specifically manages risk relative to commodity price market risks. The CPC establishes maximum portfolio concentration levels for energy loans as well as maximum advance rates for energy collateral.

**Interest Rate Risk Management**

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of September 30, 2016, 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 and changes in composition of funding.

**Interest Rate Sensitivity Gap Analysis**
**September 30, 2016**
(In thousands)

| | 0-3 mo Balance | 4-12 mo Balance | 1-3 yr Balance | 3+ yr Balance | Total Balance |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Securities(1) | $ 8,733 | $ 4,529 | 2,532 | $ 10,562 | $ 26,356 |
| Total variable loans | 16,138,644 | 28,543 | 22,057 | — | 16,189,244 |
| Total fixed loans | 398,986 | 1,146,312 | 433,124 | 162,872 | 2,141,294 |
| Total loans(2) | 16,537,630 | 1,174,855 | 455,181 | 162,872 | 18,330,538 |
| Total interest sensitive assets | $ 16,546,363 | $ 1,179,384 | $ 457,713 | $ 173,434 | $ 18,356,894 |
| **Liabilities:** | | | | | |
| Interest-bearing customer deposits | $ 8,867,485 | $ — | $ — | $ — | $ 8,867,485 |
| CDs & IRAs | 204,939 | 257,696 | 18,628 | 6,635 | 487,898 |
| Traditional brokered deposits | — | — | — | — | — |
| Total interest-bearing deposits | 9,072,424 | 257,696 | 18,628 | 6,635 | 9,355,383 |
| Repurchase agreements, Federal funds purchased, FHLB borrowings, line of credit | 1,751,420 | — | — | — | 1,751,420 |
| Subordinated notes | — | — | — | 280,954 | 280,954 |
| Trust preferred subordinated debentures | — | — | — | 113,406 | 113,406 |
| Total borrowings | 1,751,420 | — | — | 394,360 | 2,145,780 |
| Total interest sensitive liabilities | $ 10,823,844 | $ 257,696 | $ 18,628 | $ 400,995 | $ 11,501,163 |
| Gap | $ 5,722,519 | $ 921,688 | $ 439,085 | $ (227,561) | $ — |
| Cumulative Gap | 5,722,519 | 6,644,207 | 7,083,292 | 6,855,731 | 6,855,731 |
| | | | | | |
| Demand deposits | | | | | $ 8,789,740 |
| Stockholders’ equity | | | | | 1,725,782 |
| Total | | | | | $ 10,515,522 |

(1) Securities based on fair market value.
(2) Loans are stated at gross.

The table above sets forth the balances as of September 30, 2016 for interest-bearing assets, interest-bearing liabilities, and the total of non-interest-bearing deposits and stockholders’ equity. 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 changing interest rates on the value of funding derived from demand deposits and stockholders’ equity. We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. We quantify and measure interest rate risk exposure using a model to dynamically simulate the effect of changes in net interest income relative to changes in interest rates and loan and deposit account balances over the next twelve months based on three interest rate scenarios. These are a “most likely” rate scenario and two “shock test” scenarios.

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

The two “shock test” scenarios assume a sustained parallel 100 and 200 basis point increase in interest rates. As short-term rates have remained low through 2015 and the first nine months of 2016, we do not believe that analysis of an assumed decrease in

interest rates would provide meaningful results. We will continue to evaluate these scenarios as interest rates change, until short-term rates rise above 3.0%, at which point we will resume evaluations of shock scenarios in which interest rates decrease.

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

| | Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario | | Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario | |
|---|---|---|---|---|
| | 100 bp Increase | 200 bp Increase | 100 bp Increase | 200 bp Increase |
| | September 30, 2016 | | September 30, 2015 | |
| Change in net interest income | $ 117,094 | $ 241,366 | $ 86,998 | $ 182,672 |

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 may differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies, among other factors.

## ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) 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.

# PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are subject to various claims and legal actions related to operating activities that arise in the ordinary course of business. Management does not currently expect the ultimate disposition of these matters to have a material adverse impact on our financial statements.

## ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously disclosed in the Company's 2015 Form 10-K for the fiscal year ended December 31, 2015.

**ITEM 6. EXHIBITS**

(a) Exhibits

| | |
|---|---|
| 10.1* | Form of Performance Award Agreement for Executive Officers, filed herewith. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith. |
| 32.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith. |
| 101 | The following materials from Texas Capital Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements |

* Denotes management contract or compensatory plan.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXAS CAPITAL BANCSHARES, INC.

Date: October 20, 2016

/s/ Peter B. Bartholow

Peter B. Bartholow
Chief Financial Officer
(Duly authorized officer and principal financial officer)

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**EXHIBIT INDEX**

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# Section 2: EX-10.1 (EXHIBIT 10.1 FORM OF PERFORMANCE AWARD AGREEMENT FOR EXECUTIVE OFFICERS)

**EXHIBIT 10.1**

**PERFORMANCE AWARD AGREEMENT**
**UNDER THE**
**TEXAS CAPITAL BANCSHARES, INC.**
**2015 LONG-TERM INCENTIVE PLAN**

1. Award of Performance Units. Pursuant to the Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan (the "***Plan***") of Texas Capital Bancshares, Inc., a Delaware corporation (the "***Company***") and its Subsidiaries,

__________
(the "***Participant***")

as an employee of the Company, has been granted an Award under the Plan for [•] Restricted Stock Units (the "***Time-Based Units***") and [•] Performance Units (the "***Performance Units***", collectively, with the Time-Based Units, the "***Awarded Units***"), which may be converted into the number of whole shares of Common Stock (as determined under Section 4 below) equal to the number of vested Awarded Units (determined in accordance with Section 3 below), subject to the terms and conditions of the Plan and this Performance Award Agreement (this "***Agreement***"). The Date of Grant of this Award is September 28, 2016. The maximum number of shares of Common Stock that could be issued with respect to the Awarded Units is [•]. Each Awarded Unit shall be a notional share of Common Stock, with the value of each Awarded Unit being equal to the Fair Market Value of a share of Common Stock at any time.

2. Subject to Plan. This Agreement is subject to the terms and conditions of the Plan, and the terms of the Plan shall control to the extent inconsistent with the provisions of this Agreement. The capitalized terms used herein that are defined in the Plan shall have the same meanings assigned to them in the Plan, except as otherwise expressly provided herein. This Agreement is subject to any rules promulgated pursuant to the Plan by the Board or the Committee and communicated to the Participant in writing.

3. Vesting; Forfeiture. Awarded Units which have become vested pursuant to the terms of this Section 3 are collectively referred to herein as "***Vested Units***." All other Awarded Units are collectively referred to herein as "***Unvested Units***." The Participant shall be eligible to receive payment with respect to the Vested Units in accordance with Section 4 below.

a. Subject to the provisions of Section 5 and Section 30 below and except as otherwise provided in this Section 3,

(i) Sixty-six percent (66%) of the Time-Based Units (rounding to the nearest whole share) will become vested on March 15, 2019, and thirty-four percent (34%) of the Time-Based Units (rounding to the nearest whole share) will become vested on September 28, 2019, provided that in each case the Participant is employed by (or if the Participant is a Contractor, Consultant or Outside Director, is providing services to) the Company or its Subsidiaries on such date.

(ii) The Performance Units will vest on the date the Committee determines whether the vesting conditions set forth on Exhibit A hereto have been achieved (which date shall be no later than March 15, 2019).

b. Except as otherwise provided by Section 3.c. and Section 3.g. hereof, immediately upon the Participant's Termination of Service for any reason whatsoever, the Participant shall be deemed to have forfeited all of the Participant's Unvested Units.

c. Notwithstanding the foregoing and except as otherwise provided in Section 5 below and regardless of whether the performance criteria set forth in Exhibit A have been achieved, in the event that a Change in Control occurs and on or after the date of the Change in Control, the Participant incurs a Termination of Service by the Company (or by its successor following the Change in Control) without Cause (as defined

in Section 3.d. below) or by the Participant for Good Reason (as defined in Section 3.f. below), then 100% of the Unvested Units shall immediately become Vested Units upon such termination.

d. For purposes hereof, "***Cause***" shall have the meaning set forth in the Participant's employment agreement with the Company.

e. For purposes hereof, "***Change in Control***" shall have the meaning set forth in the Plan, provided that such event is a "change in control" within the meaning of Section 409A of the Code, and the regulations and other applicable guidance issued thereunder.

f. For purposes hereof, "***Good Reason***" shall have the meaning set forth in the Participant's employment agreement with the Company.

g. Notwithstanding anything to the contrary contained herein, if at any time after the date the Participant reaches age 65 plus twelve (12) years of service with the Company the Participant incurs a Termination of Service with the Board's consent (other than a Termination of Service for Cause or without Good Reason), then:

(i) A prorated portion of the Time-Based Units shall become Vested Units based on the number of full years between the Date of Grant and the Participant's Termination of Service (calculated by multiplying the total number of Time-Based Units by a fraction, the numerator of which is the number of full years the Participant has been employed since the Date of Grant and the denominator of which is three), provided that such Vested Units shall remain subject to the payout provisions of Section 4; and

(ii) The Performance Units shall not be forfeited upon the Participant's Termination of Service and instead, such Performance Units shall continue to be subject to the vesting and payout provisions set forth in Exhibit A hereto as if the Participant had remained employed by the Company.

4. Delivery of Common Stock. The Vested Units shall be converted into the number of whole shares of Common Stock equal to the number of Vested Units and the Company shall electronically register such shares of Common Stock in the Participant's name (or in the name of his or her estate or beneficiary) or deliver certificates for the such shares of Common Stock to the Participant in accordance with the following schedule:

a. (A) with respect to the Performance Units, on March 15, 2019; and (B) with respect to the Time-Based Units, sixty-six percent (66%) (rounding to the nearest whole share) on March 15, 2019, and thirty-four percent (34%) (rounding to the nearest whole share) on September 28, 2019; or

b. If earlier, the date of the Participant's Termination of Service without Cause or with Good Reason on or after a Change in Control.

To the extent an Awarded Unit does not vest in accordance with the provisions of Section 3 hereof by September 28, 2019, such Awarded Unit shall be forfeited and no shares of Common Stock shall be delivered with respect to such forfeited Awarded Unit.

5. Forfeiture and Disgorgement.

a. Notwithstanding any provisions in this Agreement to the contrary, in the event the Participant violates the provisions of Section 5.b. or the provisions of any agreement between the Company (or any of its Subsidiaries) that contains confidentiality, non-solicitation or other protective or restrictive covenant provisions, then:

(i) the Awarded Units shall immediately cease to vest as of the date of such violation;

(ii) any shares of Common Stock that had not been registered (or delivered) with respect to Awarded Units shall be immediately forfeited and this Agreement (other than the provisions of this Section 5) will be terminated on the date of such violation; and

(iii) any shares of Common Stock (less any taxes paid by the Participant on such shares of Common Stock) that had been delivered to the Participant (or registered in the Participant's name) with respect to any Vested Units shall be immediately returned to the Company by the Participant.

The Company must deliver written notice of its intent to enforce the provisions of this Section 5.a. at least fifteen (15) days prior to the date it intends to enforce the terms of Sections 5.a.(i) and (ii). Both the Company and the Participant agree that upon delivery of written notice under this Section 5.a., neither party will enter into any transaction that will affect the other party's interests in the cash subject to dispute until the expiration of the fifteen (15) day notice period.

The provisions of this Section 5 (including, without limitation, the provisions of this Section 5.a. and the provisions of Section 5.b. below) only shall apply to the Awarded Units for the period beginning on the Date of Grant and ending on the earlier of (i) the one year (or, in the event the Awarded Units vest in accordance with Section 3.g. above, the four year) anniversary of the date the Awarded Units become vested in accordance with the provisions of Section 3 above (regardless of whether the Agreement terminates or expires prior to such date), or (ii) if a Change in Control occurs, the date of the Participant's Termination of Service either by the Company without Cause or by the Participant with Good Reason.

b. By execution of this Agreement, the Participant, either individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, agrees to the following:

(i) Confidential Information. The Participant acknowledges 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, customer lists, customer leads, customer loan and financial information, 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 the Company's operations and expansion plans ("***Confidential Information***"). The Confidential Information includes, without limitation, information about the Company's business, proprietary, and technical information that is not known to others and could have economic value to others if improperly disclosed. Confidential Information also means any information the Company discloses to the Participant, either directly or indirectly, in writing, orally or by inspection of tangible objects, including, without limitation, information and technical data contained in the Company's manuals, booklets, publications and materials, equipment of every kind and character, as well as documents, prototypes, samples, prospects, inventions, product ideas, know how, processes, plans (including, without limitation, marketing plans and strategies), specifications, designs, techniques, technology, formulas, software, improvements, forecasts, and research. Confidential Information does not include any information that is available to the public or, upon reasonable investigation, is ascertainable in the public domain or information generally known outside of the Company. The Participant's obligations under this Section 5 regarding specific Confidential Information shall cease when that specific portion of the Confidential Information becomes publicly known, in its entirety and without combining portions of such information obtained separately.

(ii) Access to and Agreement Not To Disclose Confidential Information. During Participant's Company employment, the Company agrees to provide the Participant with some or all of the Company's Confidential Information to which the Participant has not had previous access or knowledge. By executing this Agreement, the Participant agrees that the Confidential Information

constitutes valuable, special and unique assets of the Company, developed at the Company's great expense, the unauthorized use or disclosure of which would cause irreparable harm to the Company. The Participant understands and acknowledges that the Company is engaged in a specialized and competitive industry; that the Company relies heavily on information, data, programs, and processes it has developed and acquired; and that competitors can reap potential or real economic benefits from the possession of the Confidential Information that is otherwise not available to its competitors. The Participant understands and acknowledges, therefore, that the protection of the Company's Confidential Information constitutes the Company's legitimate business interest. The Participant acknowledges that the Confidential Information is the Company's exclusive property, and the Participant will hold the Confidential Information in trust and solely for the Company's benefit. The Participant further acknowledges that the Confidential Information includes "trade secrets" under Texas law and, in addition to the other protections provided in this Agreement, all trade secrets will be accorded the protection and benefits under Texas law and any other applicable law. The Participant waives any requirement that the Company submit proof of any trade secret's economic value or post a bond or other security should the need arise.

In exchange for the Company's promise to provide the Participant with some or all of the Company's Confidential Information to which the Participant has not previously had access or knowledge, the Participant agrees that he or she will not, either during the period of the Participant's employment with the Company or at any time thereafter, use or rely upon for the Participant's benefit or the benefit of another, or disclose, disseminate, or distribute to anyone, including, without limitation, any individual, person, firm, corporation, or other entity, or publish, or use for any purpose, any of the Confidential Information (whether acquired, learned, obtained, or developed by the Participant alone or in conjunction with others), except (A) as properly required in the ordinary course of the Company's business or as the Company directs and authorizes; (B) as required by applicable law (if, to the extent reasonable and practicable, reasonable prior notice of such disclosure is given to the Company); or (C) to the extent such information is available to or known by the public (other than as a result of disclosure in violation of this Agreement). The Participant agrees that he or she will take all reasonable measures to protect the secrecy of and avoid unauthorized disclosure and unauthorized use of the Confidential Information. The Participant also agrees to notify the Company immediately in the event of any unauthorized use, reliance upon or disclosure of the Company's Confidential Information of which the Participant is aware.

(iii) Use of Confidential Information During Employment. The Participant further agrees that in the course of his or her employment by the Company, the Participant will not remove from any office of the Company any documents, electronically stored information, or related items that contain Confidential Information, including, without limitation, computer discs, recordings, or other storage or archival systems or devices, including copies, except as may be required in the performance of the Participant's duties as an employee of the Company. The Participant also agrees that he or she will not place or save any Confidential Information on any computer or electronic storage system that is not the Company's property, except to perform work for the Company. All Confidential Information, and all memoranda, notes, records, drawings, documents, or other writings whatsoever made, compiled, acquired, or received by the Participant at any time during his or her employment, including during the term of this Agreement, arising out of, in connection with, or related to any activity or business of the Company, including, without limitation, the customers, vendors, third parties, or others with whom the Company has a business relationship, the arrangements of the Company with such parties, and the pricing and expansion policies and strategy of the Company, are, and shall continue to be, the Company's sole and exclusive property.

(iv) Protective Covenants. The Participant agrees that to protect the Company's Confidential Information, and in consideration for the equity compensation in this Agreement, it is necessary to enter into the following protective covenants, which are ancillary to the enforceable promises between the Company and the Participant in the other Agreement Sections. During the Participant's employment with the Company, and for a one-year period (or, in the event the Awarded

Units vest in accordance with Section 3.g. above, the four-year period) after the date the Participant's employment is terminated by the Company for any reason, or if the Participant resigns for any reason, the Participant shall not, without the Company's prior written consent, directly or indirectly: (A) compete for or solicit business for or on behalf of any person or business entity operating a state or national bank or company providing similar services with a place of business in the State of Texas; (B) own, operate, participate in, undertake any employment with, or have any interest in any entity with a place of business in the State of Texas related to the operation of a state or national bank or company providing similar services, except that the Participant may own publicly traded stock for investment purposes only in any company in which the Participant owns less than 5% of the voting equity; or (C) use or rely upon in any competition, solicitation, or marketing effort any Confidential Information.

The Participant also acknowledges that the geographic boundaries, scope of prohibited activities, and the duration of the provisions in the Protective Covenants are reasonable and are no broader than are necessary to protect the Company's legitimate business interests. The Protective Covenants shall survive the termination of the Participant's employment and can be revoked or modified only by a writing signed by the parties that specifically states an intent to revoke or modify this provision. The Participant acknowledges that the Company would not provide him or her with access to its Confidential Information but for his or her covenants or promises contained in this Section 5.b. The Participant further agrees that during the protective covenant term, he or she shall immediately notify the Company in writing of any employment, work, or business he or she undertakes with or on behalf of any person (including himself or herself) or entity.

(v) No Solicitation of Employees/Customers. The Participant agrees that the no-employee solicitation covenant in this Section 5.b.(v) constitutes a reasonable and appropriate means, consistent with the best interests of both the Participant and the Company, to protect the Company's interests in providing valuable equity compensation to the Participant and in preventing the loss or disclosure of the Company's Confidential Information. As an inducement for the Company's agreement to provide the Participant the equity compensation in this Agreement, and to provide the Participant with the Company's Confidential Information, the Participant agrees that during the Participant's employment, and for a period of one (1) year following the termination or resignation of the Participant's employment, for whatever reason, the Participant will not, alone or in combination with any individual, partner(s), company, corporation, or other entity or business with which he is in any way affiliated, including, without limitation, any partner, limited partner, member, director, officer, shareholder, employee, or agent of any such entity, recruit, solicit, request, induce or attempt to influence, directly or indirectly, any employee of the Company to resign or terminate employment with the Company. The Participant agrees that for a period of one year (or, in the event the Awarded Units vest in accordance with Section 3.g. above, four years) following the termination or resignation of his employment, for whatever reason, whether involuntary or voluntary, he shall not, directly or indirectly, as an owner, stockholder, director, employee, partner, agent, broker, consultant or other participant solicit a customer or prospective customer, or accept any business from a customer or prospective customer with whom he or she has done business or with whom he or she has had contact during the last twelve (12) months of the Participant's employment with the Company.

(vi) Definition Related to No-Solicitation of Employee Provision. In Section 5.b.(v), "Employee" means any employee on the Company's payroll during the Protective Covenant time period specified in Section 5.b.(v).

(vii) Return of Documents. In the event of the Participant's termination or resignation of his or her employment with the Company for any reason, the Participant will deliver to the Company all non-personal documents and data of any nature, and in whatever medium, concerning the Participant's employment with the Company or any of its Subsidiaries. The Participant agrees that he or she will not take with him or her any of the Company's property, documents, or data of any

description or any reproduction thereof, including summaries or notes regarding same, or any documents containing or relating to any of the Company's Confidential Information.

(viii) Injunctive Relief. The Participant acknowledges and agrees that the Participant's obligations, covenants, and agreements in Sections 5.b.(i)-(vii) concern special, unique and extraordinary matters and that a violation of any of the terms of these agreements, covenants or obligations will cause the Company irreparable injury for which adequate remedies at law are not available. Therefore, the Participant agrees that the Company, in addition to any amounts that the Company is entitled to pursuant to Section 5.a. above, will be entitled to an injunction, restraining order, or all other equitable relief as a court of competent jurisdiction may deem necessary or appropriate to restrain the Participant from committing any violation of the agreements, covenants or obligations referred to in Sections 5.b.(i)-(vii).

(ix) Disclosures to Courts, Governmental Agencies or Administrative or Legislative Bodies. Notwithstanding the foregoing or any other agreement regarding confidentiality with the Company, the Participant may disclose Confidential Information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over the Participant or the business of the Company or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Participant to divulge, disclose or make accessible such information. Nothing in this Agreement is intended to interfere with the Participant's right to (i) report possible violations of state or federal law or regulation to any governmental agency or entity, (ii) make other disclosures that are protected under the whistleblower provisions of state or federal law or regulation, (iii) file a claim or charge with the EEOC, any state human rights commission, or any other government agency or entity, or (iv) testify, assist, or participate in an investigation, hearing, or proceeding conducted by the EEOC, any state human rights commission, or any other government or law enforcement agency, entity or court.

(x) Defend Trade Secrets Act of 2016. The Participant is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that the Participant will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (a) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. The Participant is further notified that if the Participant files a lawsuit for retaliation against the Company for reporting a suspected violation of law, the Participant may disclose the Company's trade secrets to the Participant's attorney and use the trade secret information in the court proceeding if the Participant: (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

6. Who May Receive Common Stock with Respect to Vested Units. During the lifetime of the Participant, the Common Stock received upon conversion of the Vested Units may only be received by the Participant or his or her legal representative. If the Participant dies prior to the date his or her Awarded Units are converted into shares of Common Stock as described in Section 4 above, the Common Stock relating to such converted Awarded Units may be received by any individual who is entitled to receive the property of the Participant pursuant to the applicable laws of descent and distribution.

7. Common Stock Subject Ownership Guidelines. The Participant acknowledges, understands and agrees that any Common Stock delivered to the Participant (or registered in the Participant's name) pursuant to this Agreement shall be subject to the Common Stock ownership guidelines as adopted by the Committee and in effect from time to time, and that the Participant may be required to hold such Common Stock until the Participant has met the requirements of such ownership guidelines. The Participant further acknowledges, understands and agrees that the Committee retains the right to modify the Company's Common Stock ownership guidelines at any time.

8. Rights as Stockholder. The Participant will have no rights as a stockholder with respect to the Awarded Units until the issuance of a certificate or certificates to the Participant or the registration of such shares of Common Stock in the Participant's name. The Awarded Units shall be subject to the terms and conditions of this Agreement.

9. No Fractional Shares. Awarded Units may be converted only with respect to full shares, and no fractional share of Common Stock shall be issued.

10. Non-assignability. The Awarded Units are not assignable or transferable by the Participant except by will or by the laws of descent and distribution.

11. The Participant's Acknowledgments. The Participant acknowledges receipt of a copy of the Plan, which is annexed hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Awarded Units subject to all the terms and provisions thereof. The Participant hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committee or the Board, as appropriate, upon any questions arising under the Plan or this Agreement.

12. Adjustment of Number of Awarded Units and Related Matters. The number of shares of Common Stock covered by the Awarded Units shall be subject to adjustment in accordance with Articles 11-13 of the Plan.

13. Execution of Documents. The Participant, by his or her electronic execution of this Agreement, hereby agrees to execute any documents requested by the Company in connection with the payment of any amount in connection with the Awarded Units pursuant to this Agreement.

14. Remedies. Except as otherwise provided in Section 5 in this Agreement, each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including reasonable attorneys' fees) caused by any breach of any provision of this Agreement, and to exercise all other rights existing in the party's favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party in its, his or her sole discretion may apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement. The remedies for any violation of Section 5 above are limited to the forfeiture, disgorgement, and injunction remedies specified in Sections 5.a. and b.(viii). and are subject to the time-limitations set forth in Section 5.a. above. The remedies described in this Section 14 do not apply to Section 5.

15. The Participant's Representations. Notwithstanding any of the provisions hereof, the Participant hereby agrees that the Company will not be obligated to register any shares of Common Stock in the Participant's name or issue any shares of Common Stock to the Participant hereunder, if the issuance of such shares shall constitute a violation by the Participant or the Company of any provision of any law or regulation of any governmental authority. Any determination by the Company under this Section 15 shall be final, binding, and conclusive. The obligations of the Company and the rights of the Participant are subject to all applicable laws, rules and regulations.

16. Investment Representation. Unless the shares of Common Stock are issued to the Participant in a transaction registered under applicable federal and state securities laws, by his execution hereof, the Participant represents and warrants to the Company that all Common Stock which may be acquired hereunder will be acquired by the Participant for investment purposes for his own account and not with any intent for resale or distribution in violation of federal or states securities laws, all certificates issued with respect to the Common Stock shall bear an appropriate restrictive investment legend and shall be held indefinitely, unless they are subsequently registered under the applicable federal and state securities laws or the Participant obtains an opinion of counsel, in form and substance satisfactory to the Company and its counsel, that such registration is not required.

17. Law Governing. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Delaware (excluding any conflict of laws rule or principle of Delaware law that might refer the governance, construction, or interpretation of this agreement to the laws of another state). The Participant's sole remedy for any Claim shall be against the Company and no Participant shall have any claim or right of any nature

against any Subsidiary of the Company or any stockholder or existing or former director, officer, or Employee of the Company or any Subsidiary of the Company.

18. No Right to Continue Service or Employment. Nothing herein shall be construed to confer upon the Participant the right to continue in the employ or to provide services to the Company or any Subsidiary, whether as an Employee, Contractor, consultant or Outside Director, or interfere with or restrict in any way the right of the Company or any Subsidiary to discharge the Participant as an Employee, Contractor, consultant or Outside Director at any time.

19. Legal Construction. In the event that any one or more of the terms, provisions, or agreements that are contained in this Agreement shall be held by a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect for any reason, the invalid, illegal, or unenforceable term, provision, or agreement shall not affect any other term, provision, or agreement that is contained in this Agreement and this Agreement shall be construed in all respects as if the invalid, illegal, or unenforceable term, provision, or agreement had never been contained herein.

20. Covenants and Agreements as Independent Agreements. Each of the covenants and agreements set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

21. Entire Agreement. This Agreement, together with the Plan, supersede any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter in this Agreement and constitute the only agreements between the parties with respect to the subject matter in this Agreement. Except for the Employment Agreement between the Participant and the Company (if any), all prior negotiations and agreements between the parties with respect to the subject matter in this Agreement are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement or the Plan and that any agreement, statement or promise that is not contained in this Agreement or the Plan shall not be valid or binding or of any force or effect.

22. Counterparts. This Agreement may be executed in separate counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

23. Parties Bound. The terms, provisions, and agreements that are contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, and permitted successors and assigns, subject to the limitation on assignment expressly set forth herein.

24. Modification. No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties (electronically or otherwise); provided, however, that the Company may change or modify this Agreement without the Participant's consent or signature if the Company determines, in its sole discretion, that such change or modification is necessary for purposes of compliance with or exemption from the requirements of Section 409A of the Code or any regulations or other guidance issued thereunder.

25. Headings. The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

26. Gender and Number. Words of any gender used in this Agreement shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, and vice versa, unless the context requires otherwise.

27. Notice. Any notice required or permitted to be delivered hereunder shall be deemed to be delivered only when actually received by the Company or by the Participant, as the case may be, at the addresses set forth below, or at such other addresses as they have theretofore specified by written notice delivered in accordance herewith:

a. Notice to the Company shall be addressed and delivered as follows:

Texas Capital Bancshares, Inc.
2000 McKinney Avenue, Suite 700
Dallas, Texas 75201
Attn: Human Resources
Facsimile: 214-932-6699

b. Notice to the Participant shall be addressed and delivered to the most recent address in the Company's records.

28. Clawback. The Participant acknowledges, understands and agrees, with respect to any shares of Common Stock delivered to the Participant (or registered in the Participant's name) pursuant to this Agreement, that such shares of Common Stock shall be subject to recovery by the Company, and the Participant shall be required to repay such compensation or shares of Common Stock, in accordance with the Company's Claw-Back Policy, as in effect from time to time. The Participant further acknowledges, understands, and agrees that the Board retains the right to modify the Company's Claw-Back Policy at any time.

29. Tax Requirements. The Participant is hereby advised to consult immediately with his or her own tax advisor regarding the tax consequences of this Agreement, including, without limitation, any possible tax consequences of this Agreement in connection with Section 409A of the Code. The Company, or if applicable, any Subsidiary (for purposes of this Section 29, the term "***Company***" shall be deemed to include any applicable Subsidiary) has the authority and the right to deduct or withhold, or require the Participant to remit to the employer, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising as a result of the vesting or conversion of the RSUs. Unless otherwise determined by the Committee at the time the Award is granted or thereafter, the Company shall satisfy any such withholding requirement by withholding the number of Awarded Shares having a Fair Market Value on the date of withholding equal to the amount required to be withheld for tax purposes.

30. Section 409A.

a. To the extent (i) any shares of Common Stock to which the Participant becomes entitled under this Agreement, or any agreement or plan referenced herein, in connection with the Participant's termination of employment with the Company constitutes deferred compensation subject to Section 409A of the Code; (ii) the Participant is deemed at the time of his separation from service to be a "specified employee" under Section 409A of the Code; and (iii) at the time of the Participant's separation from service the Company is publicly traded (as defined in Section 409A of the Code), then such shares of Common Stock (other than any delivery of Common Stock permitted by Section 409A of the Code to be paid or delivered within six (6) months of the Participant's separation from service) shall not be made until the earlier of (x) the first day of the seventh month following the Participant's separation from service or (y) the date of the Participant's death following such separation from service. Upon the expiration of the applicable deferral period, any shares of Common Stock which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this Section 30 (together with, as applicable, accrued interest thereon) shall be delivered to the Participant or the Participant's beneficiary in one lump sum.

b. 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 upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Section 409A of the Code).

c. It is intended that this Agreement comply with the provisions of Section 409A of the Code so as to not subject the Participant to the payment of additional interest and taxes under Section 409A of the Code, and in furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions.

**EXHIBIT A**

The Performance Units shall vest in accordance with the following schedule (40% based on EPS, 40% based on Average ROA %, and 20% based on TBV Annual Average Growth):

1. Subject to paragraph 4 below, upon the achievement of earnings per share ("***EPS***") for 2018 as determined by the Committee, the percentage of 40% of the Performance Units that shall vest shall be as follows:

| EPS | % Vested and Payout |
|---|---|
| $[•] | 50% |
| $[•] | 75% |
| $[•] | 100% |
| $[•] | 125% |
| $[•] | 150% |

2. Subject to paragraph 4 below, upon achievement of an average return on assets percentage ("***Average ROA %***") for 2016, 2017, and 2018 (measured as of December 31, 2018 by taking the average of each individual year's ROA %; not determined on an aggregate three-year basis) as determined by the Committee, the percentage of 40% of the Performance Units that vest shall be as follows:

| Average ROA % | % Vested |
|---|---|
| [•] | 50% |
| [•] | 75% |
| [•] | 100% |
| [•] | 125% |
| [•] | 150% |

3. Subject to paragraph 4 below, upon achievement of a tangible book value annual simple average growth ("***TBV Annual Average Growth***") for 2016, 2017, and 2018 (measured as of December 31, 2018 by taking the average of each individual year's tangible book value annual growth; not determined on an aggregate three-year basis) as determined by the Committee, the percentage of 20% of the Performance Units that vest shall be as follows:

| TBV Annual Average Growth | % Vested |
|---|---|
| [•]% | 50% |
| [•]% | 75% |
| [•]% | 100% |
| [•]% | 125% |
| [•]% | 150% |

4. Achievement of the performance goals set forth in paragraphs 1, 2 and 3 of this Exhibit A shall be determined by the Committee, in its sole discretion, and shall be subject to the following terms and conditions:

   a. Payouts between performance levels shall be linear.

   b. Performance goals only shall be considered achieved if the Committee determines, in its sole discretion, that the following four goals have been met, in addition to the EPS, ROA % and TBV Annual Average Growth goals set forth in paragraphs 1, 2, and 3 of this Exhibit A:

i. Asset quality: The Company's asset quality and credit controls are at a level of comparable high performing banks' asset quality and credit controls;

ii. Tangible Capital Ratio: The Company's tangible capital ratio is at a level that the Committee determines, in its sole discretion, is at a level for solidly capitalized banks;

iii. Efficiency Ratio: The Company's guidepost efficiency ratio is at 60% or better (excluding from the calculation of the efficiency ratio, the expense reflected in non-interest expense related to valuation of foreclosed real estate, provided that such expenses are included as credit-related costs in determination of ROA above); and

iv. Deposit Growth: At least 100% of the loans held by the Company for investment are supported by core deposits.

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# Section 3: EX-31.1 (EXHIBIT 31.1)

**EXHIBIT 31.1**

**CERTIFICATION**

I, C. Keith Cargill, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are

reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: October 20, 2016

/s/ C. Keith Cargill

C. Keith Cargill
Chief Executive Officer

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# Section 4: EX-31.2 (EXHIBIT 31.2)

**EXHIBIT 31.2**

**CERTIFICATION**

I, Peter B. Bartholow, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: October 20, 2016

/s/ Peter B. Bartholow

Peter B. Bartholow
Chief Financial Officer

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# Section 5: EX-32.1 (EXHIBIT 32.1)

**EXHIBIT 32.1**

**CERTIFICATION**

In connection with the Quarterly Report on Form 10-Q of Texas Capital Bancshares, Inc. (the “Company”) for the period ending September 30, 2016 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, C. Keith Cargill, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

/s/ C. Keith Cargill

C. Keith Cargill
Chief Executive Officer
Date: October 20, 2016

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# Section 6: EX-32.2 (EXHIBIT 32.2)

**EXHIBIT 32.2**

**CERTIFICATION**

In connection with the Quarterly Report on Form 10-Q of Texas Capital Bancshares, Inc. (the “Company”) for the period ending September 30, 2016 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Peter B. Bartholow, 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/ Peter B. Bartholow

Peter B. Bartholow
Chief Financial Officer
Date: October 20, 2016

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