

## Section 1: 10-Q (10-Q)

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

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2018

**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

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**TEXAS CAPITAL BANCSHARES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

75-2679109  
(I.R.S. Employer  
Identification Number)

2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A.  
(Address of principal executive officers)

75201  
(Zip Code)

214/932-6600  
(Registrant's telephone number,  
including area code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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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, a non-accelerated filer, smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging Growth Company

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

On April 18, 2018, 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 49,673,923

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Texas Capital Bancshares, Inc.  
Form 10-Q  
Quarter Ended March 31, 2018

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

	March 31, 2018	December 31, 2017
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 154,497	\$ 178,010
Interest-bearing deposits in other banks	2,271,673	2,697,581
Federal funds sold and securities purchased under resale agreements	25,000	30,000
Investment securities	24,929	23,511
Loans held for sale (\$1,088.6 million and \$1,007.7 million at March 31, 2018 and December 31, 2017, respectively, at fair value)	1,088,565	1,011,004
Loans held for investment, mortgage finance	4,689,938	5,308,160
Loans held for investment (net of unearned income)	15,741,772	15,366,252
Less: Allowance for loan losses	190,898	184,655
Loans held for investment, net	20,240,812	20,489,757
Mortgage servicing rights, net	76,561	85,327
Premises and equipment, net	27,564	25,176
Accrued interest receivable and other assets	520,624	516,239
Goodwill and intangible assets, net	18,922	19,040
<b>Total assets</b>	<b>\$ 24,449,147</b>	<b>\$ 25,075,645</b>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 7,413,340	\$ 7,812,660
Interest-bearing	11,351,193	11,310,520
<b>Total deposits</b>	<b>18,764,533</b>	<b>19,123,180</b>
Accrued interest payable	5,174	7,680
Other liabilities	175,569	182,212
Federal funds purchased and repurchase agreements	535,540	365,040
Other borrowings	2,300,000	2,800,000
Subordinated notes, net	281,496	281,406
Trust preferred subordinated debentures	113,406	113,406
<b>Total liabilities</b>	<b>22,175,718</b>	<b>22,872,924</b>
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation value:		
Authorized shares – 10,000,000		
Issued shares – 6,000,000 shares issued at March 31, 2018 and December 31, 2017	150,000	150,000
Common stock, \$.01 par value:		
Authorized shares – 100,000,000		
Issued shares – 49,670,191 and 49,643,761 at March 31, 2017 and December 31, 2017, respectively	497	496
Additional paid-in capital	962,553	961,305
Retained earnings	1,159,925	1,090,500
Treasury stock – shares at cost: 417 at March 31, 2018 and December 31, 2017	(8)	(8)
Accumulated other comprehensive income, net of taxes	462	428
<b>Total stockholders' equity</b>	<b>2,273,429</b>	<b>2,202,721</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 24,449,147</b>	<b>\$ 25,075,645</b>

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 March 31,	
	2018	2017
<b>Interest income</b>		
Interest and fees on loans	\$ 243,864	\$ 176,624
Investment securities	206	225
Federal funds sold and securities purchased under resale agreements	1,045	530
Interest-bearing deposits in other banks	8,754	6,567
Total interest income	253,869	183,946
<b>Interest expense</b>		
Deposits	31,702	13,293
Federal funds purchased	969	252
Other borrowings	5,680	2,021
Subordinated notes	4,191	4,191
Trust preferred subordinated debentures	1,027	830
Total interest expense	43,569	20,587
<b>Net interest income</b>	210,300	163,359
<b>Provision for credit losses</b>	12,000	9,000
<b>Net interest income after provision for credit losses</b>	198,300	154,359
<b>Non-interest income</b>		
Service charges on deposit accounts	3,137	3,045
Wealth management and trust fee income	1,924	1,357
Bank owned life insurance (BOLI) income	659	466
Brokered loan fees	5,168	5,678
Servicing income	5,492	2,201
Swap fees	1,562	1,803
Other	2,005	2,560
Total non-interest income	19,947	17,110
<b>Non-interest expense</b>		
Salaries and employee benefits	72,537	63,003
Net occupancy expense	7,234	6,111
Marketing	8,677	4,950
Legal and professional	7,530	7,453
Communications and technology	6,633	6,506
FDIC insurance assessment	6,103	5,994
Servicing related expenses	3,805	1,750
Allowance and other carrying costs for other real estate owned (OREO)	2,155	139
Other	12,286	10,188
Total non-interest expense	126,960	106,094
<b>Income before income taxes</b>	91,287	65,375
Income tax expense	19,342	22,833
<b>Net income</b>	71,945	42,542
<b>Preferred stock dividends</b>	2,438	2,438
<b>Net income available to common stockholders</b>	\$ 69,507	\$ 40,104
<b>Other comprehensive income (loss)</b>		
Change in net unrealized gain on available-for-sale debt securities arising during period, before-tax	\$ (63)	\$ 3
Income tax expense (benefit) related to net unrealized gain on available-for-sale debt securities	(13)	1
Other comprehensive income (loss), net of tax	(50)	2
<b>Comprehensive income</b>	\$ 71,895	\$ 42,544
<b>Basic earnings per common share</b>	\$ 1.40	\$ 0.81

<b>Diluted earnings per common share</b>	\$	1.38	\$	0.80
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See accompanying notes to consolidated financial statements.

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

(In thousands except share data)

	Preferred Stock		Common Stock				Treasury Stock		Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount		
Balance at December 31, 2016 (audited)	6,000,000	\$150,000	49,504,079	\$ 495	\$955,468	\$ 903,187	(417)	\$ (8)	\$ 415	\$2,009,557
Comprehensive income:										
Net income	—	—	—	—	—	42,542	—	—	—	42,542
Change in unrealized gain on available-for-sale securities, net of taxes of \$43	—	—	—	—	—	—	—	—	2	2
Total comprehensive income										42,544
Stock-based compensation expense recognized in earnings	—	—	—	—	1,669	—	—	—	—	1,669
Preferred stock dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock related to stock-based awards	—	—	22,843	1	(891)	—	—	—	—	(890)
Issuance of common stock related to warrants	—	—	33,595	—	—	—	—	—	—	—
Balance at March 31, 2017	<u>6,000,000</u>	<u>\$150,000</u>	<u>49,560,517</u>	<u>\$ 496</u>	<u>\$956,246</u>	<u>\$ 943,291</u>	<u>(417)</u>	<u>\$ (8)</u>	<u>\$ 417</u>	<u>\$2,050,442</u>
Balance at December 31, 2017 (audited)	6,000,000	\$150,000	49,643,761	\$ 496	\$961,305	\$1,090,500	(417)	\$ (8)	\$ 428	\$2,202,721
Impact of adoption of new accounting standards <sup>(1)</sup>	—	—	—	—	—	(82)	—	—	84	2
Comprehensive income:										
Net income	—	—	—	—	—	71,945	—	—	—	71,945
Change in unrealized gain on available-for-sale debt securities, net of taxes of \$13	—	—	—	—	—	—	—	—	(50)	(50)
Total comprehensive income										71,895
Stock-based compensation expense recognized in earnings	—	—	—	—	1,957	—	—	—	—	1,957
Preferred stock dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock related to stock-based awards	—	—	26,430	1	(709)	—	—	—	—	(708)
Balance at March 31, 2018	<u>6,000,000</u>	<u>\$150,000</u>	<u>49,670,191</u>	<u>\$ 497</u>	<u>\$962,553</u>	<u>\$1,159,925</u>	<u>(417)</u>	<u>\$ (8)</u>	<u>\$ 462</u>	<u>\$2,273,429</u>

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

See accompanying notes to consolidated financial statements.

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

(In thousands)

	Three months ended March 31,	
	2018	2017
<b>Operating activities</b>		
Net income	\$ 71,945	\$ 42,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	12,000	9,000
Depreciation and amortization	8,240	6,216
Decrease in valuation allowance on mortgage servicing rights	(757)	—
Bank owned life insurance (BOLI) income	(659)	(466)
Stock-based compensation expense	5,971	4,559
Purchases and originations of loans held for sale	(1,479,006)	(1,299,542)
Proceeds from sales and repayments of loans held for sale	1,381,277	1,379,834
Proceeds from sale of MSRs	4,692	—
Net loss on sale of loans held for sale and other assets	2,458	988
Increase in OREO valuation allowance	2,000	—
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	10,920	19,548
Accrued interest payable and other liabilities	(13,757)	(927)
Net cash provided by operating activities	5,324	161,752
<b>Investing activities</b>		
Purchases of investment securities	(2,455)	(18,832)
Maturities and calls of available-for-sale securities	—	275
Principal payments received on available-for-sale securities	763	1,231
Originations of mortgage finance loans	(19,821,894)	(15,100,024)
Proceeds from pay-offs of mortgage finance loans	20,440,116	16,225,764
Net increase in loans held for investment, excluding mortgage finance loans	(380,725)	(303,595)
Purchase of premises and equipment, net	(4,441)	(2,597)
Proceeds from sale of foreclosed assets	184	128
Net cash provided by investing activities	231,548	802,350
<b>Financing activities</b>		
Net decrease in deposits	(358,647)	(411,451)
Costs from issuance of stock related to stock-based awards and warrants	(708)	(890)
Preferred dividends paid	(2,438)	(2,438)
Net decrease in other borrowings	(500,000)	(500,000)
Net decrease in Federal funds purchased and repurchase agreements	170,500	32,259
Net cash used in financing activities	(691,293)	(882,520)
Net increase (decrease) in cash and cash equivalents	(454,421)	81,582
Cash and cash equivalents at beginning of period	2,905,591	2,839,352
Cash and cash equivalents at end of period	\$ 2,451,170	\$ 2,920,934
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 46,075	\$ 22,792
Cash paid during the period for income taxes	266	482
Transfers from loans/leases to OREO and other repossessed assets	—	—

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 clientele of commercial borrowers. We are primarily a secured lender with a majority of our loans being made to businesses headquartered or with operations in Texas. At the same time, our national lines of business continue to provide specialized lending products to businesses throughout the United States.

**Basis of Presentation**

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

The consolidated interim financial statements are unaudited and certain information and footnote disclosures presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the SEC on February 14, 2018 (the “2017 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

**Accounting Changes**

ASU 2018-02 *"Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"* ("ASU 2018-02") allows a reclassification from accumulated other comprehensive income (loss) ("AOCI") to retained earnings for the stranded tax effects caused by the revaluation of deferred taxes resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act. The ASU is effective in years beginning after December 15, 2018, but permits early adoption in a period for which financial statements have not yet been issued. We have elected to early adopt the ASU as of January 1, 2018. The adoption of the guidance resulted in an insignificant cumulative-effect adjustment that decreased retained earnings and increased AOCI in the first quarter of 2018.

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 became effective for us on January 1, 2018 and did not have a significant impact on our financial statements.

ASU 2016-01 *"Financial Instruments - Overall (Subtopic 825-10): Recognition of Financial Assets and Financial Liabilities"*, ("ASU 2016-01") makes targeted amendments to the guidance for recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. The ASU requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in AOCI. ASU 2016-01 became effective for us on January 1, 2018. The adoption of the guidance resulted in an insignificant cumulative-effect adjustment that increased retained earnings, with offsetting related adjustments to deferred taxes and AOCI. ASU 2016-01 also emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans held for investment portfolio as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures. See Note 11 - Fair Value Disclosures.

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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. The guidance does not apply to revenue associated with financial instruments, including loans and investment securities that are accounted for under other GAAP, which comprises a significant portion of our revenue stream. ASU 2014-09 became effective for us on January 1, 2018 and had no material effect on how we recognize revenue or to our consolidated financial statements and disclosures. See below for additional information related to revenue generated from contracts with customers.

### **Revenue Recognition**

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

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

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

### **Investment Securities**

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

#### *Debt Securities*

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

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### Trading Account

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

### Held-to-Maturity

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

### Available-for-Sale

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

All debt securities are available-for-sale as of March 31, 2018 and December 31, 2017.

### *Equity Securities*

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

### **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 value of mortgage servicing rights ("MSRs") and the status of contingencies are particularly susceptible to significant change.

**(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 March 31,	
	2018	2017
<b>Numerator:</b>		
Net income	\$ 71,945	\$ 42,542
Preferred stock dividends	2,438	2,438
Net income available to common stockholders	<u>\$ 69,507</u>	<u>40,104</u>
<b>Denominator:</b>		
Denominator for basic earnings per share—weighted average shares	49,650,884	49,535,959
Effect of employee stock-based awards(1)	255,794	260,947
Effect of warrants to purchase common stock	446,819	437,324
Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions	<u>50,353,497</u>	<u>50,234,230</u>
Basic earnings per common share	<u>\$ 1.40</u>	<u>\$ 0.81</u>
Diluted earnings per common share	<u>\$ 1.38</u>	<u>\$ 0.80</u>

- (1) SARs and RSUs outstanding of 5,139 at March 31, 2018 and 3,000 at March 31, 2017 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

**(3) INVESTMENT SECURITIES**

*Available-for-Sale Debt Securities*

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

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Residential mortgage-backed securities	\$ 9,534	\$ 585	\$ —	\$ 10,119

  

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Residential mortgage-backed securities	\$ 10,297	\$ 648	\$ —	\$ 10,945

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

	March 31, 2018				
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
Residential mortgage-backed securities:(1)					
Amortized cost	169	1,651	456	7,258	9,534
Estimated fair value	173	1,804	495	7,647	10,119
Weighted average yield(2)	4.67%	5.58%	5.48%	3.48%	3.96%

	December 31, 2017				
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
<b>Residential mortgage-backed securities:(1)</b>					
Amortized cost	\$ 409	\$ 819	\$ 1,502	\$ 7,567	\$ 10,297
Estimated fair value	418	916	1,636	7,975	10,945
Weighted average yield(2)	4.59%	6.02%	5.32%	3.45%	3.97%

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

(2) Yields are calculated based on amortized cost.

As of March 31, 2018 and December 31, 2017, we did not have any available-for-sale debt securities in an unrealized loss position.

At March 31, 2018, available-for-sale debt securities with carrying values of \$1.5 million and \$6.8 million were pledged to secure certain deposits and repurchase agreements, respectively.

### ***Equity Securities***

Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan. At March 31, 2018 and December 31, 2017, we had \$14.8 million and \$12.6 million, respectively, in equity securities recorded at fair value. Prior to January 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported as a separate component of AOCI, net of tax. At December 31, 2017, net unrealized gains of \$10,000 had been recognized in AOCI. On January 1, 2018, these unrealized gains and losses were reclassified out of AOCI and into retained earnings with subsequent changes in fair value being recognized in net income. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the three months ended March 31, 2018 (in thousands):

	Three months ended March 31, 2018
Net gains and (losses) recognized during the period on equity securities	\$ (212)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	—
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	\$ (212)

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At March 31, 2018 and December 31, 2017, loans held for investment were as follows (in thousands):

	March 31, 2018	December 31, 2017
Commercial	\$ 9,461,024	\$ 9,189,811
Mortgage finance	4,689,938	5,308,160
Construction	2,224,403	2,166,208
Real estate	3,834,758	3,794,577
Consumer	47,311	48,684
Leases	276,303	264,903
Gross loans held for investment	20,533,737	20,772,343
Deferred income (net of direct origination costs)	(102,027)	(97,931)
Allowance for loan losses	(190,898)	(184,655)
Total loans held for investment	<u>\$ 20,240,812</u>	<u>\$ 20,489,757</u>

*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. We have agreements with mortgage lenders and purchase interests in individual loans they originate. The ownership interests collateralizing our mortgage finance loans are typically held on our balance sheet for 10 to 20 days, and substantially all loans are conforming loans. Substantially all mortgage loans are underwritten consistently with established programs for permanent financing with financially sound investors. Balances as of March 31, 2018 and December 31, 2017 are stated net of \$246.5 million and \$171.2 million of 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 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 loan defaults, increasing risk of exposure to classification, non-performing status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and require 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. 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.

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At March 31, 2018 and December 31, 2017, we had a blanket floating lien on certain real estate-secured loans, mortgage finance loans and certain investment securities used as collateral for Federal Home Loan Bank (“FHLB”) borrowings.

**Summary of Loan Loss Experience**

The allowance for loan losses is comprised of general reserves, 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 March 31, 2018 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 March 31, 2018 and December 31, 2017 (in thousands):

March 31, 2018

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
<b>Grade:</b>							
Pass	\$ 9,210,706	\$ 4,689,938	\$ 2,210,513	\$ 3,743,437	\$ 47,146	\$ 262,356	\$ 20,164,096
Special mention	52,764	—	13,890	57,871	—	—	124,525
Substandard-accruing	75,271	—	—	32,263	93	13,947	121,574
Non-accrual	122,283	—	—	1,187	72	—	123,542
<b>Total loans held for investment</b>	<b>\$ 9,461,024</b>	<b>\$ 4,689,938</b>	<b>\$ 2,224,403</b>	<b>\$ 3,834,758</b>	<b>\$ 47,311</b>	<b>\$ 276,303</b>	<b>\$ 20,533,737</b>

December 31, 2017

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
<b>Grade:</b>							
Pass	\$ 8,967,471	\$ 5,308,160	\$ 2,152,654	\$ 3,706,541	\$ 48,591	\$ 249,865	\$ 20,433,282
Special mention	19,958	—	13,554	53,652	—	495	87,659
Substandard-accruing	102,651	—	—	32,671	93	14,543	149,958
Non-accrual	99,731	—	—	1,713	—	—	101,444
<b>Total loans held for investment</b>	<b>\$ 9,189,811</b>	<b>\$ 5,308,160</b>	<b>\$ 2,166,208</b>	<b>\$ 3,794,577</b>	<b>\$ 48,684</b>	<b>\$ 264,903</b>	<b>\$ 20,772,343</b>

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The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2018 and 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

March 31, 2018

(in thousands)	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Additional Qualitative Reserve	Total
Beginning balance	\$ 118,806	\$ —	\$ 19,273	\$ 34,287	\$ 357	\$ 3,542	\$ 8,390	\$ 184,655
Provision for loan losses	17,546	—	(518)	(200)	(178)	(18)	(5,184)	11,448
Charge-offs	5,667	—	—	—	—	—	—	5,667
Recoveries	360	—	—	24	59	19	—	462
Net charge-offs (recoveries)	5,307	—	—	(24)	(59)	(19)	—	5,205
Ending balance	\$ 131,045	\$ —	\$ 18,755	\$ 34,111	\$ 238	\$ 3,543	\$ 3,206	\$ 190,898
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 34,897	\$ —	\$ —	\$ 22	\$ 2	\$ —	\$ —	\$ 34,921
Loans collectively evaluated for impairment	96,148	—	18,755	34,089	236	3,543	3,206	155,977
Ending balance	\$ 131,045	\$ —	\$ 18,755	\$ 34,111	\$ 238	\$ 3,543	\$ 3,206	\$ 190,898

March 31, 2017

(in thousands)	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Additional Qualitative Reserve	Total
Beginning balance	\$ 128,768	\$ —	\$ 13,144	\$ 19,149	\$ 241	\$ 1,124	\$ 5,700	\$ 168,126
Provision for loan losses	8,147	—	(124)	3,270	(31)	325	(2,012)	9,575
Charge-offs	9,233	—	—	—	—	—	—	9,233
Recoveries	3,381	—	101	50	5	8	—	3,545
Net charge-offs (recoveries)	5,852	—	(101)	(50)	(5)	(8)	—	5,688
Ending balance	\$ 131,063	\$ —	\$ 13,121	\$ 22,469	\$ 215	\$ 1,457	\$ 3,688	\$ 172,013
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 34,595	\$ —	\$ —	\$ 195	\$ 30	\$ 13	\$ —	\$ 34,833
Loans collectively evaluated for impairment	96,468	—	13,121	22,274	185	1,444	3,688	137,180
Ending balance	\$ 131,063	\$ —	\$ 13,121	\$ 22,469	\$ 215	\$ 1,457	\$ 3,688	\$ 172,013

The table below presents the activity in the allowance for off-balance sheet credit losses related to unfunded commitments for the three months ended March 31, 2018 and 2017 (in thousands). This allowance is recorded in other liabilities in the consolidated balance sheet.

	Three months ended March 31,	
	2018	2017
Beginning balance	\$ 9,071	\$ 11,422
Provision for off-balance sheet credit losses	552	(575)
Ending balance	\$ 9,623	\$ 10,847



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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. The decrease in the additional qualitative reserve at March 31, 2018 was primarily related to an identified loss on a commercial loan and resolution of remaining uncertainty regarding the impact to our loan portfolio from Hurricanes Harvey and Irma. We believe the level of additional qualitative reserves at March 31, 2018 is warranted due to economic uncertainties and unpredictable factors that have 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 uncertainty regarding the economy or unpredictable events.

Our recorded investment in loans as of March 31, 2018, December 31, 2017 and March 31, 2017 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):

March 31, 2018

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Loans individually evaluated for impairment	\$ 123,206	\$ —	\$ —	\$ 1,187	\$ 72	\$ —	\$ 124,465
Loans collectively evaluated for impairment	9,337,818	4,689,938	2,224,403	3,833,571	47,239	276,303	20,409,272
<b>Total</b>	<b>\$ 9,461,024</b>	<b>\$ 4,689,938</b>	<b>\$ 2,224,403</b>	<b>\$ 3,834,758</b>	<b>\$ 47,311</b>	<b>\$ 276,303</b>	<b>\$ 20,533,737</b>

December 31, 2017

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Loans individually evaluated for impairment	\$ 100,676	\$ —	\$ —	\$ 2,008	\$ —	\$ —	\$ 102,684
Loans collectively evaluated for impairment	9,089,135	5,308,160	2,166,208	3,792,569	48,684	264,903	20,669,659
<b>Total</b>	<b>\$ 9,189,811</b>	<b>\$ 5,308,160</b>	<b>\$ 2,166,208</b>	<b>\$ 3,794,577</b>	<b>\$ 48,684</b>	<b>\$ 264,903</b>	<b>\$ 20,772,343</b>

March 31, 2017

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Loans individually evaluated for impairment	\$ 143,632	\$ —	\$ —	\$ 5,512	\$ 200	\$ 83	\$ 149,427
Loans collectively evaluated for impairment	7,336,853	3,371,598	2,108,611	3,557,624	36,059	186,030	16,596,775
<b>Total</b>	<b>\$ 7,480,485</b>	<b>\$ 3,371,598</b>	<b>\$ 2,108,611</b>	<b>\$ 3,563,136</b>	<b>\$ 36,259</b>	<b>\$ 186,113</b>	<b>\$ 16,746,202</b>

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, 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 March 31, 2018, \$21.8 million of our non-accrual loans were earning on a cash basis compared to none at December 31, 2017. 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.

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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*, we have also included all restructured and formerly restructured loans in our impaired loan totals. The following tables detail our impaired loans, by portfolio class, as of March 31, 2018 and December 31, 2017 (in thousands):

March 31, 2018

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	\$ 4,500	\$ 4,534	\$ —	\$ 12,723	\$ —
Energy	21,044	22,220	—	21,299	—
Construction					
Market risk	—	—	—	—	—
Real estate					
Market risk	—	—	—	—	—
Commercial	1,069	1,069	—	1,087	—
Secured by 1-4 family	—	—	—	—	—
Consumer					
Leases	—	—	—	—	—
Total impaired loans with no allowance recorded	\$ 26,613	\$ 27,823	\$ —	\$ 35,109	\$ —
With an allowance recorded:					
Commercial					
Business loans	\$ 68,298	\$ 69,719	\$ 21,745	\$ 35,196	\$ —
Energy	29,364	30,747	13,152	38,968	—
Construction					
Market risk	—	—	—	—	—
Real estate					
Market risk	—	—	—	197	—
Commercial	—	—	—	333	—
Secured by 1-4 family	118	118	22	118	—
Consumer					
Leases	72	72	2	24	—
Leases					
Leases	—	—	—	—	—
Total impaired loans with an allowance recorded	\$ 97,852	\$ 100,656	\$ 34,921	\$ 74,836	\$ —
Combined:					
Commercial					
Business loans	\$ 72,798	\$ 74,253	\$ 21,745	\$ 47,919	\$ —
Energy	50,408	52,967	13,152	60,267	—
Construction					
Market risk	—	—	—	—	—
Real estate					
Market risk	—	—	—	197	—
Commercial	1,069	1,069	—	1,420	—
Secured by 1-4 family	118	118	22	118	—
Consumer					
Leases	72	72	2	24	—
Leases					
Leases	—	—	—	—	—
Total impaired loans	\$ 124,465	\$ 128,479	\$ 34,921	\$ 109,945	\$ —

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December 31, 2017

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	\$ 16,835	\$ 18,257	\$ —	\$ 22,964	\$ —
Energy	21,426	22,602	—	36,579	—
Construction					
Market risk	—	—	—	—	—
Real estate					
Market risk	—	—	—	—	—
Commercial	1,096	1,096	—	2,166	—
Secured by 1-4 family	—	—	—	—	—
Consumer					
Leases	—	—	—	—	—
Total impaired loans with no allowance recorded	<u>\$ 39,357</u>	<u>\$ 41,955</u>	<u>\$ —</u>	<u>\$ 61,709</u>	<u>\$ —</u>
With an allowance recorded:					
Commercial					
Business loans	\$ 18,645	\$ 19,020	\$ 2,544	\$ 16,960	\$ —
Energy	43,770	55,875	21,772	50,867	6
Construction					
Market risk	—	—	—	27	—
Real estate					
Market risk	295	295	6	485	—
Commercial	499	499	75	166	—
Secured by 1-4 family	118	118	20	516	—
Consumer					
Leases	—	—	—	33	—
Leases					
Leases	—	—	—	14	—
Total impaired loans with an allowance recorded	<u>\$ 63,327</u>	<u>\$ 75,807</u>	<u>\$ 24,417</u>	<u>\$ 69,068</u>	<u>\$ 6</u>
Combined:					
Commercial					
Business loans	\$ 35,480	\$ 37,277	\$ 2,544	\$ 39,924	\$ —
Energy	65,196	78,477	21,772	87,446	6
Construction					
Market risk	—	—	—	27	—
Real estate					
Market risk	295	295	6	485	—
Commercial	1,595	1,595	75	2,332	—
Secured by 1-4 family	118	118	20	516	—
Consumer					
Leases	—	—	—	33	—
Leases					
Leases	—	—	—	14	—
Total impaired loans	<u>\$ 102,684</u>	<u>\$ 117,762</u>	<u>\$ 24,417</u>	<u>\$ 130,777</u>	<u>\$ 6</u>

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Average impaired loans outstanding during the three months ended March 31, 2018 and 2017 totaled \$109.9 million and \$163.7 million, respectively.

The table below provides an age analysis of our loans held for investment as of March 31, 2018 (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
<b>Commercial</b>							
Business loans	\$ 47,071	\$ 6,392	\$ 5,677	\$ 59,140	\$ 71,875	\$ 8,092,786	\$ 8,223,801
Energy	—	—	—	—	50,408	1,186,815	1,237,223
Mortgage finance loans	—	—	—	—	—	4,689,938	4,689,938
<b>Construction</b>							
Market risk	1,464	—	—	1,464	—	2,132,202	2,133,666
Commercial	—	—	—	—	—	57,565	57,565
Secured by 1-4 family	—	—	4,524	4,524	—	28,648	33,172
<b>Real estate</b>							
Market risk	11,092	750	678	12,520	—	2,697,219	2,709,739
Commercial	53	367	—	420	1,069	831,388	832,877
Secured by 1-4 family	2,894	1,263	2,048	6,205	118	285,819	292,142
<b>Consumer</b>							
Leases	443	—	—	443	72	46,796	47,311
	125	182	636	943	—	275,360	276,303
<b>Total loans held for investment</b>	<b>\$ 63,142</b>	<b>\$ 8,954</b>	<b>\$ 13,563</b>	<b>\$ 85,659</b>	<b>\$ 123,542</b>	<b>\$ 20,324,536</b>	<b>\$ 20,533,737</b>

- (1) Loans past due 90 days and still accruing includes premium finance loans of \$4.1 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 March 31, 2018 and December 31, 2017, we did not have any loans considered restructured that were not on non-accrual. Of the non-accrual loans at March 31, 2018 and December 31, 2017, \$7.6 million and \$18.8 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.

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We did not have any loans that were restructured during the three months ended March 31, 2018. The following table summarizes the loans that were restructured during the three months ended March 31, 2017 (in thousands):

As of and for the three months ended March 31, 2017

	Number of Restructured Loans	Balance at Restructure	Balance at Period-End
Energy loans	1	\$ 1,070	\$ 1,070
Commercial business loans	1	599	599
Total new restructured loans	2	\$ 1,669	\$ 1,669

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 March 31, 2017.

The following table provides information on how loans were modified as restructured during the three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31,	
	2018	2017
Extended maturity	\$ —	\$ 1,669

As of March 31, 2018 and 2017, 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 March 31,	
	2018	2017
Beginning balance	\$ 11,742	\$ 18,961
Additions	—	—
Sales	(184)	(128)
Valuation allowance for OREO	(2,000)	—
Ending balance	\$ 9,558	\$ 18,833

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. Subsequent write-downs required for declines in value are recorded through a valuation allowance or taken directly against the asset and charged to other non-interest expense.

## (6) CERTAIN TRANSFERS OF FINANCIAL ASSETS

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

Residential mortgage loans held for sale are subject to both credit and interest rate risk. Credit risk is managed through underwriting policies and procedures, including collateral requirements, which are generally accepted by the secondary loan markets. Exposure to interest rate fluctuations is partially mitigated 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 March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Outstanding balance(1)	\$ 1,091,903	\$ 1,009,271
Fair value(1)	1,088,565	1,007,695
Fair value over/(under) outstanding balance	\$ (3,338)	\$ (1,576)

- (1) Does not include \$3.3 million of Small Business Administration ("SBA") loans held for sale carried at lower of cost or market as of December 31, 2017 that were subsequently sold during the three months ended March 31, 2018.

No loans held for sale were on non-accrual as of March 31, 2018 or December 31, 2017. At March 31, 2018 and December 31, 2017, we had \$35.2 million and \$19.7 million, respectively, in outstanding balances of loans held for sale that were 90 days or more past due. The \$35.2 million loans held for sale that were 90 days or more past due at March 31, 2018 included \$31.1 million in loans guaranteed by U.S. government agencies that were repurchased out of Ginnie Mae securities and recorded as loans held for sale, at fair value, on the balance sheet. Interest on these past due loans accrues at the debenture rate guaranteed by the U.S. government. Also included in the \$35.2 million were \$3.1 million in loans that, pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase if defined delinquent loan criteria are met, and therefore must record as loans held for sale on our balance sheet regardless of whether the repurchase option has been exercised. The comparable balances at December 31, 2017 were no loans repurchased and \$19.0 million in loans for which we have the unilateral right but not the obligation to repurchase.

The table below presents a reconciliation of the changes in loans held for sale for the three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31,	
	2018	2017
Beginning balance(1)	\$ 1,011,004	\$ 968,929
Loans purchased	1,479,006	1,299,542
Payments and loans sold(1)	(1,399,683)	(1,399,800)
Change in fair value	(1,762)	15,976
Ending balance	\$ 1,088,565	\$ 884,647

- (1) Includes \$3.3 million of SBA loans held for sale carried at lower of cost or market at December 31, 2017 that were subsequently sold during the three months ended March 31, 2018.

We generally retain the right to service the loans sold, creating MSR which are recorded as assets on our balance sheet. A summary of MSR activity for the three months ended March 31, 2018 and 2017 is as follows (in thousands):

	Three months ended March 31,	
	2018	2017
<b>MSRs:</b>		
Balance, beginning of year	\$ 88,150	\$ 28,536
Capitalized servicing rights	16,750	18,094
Amortization	(2,741)	(1,104)
Sales	(25,598)	—
Balance, end of period	\$ 76,561	\$ 45,526
<b>Valuation allowance:</b>		
Balance, beginning of year	\$ 2,823	\$ —
Increase (decrease) in valuation allowance	(2,823)	—
Balance, end of period	\$ —	\$ —
MSRs, net(1)	\$ 76,561	\$ 45,526
MSRs, fair value	\$ 82,274	\$ 48,013

- (1) MSRs are reported on the consolidated balance sheets at amortized cost, less a valuation allowance if the fair value of identified strata within the MSR portfolio are determined to have a fair value that is less than amortized cost.

We completed a sale of Ginnie Mae MSRs in the first quarter of 2018. In anticipation of this sale, the fair value of the MSRs at December 31, 2017 was adjusted, resulting in a \$2.8 million impairment charge taken in the fourth quarter of 2017.

At March 31, 2018 and December 31, 2017, our servicing portfolio of residential mortgage loans had an outstanding principal balance of \$6.6 billion and \$7.0 billion, respectively. In connection with the servicing of these loans, we hold deposits in the names of the investors who own the loans representing escrow funds for taxes and insurance, as well as collections in transit to the investors. These escrow funds are segregated and held in separate non-interest-bearing accounts at the Bank. These deposits, included in total non-interest-bearing deposits on the consolidated balance sheets, were \$82.7 million at March 31, 2018 and \$73.4 million at December 31, 2017.

The estimated fair value of the MSR assets is obtained from an independent third party and reviewed by management on a quarterly basis. MSRs typically do not trade in an active, open market with readily observable prices; as such, the fair value of MSRs is determined using a discounted cash flow model to calculate the present value of the estimated future net servicing income. The assumptions utilized in the discounted cash flow model are based on market data for comparable assets, where available. Each quarter, management and the independent third party discuss the key assumptions used in the discounted cash flow model and make adjustments as necessary to estimate the fair value of the MSRs. As of March 31, 2018 and December 31, 2017, management used the following assumptions to determine the fair value of MSRs:

	March 31, 2018	December 31, 2017
Average discount rates	9.61%	9.90%
Expected prepayment speeds	8.63%	9.99%
Weighted average life, in years	7.6	7.0

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

	March 31, 2018	December 31, 2017
50 bp adverse change in prepayment speed	\$ (8,142)	\$ (11,896)
100 bp adverse change in prepayment speed	(20,353)	(28,226)

These sensitivities are hypothetical and actual results may differ materially due to a number of factors. The effect on fair value of a 10% variation in assumptions generally cannot be determined with confidence because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair

value is calculated while holding other assumptions constant. In reality, changes in one factor may be correlated with changes in other factors, which could impact the sensitivity analysis as presented.

In conjunction with the sale and securitization of loans held for sale, we may be exposed to liability resulting from 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.

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 includes 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.

Our estimated exposure related to loans previously sold and currently held for sale was \$1.4 million at March 31, 2018 and \$1.3 million at December 31, 2017 and is recorded in other liabilities in the consolidated balance sheets. We had \$56,000 in losses due to repurchase, indemnification and make-whole obligations during the three months ended March 31, 2018 and no losses during the three months ended March 31, 2017.

#### **(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):

	March 31, 2018	December 31, 2017
Commitments to extend credit	\$ 7,108,257	\$ 6,957,847
Standby letters of credit	241,335	230,958

At March 31, 2018 and December 31, 2017, we had \$9.6 million and \$9.1 million, respectively, in allowance for off-balance sheet credit losses related to these off-balance sheet commitments recorded in other liabilities in the consolidated balance sheets.

#### **(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 adverse effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.



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

Additionally, the Basel III Capital Rules require that we maintain a capital conservation buffer with respect to each of CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer is subject to a three year phase-in period that began on January 1, 2016 and will be fully phased in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2018 is 1.875% and was 1.25% during 2017. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by 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 March 31, 2018, 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, Tier 1 risk-based, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company's capital ratios exceeded the regulatory definition of adequately capitalized as of March 31, 2018 and December 31, 2017. 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.

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

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of March 31, 2018:								
CET1								
Company	\$ 2,103,637	8.80%	\$1,523,915	6.375%	\$ 1,673,318	7.00%	N/A	N/A
Bank	2,064,966	8.64%	1,523,161	6.375%	1,672,490	7.00%	1,553,027	6.50%
Total capital (to risk-weighted assets)								
Company	2,843,072	11.89%	2,360,574	9.875%	2,509,978	10.50%	N/A	N/A
Bank	2,645,863	11.07%	2,359,406	9.875%	2,508,735	10.50%	2,389,272	10.00%
Tier 1 capital (to risk-weighted assets)								
Company	2,361,055	9.88%	1,882,483	7.875%	2,031,887	8.50%	N/A	N/A
Bank	2,222,384	9.30%	1,881,552	7.875%	2,030,881	8.50%	1,911,417	8.00%
Tier 1 capital (to average assets)(1)								
Company	2,361,055	9.88%	955,731	4.00%	955,731	4.00%	N/A	N/A
Bank	2,222,384	9.31%	955,236	4.00%	955,236	4.00%	1,194,044	5.00%
As of December 31, 2017:								
CET1								
Company	\$ 2,033,830	8.45%	\$1,384,448	5.75%	\$ 1,685,464	7.00%	N/A	N/A
Bank	1,992,152	8.28%	1,383,475	5.75%	1,684,231	7.00%	1,563,929	6.50%
Total capital (to risk-weighted assets)								
Company	2,768,153	11.50%	2,227,221	9.25%	2,528,196	10.50%	N/A	N/A
Bank	2,567,961	10.67%	2,225,591	9.25%	2,526,347	10.50%	2,406,044	10.00%
Tier 1 capital (to risk-weighted assets)								
Company	2,293,016	9.52%	1,745,659	7.25%	2,046,635	8.50%	N/A	N/A
Bank	2,151,338	8.94%	1,744,382	7.25%	2,045,138	8.50%	1,924,835	8.00%
Tier 1 capital (to average assets)(1)								
Company	2,293,016	9.15%	1,002,494	4.00%	1,002,494	4.00%	N/A	N/A
Bank	2,151,338	8.59%	1,002,144	4.00%	1,002,144	4.00%	1,252,680	5.00%

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

Our mortgage finance loan volumes can increase significantly at month end, causing a meaningful difference between ending balance and average balance for any period. At March 31, 2018, our total mortgage finance loans were \$4.7 billion compared to the average for the three months ended March 31, 2018 of \$4.1 billion. As CET1, Tier 1 and total capital ratios are calculated using quarter-end risk-weighted assets and our mortgage finance loans are 100% risk-weighted (excluding MCA mortgage loans held for sale, which receive lower risk weights), the quarter-end fluctuation in these balances can significantly impact our reported ratios. Due to the actual risk profile and liquidity of this asset class, we manage capital allocated to mortgage finance loans based on changing trends in average balances and do not believe that the quarter-end balance is representative of risk characteristics that would justify higher 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 our common stock during the three months ended March 31, 2018 or 2017.

**(9) STOCK-BASED COMPENSATION**

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

The table below summarizes our stock-based compensation expense for the three months ended March 31, 2018 and March 31, 2017 (in thousands):

	Three months ended March 31,	
	2018	2017
Stock-settled awards:		
SARs	\$ 50	\$ 72
RSUs	1,896	1,593
Restricted stock	11	4
Cash-settled performance units	4,014	2,890
Total	<u>\$ 5,971</u>	<u>\$ 4,559</u>

(in thousands)	March 31, 2018
Unrecognized compensation expense related to unvested stock-settled awards	\$ 17,313
Weighted average period over which expense is expected to be recognized, in years	3.0

**(10) INCOME TAXES**

The Tax Cut and Jobs Act (the "Tax Act") enacted in December 2017 reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the Tax Act, we re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded in 2017 related to the re-measurement of our deferred tax asset was \$17.6 million, and no further adjustments were made during the three months ended March 31, 2018.

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

	Three months ended March 31,	
	2018	2017
U.S. statutory rate	21 %	35 %
State taxes	1 %	1 %
Non-deductible expenses	1 %	— %
Non-taxable income	(1)%	(1)%
Other	(1)%	— %
Effective tax rate	<u>21 %</u>	<u>35 %</u>

**(11) FAIR VALUE DISCLOSURES**

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

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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 agency mortgage-backed debt securities and Community Reinvestment Act funds. This category also includes loans held for sale and derivative assets and liabilities where values are obtained from independent pricing services using observable market data.
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 includes certain loans held for sale for which fair values are determined using third party pricing models. This category also includes impaired loans and OREO where collateral values have been based on third party appraisals; however, comparative sales data typically used in appraisals may be unavailable or more subjective in certain markets due to lack of market activity.

Assets and liabilities measured at fair value at March 31, 2018 and December 31, 2017 are as follows (in thousands):

March 31, 2018	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Available-for-sale debt securities:(1)			
Residential mortgage-backed securities	\$ —	\$ 10,119	\$ —
Equity securities(1)(2)	7,842	6,968	—
Loans held for sale (3)	—	1,054,314	34,251
Loans held for investment(4)(6)	—	—	28,258
OREO(5)(6)	—	—	9,558
Derivative assets(7)	—	17,320	—
Derivative liabilities(7)	—	16,831	—
Non-qualified deferred compensation plan liabilities (8)	8,049	—	—
December 31, 2017			
Available-for-sale debt securities:(1)			
Residential mortgage-backed securities	\$ —	\$ 10,945	\$ —
Equity securities(1)(2)	5,460	7,106	—
Loans held for sale(3)	—	1,007,695	—
Loans held for investment(4)(6)	—	—	21,216
OREO(5)(6)	—	—	11,742
Derivative assets(7)	—	16,719	—
Derivative liabilities(7)	—	17,377	—
Non-qualified deferred compensation plan liabilities (8)	5,587	—	—

- (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, excluding SBA loans which are carried at lower of cost or market, 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.

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- (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 include those for which the determination of fair value requires significant management judgment or estimation. Currently, we measure the fair value of certain loans held for sale using third party pricing models on a recurring basis, and measure certain collateral dependent impaired loans and OREO on a nonrecurring basis as described below.

#### *Loans held for sale*

The following table presents a reconciliation for the three months ended March 31, 2018 of loans held for sale measured at fair value on a recurring basis using Level 3 inputs (in thousands):

	Balance at Beginning of Period	Purchases / Additions	Sales / Reductions	Unrealized Gains (Losses) Recorded in Earnings(1)	Balance at End of Period
Loans held for sale	\$ —	\$ 36,092	\$ —	\$ (1,841)	\$ 34,251

- (1) Recorded in other non-interest income.

The fair value of loans held for sale using Level 3, or unobservable inputs, include loans that cannot be sold through normal sale channels and thus require significant management judgment or estimation when determining the fair value. The fair value of such loans is generally based upon quoted prices of comparable loans with a liquidity discount applied. At March 31, 2018, the fair value of these loans was calculated using a weighted-average discounted price of 94.9%.

#### *Loans held for investment*

At March 31, 2018 and December 31, 2017, certain impaired loans held for investment were reported at fair value through a specific allocation of the allowance for loan losses based upon the fair value of the underlying collateral. The \$28.3 million fair value of loans held for investment at March 31, 2018 reported above includes impaired loans held for investment with a carrying value of \$39.5 million that were reduced by specific allowance allocations totaling \$11.2 million based on collateral valuations utilizing Level 3 valuation inputs. The \$21.2 million fair value of loans held for investment at December 31, 2017 reported above includes impaired loans with a carrying value of \$32.2 million that were reduced by specific valuation allowance allocations totaling \$11.0 million based on collateral valuations utilizing Level 3 valuation inputs. Fair values were based on third party appraisals, which are Level 3 valuation inputs.

#### *OREO*

Certain foreclosed assets, upon initial recognition, are recorded at fair value less estimated selling costs. At March 31, 2018 and December 31, 2017, OREO had a carrying value of \$11.6 million and \$11.7 million, respectively, net of a \$2.0 million specific valuation allowance at March 31, 2018 and no valuation allowance at December 31, 2017. The fair value of OREO was computed based on third party appraisals, which are Level 3 valuation inputs.

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

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

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

	March 31, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Level 1 inputs:				
Cash and cash equivalents	\$ 2,451,170	\$ 2,451,170	\$ 2,905,591	\$ 2,905,591
Investment securities	7,842	7,842	5,460	5,460
Level 2 inputs:				
Investment securities	17,087	17,087	18,051	18,051
Loans held for sale	1,054,314	1,054,314	1,011,004	1,011,004
Derivative assets	17,320	17,320	16,719	16,719
Level 3 inputs:				
Loans held for sale	34,251	34,251	—	—
Loans held for investment, net	20,240,812	20,234,875	20,489,757	20,480,802
<b>Financial liabilities:</b>				
Level 2 inputs:				
Federal funds purchased	527,800	527,800	359,338	359,338
Customer repurchase agreements	7,740	7,740	5,702	5,702
Other borrowings	2,300,000	2,300,000	2,800,000	2,800,000
Subordinated notes	281,496	284,393	281,406	285,485
Derivative liabilities	16,831	16,831	17,377	17,377
Level 3 inputs:				
Deposits	18,764,533	18,765,267	19,123,180	19,124,121
Trust preferred subordinated debentures	113,406	113,406	113,406	113,406

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

*Investment Securities*

Within the investment securities portfolio, we hold equity securities related to our non-qualified deferred compensation plan 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 our primary pricing service regarding their processes and controls applicable to pricing investment securities. 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 is derived from quoted market prices for similar loans, in which case they are characterized as Level 2 assets in the fair value hierarchy, or is derived from third party pricing models, in which case they are characterized as Level 3 assets in the fair value hierarchy.

*Derivatives*

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

based upon the fair value of the underlying mortgage loans to be purchased, which is based on observable market data for similar loans. Forward sales commitments are valued based upon quoted market prices from brokers. As such, these loan purchase commitments and forward sales commitments are characterized as Level 2 assets or liabilities in the fair value hierarchy.

## **(12) DERIVATIVE FINANCIAL INSTRUMENTS**

The 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.

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

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

We also enter into loan purchase commitment contracts with mortgage originators to purchase residential mortgage loans at a future date, as well as forward sales commitment contracts to sell residential mortgage loans at a future date as part of our MCA program. The objective of these transactions is to mitigate our exposure to interest rate risk associated with the purchase of mortgage loans held for sale.

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The notional amounts and estimated fair values of interest rate derivative positions outstanding at March 31, 2018 and December 31, 2017 are presented in the following tables (in thousands):

	March 31, 2018			December 31, 2017		
	Estimated Fair Value			Estimated Fair Value		
	Notional Amount	Asset Derivative	Liability Derivative	Notional Amount	Asset Derivative	Liability Derivative
<b>Non-hedging interest rate derivatives:</b>						
<b>Financial institution counterparties:</b>						
Commercial loan/lease interest rate swaps	\$ 1,459,722	\$ 12,286	\$ 7,305	\$ 1,393,764	\$ 4,736	\$ 15,482
Commercial loan/lease interest rate caps	232,754	772	19	242,700	421	7
Foreign currency forward contracts	51,064	1,362	—	2,466	4	69
<b>Customer counterparties:</b>						
Commercial loan/lease interest rate swaps	1,459,722	7,305	12,286	1,393,764	15,482	4,736
Commercial loan/lease interest rate caps	232,754	19	772	242,700	7	421
Foreign currency forward contracts	51,064	—	1,362	2,466	69	4
<b>Economic hedging interest rate derivatives:</b>						
Loan purchase commitments	277,085	1,043	66	253,815	635	190
Forward sales commitments	1,251,750	781	1,269	1,086,224	—	1,103
Gross derivatives		23,568	23,079		21,354	22,012
Offsetting derivative assets/liabilities		(6,248)	(6,248)		(4,635)	(4,635)
Net derivatives included in the consolidated balance sheets		\$ 17,320	\$ 16,831		\$ 16,719	\$ 17,377

The weighted average received and paid interest rates for interest rate swaps outstanding at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018		December 31, 2017	
	Weighted Average Interest Rate		Weighted Average Interest Rate	
	Received	Paid	Received	Paid
Non-hedging interest rate swaps	3.65%	4.14%	3.59%	4.34%

The weighted average strike rate for outstanding interest rate caps was 2.46% at March 31, 2018 and 2.40% at December 31, 2017.

Our credit exposure on derivative instruments is limited to the net favorable value and interest payments by each counterparty. In some cases collateral may be required from the counterparties involved if the net value of the derivative instruments exceeds a nominal amount. Our credit exposure associated with these instruments, net of any collateral pledged, was approximately \$11.7 million at March 31, 2018 and approximately \$16.7 million at December 31, 2017. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap and cap values, as well as for changes in the value of forward sales commitments. At March 31, 2018, we had pledged to counterparties \$5.3 million in cash collateral for these derivatives, of which \$5.0 million was included in interest-bearing deposits in other banks and \$270,000 was included in accrued interest receivable and other assets, and counterparties had pledged to us \$5.6 million in cash collateral included in interest-bearing deposit liabilities. At December 31, 2017, we had pledged to counterparties \$15.2 million in cash collateral for these derivatives, of which \$14.0 million was included in interest-bearing deposits in other banks and \$1.2 million was included in accrued interest receivable and other assets.

We also enter into credit risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are either a participant or a lead bank. The risk participation agreements entered into by us as a participant bank provide credit protection to the financial institution counterparty should the borrower fail to perform on its interest rate derivative contract with that financial institution. We are party to 14 risk participation agreements where we are a participant



bank having a notional amount of \$145.9 million at March 31, 2018, compared to 15 risk participation agreements having a notional amount of \$157.1 million at December 31, 2017. The maximum estimated exposure to these agreements, assuming 100% default by all obligors, was approximately \$115,000 at March 31, 2018 and \$221,000 at December 31, 2017. The fair value of these exposures was insignificant to the consolidated financial statements at both March 31, 2018 and December 31, 2017. Risk participation agreements entered into by us as the lead bank provide credit protection to us should the borrower fail to perform on its interest rate derivative contract with us. We are party to 10 risk participation agreements where we are the lead bank having a notional amount of \$107.2 million at March 31, 2018, compared to 10 agreements having a notional amount of \$86.3 million at December 31, 2017.

### **(13) NEW ACCOUNTING PRONOUNCEMENTS**

ASU 2018-03 "*Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)*" ("ASU 2018-03") clarifies certain aspects of the guidance issued in ASU 2016-01 including: the ability to irrevocably elect to change the measurement approach for equity securities measured using the practical expedient (at cost plus or minus observable transactions less impairment) to a fair value method in accordance with Topic 820, Fair Value Measurement; clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date; clarification that the prospective transition approach for equity securities without a readily determinable fair value is meant only for instances in which the practical expedient is elected; and various other clarifications. The ASU is effective for us July 1, 2018 and early adoption is permitted. We do not expect this ASU to have a material impact on our consolidated financial statements.

ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2016-13") requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. ASU 2016-13 will be effective for us on January 1, 2020. We are evaluating the impact adoption of ASU 2016-13 will have on our consolidated financial statements and disclosures. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption could be significantly influenced by the composition, characteristics and quality of our loan portfolio as well as the prevailing economic conditions and forecasts as of the adoption date. As part of our evaluation process, we have established a steering committee and working group that includes individuals from various functional areas to assess processes, portfolio segmentation, systems requirements and needed resources to implement this new accounting standard.

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 will be effective for us on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of the earliest period presented with the option to elect certain practical expedients. We are currently evaluating a third party software solution to assist with the accounting under the new standard. Our operating leases relate primarily to office space and bank branches. We expect recorded assets and liabilities to increase upon adoption of the standard as it relates to operating leases in which we are the lessee.

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**QUARTERLY FINANCIAL SUMMARIES – UNAUDITED**

Consolidated Daily Average Balances, Average Yields and Rates

(In thousands)

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	Average Balance	Revenue/ Expense	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate
<b>Assets</b>						
Investment securities – taxable	\$ 23,854	\$ 206	3.50%	\$ 31,905	\$ 224	2.84%
Investment securities – non-taxable(2)	—	—	—%	224	3	4.85%
Federal funds sold and securities purchased under resale agreements	261,641	1,045	1.62%	276,910	530	0.78%
Interest-bearing deposits in other banks	2,302,938	8,754	1.54%	3,312,256	6,567	0.80%
Loans held for sale	1,187,594	12,535	4.28%	1,064,322	9,535	3.63%
Loans held for investment, mortgage finance	4,097,995	37,362	3.70%	2,757,566	23,105	3.40%
Loans held for investment(1)(2)	15,425,323	195,333	5.14%	12,980,544	145,018	4.53%
Less reserve for loan losses	184,238	—	—	169,318	—	—
Loans held for investment, net	19,339,080	232,695	4.88%	15,568,792	168,123	4.38%
Total earning assets	23,115,107	255,235	4.48%	20,254,409	184,982	3.70%
Cash and other assets	797,506			606,762		
Total assets	<u>\$ 23,912,613</u>			<u>\$ 20,861,171</u>		
<b>Liabilities and Stockholders' Equity</b>						
Transaction deposits	\$ 2,792,954	\$ 8,651	1.26%	\$ 2,008,401	\$ 2,193	0.44%
Savings deposits	7,982,256	21,958	1.12%	6,989,748	10,483	0.61%
Time deposits	506,375	1,093	0.88%	427,770	617	0.59%
Total interest-bearing deposits	11,281,585	31,702	1.14%	9,425,919	13,293	0.57%
Other borrowings	1,721,914	6,649	1.57%	1,333,685	2,273	0.69%
Subordinated notes	281,437	4,191	6.04%	281,076	4,191	6.05%
Trust preferred subordinated debentures	113,406	1,027	3.67%	113,406	830	2.97%
Total interest-bearing liabilities	13,398,342	43,569	1.32%	11,154,086	20,587	0.75%
Demand deposits	8,147,721			7,547,338		
Other liabilities	110,698			117,877		
Stockholders' equity	2,255,852			2,041,870		
Total liabilities and stockholders' equity	<u>\$ 23,912,613</u>			<u>\$ 20,861,171</u>		
Net interest income(2)		<u>\$ 211,666</u>			<u>\$ 164,395</u>	
Net interest margin			3.71%			3.29%
Net interest spread			3.16%			2.95%
Loan spread(3)			4.07%			3.97%

- (1) The loan averages include non-accrual loans and are stated net of unearned income.
- (2) Taxable equivalent rates used where applicable.
- (3) Yield on loans, net of reserves, less funding cost including all deposits and borrowed funds.

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

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

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed elsewhere in this report or disclosed in our other SEC filings. Forward-looking statements included herein speak only as of the date hereof and should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date of this report. Except as required by law, we undertake no obligation to revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise. The factors discussed herein are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. For a more detailed discussion of these and other factors that may affect our business, see "Risk Factors" in the 2017 Form 10-K and other filings we have made with the SEC. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results. Forward-looking statements should not be viewed as predictions and should not be the primary basis upon which investors evaluate an investment in our securities.

### **Overview of Our Business Operations**

We commenced our banking operations in December 1998. An important aspect of our growth strategy has been our ability to 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.

Outstanding energy loans totaled \$1.4 billion, or approximately 7% of total loans, at March 31, 2018. Unfunded energy loan commitments increased by \$94.3 million to \$772.6 million (55% of outstanding energy loans) at March 31, 2018 compared to \$678.3 million at December 31, 2017. We recorded \$5.1 million in energy net charge-offs during the three months ended March 31, 2018 compared to \$7.1 million for the same period in 2017. Energy non-accruals decreased to \$50.4 million at March 31, 2018 compared to \$65.2 million at December 31, 2017 and \$92.3 million at March 31, 2017. We continue to proactively manage our energy portfolio and overall credit quality, and we believe we are appropriately reserved against further energy-related losses.

The following discussion and analysis presents the significant factors affecting our financial condition as of March 31, 2018 and December 31, 2017 and results of operations for the three months in the periods ended March 31, 2018 and 2017. 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 \$71.9 million and net income available to common stockholders of \$69.5 million, or \$1.38 per diluted common share, for the first quarter of 2018 compared to net income of \$42.5 million and net income available to common stockholders of \$40.1 million, or \$0.80 per diluted common share, for the first quarter of 2017. Return on average common equity ("ROE") was 13.39% and return on average assets ("ROA") was 1.22% for the first quarter of 2018, compared to 8.60% and 0.83%, respectively, for the first quarter of 2017. The increase in ROE and ROA for the quarter resulted primarily from an improvement in operating results for the first quarter of 2018 compared to the first quarter of 2017, as well as a decrease in income tax expense caused by a decline in income tax rates as a result of the Tax Cuts and Jobs Act which became effective on January 1, 2018.

Net income increased \$29.4 million, or 69%, for the three months ended March 31, 2018, as compared to the same period in 2017. The increase was primarily the result of a \$46.9 million increase in net interest income, \$2.8 million increase in non-interest income and a \$3.5 million decrease in income tax expense, offset by a \$3.0 million increase in the provision for credit losses and a \$20.9 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 \$210.3 million for the first quarter of 2018, compared to \$163.4 million for the first quarter of 2017. The increase was due to an increase in average earning assets of \$2.9 billion as compared to the first quarter of 2017, as well as the effect of increases in interest rates on loan yields. The increase in average earning assets included a \$123.3 million increase in average loans held for sale and a \$3.8 billion increase in average net loans held for investment, offset by an \$8.3 million decrease in average investment securities and a \$1.0 billion decrease in average liquidity assets. For the quarter ended March 31, 2018, average net loans held for investment, liquidity assets and loans held for sale represented approximately 84%, 11% and 5%, respectively, of average earning assets compared to approximately 77%, 18% and 5% for the same quarter of 2017.

Average interest-bearing liabilities for the quarter ended March 31, 2018 increased \$2.2 billion from the first quarter of 2017, which included a \$1.9 billion increase in average interest-bearing deposits and a \$388.2 million increase in other borrowings. Average demand deposits were \$8.1 billion for the quarter ended March 31, 2018, compared to \$7.5 billion for the same period of 2017. The average cost of total deposits and borrowed funds increased to 0.74% for the first quarter of 2018 compared to 0.34% for the same period of 2017. The cost of interest-bearing liabilities increased from 0.75% for the quarter ended March 31, 2017 to 1.32% for the same period of 2018.

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The following table (in thousands) presents changes in taxable-equivalent net interest income between the three month periods ended March 31, 2018 and 2017 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 March 31, 2018/2017		
	Net Change	Change Due To(1) Volume	Yield/Rate(2)
<b>Interest income:</b>			
Investment securities	\$ (21)	\$ (59)	\$ 38
Loans held for sale	3,000	1,103	1,897
Loans held for investment, mortgage finance loans	14,257	11,238	3,019
Loans held for investment	50,315	27,308	23,007
Federal funds sold and securities purchased under resale agreements	515	(29)	544
Interest-bearing deposits in other banks	2,187	(1,991)	4,178
<b>Total</b>	<b>70,253</b>	<b>37,570</b>	<b>32,683</b>
<b>Interest expense:</b>			
Transaction deposits	6,458	851	5,607
Savings deposits	11,475	1,493	9,982
Time deposits	476	114	362
Other borrowings	4,376	661	3,715
Long-term debt	197	5	192
<b>Total</b>	<b>22,982</b>	<b>3,124</b>	<b>19,858</b>
<b>Net interest income</b>	<b>\$ 47,271</b>	<b>\$ 34,446</b>	<b>\$ 12,825</b>

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

(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 3.71% for the first quarter of 2018 compared to 3.29% for the first quarter of 2017. The year-over-year increase was due primarily to the increase in total loans held for investment, improved asset composition and the effect of increases in interest rates on loan yields attributable to our asset-sensitive balance sheet. The yield on total loans held for investment increased to 4.88% for the first quarter of 2018 compared to 4.38% for the first quarter of 2017 and the yield on earning assets increased to 4.48% for the first quarter of 2018 compared to 3.70% for the first quarter of 2017. Funding costs, including demand deposits and borrowed funds, increased to 0.74% for the first quarter of 2018 compared to 0.34% for the first quarter of 2017. The spread on total earning assets, net of the cost of deposits and borrowed funds, was 3.74% for the first quarter of 2018 compared to 3.36% for the first quarter of 2017. The increase resulted primarily from increases in interest rates and increases in the higher yielding loan components of earning assets. Total funding costs, including all deposits, long-term debt and stockholders' equity, increased to 0.74% for the first quarter of 2018 compared to 0.40% for the first quarter of 2017.

### Non-interest Income

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

	Three months ended March 31,	
	2018	2017
Service charges on deposit accounts	\$ 3,137	\$ 3,045
Wealth management and trust fee income	1,924	1,357
Bank owned life insurance (BOLI) income	659	466
Brokered loan fees	5,168	5,678
Servicing income	5,492	2,201
Swap fees	1,562	1,803
Other	2,005	2,560
Total non-interest income	\$ 19,947	\$ 17,110

Non-interest income increased \$2.8 million during the three months ended March 31, 2018 compared to the same period of 2017. This increase was primarily due to a \$3.3 million increase in servicing income during the three months ended March 31, 2018 compared to the same period of 2017 primarily attributable to an increase in MSRs.

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 among other factors. In order to achieve growth in non-interest income, management from time to time evaluates new products, new lines of business and the expansion of 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 March 31,	
	2018	2017
Salaries and employee benefits	\$ 72,537	\$ 63,003
Net occupancy expense	7,234	6,111
Marketing	8,677	4,950
Legal and professional	7,530	7,453
Communications and technology	6,633	6,506
FDIC insurance assessment	6,103	5,994
Servicing related expenses	3,805	1,750
Allowance and other carrying costs for OREO	2,155	139
Other(1)	12,286	10,188
Total non-interest expense	\$ 126,960	\$ 106,094

- (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 first quarter of 2018 increased \$20.9 million, or 20%, to \$127.0 million from \$106.1 million in the first quarter of 2017. The increase is primarily due to increases in salaries and employee benefits, net occupancy, marketing and other non-interest expenses, all of which were due to general business growth and continued build-out. Servicing related expenses for the first quarter of 2018 increased \$2.1 million compared to the first quarter of 2017 related to an increase in MSRs, which are being amortized. Also contributing to the year-over-year increase in non-interest expense was a \$2.0 million increase in allowance and other carrying costs for OREO related to the OREO valuation allowance established during the first quarter of 2018.

## Analysis of Financial Condition

### Loans Held for Investment

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

	March 31, 2018	December 31, 2017
Commercial	\$ 9,461,024	\$ 9,189,811
Mortgage finance	4,689,938	5,308,160
Construction	2,224,403	2,166,208
Real estate	3,834,758	3,794,577
Consumer	47,311	48,684
Leases	276,303	264,903
Gross loans held for investment	20,533,737	20,772,343
Deferred income (net of direct origination costs)	(102,027)	(97,931)
Allowance for loan losses	(190,898)	(184,655)
Total loans held for investment, net	\$ 20,240,812	\$ 20,489,757

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

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 March 31, 2018, we had \$2.6 billion in syndicated loans, \$825.5 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 March 31, 2018, \$76.2 million of our syndicated loans were on non-accrual.

### Portfolio Geographic Concentration

More than 50% of our loan exposure is outside of Texas and more than 50% of our deposits are sourced outside of Texas. However, as of March 31, 2018, 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 appropriateness of the allowance for loan losses.

### Summary of Loan Loss Experience

The provision for credit losses, which includes a provision for losses on unfunded commitments, is a charge to earnings to maintain the allowance for loan losses at a level consistent with management's assessment of the collectability of the loan portfolio in light of current economic conditions and market trends. We recorded a provision for credit losses of \$12.0 million during the first quarter of 2018 compared to \$9.0 million in the first quarter of 2017 and \$2.0 million in the fourth quarter of 2017. The increase in provision recorded during the first quarter of 2018 compared to the same period in 2017 was primarily related to loan growth and an increase in non-accrual loans.

The allowance for credit losses, including the allowance for losses on unfunded commitments reported on the consolidated balance sheet in other liabilities, totaled \$200.5 million at March 31, 2018, \$193.7 million at December 31, 2017 and \$182.9 million at March 31, 2017. The combined allowance as a percentage of loans held for investment excluding mortgage finance loans increased slightly to 1.27% at March 31, 2018 from 1.26% at December 31, 2017 and decreased from 1.37% at March 31, 2017 as a result of strong loan growth.

The allowance for credit losses results from consistent application of our loan loss reserve methodology. At March 31, 2018, we believe the allowance is appropriate and has been derived from consistent application of our methodology. Should any of the factors considered by management in evaluating the appropriateness of the allowance for loan losses change, our estimate of inherent losses in the portfolio could also change, which would affect the level of future provisions for loan losses.

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

	Three months ended March 31, 2018	Year ended December 31, 2017	Three months ended March 31, 2017
Allowance for loan losses:			
Beginning balance	\$ 184,655	\$ 168,126	\$ 168,126



Loans charged-off:			
Commercial	5,667	34,145	9,233
Construction	—	59	—
Real estate	—	290	—
Consumer	—	180	—
Leases	—	—	—
Total charge-offs	5,667	34,674	9,233
Recoveries:			
Commercial	360	4,593	3,381
Construction	—	104	101
Real estate	24	75	50
Consumer	59	70	5
Leases	19	10	8
Total recoveries	462	4,852	3,545
Net charge-offs	5,205	29,822	5,688
Provision for loan losses	11,448	46,351	9,575
Ending balance	\$ 190,898	\$ 184,655	\$ 172,013
Allowance for off-balance sheet credit losses:			
Beginning balance	\$ 9,071	\$ 11,422	\$ 11,422
Provision for off-balance sheet credit losses	552	(2,351)	(575)
Ending balance	\$ 9,623	\$ 9,071	\$ 10,847
Total allowance for credit losses	\$ 200,521	\$ 193,726	\$ 182,860
Total provision for credit losses	\$ 12,000	\$ 44,000	\$ 9,000
Allowance for loan losses to LHI	0.93%	0.89%	1.03%
Allowance for loan losses to LHI excluding mortgage finance loans	1.21%	1.20%	1.29%
Net charge-offs to average LHI(1)	0.11%	0.16%	0.15%
Net charge-offs to average LHI excluding mortgage finance loans(1)	0.14%	0.21%	0.18%
Total provision for credit losses to average LHI(1)	0.25%	0.24%	0.23%
Total provision for credit losses to average LHI excluding mortgage finance loans(1)	0.32%	0.31%	0.28%
Recoveries to total charge-offs	8.15%	13.99%	38.39%
Allowance for off-balance sheet credit losses to off-balance sheet credit commitments	0.13%	0.13%	0.18%
Total allowance for credit losses to LHI	0.98%	0.94%	1.10%
Total allowance for credit losses to LHI excluding mortgage finance loans	1.27%	1.26%	1.37%
Allowance for loan losses to non-accrual loans	1.5x	1.8x	1.2x

(1) Interim period ratios are annualized.

## 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):

	March 31, 2018	December 31, 2017	March 31, 2017
Non-accrual loans held for investment:(1)			
Commercial			
Oil and gas properties	\$ 50,408	\$ 64,192	\$ 88,448
Assets of the borrowers	30,656	7,571	19,352
Inventory	38,083	24,399	30,582
Other	3,136	3,569	3,705
Total commercial	122,283	99,731	142,087
Real estate			
Commercial property	1,069	1,096	2,618
Unimproved land and/or developed residential lots	—	—	—
Single family residences	—	—	1,241
Other	118	617	320
Total real estate	1,187	1,713	4,179
Consumer	72	—	200
Leases	—	—	83
Total non-accrual loans	123,542	101,444	146,549
Repossessed assets:			
OREO(2)	9,558	11,742	18,833
Other repossessed assets	—	—	—
Total loans held for investment non-performing assets	\$ 133,100	\$ 113,186	\$ 165,382
Restructured loans - accruing	\$ —	\$ —	\$ —
Loans held for investment past due 90 days and accruing(3)	\$ 13,563	\$ 8,429	\$ 8,799
Loans held for sale past due 90 days and accruing(4)	\$ 35,226	\$ 19,737	\$ —

- (1) As of March 31, 2018, December 31, 2017 and March 31, 2017, non-accrual loans included \$7.6 million, \$18.8 million and \$18.5 million, respectively, in loans that met the criteria for restructured.
- (2) We recorded a \$2.0 million valuation allowance against the OREO balance at March 31, 2018, compared to none at December 31, 2017 and March 31, 2017.
- (3) At March 31, 2018, December 31, 2017 and March 31, 2017, loans past due 90 days and still accruing include premium finance loans of \$4.1 million, \$5.5 million and \$5.1 million, respectively.
- (4) Includes loans guaranteed by U.S. government agencies that were repurchased out of Ginnie Mae securities. Loans are recorded as loans held for sale and carried at fair value on the balance sheet. Interest on these past due loans accrues at the debenture rate guaranteed by the U.S. government. Also includes loans that, pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase if defined delinquent loan criteria are met and therefore must record as loans held for sale on our balance sheet regardless of whether the repurchase option has been exercised.

Total non-performing assets at March 31, 2018 decreased \$32.3 million from March 31, 2017 and increased \$19.9 million from December 31, 2017. The year-over-year decrease in non-performing assets is primarily related to improvements in our energy portfolio. Energy non-performing assets totaled \$50.4 million at March 31, 2018 compared to \$65.2 million at December 31, 2017 and \$92.3 million at March 31, 2017. The increase in non-performing assets from December 31, 2017 relates primarily to two commercial loan relationships, which resulted in an increase in the provision for loan losses during the first quarter of 2018.

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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 March 31, 2018, we had \$19.2 million in loans of this type, compared to \$49.1 million at December 31, 2017, which were not included in either non-accrual or 90 days past due categories.

**Loans Held for Sale**

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

## Liquidity and Capital Resources

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase investment securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, formulated and monitored by our senior management and our Balance Sheet Management Committee ("BSMC"), which take into account the demonstrated marketability of 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, 2017 and for the three months ended March 31, 2018 our principal source of funding has been our customer deposits, supplemented by our short-term and long-term borrowings, primarily from Federal funds purchased and Federal Home Loan Bank ("FHLB") borrowings, which are generally used to fund mortgage finance assets.

Liquidity assets were \$2.3 billion at March 31, 2018, and continue to be significant as a result of deposit growth and increases in borrowing capacity related to our mortgage finance loans. The following table summarizes the composition of liquidity assets (in thousands):

	March 31, 2018	December 31, 2017	March 31, 2017
Federal funds sold and securities purchased under resale agreements	\$ 25,000	\$ 30,000	\$ 25,000
Interest-bearing deposits in other banks	2,271,673	2,697,581	2,779,921
Total liquidity assets	<u>\$ 2,296,673</u>	<u>\$ 2,727,581</u>	<u>\$ 2,804,921</u>

### Total liquidity assets as a percent of:

Total loans held for investment, excluding mortgage finance loans	14.6%	17.8%	21.1%
Total loans held for investment	11.2%	13.2%	16.8%
Total earning assets	9.7%	11.2%	13.9%
Total deposits	12.2%	14.3%	16.9%

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.

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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):

	March 31, 2018	December 31, 2017	March 31, 2017
Deposits from core customers	\$ 16,881.9	\$ 17,100.8	\$ 15,251.7
Deposits from core customers as a percent of total deposits	90.0%	89.4%	91.8%
Relationship brokered deposits	\$ 1,882.6	\$ 2,022.4	\$ 1,353.7
Relationship brokered deposits as a percent of total deposits	10.0%	10.6%	8.2%
Traditional brokered deposits	\$ —	\$ —	\$ —
Traditional brokered deposits as a percent of total deposits	—%	—%	—%
Average deposits from core customers(1)	\$ 17,530.6	\$ 16,806.9	\$ 15,613.3
Average deposits from core customers as a percent of total quarterly average deposits(1)	90.2%	91.1%	92.0%
Average relationship brokered deposits(1)	\$ 1,898.7	\$ 1,647.0	\$ 1,360.0
Average relationship brokered deposits as a percent of total quarterly average deposits(1)	9.8%	8.9%	8.0%
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, 2017.

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 March 31, 2018 decreased by \$358.7 million from December 31, 2017 and increased \$2.2 billion from March 31, 2017.

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, and advances from the FHLB and the Federal Reserve. The following table summarizes our short-term borrowings as of March 31, 2018 (in thousands):

Federal funds purchased	\$ 527,800
Repurchase agreements	7,740
FHLB borrowings	2,300,000
Line of credit	—
Total short-term borrowings	<u>\$ 2,835,540</u>
Maximum short-term borrowings outstanding at any month-end during 2018	<u>\$ 3,000,013</u>

The following table summarizes our other borrowing capacities in excess of balances outstanding at March 31, 2018 (in thousands):

FHLB borrowing capacity relating to loans	\$ 4,018,719
FHLB borrowing capacity relating to investment securities	1,852
Total FHLB borrowing capacity	<u>\$ 4,020,571</u>
Unused Federal funds lines available from commercial banks	<u>\$ 680,000</u>

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The following table summarizes our long-term borrowings as of March 31, 2018 (in thousands):

Subordinated notes	\$	281,496
Trust preferred subordinated debentures		113,406
Total long-term borrowings	\$	394,902

Our unsecured, revolving, non-amortizing line of credit has maximum availability of \$130.0 million, matured on December 19, 2017, and was renewed on December 19, 2017 with a maturity date of December 18, 2018. 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 March 31, 2018 and December 31, 2017, there were no borrowings outstanding.

Our equity capital, including \$150 million in preferred stock, averaged \$2.3 billion for the three months ended March 31, 2018, as compared to \$2.0 billion for the same period in 2017. 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 March 31, 2018, 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 March 31, 2018, 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	\$ 18,276,012	\$ —	\$ —	\$ —	\$ 18,276,012
Time deposits	466,042	21,659	370	450	488,521
Federal funds purchased and customer repurchase agreements	535,540	—	—	—	535,540
FHLB borrowings	2,300,000	—	—	—	2,300,000
Operating lease obligations(1)	16,849	31,725	25,598	15,554	89,726
Subordinated notes	—	—	—	281,496	281,496
Trust preferred subordinated debentures	—	—	—	113,406	113,406
Total contractual obligations	\$ 21,594,443	\$ 53,384	\$ 25,968	\$ 410,906	\$ 22,084,701

(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 accounting principles generally accepted in the United States. The more significant of these policies are summarized in Note 1 - Operations and Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included in the 2017 Form 10-K. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC’s definition of a critical accounting policy.

#### *Allowance for Loan Losses*

Management considers the policies related to the allowance for loan losses as the most critical to the financial statement presentation. The total allowance for loan losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (“ASC”) 310, *Receivables*, and ASC 450, *Contingencies*. The allowance for loan losses is established through a provision for credit losses charged to current earnings. The amount maintained in the allowance reflects management’s continuing evaluation of the loan losses inherent in the loan portfolio. 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*” above and Note 4 – Loans Held for Investment and Allowance for Loan Losses in the accompanying notes to the consolidated financial statements included elsewhere in this report for further discussion of the risk factors considered by management in establishing the allowance for loan losses.

**ITEM 3. QUANTITATIVE AND QUALITATIVE 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 were suppressed throughout 2015 and 2016, but stabilized amidst continuing market uncertainty during 2017 and continuing into 2018. Declines in commodity prices negatively impacted our energy clients' ability to perform on their loan obligations, and further uncertainty and volatility could have a negative impact on our customers and our loan portfolio. 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 plus or minus 10-15%. 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 the Risk Management Committee, and to our board of directors if deemed necessary, on a quarterly basis. Additionally, the Credit Policy Committee ("CPC") specifically manages risk relative to commodity price market risks. The CPC establishes maximum portfolio concentration levels for energy loans as well as maximum advance rates for energy collateral.

**Interest Rate Risk Management**

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of March 31, 2018, 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**

**March 31, 2018**

(In thousands)

	0-3 mo Balance	4-12 mo Balance	1-3 yr Balance	3+ yr Balance	Total Balance
<b>Assets:</b>					
Interest-bearing deposits in other banks, federal funds sold and securities purchased under resale agreements	\$ 2,296,673	\$ —	\$ —	\$ —	\$ 2,296,673
Investment securities(1)	10,399	11,694	2,786	50	24,929
Total variable loans	17,892,907	132,473	13,633	1,945	18,040,958
Total fixed loans	529,692	1,476,678	416,413	1,158,561	3,581,344
Total loans(2)	18,422,599	1,609,151	430,046	1,160,506	21,622,302
Total interest sensitive assets	\$ 20,729,671	\$ 1,620,845	\$ 432,832	\$ 1,160,556	\$ 23,943,904
<b>Liabilities:</b>					
Interest-bearing customer deposits	\$ 10,862,672	\$ —	\$ —	\$ —	\$ 10,862,672
CDs & IRAs	368,147	97,895	21,659	820	488,521
Traditional brokered deposits	—	—	—	—	—
Total interest-bearing deposits	11,230,819	97,895	21,659	820	11,351,193
Repurchase agreements, Federal funds purchased, FHLB borrowings, line of credit	2,835,540	—	—	—	2,835,540
Subordinated notes	—	—	—	281,496	281,496
Trust preferred subordinated debentures	—	—	—	113,406	113,406
Total borrowings	2,835,540	—	—	394,902	3,230,442
Total interest sensitive liabilities	\$ 14,066,359	\$ 97,895	\$ 21,659	\$ 395,722	\$ 14,581,635
Gap	\$ 6,663,312	\$ 1,522,950	\$ 411,173	\$ 764,834	\$ —
Cumulative Gap	6,663,312	8,186,262	8,597,435	9,362,269	9,362,269
Demand deposits					\$ 7,413,340
Stockholders' equity					2,273,429
Total					\$ 9,686,769

(1) Investment securities based on fair market value.

(2) Loans are stated at gross.

The table above sets forth the balances as of March 31, 2018 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.

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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 2017 and the first three months of 2018, 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. Given the current environment of increasing short-term rates, deposit pricing can vary by product and customer. These assumptions have been developed through a combination of historical analysis and future expected pricing behavior. Changes in prepayment behavior of mortgage-backed securities, residential and commercial mortgage loans in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. The impact of planned growth and new business activities is factored into the simulation model. This modeling indicated interest rate sensitivity as follows (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
	March 31, 2018		March 31, 2017	
Change in net interest income	\$ 111,887	\$ 224,491	\$ 110,730	\$ 224,489

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

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(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 2017 Form 10-K.

<b>ITEM 6.</b>	<b>EXHIBITS</b>
(a)	Exhibits
10.1	<a href="#"><u>Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan, filed herewith.*</u></a>
10.2	<a href="#"><u>Form of 2018 Performance Award Agreement for Executive Officers pursuant to the Texas Capital Bancshares, Inc. 2015 Long-Term Incentive Plan, filed herewith.*</u></a>
10.3	<a href="#"><u>Form of 2018 Restricted Stock Unit Award Agreement for Non-Employee Directors pursuant to the Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan, filed herewith.*</u></a>
31.1	<a href="#"><u>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.</u></a>
31.2	<a href="#"><u>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.</u></a>
32.1	<a href="#"><u>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.</u></a>
32.2	<a href="#"><u>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.</u></a>
101	The following materials from Texas Capital Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, 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.

**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: April 19, 2018

/s/ Julie Anderson

Julie Anderson

Chief Financial Officer

(Duly authorized officer and principal financial officer)

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## **Section 2: EX-10.1 (EXHIBIT 10.1 AMENDED AND RESTATED 2015 LTIP)**

### **TEXAS CAPITAL BANCSHARES, INC.**

#### **AMENDED AND RESTATED 2015 LONG-TERM INCENTIVE PLAN**

The Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan (the “*Plan*”) was adopted by the Board of Directors of Texas Capital Bancshares, Inc., a Delaware corporation (the “*Company*”), on April 17, 2018 (the “*Effective Date*”). The Plan amends, restates and replaces the Company’s 2015 Long-Term Incentive Plan that became effective on May 19, 2015 (the “*Original 2015 Plan*”) in its entirety, provided that the Original 2015 Plan will continue to govern the terms of Awards granted prior to the Effective Date.

#### **ARTICLE I PURPOSE**

The purpose of the Plan is to attract and retain the services of key Employees, key Contractors, and Outside Directors of the Company and its Subsidiaries and to provide such persons with a proprietary interest in the Company through the granting of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards, Dividend Equivalent Rights, and Other Awards, whether granted singly, or in combination, or in tandem, that will:

- (a) increase the interest of such persons in the Company’s welfare;
- (b) furnish an incentive to such persons to continue their services for the Company or its Subsidiaries; and
- (c) provide a means through which the Company may attract able persons as Employees, Contractors, and Outside Directors.

With respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, such provision or action shall be deemed null and void *ab initio*, to the extent permitted by law and deemed advisable by the Committee.

#### **ARTICLE 2 DEFINITIONS**

For the purpose of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

2.1 “**Applicable Law**” means all legal requirements relating to the administration of equity incentive plans and the issuance and distribution of shares of Common Stock, if any, under applicable corporate laws, applicable securities laws, the rules of any exchange or inter-dealer quotation system upon which the Company’s securities are listed or quoted, and any other applicable law, rule or restriction.

2.2 “**Award**” means the grant of any Incentive Stock Option, Nonqualified Stock Option, Restricted Stock, SAR, Restricted Stock Unit, Performance Award, Dividend Equivalent Right or Other Award, whether granted singly or in combination or in tandem (each individually referred to herein as an “**Incentive**”).

2.3 “**Award Agreement**” means a written agreement between a Participant and the Company which sets out the terms of the grant of an Award.

2.4 “**Award Period**” means the period set forth in the Award Agreement during which one or more Incentives granted under an Award may be exercised.

2.5 “*Authorized Officer*” is defined in Section 3.2(b) hereof.

2.6 “*Board*” means the board of directors of the Company.

2.7 “*Cause*”, with respect to a Participant’s Award, shall have the meaning set forth in the Participant’s employment agreement with the Company, or, if the employment agreement does not contain a definition of “cause” or the Participant has not entered into an employment agreement with the Company, “*Cause*” means: (i) misappropriation of funds or property, fraud or dishonesty within the course of providing services to the Company which evidences a want of integrity or breach of trust; (ii) indictment for a misdemeanor that has caused or may be reasonably expected to cause material injury to the Company, any of its Subsidiaries, any of its affiliates or any of their interests, or indictment for a felony; (iii) any willful or negligent action, inaction, or inattention to duties of the Participant within the course of providing services to the Company that causes the Company material harm or damages (as determined in the sole and absolute discretion of the Company); (iv) misappropriation of any corporate opportunity or otherwise obtaining personal profit from any transaction which is adverse to the interests of the Company or to the benefits of which the Company is entitled; (v) inexcusable or repeated failure by the Participant to follow applicable Company policies and procedures; (vi) conduct of the Participant which is materially detrimental to the Company (as determined in the sole and absolute discretion of the Company); or (vii) any material violation of the terms of the Participant’s employment agreement (or, if Participant is a Contractor, of the Participant’s consulting or contractor agreement), if any.

2.8 “*Change in Control*” means any of the following, except as otherwise provided herein:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 51% or more of the combined voting power of the Company’s then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (c) below; or

(b) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Effective Date of this Plan, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the Effective Date of this Plan or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 51% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates other than in connection with the acquisition by the Company or its Affiliates of a business) representing 51% or more of the combined voting power of the Company’s then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets, other than a sale or disposition by the Company of all or substantially all of the Company’s assets to an entity, at least 51% of the combined voting power of the voting securities of

which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

For purposes hereof:

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

“**Beneficial Owner**” shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

“**Person**” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

Notwithstanding the foregoing provisions of this Section 2.8, if an Award issued under the Plan is subject to Section 409A of the Code, then an event shall not constitute a Change in Control for purposes of such Award under the Plan unless such event also constitutes a change in the Company’s ownership, its effective control or the ownership of a substantial portion of its assets within the meaning of Section 409A of the Code.

2.9 “**Claim**” means any claim, liability or obligation of any nature, arising out of or relating to this Plan or an alleged breach of this Plan, or an Award Agreement.

2.10 “**Code**” means the United States Internal Revenue Code of 1986, as amended.

2.11 “**Committee**” means the Human Resources Committee of the Board, unless the Board appoints or designates a different committee to administer the Plan in accordance with Article 3 of this Plan.

2.12 “**Common Stock**” means the common stock, par value \$0.01 per share, which the Company is currently authorized to issue or may in the future be authorized to issue, or any securities into which or for which the common stock of the Company may be converted or exchanged, as the case may be, pursuant to the terms of this Plan.

2.13 “**Company**” means Texas Capital Bancshares, Inc., a Delaware corporation, and any successor entity.

2.14 “**Contractor**” means any natural person, who is not an Employee, rendering *bona fide* services to the Company or a Subsidiary, with compensation, pursuant to a written independent contractor agreement between such person (or any entity employing such person) and the Company or a Subsidiary, provided that such services are not rendered in connection with the offer or sale of securities in a capital raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities.

2.15 “**Corporation**” means any entity that (i) is defined as a corporation under Section 7701 of the Code and (ii) is the Company or is in an unbroken chain of corporations (other than the Company) beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain. For purposes of clause (ii) hereof, an entity shall be treated as a “corporation” if it satisfies the definition of a corporation under Section 7701 of the Code.

2.16 “**Date of Grant**” means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement.

2.17 “**Dividend Equivalent Right**” means the right of the holder thereof to receive credits based on the cash dividends that would have been paid on the shares of Common Stock specified in the Award if such shares were held by the Participant to whom the Award is made.



2.18 “**Employee**” means a common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company.

2.19 “**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

2.20 “**Executive Officer**” means an officer of the Company or a Subsidiary subject to Section 16 of the Exchange Act.

2.21 “**Exempt Shares**” means shares of Common Stock subject to an Award for which the Committee has accelerated vesting in accordance with Section 7.2. No more than five percent (5%) of the shares of Common Stock that may be delivered pursuant to Awards may be shares designated as “Exempt Shares.”

2.22 “**Exercise Date**” is defined in Section 8.3(b) hereof.

2.23 “**Fair Market Value**” means, as of a particular date, (a) if the shares of Common Stock are listed on any established national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal securities exchange for the Common Stock on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported; (b) if the shares of Common Stock are not so listed, but are quoted on an automated quotation system, the closing sales price per share of Common Stock reported on the automated quotation system on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported; (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available, as reported by the OTC Bulletin Board operated by the Financial Industry Regulation Authority, Inc. or the OTC Markets Group Inc., formerly known as Pink OTC Markets Inc.; or (d) if none of the above is applicable, such amount as may be determined by the Committee (acting on the advice of an Independent Third Party, should the Committee elect in its sole discretion to utilize an Independent Third Party for this purpose), in good faith, to be the fair market value per share of Common Stock. The determination of Fair Market Value shall, where applicable, be in compliance with Section 409A of the Code.

2.24 “**Full Value Award**” means any Award with a net benefit to the Participant, without regard to any restrictions such as those described in Section 6.4(b), equal to the aggregate Fair Market Value of the total shares of Common Stock subject to the Award. Full Value Awards include Restricted Stock and Restricted Stock Units, but do not include Stock Options and SARs.

2.25 “**Good Reason**”, with respect to a Participant’s Award, shall have the meaning set forth in the Participant’s employment agreement with the Company, or, if the employment agreement does not contain a definition of “good reason” or the Participant has not entered into an employment agreement with the Company, “**Good Reason**” means: (i) without his or her express written consent, the assignment of the Participant to a position constituting a material demotion, or loss of compensation or job duties by comparison to his or her position with the Company on the Date of Grant; provided, however, that changes, as opposed to a loss, in the Participant’s job duties or changes to reporting relationships, at the Board’s discretion, and without a material loss in the Participant’s compensation, will not constitute “Good Reason”; (ii) the change of the location where the Participant performs the majority of the Participant’s job duties on the Date of Grant of the Award (“**Base Location**”) to a location that is more than fifty (50) miles from the Base Location, without the Participant’s written consent; (iii) a reduction by the Company in the Participant’s base salary as in effect on the Date of Grant of the Award, unless the reduction is a proportionate reduction of the compensation of the Participant and all other senior officers of the Company as a part of a company-wide effort to enhance the Company’s financial condition; or (iv) after the occurrence of a Change in Control, a significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities, or duties attached to the position(s) with the Company which the Participant held immediately before the Change in Control, or a material reduction in total compensation, including incentive compensation, stock-based compensation and benefits received from the Company compared to the total compensation and benefits to which the Participant was entitled immediately before the Change in Control.

2.26 “**Immediate Family Members**” is defined in Section 15.8 hereof.

2.27 “**Incentive**” is defined in Section 2.2 hereof.

2.28 “**Incentive Stock Option**” means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.

2.29 “**Independent Third Party**” means an individual or entity independent of the Company having experience in providing investment banking or similar appraisal or valuation services and with expertise generally in the valuation of securities or other property for purposes of this Plan. The Committee may utilize one or more Independent Third Parties.

2.30 “**Nonqualified Stock Option**” means a nonqualified stock option, granted pursuant to this Plan, which is not an Incentive Stock Option.

2.31 “**Option Price**” means the price which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

2.32 “**Other Award**” means an Award issued pursuant to Section 6.9 hereof.

2.33 “**Outside Director**” means a director of the Company who is not an Employee or a Contractor.

2.34 “**Participant**” means an Employee or Contractor of the Company or a Subsidiary or an Outside Director to whom an Award is granted under this Plan.

2.35 “**Performance Award**” means an Award hereunder of cash, shares of Common Stock, units or rights based upon, payable in, or otherwise related to, Common Stock pursuant to Section 6.7 hereof.

2.36 “**Performance Criteria**” is defined in Section 6.10 hereof.

2.37 “**Performance Goal**” means any of the goals set forth in Section 6.10 hereof.

2.38 “**Plan**” means this Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan, as amended from time to time.

2.39 “**Prior Plan Awards**” means (i) any awards under the Prior Plans that are outstanding on the Effective Date, and that, on or after the Effective Date, are forfeited, expire or are canceled; and (ii) any shares subject to awards relating to Common Stock under the Prior Plans that, on or after the Effective Date, are settled in cash.

2.40 “**Prior Plans**” means the Texas Capital Bancshares, Inc. 2005 Long-Term Incentive Plan and the Texas Capital Bancshares, Inc. 2010 Long-Term Incentive Plan.

2.41 “**Reporting Participant**” means a Participant who is subject to the reporting requirements of Section 16 of the Exchange Act.

2.42 “**Restricted Stock**” means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.4 of this Plan which are subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.

2.43 “**Restricted Stock Units**” means units awarded to Participants pursuant to Section 6.6 hereof, which are convertible into Common Stock at such time as such units are no longer subject to restrictions as established by the Committee.

2.44 “**Restriction Period**” is defined in Section 6.4(b)(i) hereof.

2.45 “**SAR**” or “**Stock Appreciation Right**” means the right to receive an amount, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock as of the date the SAR is exercised (or, as provided in the Award Agreement, converted) over the SAR Price for such shares.

2.46 “**SAR Price**” means the exercise price or conversion price of each share of Common Stock covered by a SAR, determined on the Date of Grant of the SAR.

2.47 “**Spread**” is defined in Section 12.4(b) hereof.

2.48 “**Stock Option**” means a Nonqualified Stock Option or an Incentive Stock Option.

2.49 “**Subsidiary**” means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. “**Subsidiaries**” means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

2.50 “**Tenure Award**” means an Award hereunder of cash, shares of Common Stock, units or rights based upon, payable in, or otherwise related to, Common Stock that vests over time based upon the Participant’s continued employment with or service to the Company or its Subsidiaries.

2.51 “**Termination of Service**” occurs when a Participant who is (i) an Employee of the Company or any Subsidiary ceases to serve as an Employee of the Company and its Subsidiaries, for any reason; (ii) an Outside Director of the Company or a Subsidiary ceases to serve as a director of the Company and its Subsidiaries for any reason; or (iii) a Contractor of the Company or a Subsidiary ceases to serve as a Contractor of the Company and its Subsidiaries for any reason. Except as may be necessary or desirable to comply with applicable federal or state law, a “Termination of Service” shall not be deemed to have occurred when a Participant who is an Employee becomes an Outside Director or Contractor or vice versa. If, however, a Participant who is an Employee and who has an Incentive Stock Option ceases to be an Employee but does not suffer a Termination of Service, and if that Participant does not exercise the Incentive Stock Option within the time required under Section 422 of the Code upon ceasing to be an Employee, the Incentive Stock Option shall thereafter become a Nonqualified Stock Option. Notwithstanding the foregoing provisions of this Section 2.51, in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code, the definition of “Termination of Service” for purposes of such Award shall be the definition of “separation from service” provided for under Section 409A of the Code and the regulations or other guidance issued thereunder.

2.52 “**Total and Permanent Disability**” means a Participant is qualified for long-term disability benefits under the Company’s or Subsidiary’s disability plan or insurance policy; or, if no such plan or policy is then in existence or if the Participant is not eligible to participate in such plan or policy, that the Participant, because of a physical or mental condition resulting from bodily injury, disease, or mental disorder, is unable to perform his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee, based upon medical reports or other evidence satisfactory to the Committee; provided that, with respect to any Incentive Stock Option, Total and Permanent Disability shall have the meaning given it under the rules governing Incentive Stock Options under the Code. Notwithstanding the foregoing provisions of this Section 2.52, in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code, the definition of “Total and Permanent Disability” for purposes of such Award shall be the definition of “disability” provided for under Section 409A of the Code and the regulations or other guidance issued thereunder.

2.53 “**Withheld Dividends**” is defined in Section 6.4(b)(ii) hereof.

### ARTICLE 3 ADMINISTRATION

3.1 **General Administration; Establishment of Committee.** Subject to the terms of this Article 3, the Plan shall be administered by the Human Resources Committee of the Board or such other committee of the Board as is designated by the Board to administer the Plan, or if the Board so elected, the Board (the “*Committee*”). The Committee shall consist of not fewer than two persons. Any member of the Committee may be removed at any time, with or without cause, by resolution of the Board. Any vacancy occurring in the membership of the Committee may be filled by appointment by the Board. At any time there is no Committee to administer the Plan, any references in this Plan to the Committee shall be deemed to refer to the Board.

Membership on the Committee shall be limited to those members of the Board who are “non-employee directors” as defined in Rule 16b-3 promulgated under the Exchange Act. The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

#### 3.2 **Designation of Participants and Awards.**

(a) The Committee or the Board shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement, where applicable, the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan. The Committee shall determine whether an Award shall include one type of Incentive or two or more Incentives granted in combination or two or more Incentives granted in tandem (that is, a joint grant where exercise of one Incentive results in cancellation of all or a portion of the other Incentive). Although the members of the Committee shall be eligible to receive Awards, all decisions with respect to any Award, and the terms and conditions thereof, to be granted under the Plan to any member of the Committee shall be made solely and exclusively by the other members of the Committee, or if such member is the only member of the Committee, by the Board.

(b) Notwithstanding Section 3.2(a), to the extent permitted by Applicable Law, the Board may, in its discretion and by a resolution adopted by the Board, authorize one or more officers of the Company (an “*Authorized Officer*”) to (i) designate one or more Employees as eligible persons to whom Awards will be granted under the Plan and (ii) determine the number of shares of Common Stock that will be subject to such Awards; provided, however, that the resolution of the Board granting such authority shall (x) specify the total number of shares of Common Stock that may be made subject to the Awards, (y) set forth the price or prices (or a formula by which such price or prices may be determined) to be paid for the purchase of the Common Stock subject to such Awards, and (z) not authorize an officer to designate himself as a recipient of any Award.

3.3 **Authority of the Committee.** The Committee, in its discretion, shall (i) interpret the Plan and Award Agreements, (ii) prescribe, amend, and rescind any rules and regulations, as necessary or appropriate for the administration of the Plan, (iii) establish performance goals for an Award and certify the extent of their achievement, and (iv) make such other determinations or certifications and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties. The Committee’s discretion set forth herein shall not be limited by any provision of the Plan, including any provision which by its terms is applicable notwithstanding any other provision of the Plan to the contrary.

The Committee may delegate to officers of the Company, pursuant to a written delegation, the authority to perform specified functions under the Plan. Any actions taken by any officers of the Company pursuant to such written delegation of authority shall be deemed to have been taken by the Committee.

With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the Exchange Act, Section 422 of the Code, the rules of any exchange or inter-dealer quotation system upon which

the Company's securities are listed or quoted, or any other Applicable Law, to the extent that any such restrictions are no longer required by Applicable Law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

#### **ARTICLE 4 ELIGIBILITY**

Any Employee (including an Employee who is also a director or an officer), Contractor or Outside Director of the Company whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate in the Plan; provided that only Employees of a Corporation shall be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, Contractor or Outside Director. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, Awards need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, Contractors or Outside Directors, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Participants who receive, or are eligible to receive, Awards under the Plan.

#### **ARTICLE 5 SHARES SUBJECT TO PLAN**

**5.1 Number Available for Awards.** Subject to adjustment as provided in Articles 11 and 12 and subject to increase by any Prior Plan Awards eligible for reuse pursuant to Section 5.2, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is two million five hundred fifty thousand (2,550,000) shares (the "*Shares Available*"). One hundred percent (100%) of the Shares Available may be delivered pursuant to Incentive Stock Options. Subject to adjustment pursuant to Articles 11 and 12, no Executive Officer may receive in any calendar year (i) Stock Options or SARs relating to more than One Hundred Thousand (100,000) shares of Common Stock, or (ii) Restricted Stock, Restricted Stock Units, Performance Awards or Other Awards that are subject to the attainment of Performance Goals relating to more than One Hundred Thousand (100,000) shares of Common Stock; provided, however, that all such Awards to any Executive Officer during any calendar year shall not exceed an aggregate of more than Two Hundred Thousand (200,000) shares of Common Stock. Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.

**5.2 Reuse of Shares.** To the extent that any Awards under this Plan or any Prior Plan Award shall be forfeited, shall expire or be canceled, in whole or in part, then the number of shares of Common Stock covered by the Awards or Prior Plan Award so forfeited, expired, or canceled may again be awarded pursuant to the provisions of this Plan. Awards that may be satisfied either by the issuance of shares of Common Stock or by cash or other consideration shall be counted against the maximum number of shares of Common Stock that may be issued under this Plan only during the period that the Award is outstanding or to the extent the Award is ultimately satisfied by the issuance of shares of Common Stock. Shares of Common Stock otherwise deliverable pursuant to an Award that are withheld upon exercise or vesting of an Award for purposes of paying the exercise price or tax withholdings shall be treated as delivered to the Participant and shall be counted against the maximum number of shares of Common Stock that may be issued under this Plan. Awards will not reduce the number of shares of Common Stock that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of shares of Common Stock, as, for example, a SAR that can be satisfied only by the payment of cash. Notwithstanding any provisions of the Plan to the contrary, shares forfeited back to the Company, or shares canceled on account of termination, expiration or lapse of an Award shall again be available for grant of Incentive Stock Options under the Plan, but shall not increase the maximum number

of shares described in Section 5.1 above as the maximum number of shares of Common Stock that may be delivered pursuant to Incentive Stock Options.

## **ARTICLE 6 GRANT OF AWARDS**

### **6.1 In General.**

(a) The grant of an Award shall be authorized by the Committee and shall be evidenced by an Award Agreement setting forth the Incentive or Incentives being granted, the total number of shares of Common Stock subject to the Incentive (s), the Option Price (if applicable), the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but (i) not inconsistent with the Plan, and (ii) to the extent an Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The Company shall execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted no later than May 19, 2025. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

(b) If the Committee establishes a purchase price for an Award, the Participant must accept such Award within a period of thirty (30) days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Award Agreement and paying such purchase price.

(c) Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

**6.2 Option Price.** The Option Price for any share of Common Stock which may be purchased under a Nonqualified Stock Option for any share of Common Stock must be equal to or greater than the Fair Market Value of the share on the Date of Grant. The Option Price for any share of Common Stock which may be purchased under an Incentive Stock Option must be at least equal to the Fair Market Value of the share on the Date of Grant; if an Incentive Stock Option is granted to an Employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary), the Option Price shall be at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the Date of Grant. No dividends or Dividend Equivalent Rights may be paid or granted with respect to any Stock Option granted hereunder.

**6.3 Maximum ISO Grants.** The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries) are exercisable for the first time by such Employee during any calendar year to exceed \$100,000. To the extent any Stock Option granted under this Plan which is designated as an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option (or any such portion thereof) shall be a Nonqualified Stock Option. In such case, the Committee shall designate which stock will be treated as Incentive Stock Option stock by causing the issuance of a separate stock certificate and identifying such stock as Incentive Stock Option stock on the Company's stock transfer records.

**6.4 Restricted Stock.** If Restricted Stock is granted to or received by a Participant under an Award (including a Stock Option), the Committee shall set forth in the related Award Agreement: (i) the number of shares of Common Stock awarded, (ii) the price, if any, to be paid by the Participant for such Restricted Stock and the method of payment of the price, (iii) the time or times within which such Award may be subject to forfeiture, (iv) specified Performance Goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, which the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (v) all other terms, limitations, restrictions, and conditions of the Restricted Stock, which shall be

consistent with this Plan, to the extent applicable, and, to the extent Restricted Stock granted under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The provisions of Restricted Stock need not be the same with respect to each Participant.

(a) **Legend on Shares.** The Company shall electronically register the Restricted Stock awarded to a Participant in the name of such Participant, which shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 15.10 of the Plan. No stock certificate or certificates shall be issued with respect to such shares of Common Stock, unless, following the expiration of the Restriction Period (as defined in Section 6.4(b)(i)) without forfeiture in respect of such shares of Common Stock, the Participant requests delivery of the certificate or certificates by submitting a written request to the Committee (or such party designated by the Company) requesting delivery of the certificates. The Company shall deliver the certificates requested by the Participant to the Participant as soon as administratively practicable following the Company's receipt of such request.

(b) **Restrictions and Conditions.** Shares of Restricted Stock shall be subject to the following restrictions and conditions:

(i) Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant or the date of exercise of an Award (the "**Restriction Period**"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock. Except for these limitations and the limitations set forth in Section 7.2 below, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock whenever it may determine that, by reason of changes in Applicable Laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

(ii) Except as provided in sub-paragraph (i) above or in the applicable Award Agreement, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon; provided that, if the right to receive dividends is awarded, then (A) any cash dividends and stock dividends with respect to the Restricted Stock shall be withheld by the Company for the Participant's account, and interest may be credited on the amount of the cash dividends withheld at a rate and subject to such terms as determined by the Committee (together, "**Withheld Dividends**"); and (B) such Withheld Dividends attributable to any particular share of Restricted Stock (and earnings thereon, if applicable) shall be distributed to such Participant in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Withheld Dividends, if applicable, upon the release of restrictions on such share (*i.e.*, upon vesting) and, if such share is forfeited, the Participant shall forfeit and have no right to such Withheld Dividends. Certificates for shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock or after any other restrictions imposed on such shares of Common Stock by the applicable Award Agreement or other agreement have expired. Certificates for the shares of Common Stock forfeited under the provisions of the Plan and the applicable Award Agreement shall be promptly returned to the Company by the forfeiting Participant. Each Award Agreement shall require that each Participant, in connection with the issuance of a certificate for Restricted Stock, shall endorse such certificate in blank or execute a stock power in form satisfactory to the Company in blank and deliver such certificate and executed stock power to the Company.

(iii) The Restriction Period of Restricted Stock shall commence on the Date of Grant or the date of exercise of an Award, as specified in the Award Agreement, and, subject to Article 12 of the Plan, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock, shall expire upon satisfaction of the conditions set forth in the Award

Agreement; such conditions may provide for vesting based on such Performance Goals, as may be determined by the Committee in its sole discretion.

(iv) Except as otherwise provided in the particular Award Agreement, upon Termination of Service for any reason during the Restriction Period, the nonvested shares of Restricted Stock and any Withheld Dividends shall be forfeited by the Participant. In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock, the Committee shall specify in the Award Agreement that either (i) the Company shall be obligated to, or (ii) the Company may, in its sole discretion, elect to, pay to the Participant, as soon as practicable after the event causing forfeiture, in cash, an amount equal to the lesser of the total consideration paid by the Participant for such forfeited shares or the Fair Market Value of such forfeited shares as of the date of Termination of Service, as the Committee, in its sole discretion shall select. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of the Restricted Stock and any Withheld Dividends shall cease and terminate, without any further obligation on the part of the Company.

**6.5 SARs.** The Committee may grant SARs to any Participant, either as a separate Award or in connection with a Stock Option. SARs shall be subject to such terms and conditions as the Committee shall impose, provided that such terms and conditions are (i) not inconsistent with the Plan and (ii) to the extent a SAR issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The grant of the SAR may provide that the holder may be paid for the value of the SAR either in cash or in shares of Common Stock, or a combination thereof. In the event of the exercise of a SAR payable in shares of Common Stock, the holder of the SAR shall receive that number of whole shares of Common Stock having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) the difference between the Fair Market Value of a share of Common Stock on the date of exercise over the SAR Price as set forth in such SAR (or other value specified in the Award Agreement granting the SAR), by (ii) the number of shares of Common Stock as to which the SAR is exercised, with a cash settlement to be made for any fractional shares of Common Stock. The SAR Price for any share of Common Stock subject to a SAR may be equal to or greater than the Fair Market Value of the share on the Date of Grant. The Committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a SAR, but any such limitation shall be specified at the time that the SAR is granted. No dividends or Dividend Equivalent Rights may be paid or granted with respect to any Stock Appreciation Right granted hereunder.

**6.6 Restricted Stock Units.** Restricted Stock Units may be awarded or sold to any Participant under such terms and conditions as shall be established by the Committee, provided, however, that such terms and conditions are (i) not inconsistent with the Plan, and (ii) to the extent a Restricted Stock Unit issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The grant of a Restricted Stock Unit may provide that the holder may be paid for the value of the Restricted Stock Unit either in cash or in shares of Common Stock, or a combination thereof. Restricted Stock Units shall be subject to such restrictions as the Committee determines, including, without limitation, (a) a prohibition against sale, assignment, transfer, pledge, hypothecation or other encumbrance for a specified period; or (b) a requirement that the holder forfeit (or in the case of shares of Common Stock or units sold to the Participant, resell to the Company at cost) such shares or units in the event of Termination of Service during the period of restriction.

### **6.7 Performance Awards.**

(a) The Committee may grant Performance Awards to one or more Participants. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the Performance Goals to be achieved during a performance period, and the maximum or minimum settlement values, provided that such terms and conditions are (i) not inconsistent with the Plan and (ii) to the extent a Performance Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. If the Performance Award is to be in shares of Common Stock, the Performance Awards may provide for the issuance of the shares of Common Stock at the time of the grant of



the Performance Award or at the time of the certification by the Committee that the Performance Goals for the performance period have been met; provided, however, if shares of Common Stock are issued at the time of the grant of the Performance Award and if, at the end of the performance period, the Performance Goals are not certified by the Committee to have been fully satisfied, then, notwithstanding any other provisions of this Plan to the contrary, the Common Stock shall be forfeited in accordance with the terms of the grant to the extent the Committee determines that the Performance Goals were not met. The forfeiture of shares of Common Stock issued at the time of the grant of the Performance Award due to failure to achieve the established Performance Goals shall be separate from and in addition to any other restrictions provided for in this Plan that may be applicable to such shares of Common Stock. Each Performance Award granted to one or more Participants shall have its own terms and conditions.

If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure, or for other reasons that the Committee deemed satisfactory, the Committee may modify the performance measures or objectives and/or the performance period.

(b) Performance Awards may be valued by reference to the Fair Market Value of a share of Common Stock or according to any formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of Performance Goals or other specific financial, production, sales or cost performance objectives that the Committee believes to be relevant to the Company's business and/or remaining in the employ of the Company or a Subsidiary for a specified period of time. Performance Awards may be paid in cash, shares of Common Stock, or other consideration, or any combination thereof. If payable in shares of Common Stock, the consideration for the issuance of such shares may be the achievement of the performance objective established at the time of the grant of the Performance Award. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee.

(c) No Participant may receive in any calendar year Performance Awards that have an aggregate value of more than \$5,000,000, and if such Performance Awards involve the issuance of shares of Common Stock, said aggregate value shall be based on the Fair Market Value of such shares on the time of the grant of the Performance Award.

(d) Notwithstanding the foregoing, to the extent the Committee intends for Section 162(m) of the Code to apply to any Performance Awards that were granted under the Original 2015 Plan and in effect as of November 2, 2017, the terms of such Performance Award may not be materially modified and will be interpreted, operated, and construed so as to constitute "qualified performance-based compensation" as such term is defined in Treas. Reg. § 1.162-27(e).

**6.8 Dividend Equivalent Rights.** The Committee may grant a Dividend Equivalent Right to any Participant, either as a component of another Award or as a separate Award. The terms and conditions of the Dividend Equivalent Right shall be specified by the grant. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Common Stock (which may thereafter accrue additional dividend equivalents). Any such reinvestment shall be at the Fair Market Value at the time thereof. Dividend Equivalent Rights may be settled in cash or shares of Common Stock, or a combination thereof, in a single payment or in installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other Award; provided that (i) any Dividend Equivalent Rights with respect to such Award shall be withheld by the Company for the Participant's account until such Award is vested, subject to such terms as determined by the Committee; and (ii) such Dividend Equivalent Rights so withheld by the Company and attributable to any particular Award shall be distributed to such Participant in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Dividend Equivalent Rights, if applicable, upon vesting of the Award and, if such Award is forfeited, the Participant

shall forfeit and have no right to such Dividend Equivalent Rights. No Dividend Equivalent Right may be paid or granted with respect to any Stock Option or SAR.

**6.9 Other Awards.** The Committee may grant to any Participant other forms of Awards, based upon, payable in, or otherwise related to, in whole or in part, shares of Common Stock, if the Committee determines that such other form of Award is consistent with the purpose and restrictions of this Plan. The terms and conditions of such other form of Award shall be specified by the grant. Such Other Awards may be granted for no cash consideration, for such minimum consideration as may be required by Applicable Law, or for such other consideration as may be specified by the grant.

**6.10 Performance Goals.** Awards of Restricted Stock, Restricted Stock Units, Performance Award and Other Awards (whether relating to cash or shares of Common Stock) under the Plan may be made subject to the attainment of Performance Goals relating to one or more business criteria which, where applicable, may consist of one or more or any combination of the following criteria: tangible book value; tangible common equity; growth in interest income and expense; net interest margin; efficiency ratio; growth in non-interest income and non-interest expense and ratios to earnings assets; net revenue growth and ratio to earning assets; capital ratios; asset or liability interest rate sensitivity and gap; effective tax rate; deposit growth and composition; liquidity management; securities portfolio (value, yield, spread, maturity, or duration); earning asset growth and composition (loans, securities); non-interest income (including, fees, premiums and commissions, loans, wealth management, treasury management, insurance, funds management); overhead ratios, productivity ratios (including adjusted earnings/full-time equivalent (FTE), pre-tax income/FTE); return on assets; return on equity or stockholders' equity; economic value of equity (EVE); internal controls; enterprise risk measures (including interest rate, loan concentrations, portfolio composition, credit quality, operational measures, compliance ratings, balance sheet, liquidity, insurance); cost; revenues; revenue ratios (per employee or per customer); ratio of debt to debt plus equity; net borrowing; debt ratings; profit before tax; cash return on capitalization; economic profit; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; gross margin; earnings per share (whether on a pre-tax, after-tax, operational or other basis); earnings per share growth; operating income; net income; operating earnings; capital expenditures; expenses or expense levels; economic value added; ratio of operating earnings to capital spending or any other operating ratios; return on capital compared to cost of capital; return on invested capital; cash flow; net cash flow before financing activities; cost reductions; cost ratios (per employee or per customer); free cash flow; net profit; sales; net sales; net asset value per share; the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions; sales growth; price of the Company's Common Stock; market share; inventory levels, inventory turn or shrinkage; total return to stockholders; budget goals; customer growth; total market value; dividend payout; or dividend growth ("**Performance Criteria**"). Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (i) extraordinary, unusual and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, (iv) the effect of a merger or acquisition, as identified in the Company's quarterly and annual earnings releases, or (v) other similar occurrences. In all other respects, Performance Criteria shall be calculated in accordance with the Company's financial statements, under generally accepted accounting principles, or under a methodology established by the Committee prior to the issuance of an Award which is consistently applied and identified in the audited financial statements, including footnotes, or the Compensation Discussion and Analysis section of the Company's annual report.

**6.11 Tandem Awards.** The Committee may grant two or more Incentives in one Award in the form of a "tandem Award," so that the right of the Participant to exercise one Incentive shall be canceled if, and to the extent, the other Incentive is exercised. For example, if a Stock Option and a SAR are issued in a tandem Award, and the Participant exercises the SAR with respect to one hundred (100) shares of Common Stock, the right of the Participant to exercise the related Stock Option shall be canceled to the extent of one hundred (100) shares of Common Stock.

**6.12 No Repricing of Stock Options or SARs.** The Committee may not "reprice" any Stock Option or SAR. For purposes of this Section 6.12, "reprice" means any of the following or any other action that has the same effect: (i) amending a Stock Option or SAR to reduce its exercise price or base price, (ii) canceling a Stock Option or SAR at a time when its exercise price or base price exceeds the Fair Market Value of a share of Common Stock in exchange for cash or a Stock Option, SAR, award of Restricted Stock or other equity award, or (iii) taking any other

action that is treated as a repricing under generally accepted accounting principles, provided that nothing in this Section 6.12 shall prevent the Committee from making adjustments pursuant to Article 11, from exchanging or cancelling Incentives pursuant to Article 12, or substituting Incentives in accordance with Article 14.

**6.13 Recoupment for Restatements.** Notwithstanding any other language in this Plan to the contrary, the Company may recoup all or any portion of any shares or cash paid to a Participant in connection with an Award, in the event of a restatement of the Company's financial statements as set forth in the Company's clawback policy, if any, approved by the Company's Board from time to time.

**6.14 Limit on Awards to Outside Directors.** The Committee may not grant Awards under the Plan to any Outside Director which would permit the aggregate Fair Market Value (determined on the Date of Grant) of Awards granted to the Outside Director during any calendar year to exceed \$300,000. Notwithstanding the foregoing, the Committee may grant a special, one-time Award to a newly-appointed or newly-elected Outside Director with a value not to exceed \$300,000, which Award shall not count against the \$300,000 annual Award limit provided in the preceding sentence.

## **ARTICLE 7 AWARD PERIOD; VESTING**

**7.1 Award Period.** Subject to the other provisions of this Plan, the Committee may, in its discretion, provide that an Incentive may not be exercised in whole or in part for any period or periods of time or beyond any date specified in the Award Agreement. Except as provided in the Award Agreement, an Incentive may be exercised in whole or in part at any time during its term. The Award Period for an Incentive shall be reduced or terminated upon Termination of Service. No Incentive granted under the Plan may be exercised at any time after the end of its Award Period. No portion of any Incentive may be exercised after the expiration of ten (10) years from its Date of Grant. However, if an Employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary) and an Incentive Stock Option is granted to such Employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five (5) years from the Date of Grant.

**7.2 Vesting.** The Committee, in its sole discretion, shall establish the vesting terms applicable to an Incentive, provided that any such vesting terms shall not be inconsistent with the terms of the Plan, including, without limitation, this Section 7.2. Except as otherwise provided herein, no Incentive (nor any portion of an Incentive, even on a pro rata basis) may vest earlier than one (1) year after the Date of Grant, and all Full Value Awards granted by the Committee that constitute Tenure Awards, other than Awards to Outside Directors, must vest no earlier than on a pro rata basis over the three (3) year period commencing on the Date of Grant. Except as otherwise provided herein, the Committee may not accelerate the date on which all or any portion of an Award may be vested or waive the Restriction Period on a Full Value Award except upon (i) the Participant's death or Total and Permanent Disability; (ii) retirement (as such term is defined in the Participant's applicable Award Agreement); or (iii) the Participant's Termination of Service without Cause or for Good Reason on or after a Change in Control. Notwithstanding the foregoing, the Committee may, in its sole discretion, grant Awards with more favorable vesting provisions than set forth in this Section 7.2, provided that the shares of Common Stock subject to such Awards shall be Exempt Shares.

## **ARTICLE 8 EXERCISE OR CONVERSION OF INCENTIVE**

**8.1 In General.** A vested Incentive may be exercised or converted, during its Award Period, subject to limitations and restrictions set forth in the Award Agreement.

**8.2 Securities Law and Exchange Restrictions.** In no event may an Incentive be exercised or shares of Common Stock issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished.

### 8.3 Exercise of Stock Option.

(a) **In General.** If a Stock Option is exercisable prior to the time it is vested, the Common Stock obtained on the exercise of the Stock Option shall be Restricted Stock which is subject to the applicable provisions of the Plan and the Award Agreement. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Stock Option may be exercised. No Stock Option may be exercised for a fractional share of Common Stock. The granting of a Stock Option shall impose no obligation upon the Participant to exercise that Stock Option.

(b) **Notice and Payment.** Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised and the date of exercise thereof (the "**Exercise Date**") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as provided in the Award Agreement, which may provide for payment in any one or more of the following ways: (a) cash or check, bank draft, or money order payable to the order of the Company, (b) Common Stock (including Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, and which the Participant has not acquired from the Company within six (6) months prior to the Exercise Date, (c) by delivery (including by FAX) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Committee in its sole discretion. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of the Stock Option equal to the number of shares of Restricted Stock used as consideration therefor shall be subject to the same restrictions and provisions as the Restricted Stock so tendered.

Except as otherwise provided in Section 6.4 hereof (with respect to shares of Restricted Stock) or in the applicable Award Agreement, upon payment of all amounts due from the Participant, the Company shall cause the Common Stock then being purchased to be registered in the Participant's name (or the person exercising the Participant's Stock Option in the event of his or her death), but shall not issue certificates for the Common Stock unless the Participant or such other person requests delivery of the certificates for the Common Stock, in writing in accordance with the procedures established by the Committee. The Company shall deliver certificates to the Participant (or the person exercising the Participant's Stock Option in the event of his or her death) as soon as administratively practicable following the Company's receipt of a written request from the Participant or such other person for delivery of the certificates. Notwithstanding the forgoing, if the Participant has exercised an Incentive Stock Option, the Company may at its option retain physical possession of the certificate evidencing the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. Any obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that, if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

(c) **Failure to Pay.** Except as may otherwise be provided in an Award Agreement, if the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, that

portion of the Participant's Stock Option and right to purchase such Common Stock may be forfeited by the Participant.

8.4 **SARs.** Subject to the conditions of this Section 8.4 and such administrative regulations as the Committee may from time to time adopt, a SAR may be exercised by the delivery (including by FAX) of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the SAR is to be exercised and the Exercise Date thereof, which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. Subject to the terms of the Award Agreement and only if permissible under Section 409A of the Code and the regulations or other guidance issued thereunder (or, if not so permissible, at such time as permitted by Section 409A of the Code and the regulations or other guidance issued thereunder), the Participant shall receive from the Company in exchange therefor in the discretion of the Committee, and subject to the terms of the Award Agreement:

(a) cash in an amount equal to the excess (if any) of the Fair Market Value (as of the Exercise Date, or if provided in the Award Agreement, conversion, of the SAR) per share of Common Stock over the SAR Price per share specified in such SAR, multiplied by the total number of shares of Common Stock of the SAR being surrendered;

(b) that number of shares of Common Stock having an aggregate Fair Market Value (as of the Exercise Date, or if provided in the Award Agreement, conversion, of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests; or

(c) the Company may settle such obligation in part with shares of Common Stock and in part with cash.

The distribution of any cash or Common Stock pursuant to the foregoing sentence shall be made at such time as set forth in the Award Agreement.

8.5 **Disqualifying Disposition of Incentive Stock Option.** If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

## **ARTICLE 9 AMENDMENT OR DISCONTINUANCE**

Subject to the limitations set forth in this Article 9, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment for which stockholder approval is required either (i) by any securities exchange or inter-dealer quotation system on which the Common Stock is listed or traded or (ii) in order for the Plan and Incentives awarded under the Plan to continue to comply with Sections 421 and 422 of the Code, including any successors to such Sections, or other Applicable Law, shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. Notwithstanding anything contained in this Plan to the contrary, unless required by law, no action contemplated or permitted by this Article 9 shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

## **ARTICLE 10 TERM**

The Plan shall be effective from the Effective Date. Unless sooner terminated by action of the Board, the Plan will terminate on May 19, 2025, but Incentives granted before that date will continue to be effective in accordance with their terms and conditions.

## **ARTICLE 11 CAPITAL ADJUSTMENTS**

In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the fair value of an Award, then the Committee shall adjust any or all of the following so that the fair value of the Award immediately after the transaction or event is equal to the fair value of the Award immediately prior to the transaction or event (i) the number of shares and type of Common Stock (or the securities or property) which thereafter may be made the subject of Awards, (ii) the number of shares and type of Common Stock (or other securities or property) subject to outstanding Awards, (iii) the number of shares and type of Common Stock (or other securities or property) specified as the annual per-participant limitation under Section 5.1 of the Plan, (iv) the Option Price of each outstanding Award, (v) the amount, if any, the Company pays for forfeited shares of Common Stock in accordance with Section 6.4, and (vi) the number of or SAR Price of shares of Common Stock then subject to outstanding SARs previously granted and unexercised under the Plan, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each instance shall remain subject to exercise at the same aggregate SAR Price; provided however, that the number of shares of Common Stock (or other securities or property) subject to any Award shall always be a whole number. Notwithstanding the foregoing, no such adjustment shall be made or authorized to the extent that such adjustment would cause the Plan or any Stock Option to violate Section 422 of the Code or Section 409A of the Code. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Upon the occurrence of any such adjustment, the Company shall provide notice to each affected Participant of its computation of such adjustment which shall be conclusive and shall be binding upon each such Participant.

## **ARTICLE 12 RECAPITALIZATION, MERGER AND CONSOLIDATION**

**12.1 No Effect on Company's Authority.** The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any Change in Control, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

**12.2 Conversion of Incentives Where Company Survives.** Subject to any required action by the stockholders and except as otherwise provided by Section 12.4 hereof or as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, if the Company shall be the surviving or resulting corporation in any merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to the Incentive would have been entitled.

**12.3 Exchange or Cancellation of Incentives Where Company Does Not Survive.** Except as otherwise provided by Section 12.4 hereof or as may be required to comply with Section 409A of the Code and the regulations

or other guidance issued thereunder, in the event of any merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of outstanding Incentives, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting or consolidated company which were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Incentives to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms.

**12.4 Cancellation of Incentives.** Notwithstanding the provisions of Sections 12.2 and 12.3 hereof, and except as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, in the event the acquiror or the surviving or resulting corporation does not agree to assume the Incentives, all Incentives granted hereunder may be canceled by the Company, in its sole discretion, as of the effective date of any Change in Control, merger, consolidation or share exchange, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

(a) giving notice to each holder thereof or his or her personal representative of its intention to cancel those Incentives for which the issuance of shares of Common Stock involved payment by the Participant for such shares, and permitting the purchase during the thirty (30) day period next preceding such effective date of any or all of the shares of Common Stock subject to such outstanding Incentives, including in the Board's discretion some or all of the shares as to which such Incentives would not otherwise be vested and exercisable; or

(b) in the case of Incentives that are either (i) settled only in shares of Common Stock, or (ii) at the election of the Participant, settled in shares of Common Stock, paying the holder thereof an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the price per share of such Incentive to be paid by the Participant (hereinafter the "*Spread*"), multiplied by the number of shares subject to the Incentive. In cases where the shares constitute, or would after exercise, constitute Restricted Stock, the Company, in its discretion, may include some or all of those shares in the calculation of the amount payable hereunder. In estimating the Spread, appropriate adjustments to give effect to the existence of the Incentives shall be made, such as deeming the Incentives to have been exercised, with the Company receiving the exercise price payable thereunder, and treating the shares receivable upon exercise of the Incentives as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to taxes, payable by the Company before such liquidation could be completed.

An Award that by its terms would be fully vested or exercisable upon a Change in Control will be considered vested or exercisable for purposes of Section 12.4(a) hereof. Notwithstanding the foregoing, with respect to Performance Awards, the Committee only may approve the acceleration of vesting and/or cash-out if (i) the amount payable or vested is linked to the achievement of the Performance Goals for such Performance Award as of the date of the Change in Control and/or (ii) the amount to be paid or vested under the Performance Award on the Change in Control is pro-rated based on the time elapsed in the applicable performance period between the Performance Award's Date of Grant and the Change in Control.

### **ARTICLE 13 LIQUIDATION OR DISSOLUTION**

Subject to Section 12.4 hereof, in case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, (i) sell all or substantially all of its property, or (ii) dissolve, liquidate, or wind up its affairs, then each Participant shall be entitled to receive, in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive under the Incentive, the same kind and amount of any

securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) and an adjustment is determined by the Committee to be appropriate to prevent the dilution of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, make such adjustment in accordance with the provisions of Article 11 hereof.

#### **ARTICLE 14 INCENTIVES IN SUBSTITUTION FOR INCENTIVES GRANTED BY OTHER ENTITIES**

Incentives may be granted under the Plan from time to time in substitution for similar instruments held by employees, independent contractors or directors of a corporation, partnership, or limited liability company who become or are about to become Employees, Contractors or Outside Directors of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company, the acquisition by the Company of equity of the employing entity, or any other similar transaction pursuant to which the Company becomes the successor employer. The terms and conditions of the substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the incentives in substitution for which they are granted.

#### **ARTICLE 15 MISCELLANEOUS PROVISIONS**

15.1 **Investment Intent.** The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.

15.2 **No Right to Continued Employment.** Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.

15.3 **Indemnification of Board and Committee.** No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board and the Committee, each officer of the Company, and each Employee of the Company acting on behalf of the Board or the Committee shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation to the fullest extent provided by law. Except to the extent required by any unwaivable requirement under Applicable Law, no member of the Board or the Committee (and no Subsidiary of the Company) shall have any duties or liabilities, including without limitation any fiduciary duties, to any Participant (or any Person claiming by and through any Participant) as a result of this Plan, any Award Agreement or any Claim arising hereunder and, to the fullest extent permitted under Applicable Law, each Participant (as consideration for receiving and accepting an Award Agreement) irrevocably waives and releases any right or opportunity such Participant might have to assert (or participate or cooperate in) any Claim against any member of the Board or the Committee and any Subsidiary of the Company arising out of this Plan.

15.4 **Effect of the Plan.** Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.



**15.5 Compliance With Other Laws and Regulations.** Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Incentive if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Exchange Act); and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

**15.6 Foreign Participation.** To assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Committee approves for purposes of using this Plan in a foreign country will not affect the terms of this Plan for any other country.

**15.7 Tax Requirements.** The Company or, if applicable, any Subsidiary (for purposes of this Section 15.7, the term “*Company*” shall be deemed to include any applicable Subsidiary), shall have the right to deduct from all amounts paid in cash or other form in connection with the Plan, any Federal, state, local, or other taxes required by law to be withheld in connection with an Award granted under this Plan. The Company may, in its sole discretion, also require the Participant receiving shares of Common Stock issued under the Plan to pay the Company the amount of any taxes that the Company is required to withhold in connection with the Participant’s income arising with respect to the Award. Such payments shall be required to be made when requested by Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock. Such payment may be made (i) by the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding obligations of the Company; (ii) if the Company, in its sole discretion, so consents in writing, by the actual delivery by the exercising Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (iii) if the Company, in its sole discretion, so consents in writing, by the Company’s withholding of a number of shares to be delivered upon the exercise or vesting of the Award, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; or (iv) by any combination of (i), (ii), or (iii). The Company may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant. The Committee may in the Award Agreement impose any additional tax requirements or provisions that the Committee deems necessary or desirable.

**15.8 Assignability.** Incentive Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant’s legally authorized representative, and each Award Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 15.8 that is not required for compliance with Section 422 of the Code.

Except as otherwise provided herein, Awards may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution. Notwithstanding the foregoing, the Committee may, in its discretion, authorize all or a portion of a Nonqualified Stock Option or SAR to be granted to a Participant on terms which permit transfer by such Participant to (i) the spouse (or former spouse), children or grandchildren of the Participant (“*Immediate Family Members*”), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, (iii) a partnership in which the only partners are (1) such Immediate Family Members and/or (2) entities which are controlled by Immediate Family Members, (iv) an entity exempt from

federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the Award Agreement pursuant to which such Nonqualified Stock Option or SAR is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Nonqualified Stock Options or SARs shall be prohibited except those by will or the laws of descent and distribution.

Following any transfer, any such Award shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Articles 8, 9, 11, 13 and 15 hereof the term “**Participant**” shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which, with respect to any Award that is a Nonqualified Stock Option and SAR, the Award shall be exercisable or convertible by the transferee only to the extent and for the periods specified in the Award Agreement. The Committee and the Company shall have no obligation to inform any transferee of an Award of any expiration, termination, lapse or acceleration of such Award. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under an Award that has been transferred by a Participant under this Section 15.8.

**15.9 Use of Proceeds.** Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.

**15.10 Legend.** Each certificate representing shares of Restricted Stock issued to a Participant shall bear the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

On the face of the certificate:

“Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate.”

On the reverse:

“The shares of stock evidenced by this certificate are subject to and transferable only in accordance with that certain Texas Capital Bancshares, Inc. Amended and Restated 2015 Long-Term Incentive Plan, a copy of which is on file at the principal office of the Company. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of this certificate, any holder, transferee or pledgee hereof agrees to be bound by all of the provisions of said Plan.”

The following legend shall be inserted on a certificate evidencing Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

“Shares of stock represented by this certificate have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company.”

15.11 **Governing Law.** The Plan 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 Plan to the laws of another state). A 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. Each Award Agreement shall require the Participant to release and covenant not to sue any Person other than the Company over any Claim. The individuals and entities described above in this Section 15.11 (other than the Company) shall be third-party beneficiaries of this Plan for purposes of enforcing the terms of this Section 15.11.

A copy of this Plan shall be kept on file in the principal office of the Company in Dallas, Texas.

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IN WITNESS WHEREOF, the Company has caused this instrument to be executed as of April 17, 2018, by its President and Chief Executive Officer pursuant to prior action taken by the Board.

**TEXAS CAPITAL BANCSHARES, INC.**

By:  
Keith Cargill, President and Chief Executive Officer

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## **Section 3: EX-10.2 (EXHIBIT 10.2 PERFORMANCE AWARD AGREEMENT)**

**Exhibit 10.2**

### **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 March 27, 2018. 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 shares of Common Stock 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) One hundred percent (100%) of the Time-Based Units will become vested on March 27, 2021, provided that 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, 2021).

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 months 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 months the Participant has been employed since the Date of Grant and the denominator of which is thirty-six (36)), provided that such Vested Units shall remain subject to the payout provisions of Section 4 and in no event shall any portion of such Time-Based Units vest earlier than the one year anniversary of the Date of Grant; 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. March 27, 2021; 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 March 15, 2021, 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 would not provide the Participant with access to its Confidential Information or grant the Awarded Units but for the Participant's covenants or promises contained in this Section 5.b. For purposes of this Agreement, "**Confidential Information**" shall mean the Company's (for purposes of this Section 5.b., the "Company" shall include both the Company and Texas Capital Bank, N.A.'s ("**TCB**")) 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. 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 any government agency or entity, or (iv) testify, assist, or participate in an investigation, hearing, or proceeding conducted by any 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. No waiver of any breach of this Agreement shall be construed to be a waiver as to succeeding breaches and no waiver of any provisions of this Agreement shall constitute a waiver of any other provision 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. Except for the specific representations expressly made by the Company in this Agreement, the Participant specifically disclaims that the Participant is relying upon or has relied upon any communications, promises, statements, inducements, or representation(s) that may have been made, oral or written, regarding the subject matter of this Agreement. The parties represent that they are relying solely and only on their own judgment in entering into this Agreement.

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  
Email: HR@texascapitalbank.com

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 (50% of all Awarded Units) shall vest in accordance with the following schedule (25% based on Average EPS Growth, 25% Average EPS Growth measured against Peer Group, 25% Average ROE % measured against the Three Year Plan, and 25% Average ROE % measured against Peer Group)

1. For purposes of this Exhibit A and the Agreement, unless the context requires otherwise, the following terms shall have the meanings indicated:
  - a. "**Average ROE %**" shall mean a company's average reported return on equity for each year during the Performance Period, divided by three (not determined on an aggregate three year basis). Average ROE % of a component company in the Peer Group and of the Company shall be adjusted to take into account stock splits, reverse stock splits, and special dividends that occur during the Performance Period.
  - b. "**Average EPS Growth**" shall mean a company's average annual growth in earnings per share for the Performance Period, determined by taking the average of each individual year's annual growth in earnings per share (measured by taking the average of each individual year's earnings per share growth divided by three; not determined on an aggregate three-year basis) as determined by the Committee. Average EPS Growth of a component company in the Peer Group and of the Company shall be adjusted to take into account stock splits, reverse stock splits, and special dividends that occur during the Performance Period.
  - c. "**Performance Period**" shall mean the period commencing on and including January 1, 2018 and ending on December 31, 2020.
  - d. "**Peer Group**" shall be comprised of the following companies:

BOK Financial Corporation	CullenFrost Bankers, Inc.
SVB Financial Group	Signature Bank
F.N.B. Corporation	Associated Banc Corp
IBERIABANK Corporation	Wintrust Financial Corporation
TCF Financial Corporation	PacWest Bancorp
Prosperity Bancshares, Inc.	Pinnacle Financial Partners, Inc.
MB Financial, Inc.	Western Alliance Bancorporation
First Midwest Bancorp, Inc.	Trustmark Corporation

Notwithstanding the foregoing, the Peer Group shall be subject to the following adjustments:

- (i) If during the Performance Period two component companies of the Peer Group merge or otherwise combine into a single entity, the surviving entity shall remain a component company of the Peer Group and the non-surviving entity shall be removed from the Peer Group, provided that the surviving entity continues to meet the criteria for inclusion in the Peer Group; if the surviving entity no longer meets the criteria for inclusion in the Peer Group, the surviving entity will be removed from the Peer Group for all periods after such merger or combination.
- (ii) If during the applicable Performance Period a component company of the Peer Group merges into or otherwise combines with an entity that is not a component company of the Peer Group, such component company shall be removed from the Peer Group for all periods after such merger or combination.
- (iii) If during the applicable Performance Period a component company of the Peer Group ceases to be a public company by becoming a private company through the “going dark” process, such component company shall be removed from the Peer Group for all periods after the component company ceases to be a public company.
- (iv) If during the applicable Performance Period a component company of the Peer Group files a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code or liquidation under Chapter 7 of the U.S. Bankruptcy Code, such component company shall be removed from the Peer Group for all periods after such filing.

e. “*Three Year Plan*” means the three year plan approved by the Board in January 2018.

- 2. Subject to paragraph 6 below, upon the achievement of Average EPS Growth for the Performance Period, as determined by the Committee, the percentage of 25% of the Performance Units that shall vest shall be as follows:

<u>Average EPS Growth</u>	<u>% Vested and Payout</u>
___%	50%
___%	75%
___%	100%
___%	125%
___%	150%

- 3. Subject to paragraph 6 below, upon the achievement of Average EPS Growth measured against Average EPS Growth for the Peer Group during the Performance Period, as determined by the Committee, the percentage

of 25% of the Performance Units that shall vest based upon the Company's ranking within its Peer Group shall be as follows:

<b><u>Rank within Peer Group Based on Average EPS Growth</u></b>	<b><u>% Vested and Payout</u></b>
---	0%
___% up to ___%	50%
___% up to ___%	100%
___% up to ___%	125%
---	150%

4. Subject to paragraph 6 below, upon achievement of an Average ROE % measured against the Three Year Plan, as determined by the Committee, the percentage of 25% of the Performance Units that vest shall be as follows:

<b><u>Average ROE % Against Three Year Plan</u></b>	<b><u>% Vested</u></b>
___%	50%
___%	75%
___%	100%
___%	125%
___%	150%

5. Subject to paragraph 6 below, upon achievement of Average ROE % performance as measured against the Peer Group for the Performance Period, the percentage of 25% of the Performance Units that vest based on the Company's ranking within its Peer Group shall be as follows:

<b><u>Rank within Peer Group Based on Average ROE%</u></b>	<b><u>% Vested</u></b>
---	0%
___% up to ___%	50%
___% up to ___%	100%
___% up to ___%	125%
---	150%

6. Achievement of the performance goals set forth in paragraphs 2, 3, 4 and 5 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. All performance metrics assume that no capital raises occur during the Performance Period. If a capital raise occurs during the Performance Period, performance shall be adjusted to exclude the effects of the capital raise.
- c. The Committee will review potential adjustments to achievement of the performance metrics based on Federal Funds Rate changes or any other material changes and/or impacts, as determined by the Committee in its sole discretion.
- d. 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 Average EPS Growth and Average ROE % goals set forth in paragraphs 2, 3, 4 and 5 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;





5. 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.

6. 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 Board (or the Committee, if applicable) 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 Board (or the Committee, if applicable) retains the right to modify the Company's Common Stock ownership guidelines at any time.

7. 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.

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

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

10. 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.

11. 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.

12. 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.

13. Remedies. 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. No waiver of any breach of this Agreement shall be construed to be a waiver as to succeeding breaches and no waiver of any provisions of this Agreement shall constitute a waiver of any other provision of this Agreement.

14. 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 14 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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. 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. Except for the specific representations expressly made by the Company in this Agreement, the Participant specifically disclaims that the Participant is relying upon or has relied upon any communications, promises, statements, inducements, or representation(s) that may have been made, oral or written, regarding the subject matter of this Agreement. The parties represent that they are relying solely and only on their own judgment in entering into this Agreement.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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  
Email: HR@texascapitalbank.com

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

27. 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. If the Participant is an Outside Director at the time the Awarded Units vest, the Participant shall be solely responsible for remitting any Federal, state, local or other taxes required by law to be paid in connection with this Award. If the Participant is an Employee at the time the Awarded Units vest, unless the Company otherwise consents in writing to an alternative withholding method, the Company, or if applicable, any Subsidiary (for purposes of this Section 27, the term "*Company*" shall be deemed to include any applicable Subsidiary) shall withhold the amount of any Federal, state, local, or other taxes required by law to be withheld in connection with this Award. The Company also may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant.

28. Section 409A. It is intended that this Agreement be exempt from 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 this intention.

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## **Section 5: 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: April 19, 2018

/s/ C. Keith Cargill

C. Keith Cargill  
Chief Executive Officer

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## **Section 6: EX-31.2 (EXHIBIT 31.2)**

**EXHIBIT 31.2**

### **CERTIFICATION**

I, Julie Anderson, 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: April 19, 2018

/s/ Julie Anderson

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Julie Anderson  
Chief Financial Officer

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## Section 7: 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 March 31, 2018 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, C. Keith Cargill, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

/s/ C. Keith Cargill

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C. Keith Cargill  
Chief Executive Officer

Date: April 19, 2018

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## Section 8: 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 March 31, 2018 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Julie Anderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

/s/ Julie Anderson

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Julie Anderson

Chief Financial Officer

Date: April 19, 2018

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