TEXAS CAPITAL BANCSHARES INC/TX
Form 10-K
February 19, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended December 31, 2014
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to
Commission file number 001-34657
TEXAS CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	75-2679109
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A.	75201
(Address of principal executive officers)	(Zip Code)

214/932-6600
(Registrant's telephone number, including area code)
N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
Securities registered under Section 12(b) of the Exchange Act:
Common stock, par value $0.01 per share
(Title of class)
6.50% Non-Cumulative Perpetual Preferred Stock Series A, par value $0.01 per share
(Title of class)
Warrants to Purchase Common Stock (expiring January 16, 2019), par value $0.01 per share
(Title of class)
The Nasdaq Stock Market LLC
(Name of Exchange on Which Registered)
Securities registered under Section 12(g) of the Exchange Act: NONE
Indicate by check mark if the issuer is a well-known seasoned issuer pursuant to Section 13 or Section 15(d) of the Securities Act. Yes ý No ¨
Indicate by check mark if the issuer is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes ¨ No ý
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 ý 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 ý ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x   Accelerated Filer ¨   Non-Accelerated Filer ¨   Non-Accelerated Filer ¨
(Do not check if a smaller reporting company)

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

As of June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by non-affiliates, based on the closing price per share of the registrant’s common stock as reported on The Nasdaq Global Select Market, was approximately $2,295,411,000.

There were 45,762,854 shares of the registrant’s common stock outstanding on February 18, 2015.

Documents Incorporated by Reference

Portions of the registrant’s Proxy Statement relating to the 2015 Annual Meeting of Stockholders, which will be filed no later than April 9, 2015, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

ITEM 1. BUSINESS

Background

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the section captioned "Forward-Looking Statements" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

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

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

We serve the needs of commercial businesses and successful professionals and entrepreneurs located in Texas as well as operate several lines of business serving a regional or national clientele of commercial borrowers. We are primarily a secured lender, with a majority of our loans, other than our businesses with activities throughout the United States, to businesses headquartered or with operations in Texas. We have benefitted from the success of our business model since inception, producing strong loan growth and favorable loss experience amidst the challenging environment for banking nationally.

Growth History

We have grown substantially in both size and profitability since our formation. The table below sets forth data regarding the growth of key areas of our business from 2010 through 2014 (in thousands):

	December 31,				
	2014	2013	2012	2011	2010
Total loans	$14,257,012	$11,270,868	$9,961,109	$7,652,845	$5,906,029
Assets	15,899,946	11,720,064	10,540,844	8,137,618	6,446,169
Demand deposits	5,011,619	3,347,567	2,535,375	1,751,944	1,451,307
Total deposits	12,673,300	9,257,379	7,440,804	5,556,257	5,455,401
Stockholders' equity	1,484,190	1,096,350	836,242	616,331	528,319

The following table provides information about the growth of our loan portfolio by type of loan from 2010 through 2014 (in thousands):

	December 31,				
	2014	2013	2012	2011	2010
Commercial	$5,869,219	$5,020,565	$4,106,419	$3,275,150	$2,592,924
Total real estate	4,223,532	3,409,427	2,630,390	2,241,670	2,030,256
Construction	1,416,405	1,262,905	737,637	422,026	270,008
Real estate term	2,807,127	2,146,522	1,892,753	1,819,644	1,760,248
Mortgage finance	4,102,125	2,784,265	3,175,272	2,080,081	1,194,209
Equipment leases	99,495	93,160	69,470	61,792	95,607
Consumer	19,699	15,350	19,493	24,822	21,470

Table of Contents

The Texas Market

The Texas market for banking services is highly competitive. Texas' largest banking organizations are headquartered outside of Texas and are controlled by out-of-state organizations. We also compete with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, full service brokerage firms and discount brokerage firms. We believe that many middle market companies and successful professionals and entrepreneurs are interested in banking with a company headquartered in, and with decision-making authority based in, Texas and with established Texas bankers who have the expertise to act as trusted advisors to customers with regard to their banking needs. Our banking centers in our target markets are served by experienced bankers with lending expertise in the specific industries found in their market areas and established community ties. We believe our bank can offer customers more responsive and personalized service than our competitors. If we service these customers properly, we believe we will be able to establish long-term relationships and provide multiple products to our customers, thereby enhancing our profitability.

Business Strategy

Drawing on the business and community ties of our management and their banking experience, our strategy is to continue building an independent bank that focuses primarily on middle market business customers and successful professionals and entrepreneurs in each of the five major metropolitan markets of Texas. To achieve this, we seek to implement the following strategies:

- Targeting middle market businesses and successful professionals and entrepreneurs;
- Growing our loan and deposit base in our existing markets by hiring additional experienced bankers in our different lines of business;
- Continuing our emphasis on credit policy to maintain credit quality consistent with long-term objectives;
- Leveraging our existing infrastructure to support a larger volume of business;
- Maintaining stringent internal approval processes for capital and operating expenditures;
- Continuing our extensive use of outsourcing to provide cost-effective operational support and service levels consistent with large-bank operations; and
- Extending our reach within our target markets and lines of business through service innovation and service excellence.

Products and Services

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

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

- commercial loans for general corporate purposes including financing for working capital, internal growth, acquisitions and financing for business insurance premiums;
- real estate term and construction loans;
- mortgage finance lending;
- equipment leasing;
- treasury management services;
- wealth management and trust services; and
- letters of credit.

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

- personal wealth management and trust services;
- certificates of deposit;
- interest-bearing and non-interest-bearing checking accounts with optional features such as Visa® debit/ATM cards and overdraft protection;
- traditional money market and savings accounts;
- loans, both secured and unsecured; and
- Internet banking.

Table of Contents

Lending Activities

We target our lending to middle market businesses and successful professionals and entrepreneurs that meet our credit standards. The credit standards are set by our standing Credit Policy Committee with the assistance of our Bank's Chief Credit and Risk Officer, who is charged with ensuring that credit standards are met by loans in our portfolio. Our Credit Policy Committee is comprised of senior Bank officers including our Bank's Chief Executive Officer and President, our Texas President/Chief Lending Officer and our Bank's Chief Credit and Risk Officer. We believe we have maintained a diversified loan portfolio. Credit policies and underwriting guidelines are tailored to address the unique risks associated with each industry represented in the portfolio. Our credit standards for commercial borrowers reference numerous criteria with respect to the borrower, including historical and projected financial information, strength of management, acceptable collateral and associated advance rates, and market conditions and trends in the borrower's industry. In addition, prospective loans are also analyzed based on current industry concentrations in our loan portfolio to prevent an unacceptable concentration of loans in any particular industry. We believe our credit standards are consistent with achieving business objectives in the markets we serve and will generally mitigate risks. We believe that we differentiate our bank from its competitors by focusing on and aggressively marketing to our core customers and accommodating, to the extent permitted by our credit standards, their individual needs.

We generally extend variable rate loans in which the interest rate fluctuates with a predetermined indicator such as the United States prime rate or the London Interbank Offered Rate (LIBOR). Our use of variable rate loans is designed to protect us from risks associated with interest rate fluctuations since the rates of interest earned will automatically reflect such fluctuations.

Deposit Products

We offer a variety of deposit products to our core customers at interest rates that are competitive with other banks. Our business deposit products include commercial checking accounts, lockbox accounts, cash concentration accounts and other treasury management services, including an on-line system. Our treasury management on-line system offers information services, wire transfer initiation, ACH initiation, account transfer and service integration. Our consumer deposit products include checking accounts, savings accounts, money market accounts and certificates of deposit. We also allow our consumer deposit customers to access their accounts, transfer funds, pay bills and perform other account functions over the Internet and through ATM machines.

Wealth Management and Trust

Our wealth management and trust services include investment management, personal trust and estate services, custodial services, retirement accounts and related services. Our investment management professionals work with our clients to define objectives, goals and strategies for their investment portfolios. We assist the customer with the selection of an investment manager and work with the client to tailor the investment program accordingly. We also offer retirement products such as individual retirement accounts and administrative services for retirement vehicles such as pension and profit sharing plans.

Cayman Islands Branch

We established a branch of our bank in the Cayman Islands in 2003. We believe that a Cayman Islands branch enables us to offer more competitive cash management and deposit products to our customers. All deposits in the Cayman Branch come from U.S. based customers of our bank. Deposits, all of which are in U.S dollars, do not originate from foreign sources, funds transfers neither come from nor go to facilities outside of the U.S. and there are no federal or state income tax benefits to our bank or our customers as a result of these operations. Foreign deposits maintained at our Cayman Islands branch at December 31, 2014 and 2013 were $312.7 million and $330.3 million, respectively.

Employees

As of December 31, 2014, we had 1,142 full-time employees. None of our employees is represented by a collective bargaining agreement and we consider our relations with our employees to be good.

Regulation and Supervision

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

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

Table of Contents

The Company’s activities are governed by the Bank Holding Company Act of 1956, as amended (“BHCA”), and is subject to regular inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). We file quarterly reports and other information with the Federal Reserve. We file reports with the Securities and Exchange Commission (“SEC”) and are subject to its regulation with respect to our securities, reporting and certain governance matters, including matters submitted for stockholder approval. Our securities are listed on the Nasdaq Global Select Market, and we are subject to Nasdaq rules for listed companies.

Our bank is organized as a national banking association under the National Bank Act, and is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the “OCC”), the FDIC, the Federal Reserve, the Consumer Financial Protection Bureau (“CFPB”) and other federal and state regulatory agencies. The OCC has primary supervisory responsibility for our bank and performs a continuous program of examinations concerning safety and soundness, the quality of management and directors, information technology and compliance with applicable laws and regulations. Our bank files quarterly reports of condition and income with the FDIC and other information with the OCC.

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

We are not at this time exercising this authority at the parent company level. We and our bank engage in traditional banking activities that are deemed financial in nature. In order for us to undertake new activities permitted by the BHCA, we and our bank must be considered "well capitalized" (as defined below) and well managed, our bank must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act and we would be required to notify the Federal Reserve within thirty days of engaging in the new activity.

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

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

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

If, in the opinion of the applicable federal bank regulatory authorities, a depository institution or holding company is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends), such authority may require, generally after notice and hearing, that such institution or holding company cease and desist such practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution’s or holding company’s capital base to an inadequate level would be such an unsafe or unsound banking practice. Moreover, the Federal Reserve and the FDIC have issued policy statements providing that financial holding companies and insured depository institutions generally should only pay dividends out of current operating earnings.

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

Table of Contents

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

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

We and our bank are required to maintain a minimum total risk-based capital ratio of 8% (of which at least 4% is required to consist of Tier 1 capital elements). Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively, for an institution to be considered well capitalized.

Our bank's total risk-based capital ratio was 10.57% at December 31, 2014 and, as a result, it is currently classified as "well capitalized" for purposes of the OCC's prompt corrective action regulations.

The bank's capital category of "well capitalized" is determined solely for the purposes of applying the prompt corrective action regulations. The regulatory capital category may not constitute an accurate representation of the bank's overall financial condition or prospects. Our regulatory capital status is addressed in more detail under the heading "Liquidity and Capital Resources" within Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 13 to our financial statements—Regulatory Restrictions.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") sets forth five capital categories for insured depository institutions under the prompt corrective action regulations:

- Well capitalized—equals or exceeds a 10% total risk-based capital ratio, 6% Tier 1 risk-based capital ratio, and 5% leverage ratio and is not subject to any written agreement, order or directive requiring it to maintain a specific level for any capital measure;
- Adequately capitalized—equals or exceeds an 8% total risk-based capital ratio, 4% tier 1 risk-based capital ratio, and 4% leverage ratio;
- Undercapitalized—total risk-based capital ratio of less than 8%, or a tier 1 risk-based ratio of less than 4%, or a leverage ratio of less than 4% (3% for institutions with a regulatory rating of 1 that do not evidence rapid growth or other heightened risk indicators);
- Significantly undercapitalized—total risk-based capital ratio of less than 6%, or a tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%; and
- Critically undercapitalized—a ratio of tangible equity to total assets equal to or less than 2%.

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

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

Table of Contents

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

The OCC and the Federal Reserve also use a leverage ratio as an additional tool to evaluate the capital adequacy of banking organizations. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. A minimum leverage ratio of 3.0% is required for banks and bank holding companies that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other banks and bank holding companies are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In order to be considered well capitalized the leverage ratio must be at least 5.0%. Most organizations seek to maintain leverage ratios that are at least 100 to 200 basis points above the minimum ratio.

Our bank's leverage ratio was 9.75% at December 31, 2014 and, as a result, it is currently classified as "well capitalized" for purposes of the OCC's prompt corrective action regulations.

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

Basel III. The Basel Committee in 2010 released a set of recommendations for strengthening international capital and liquidity regulation of banking organizations, known as Basel III. In June 2012, U.S. bank regulatory agencies, including the OCC, issued three proposals to implement the capital, liquidity and other requirements under Basel III, as well as certain other regulatory capital requirements under the Dodd-Frank Act. In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules").

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1," (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) establish a 7% threshold for the Tier 1 common equity ratio, consisting of a minimum level plus a capital conservation buffer, and (v) expand the scope of the deductions/adjustments as compared to existing regulations. The rule also changes both the Tier 1 risk-based capital requirements and the total risk-based requirements to a minimum of 6% and 8%, respectively, plus a capital conservation buffer of 2.5% totaling 8.5% and 10.5%, respectively. The leverage ratio requirement under the rule is 5%. In order to be well capitalized under the new rule, we must maintain a common equity Tier 1 capital ratio, Tier 1 capital ratio, and total capital ratio of greater than or equal to 6.5%, 8% and 10%, respectively.

Because we had less than $15 billion in total consolidated assets as of December 31, 2009, we are allowed to continue to classify our trust preferred securities, all of which were issued prior to May 19, 2010, as Tier 1 capital.

The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019. Based on our assessment of the Basel III Capital Rules, we do not believe they will have a material impact on the Company or our Bank. We believe we will meet the capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis when we commence filing 2015 reports with the FDIC and OCC.

Regulators may change capital and liquidity requirements including previous interpretations of practices related to risk weights that could require an increase to the allocation of capital to assets held by our bank, and they could require banks to make retroactive adjustments to financial statements to reflect such changes.

8

Table of Contents

Liquidity Requirements. The Basel III proposal included a liquidity framework that would require banks and bank holding companies to measure their liquidity against specific liquidity tests. U.S. bank regulators in September 2014 issued a final rule implementing the Basel III liquidity framework for certain U.S. banks - generally those that have more than $50 billion of assets or whose primary federal banking regulator determines compliance with the liquidity framework is appropriate based on the organization's size, level of complexity, risk profile, scope of operations, U.S. or non-U.S. affiliations, or risk to the financial system. One of the liquidity tests included in the new rule, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that a banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are predicted to encourage the covered banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets, and also to increase the use of long-term debt as a funding source. Regulators may change capital and liquidity requirements including previous interpretations of practices related to risk weights that could require an increase to the allocation of capital to assets held by our bank, and they could require banks to make retroactive adjustments to financial statements to reflect such changes.

Restrictions on Dividends and Repurchases. The sole source of funding of our parent company financial obligations has consisted of proceeds of capital markets transactions and cash payments from our bank for debt service and dividend payments with respect to our bank's preferred stock issued to the Company. We may in the future seek to rely upon receipt of dividends paid by our bank to meet our financial obligations. Our bank is subject to statutory dividend restrictions. Under such restrictions, national banks may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's net profits plus the retained net profits from the prior two years, less any required transfers to surplus. The Basel III Capital Rules, effective for us on January 1, 2015, further limit the amount of dividends that may be paid by our bank. In addition, under the FDICIA, our bank may not pay any dividend if payment would cause it to become undercapitalized or if it is undercapitalized.

Stress Testing. Pursuant to the Dodd-Frank Act and regulations published by the Federal Reserve and OCC in October 2012, institutions with average total consolidated assets greater than $10 billion are required to conduct an annual "stress test" of capital and consolidated earnings and losses under a base case and at least two stress scenarios provided by bank regulatory agencies. We became subject to this requirement in 2014 and have developed dedicated staffing, economic models, policies and procedures to implement stress testing with respect to data as of September 30, 2014, using scenarios released by the agencies in November 2014. The results of our stress testing must be reported to the agencies in March 2015. Public disclosure of our summary stress test results will be made in June 2015. Results of stress test calculations are anticipated to become an important factor considered by banking regulators in evaluating a range of banking practices.

Transactions with Affiliates and Insiders. Our bank is subject to Section 23A of the Federal Reserve Act which places limits on, among other covered transactions, the amount of loans or extensions of credit to affiliates that may be made by our bank. Extensions of credit to affiliates must be adequately collateralized by specified amounts and types of collateral. Section 23A also limits the amount of loans or advances by our bank to third party borrowers which are collateralized by our securities or obligations or those of our subsidiaries. Our bank also is subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits an institution from engaging in transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliates.

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

Table of Contents

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

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

The Gramm-Leach-Bliley Act also modifies other current financial laws, including laws related to financial privacy. The financial privacy provisions generally prohibit financial institutions, including us, from disclosing non-public personal financial information to non-affiliated third parties unless customers have the opportunity to “opt out” of the disclosure.

Community Reinvestment Act. The Community Reinvestment Act of 1977 (“CRA”) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the CRA.

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

The Volcker Rule. The Dodd-Frank Act amended the BHCA to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading in designated types of financial instruments and investing in and sponsoring certain unregistered investment companies. This statutory provision, commonly known as the “Volcker Rule,” defines unregistered investment companies as hedge funds and private equity funds. In December 2013, federal regulators finalized rules to implement the Volcker Rule. The final rule is highly complex, and many aspects of its application remain uncertain. We do not currently anticipate that the Volcker Rule will have a material effect on our operations since we do not engage in the businesses prohibited by the Volcker Rule. Unanticipated effects of the Volcker Rule’s provisions or future interpretations may have an adverse effect on our business or services provided to our bank by other financial institutions.

Safe and Sound Banking Practices. Banks and bank holding companies are prohibited from engaging in unsafe and unsound banking practices. Bank regulators have broad authority to prohibit activities of bank holding companies and their subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and have considerable discretion in identifying what they deem to be unsafe and unsound practices. Regulators can assess civil money penalties for certain activities based upon finding unsafe and unsound conduct on a knowing and reckless basis, if those activities cause a substantial loss to a depository institution. The penalties can be as high as $1.0 million for each day the activity continues.

Consumer Financial Protection Bureau. The Dodd-Frank Act established the CFPB, which has supervisory authority over depository institutions with total assets of $10 billion or greater with respect to a long list of statutes protecting the interests of consumers of financial services. The CFPB has to date focused its supervision and regulatory efforts on (i) risks to consumers and compliance with the federal consumer financial laws, when it evaluates the policies and practices of a financial institution; (ii) the markets in which firms operate and risks to consumers posed by activities in those markets; and (iii) depository institutions that offer a wide variety of consumer financial products and services.

Table of Contents

Limits on Compensation. The Federal Reserve, OCC and FDIC in 2010 issued comprehensive final guidance on incentive compensation policies for executive management of banks and bank holding companies. This guidance was intended to ensure that the incentive compensation policies of banking organizations do not undermine their safety and soundness by encouraging excessive risk-taking. The objective of the guidance is to assure that incentive compensation arrangements (i) provide incentives that do not encourage excessive risk-taking, (ii) are compatible with effective internal controls and risk management and (iii) are supported by strong corporate governance, including oversight by the board of directors.

The Dodd-Frank Act. The Dodd-Frank Act became law in 2010. It has already had a broad impact on the financial services industry, imposing significant regulatory and compliance changes. A significant volume of financial services regulations required by the Dodd-Frank Act have not yet been proposed, or if proposed, have not yet been finalized by banking regulators, making it difficult to predict the ultimate effect of the Dodd-Frank Act. The following discussion provides a brief summary of certain provisions of the Dodd-Frank Act that may have an effect on us.

The Dodd-Frank Act significantly reduces the ability of national banks to rely upon federal preemption of state consumer financial laws. Although the OCC, as the primary regulator of national banks, will have the ability to make preemption determinations where certain conditions are met, the broad rollback of federal preemption has the potential to create a patchwork of federal and state compliance obligations and enforcement. This could, in turn, result in significant new regulatory requirements applicable to us and certain of our lending activities, with potentially significant changes in our operations and increases in our compliance costs.

The Dodd-Frank Act made permanent the general $250,000 deposit insurance limit for insured deposits. Amendments to the FDIA also revised the assessment base against which an insured depository institution’s deposit insurance premiums paid to the FDIC’s deposit insurance fund (“DIF”) are calculated. The assessment base now consists of average consolidated total assets less average tangible equity. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. These changes contributed to an increase in the FDIC deposit insurance premiums paid by us in 2014 and may contribute to increasing and less predictable deposit insurance expense in future years.

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

The Dodd-Frank Act may create risks of “secondary actor liability” for lenders that provide financing to entities offering financial products to consumers. We may incur compliance and other costs in connection with administration of credit extended to entities engaged in activities covered by the Dodd-Frank Act.

The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that affect most U.S. publicly traded companies, including ours. The Dodd-Frank Act (1) grants stockholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; (3) requires companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers; (4) provides the SEC with authority to adopt proxy access rules that would allow stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company’s proxy materials; (5) prohibits uninstructed broker votes on election of directors, executive compensation matters (including say on pay advisory votes), and other significant matters, and (6) requires disclosures regarding board leadership structure.

Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Available Information

Under the Securities Exchange Act of 1934, we are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). You may read and copy any document filed by us with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. We file electronically with the SEC.

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

ITEM 1A. RISK FACTORS

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

Risk Factors Associated With Our Business

We must effectively manage our credit risk. The risk of non-payment of loans is inherent in commercial banking. Increased credit risk may result from several factors, including adverse changes in local, U.S. and global economic and industry conditions, declines in the value of collateral, concentrations of credit associated with specific loan categories, industries or collateral types and risks related to individual borrowers. We rely heavily on information provided by third parties when originating and monitoring loans. If this information is intentionally or negligently misrepresented and we do not detect such misrepresentations, the credit risk associated with the transaction may be increased. Although we attempt to manage our credit risk by carefully monitoring the concentration of our loans within specific loan categories and industries and through prudent loan approval and monitoring practices in all categories of our lending, we cannot assure you that our approval and monitoring procedures will reduce these lending risks. If our credit administration personnel, policies and procedures are not able to adequately adapt to changes in economic or other conditions that affect customers and the quality of the loan portfolio, we may incur increased losses that could adversely affect our financial results.

A significant portion of our assets consists of commercial loans. We generally invest a greater proportion of our assets in commercial loans to business customers than other banking institutions of our size, and our business plan calls for continued efforts to increase our assets invested in these loans. At December 31, 2014, approximately 41% of our loan portfolio was comprised of commercial loans. Commercial loans may involve a higher degree of credit risk than other types of loans due, in part, to their larger average size, the effects of changing economic conditions on the businesses of our commercial loan customers, the dependence of borrowers on operating cash flow to service debt and our reliance upon collateral which may not be readily marketable. Due to the proportion of these commercial loans in our portfolio and because the balances of these loans are, on average, larger than other categories of loans, losses incurred on a relatively small number of commercial loans could have a materially adverse impact on our results of operations and financial condition.

A significant portion of our loans are secured by commercial and residential real estate. At December 31, 2014, approximately 30% of our loan portfolio was comprised of loans with real estate as the primary component of collateral. Our real estate lending activities, and our exposure to fluctuations in real estate collateral values, are significant and expected to increase as our assets increase. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of real estate serving as collateral for our loans declines materially, a significant part of our loan portfolio could become under-collateralized and losses incurred upon borrower defaults would increase. Conditions in certain segments of the real estate industry, including homebuilding, lot development and mortgage lending, may have an effect on values of real estate pledged as collateral for our loans. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of our borrowers who are dependent on the sale or refinancing of property to repay their loans. Changes in the economic health of certain industries can have a significant impact on other sectors or industries which are both directly and indirectly associated with the industry.

Our business is concentrated in Texas; Energy industry exposure. A substantial majority of our customers are located in Texas. As a result, our financial condition and results of operations may be strongly affected by any prolonged period of economic recession or other adverse business, economic or regulatory conditions affecting Texas businesses and financial institutions. While Texas is a more diversified economy than it was in the 1980's, the energy sector continues to be an important part of the Texas economy. Approximately 7% of our total loans at December 31, 2014, were to borrowers engaged in exploration and production, transportation and processing of oil and natural gas and companies providing oilfield and related energy industry services. These businesses can be significantly affected by volatility in oil and natural gas prices and material declines in the level of drilling and production activity in Texas and in other areas of the United States. Adverse developments in the energy sector can have significant spillover effects on the Texas economy, including commercial and residential real estate values and the general level of economic activity. We are carefully monitoring the impact of the recent significant declines in oil and natural gas prices and drilling activity on our loan portfolio, and have reflected these events in the determination of our allowance for loan and lease losses as of December 31, 2014. There is no assurance that we will not be adversely impacted by the direct and indirect effects of current and future conditions in the energy industry in Texas and nationally.

Our future profitability depends, to a significant extent, upon our middle market business customers. Our future profitability depends, to a significant extent, upon revenue we receive from middle market business customers, and their ability to continue to meet their loan obligations. Adverse economic conditions or other factors affecting this market segment may have a greater adverse effect on us than on other financial institutions that have a more diversified customer base.

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

Our business model makes our bank more vulnerable to changes in underlying business credit quality than other banks with which we compete. We have a substantially larger percentage of commercial, real estate and other categories of loans relative to total assets than most other banks in our market. We have a substantially smaller portion of securities and other earning assets categories that can be less vulnerable to changes in local, regional or industry-specific economic trends, causing our potential for credit losses to be more severe than other banks. Our business model has focused on growth in various loan categories that can be more sensitive to changes in the economic trends. We believe our ability to maintain above-peer rates of growth in commercial loans is dependent on maintaining above-peer credit quality metrics. The failure to do so would have a material adverse impact on our growth and profitability.

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

We must effectively manage our interest rate risk. Our profitability is dependent to a large extent on our net interest income, which is the difference between the interest income paid to us on our loans and investments and the interest we pay to third parties such as our depositors, lenders and debtholders. Changes in interest rates can impact our profits and the fair values of certain of our assets and liabilities. We have experienced a prolonged period of unusually low interest rates, which have had an adverse effect on our earnings by reducing yields on loans and other earning assets. A continued low rate environment will continue to place downward pressure on our net interest income. Increases in market interest rates may reduce our customers' desire to borrow money from us or adversely affect their ability to repay their outstanding loans by increasing their debt service obligations through the periodic reset of adjustable interest rate loans. If our borrowers' ability to pay their loans is impaired by increasing interest payment obligations, our level of non-performing assets would increase, producing an adverse effect on operating results.

Increases in interest rates and economic conditions affecting consumer demand for housing can have a material impact on the volume of mortgage originations and refinancings, adversely affecting the profitability of our mortgage finance business. Interest rate risk can also result from mismatches between the dollar amounts of repricing or maturing assets and liabilities and from mismatches in the timing and rates at which our assets and liabilities reprice. We actively monitor and manage the balances of our maturing and repricing assets and liabilities to reduce the adverse impact of changes in interest rates, but there can be no assurance that we will be able to avoid material adverse effects on our net interest margin in all market conditions.

Federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed in 2011 by the Dodd-Frank Act. This change has had limited impact to date due to the excess of commercial liquidity and the low interest rate environment in recent years. There can be no assurance that we will not be materially adversely affected in the future if economic activity increases and interest rates rise, which may result in our interest expense increasing, with a commensurate effect on our net interest income, if we must offer interest on demand deposits to attract or retain customer deposits.

We must effectively execute our business strategy in order to continue our asset and earnings growth. Our core strategy is to develop our business principally through organic growth. Our prospects for continued growth must be considered in light of the risks, expenses and difficulties frequently encountered by companies seeking to realize significant growth. In order to execute our growth strategy successfully, we must, among other things:

- continue to identify and expand into suitable markets and lines of business, in Texas, regionally and nationally;
- develop new products and services and execute our full range of products and services more efficiently and effectively;
- attract and retain qualified bankers in each of our targeted markets to build our customer base;
- respond to market opportunities promptly and nimbly while balancing the demands of risk management and compliance with regulatory requirements;
- expand our loan portfolio while maintaining credit quality;
- attract sufficient deposits and capital to fund our anticipated loan growth and satisfy regulatory requirements;
- control expenses; and
- acquire and maintain sufficient qualified staffing and information technology and operational infrastructure to support growth and compliance with increasing and changing regulatory requirements.

Failure to effectively execute our business strategy could have a material adverse effect on our business, future prospects, financial condition or results of operations. Our past achievement of safe and sound balance sheet growth, even during difficult years such as the period of 2008-2010, provides no assurance of comparable future success.

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

Our growth plans are dependent on the availability of capital and funding. Our historical ability to raise capital through the sale of capital stock and debt securities may be affected by economic and market conditions or regulatory changes that are beyond our control. Adverse changes in our operating performance or financial condition could make raising additional capital difficult or more expensive or limit our access to customary sources of funding, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank or the Federal Home Loan Bank. Unexpected changes in requirements for regulatory capital resulting from regulatory actions or the results of our Dodd-Frank Act stress testing could require us to raise capital at a time, and at a price, that might be unfavorable, or require that we forego continuing growth or shrink our balance sheet. We cannot offer assurance that sufficient capital and funding will be available to us in the future, in needed amounts, upon acceptable terms or at all. Our efforts to raise capital could require the issuance of securities at times and with maturities, conditions and rates that are disadvantageous, and which could have a dilutive impact on our current stockholders. Factors that could

adversely affect our ability to raise additional capital include conditions in the capital markets, our financial performance, regulatory actions and general economic conditions. Increases in our cost of capital, including increased interest or dividend requirements, could have a direct adverse impact on our operating performance and our ability to achieve our growth objectives. Trust preferred securities are no longer viable as a source of new long-term debt capital as a result of regulatory changes. The treatment of our existing trust preferred securities as capital may be subject to further regulatory change prior to their maturity, which could require the Company to seek additional capital.
We must effectively manage our liquidity risk. Our bank requires available funds (liquidity) to meet its deposit, debt and other obligations as they come due, borrower requests to draw on committed credit facilities as well as unexpected demands for cash

Table of Contents

payments. While we are not subject to Basel III liquidity regulations, the adequacy of our liquidity is a matter of regulatory interest given the significant portion of our balance sheet represented by loans as opposed to securities and other more marketable investments. Our bank's principal source of funding consists of customer deposits. A substantial majority of our bank's liabilities consist of demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice. By comparison, a substantial portion of our assets are loans, most of which, excluding our mortgage finance loans, cannot be collected or sold in so short a time frame, creating the potential for an imbalance in the availability of liquid assets to satisfy depositors and loan funding requirements.

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

Our mortgage finance business has experienced, and will likely continue to experience, highly variable usage of our funding capacity resulting from seasonal demands for credit, surges in consumer demand driven by changes in interest rates and month-end "spikes" of residential mortgage closings. We have responded to these variable funding demands by, among other things, increasing the extent of participations sold in our mortgage loan interests and by opening an expanded borrowing relationship with the Federal Home Loan Bank in the fourth quarter of 2014. Our mortgage finance customers have in recent periods provided significant low-cost deposit balances associated with the borrower escrow accounts created at the time certain mortgage loans are funded, which have benefitted our liquidity and net interest margin. Individual escrow account balances also experience significant variability during the year as ad valorem taxes and insurance premiums are paid periodically. While the short average holding period of our mortgage interests of approximately 20 days will allow us, if necessitated by a funding shortfall, to rapidly decrease the size of the portfolio and its associated funding requirements, any such action might significantly damage business relationships important to that business.

Our bank sources a significant volume of its demand deposits from financial services companies, mortgage finance customers and other commercial sources, resulting in a larger percentage of larger deposits and a smaller number of sources of deposits than would be typical of other banks in our markets. In recent periods over half of our total deposits have been attributable to customers whose balances exceed the $250,000 FDIC insurance limit. Many of these customers actively monitor our financial condition and results of operations and could withdraw their deposits quickly upon the occurrence of a material adverse development affecting our bank. One potential source of liquidity for our bank consists of "brokered deposits" arranged by brokers acting as intermediaries, typically larger money-center financial institutions. We receive deposits provided by certain of our customers in connection with our delivery of other financial services to them or their customers which are subject to the regulatory classification of "brokered deposits" even though we consider these to be relationship deposits and they are not subject to the typical risks or market pricing associated with conventional brokered deposits.

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

We must continue to attract, retain and develop key personnel. Our success depends to a significant extent upon our ability to attract and retain experienced bankers in each of our markets as well as managers with the operational skills to build and maintain the infrastructure and controls required to support continuing loan growth. Competition for the best people in our industry can be intense, and there is no assurance that we will continue to have the same level of success in this effort that has supported our historical results. Factors that affect our ability to attract and retain key employees include our compensation and benefits programs, our profitability, our reputation for rewarding and promoting qualified employees and market competition for employees with certain skills, including information systems development and security. The cost of employee compensation is a significant portion of our operating expenses and can materially impact our results of operations. The unanticipated loss of the services of key personnel could have an adverse effect on our business. Although we have entered into employment agreements with certain key employees, we cannot assure you that we will be successful in retaining them.

We must effectively manage our information systems risk. We rely heavily on our communications and information systems to conduct our business. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Our ability to compete successfully depends in part upon our ability to use technology to provide products and services that will satisfy customer demands. Many of our competitors invest substantially greater resources in technological capabilities than we do. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, which may negatively affect our business, results of operations or financial condition.
Our communications and information systems remain vulnerable to unexpected disruptions, failures and cyber attacks. The frequency and intensity of such attacks in our industry is escalating. Any failure or interruption of these systems could impair our ability to serve our customers and to operate our business and could damage our reputation, result in a loss of business, subject us to additional regulatory scrutiny or enforcement or expose us to civil litigation and possible financial liability. While we have developed extensive recovery plans, we cannot assure that those plans will be effective to prevent adverse effects upon us and our customers resulting from system failures.
We collect and store sensitive data, including personally identifiable information of our customers and employees. Computer break-ins of our systems or our customers' systems, thefts of data and other breaches and criminal activity may result in significant costs to respond, liability for customer losses if we are at fault, damage to our customer relationships, regulatory scrutiny and enforcement and loss of future business opportunities due to reputational damage. Although we, with the help of third-party service providers, will continue to implement security technology and establish operational procedures to protect sensitive data, there can be no assurance that these measures will be effective. We advise and provide training to our customers regarding protection of their systems, but there is no assurance that our advice and training will be appropriately acted upon by our customers or effective to prevent losses. In some cases we may elect to contribute to the cost of responding to cybercrime against our customers, even when we are not at fault, in order to maintain valuable customer relationships. Successful cyber-attacks on our Bank or customers may affect the reputation of our bank, and failure to meet customer expectations could have a material impact on our ability to attract and retain deposits as a primary source of funding.
Our operations rely on external vendors. We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations, particularly in the areas of operations, treasury management systems, information technology and security, exposing us to the risk that these vendors will not perform as required by our agreements. An external vendor's failure to perform in accordance with our agreement could be disruptive to our operations, which could have a material adverse impact on our business, financial condition and results of operations, as well as cause reputation damage if our customers are affected by the failure. External vendors who must have access to our information systems in order to provide their services have been identified as significant sources of information technology security risk. While we have implemented an active program of oversight to address this risk, there can be no assurance that we will not experience material security breaches associated with our vendors.
Our business faces unpredictable economic and business conditions. Our business is directly impacted by general economic and business conditions in Texas, the United States and abroad. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success can be affected by other factors that are beyond our control, including:

- national, regional and local economic conditions;
- general economic consequences of international conditions, such as weakness in European sovereign debt and foreign currencies and the impact of that weakness on the US and global economies;
- legislative and regulatory changes impacting our industry;
- the financial health of our customers and economic conditions affecting them and the value of our collateral, including changes in the price of energy and other commodities;
- the incidence of fraud, illegal payments, security breaches and other illegal acts among or impacting our bank and our customers;
- structural changes in the markets for origination, sale and servicing of residential mortgages;
- changes in governmental economic and regulatory policies generally, including the extent and timing of intervention in credit markets by the Federal Reserve Board or withdrawal from that intervention;

- changes in the availability of liquidity at a systemic level; and
- material inflation or deflation.

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

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

Our accounting estimates and risk management processes rely on management judgment, which may be supported by analytical and forecasting models. The processes we use to estimate probable credit losses for purposes of establishing the allowance for loan losses and to measure the fair value of financial instruments, as well as the processes we use to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon management’s judgment. Management’s judgment and the data relied upon by management may be based on assumptions that prove to be inaccurate, particularly in times of market stress or other unforeseen circumstances. Even if the relevant factual assumptions are accurate, our decisions may prove to be inadequate or inaccurate because of other flaws in the design or use of analytical tools used by management. Any such failures in our processes for producing accounting estimates and managing risks could have a material adverse effect on our business, financial condition and results of operations.

Our controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Recent material changes in regulation and requirements imposed on financial institutions, such as the Dodd-Frank Act and the Basel III Accord, result in additional costs, impose more stringent capital, liquidity and leverage requirements, limit the types of financial services and products we may offer and increase the ability of non-bank financial services providers to offer competing financial services and products, among other things. The Dodd-Frank Act has not yet been fully implemented and there are many additional regulations that have not been proposed, or if proposed, have not been adopted. The full impact of the Dodd-Frank Act on our business strategies is unknown at this time and cannot be predicted.

We receive inquiries from our regulators from time to time regarding, among other things, lending practices, reserve methodology, compliance with ever-changing regulations and interpretations, interest rate, liquidity and operational risk management, regulatory and financial accounting practices and policies and related matters, which can divert management's time and attention from focusing on our business. We became subject to additional regulatory requirements commencing in 2013 as a result of our assets exceeding $10 billion and have increased the amount of management time and expense devoted to developing the infrastructure to support our expanding compliance obligations. We are actively engaged in responding to stress testing requirements contained in the Dodd-Frank Act to evaluate the adequacy of our capital and liquidity planning. Uncertainties regarding how the financial models of our business created pursuant to this requirement will respond to the regulatory scenarios issued in late 2014, and how our regulators will evaluate our report of the results obtained, subject us to increased regulatory risk in 2015 and future years as this new activity is implemented. Any change to our practices or policies requested or required by our regulators, or any changes in interpretation of regulatory policy applicable to our businesses, may have a material adverse effect on our business, results of operations or financial condition. We increased our capital and liquidity and expanded our regulatory compliance staffing and systems during 2014 in order to assure that we continue to satisfy regulatory expectations for high-growth institutions, which reduced our net interest margin and earnings in 2014. There is no assurance that our financial performance in 2015 and future years will not be similarly burdened.

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

The FDIC has imposed higher general and special assessments on deposits or assets based on general industry conditions and as a result of changes in specific programs, as well as qualitative adjustments for individual institutions based on their risk characteristics which cannot be predicted with any certainty. There is no restriction on the amount by which the FDIC may increase deposit and asset assessments in the future. Increases in FDIC assessments, fees and taxes have adversely affected our earnings in 2014 and may continue to do so in the future.

Reports from the Public Company Accounting Oversight Board's ("PCAOB") inspections of public accounting firms continue to outline findings and recommendations which could require these firms to perform additional work as part of their financial statement audits, increasing our audit and internal audit costs to respond to these added requirements and exposure to adverse findings by the PCAOB of the work performed. As a result, we have experienced, and may continue to experience, greater internal and external compliance and audit costs to comply with these changes that could adversely affect our results of operations.

We must maintain adequate regulatory capital to support our business objectives. Under regulatory capital adequacy guidelines and other regulatory requirements, we must satisfy capital requirements based upon quantitative measures of assets, liabilities and certain off-balance sheet items. Our satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from management's and that are subject to being determined retroactively for prior periods. Our ability to maintain our status as a financial holding company and to continue to operate our bank as we have in recent periods is dependent upon a number of factors, including our bank qualifying as "well capitalized" and "well managed" under applicable prompt corrective action regulations and upon our company qualifying on an ongoing basis as "well capitalized" and "well managed" under applicable Federal Reserve regulations. Failure to meet regulatory capital standards could have a material adverse effect on our business, including damaging the confidence of customers in us, adversely impacting our reputation with respect to competitive position and retention of key people, limiting our ability to use brokered deposits, limiting our access to the Federal Reserve discount window and advances from the Federal Home Loan Bank, limiting our access to capital markets transactions, limiting our ability to pursue new activities and resulting in higher FDIC assessments on deposits or assets. If we fall below guidelines for being deemed “adequately capitalized” the OCC or Federal Reserve could impose further restrictions and requirements in order to effect “prompt corrective action.” The capital requirements applicable to us are in a process of continuous evaluation and revision in connection with Basel III and the requirements of the Dodd-Frank Act. We cannot predict the final form, or the effects, of these regulations on our business, but among the possible effects are requirements that we slow our rate of growth or obtain additional capital which could reduce our earnings or dilute our existing stockholders.

Table of Contents

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

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

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

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

We are subject to claims and litigation in the ordinary course of our business, including claims that may not be covered by our insurers. Customers and other parties we engage with assert claims and take legal action against us on a regular basis and we regularly take legal action to collect unpaid borrower obligations, realize on collateral and assert our rights in commercial and other contexts. These actions frequently result in counter-claims against us. Litigation arises in a variety of contexts, including lending activities, employment practices, commercial agreements, fiduciary responsibility related to our wealth management services, intellectual property rights and other general business matters.

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

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

Risks Relating to Our Securities

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

- actual or anticipated variations in quarterly and annual results of operations;
- changes in recommendations by securities analysts;

- changes in composition and perceptions of the investors who own our stock and other securities;
- changes in ratings from national rating agencies on publicly or privately owned debt securities;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry, including regulatory actions against other financial institutions;
- actual or expected economic conditions that are perceived to affect our company such as changes in commodity prices, real estate values or interest rates;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- changes in government regulations and interpretation of those regulations, changes in our practices requested or required by regulators and changes in regulatory enforcement focus; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

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

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

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

The holders of our indebtedness and preferred stock have rights that are senior to those of our common shareholders. As of December 31, 2014, we had $111.0 million in subordinated notes and $113.4 million in junior subordinated notes outstanding that are held by statutory trusts which issued trust preferred securities to investors. At December 31, 2014 our bank had $175.0 million in subordinated notes outstanding. Payments of the principal and interest on our trust preferred securities are conditionally guaranteed by us to the extent not paid by each trust, provided the trust has funds available for such obligations.

Our subordinated notes and junior subordinated notes are senior to our shares of preferred stock and common stock in right of payment of dividends and other distributions. We must be current on interest and principal payments on our indebtedness before any dividends can be paid on our preferred stock or our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our indebtedness must be satisfied before any distributions can be made to our preferred or common shareholders. If certain conditions are met, we have the right to defer interest payments on the junior subordinated debentures (and the related trust preferred securities) at any time or from time to

time for a period not to exceed 20 consecutive quarters in a deferral period, during which time no dividends may be paid to holders of our preferred stock or common stock. Because our bank's subordinated notes are obligations of the bank, they would in any sale or liquidation of our bank receive payment before any amounts would be payable to holders of our common stock, preferred stock or subordinated notes.
At December 31, 2014, we had issued and outstanding 6 million shares of our 6.50% Non-Cumulative Perpetual Preferred Stock, Series, A, having an aggregate liquidation preference of $150.0 million. Our preferred stock is senior to our shares of common stock in right of payment of dividends and other distributions. We must be current on dividends payable to holders of preferred stock before any dividends can be paid on our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our preferred stock must be satisfied before any distributions can be made to our common shareholders.

Table of Contents

We do not currently pay dividends on our common stock. We have not paid dividends on our common stock and we do not expect to do so for the foreseeable future. Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of our bank to pay dividends to us is limited by its obligation to maintain sufficient capital and by other regulatory restrictions as discussed above at We are dependent on funds obtained from capital transactions or from our bank to fund our obligations.

Restrictions on Ownership. The ability of a third party to acquire us is limited under applicable U.S. banking laws and regulations. The Bank Holding Company Act of 1956, as amended (the “BHCA”), requires any bank holding company (as defined therein) to obtain the approval of the Board of Governors of the Federal Reserve System (“Federal Reserve”) prior to acquiring, directly or indirectly, more than 5% of our outstanding Common Stock. Any “company” (as defined in the BHCA) other than a bank holding company would be required to obtain Federal Reserve approval before acquiring “control” of us. “Control” generally means (i) the ownership or control of 25% or more of a class of voting securities, (ii) the ability to elect a majority of the directors or (iii) the ability otherwise to exercise a controlling influence over management and policies. A holder of 25% or more of our outstanding Common Stock, other than an individual, is subject to regulation and supervision as a bank holding company under the BHCA. In addition, under the Change in Bank Control Act of 1978, as amended, and the Federal Reserve’s regulations thereunder, any person, either individually or acting through or in concert with one or more persons, is required to provide notice to the Federal Reserve prior to acquiring, directly or indirectly, 10% or more of our outstanding common stock.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

As of December 31, 2014, we conducted business at twelve full service banking locations and one operations center. Our operations center houses our loan and deposit operations and the customer service call center. We lease the space in which our banking centers and the operations call center are located. These leases expire between January 2018 and February 2025, not including any renewal options that may be available.

The following table sets forth the location of our executive offices, operations center and each of our banking centers.

Type of Location	Address
Executive offices, banking location	2000 McKinney Avenue Banking Center — Suite 190 Executive Offices — Suite 700 Dallas, Texas 75201
Operations center, banking location	2350 Lakeside Drive Banking Center — Suite 105 Operations Center — Suite 800 Richardson, Texas 75082
Banking location	14131 Midway Road Suite 100 Addison, Texas 75001
Banking location	5910 North Central Expressway Suite 150 Dallas, Texas 75206
Banking location	5800 Granite Parkway Suite 150 Plano, Texas 75024
Executive offices, banking location	300 Throckmorton Banking center — Suite 100 Executive offices — Suite 200 Fort Worth, Texas 76102
Executive offices, banking location	98 San Jacinto Boulevard Banking center — Suite 150 Executive offices — Suite 200 Austin, Texas 78701
Banking location	Westlake Hills 3818 Bee Caves Road Austin, Texas 78746
Executive offices, banking location	745 East Mulberry Street Banking center — Suite 150 Executive offices — Suite 350 San Antonio, Texas 78212
Banking location	7373 Broadway

	Suite 100 San Antonio, Texas 78209
Executive offices, banking location	One Riverway Banking center — Suite 150 Executive offices — Suite 2100 Houston, Texas 77056
Banking location	Westway II 4424 West Sam Houston Parkway N. Suite 170 Houston, TX 77041
Executive offices	Kempwood 2930 West Sam Houston Parkway North Executive offices — Suite 300 Houston, Texas 77056

22

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

Our common stock is traded on The Nasdaq Global Select Market under the symbol "TCBI". On February 17, 2015, there were approximately 224 holders of record of our common stock.

No cash dividends have ever been paid by us on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. Our principal source of funds to pay cash dividends on our common stock would be cash dividends from our bank. The payment of dividends by our bank is subject to certain restrictions imposed by federal banking laws, regulations and authorities.

The following table presents the range of high and low bid prices reported on The Nasdaq Global Select Market for each of the four quarters of 2013 and 2014.

	Price Per Share	
Quarter Ended	High	Low
March 31, 2013	$47.39	$39.87
June 30, 2013	45.22	36.75
September 30, 2013	50.15	43.43
December 31, 2013	62.25	44.53
March 31, 2014	67.08	56.45
June 30, 2014	66.62	50.76
September 30, 2014	60.74	49.90
December 31, 2014	62.07	51.58

Equity Compensation Plan Information

The following table presents certain information regarding our equity compensation plans as of December 31, 2014.

Plan category	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	434,336	$ 34.23	224,775
Equity compensation plans not approved by security holders	—	—	—
Total	434,336	$ 34.23	224,775

Table of Contents

Stock Performance Graph

The following table and graph sets forth the cumulative total stockholder return for the Company's common stock for the five-year period ending on December 31, 2014, compared to an overall stock market index (Russell 2000 Index) and the Company's peer group index (Nasdaq Bank Index). The Russell 2000 Index and Nasdaq Bank Index are based on total returns assuming reinvestment of dividends. The graph assumes an investment of $100 on December 31, 2009. The performance graph represents past performance and should not be considered to be an indication of future performance.

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Texas Capital Bancshares, Inc.	$100.00	$152.87	$219.27	$321.06	$445.56	$389.18
Russell 2000 Index (RTY)	100.00	125.06	118.60	136.01	185.56	192.62
Nasdaq Bank Index (CBNK)	100.00	111.16	97.68	113.32	156.32	161.05

Source: Bloomberg

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share, average share and percentage data)				
Consolidated Operating Data(1)					
Interest income	$514,547	$444,625	$398,457	$321,600	$279,810
Interest expense	37,582	25,112	21,578	18,663	38,136
Net interest income	476,965	419,513	376,879	302,937	241,674
Provision for credit losses	22,000	19,000	11,500	28,500	53,500
Net interest income after provision for credit losses	454,965	400,513	365,379	274,437	188,174
Non-interest income	42,511	44,024	43,040	32,232	32,263
Non-interest expense	285,114	256,729	219,881	188,327	163,624
Income before income taxes	212,362	187,808	188,538	118,342	56,813
Income tax expense	76,010	66,757	67,866	42,366	19,626
Net income	136,352	121,051	120,672	75,976	37,187
Preferred stock dividends	9,750	7,394	—	—	—
Net income available to common stockholders	$126,602	$113,657	$120,672	$75,976	$37,187
Consolidated Balance Sheet Data(1)					
Total assets	$15,899,946	$11,720,064	$10,540,844	$8,137,618	$6,446,169
Loans held for investment	10,154,887	8,486,603	6,785,837	5,572,764	4,711,820
Loans held for investment, mortgage finance loans	4,102,125	2,784,265	3,175,272	2,080,081	1,194,209
Securities available-for-sale	41,719	63,214	100,195	143,710	185,424
Demand deposits	5,011,619	3,347,567	2,535,375	1,751,944	1,451,307
Total deposits	12,673,300	9,257,379	7,440,804	5,556,257	5,455,401
Federal funds purchased and repurchase agreements	92,676	170,604	297,115	436,050	294,701
Other borrowings	1,100,005	855,026	1,650,046	1,332,066	3,186
Subordinated notes	286,000	111,000	111,000	—	—
Trust preferred subordinated debentures	113,406	113,406	113,406	113,406	113,406
Stockholders’ equity	1,484,190	1,096,350	836,242	616,331	528,319

Table of Contents

	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share, average share and percentage data)				
Other Financial Data					
Income per share					
Basic	$2.93	$2.78	$3.09	$2.03	$1.02
Diluted	2.88	2.72	3.00	1.98	1.00
Tangible book value per share	28.72	22.54	20.04	15.82	14.04
Book value per share	29.17	23.06	20.53	16.36	14.30
Weighted average shares					
Basic	43,236,344	40,864,225	39,046,340	37,334,743	36,627,329
Diluted	44,003,256	41,779,881	40,165,847	38,333,077	37,346,028
Selected Financial Ratios					
Performance Ratios					
Net interest margin	3.78 %	4.22 %	4.41 %	4.68 %	4.28 %
Return on average assets	1.05 %	1.17 %	1.35 %	1.12 %	0.63 %
Return on average equity	11.31 %	12.82 %	16.93 %	13.39 %	7.23 %
Efficiency ratio	54.88 %	55.39 %	52.35 %	56.15 %	59.68 %
Non-interest expense to average earning assets	2.26 %	2.58 %	2.57 %	2.90 %	2.88 %
Asset Quality Ratios					
Net charge-offs (recoveries) to average loans	0.05 %	0.05 %	0.07 %	0.47 %	0.95 %
Net charge-offs (recoveries) to average loans excluding mortgage finance loans	0.07 %	0.07 %	0.10 %	0.58 %	1.14 %
Reserve for loan losses to loans	0.71 %	0.78 %	0.75 %	0.92 %	1.21 %
Reserve for loan losses to loans excluding mortgage finance loans	0.99 %	1.03 %	1.10 %	1.26 %	1.52 %
Reserve for loan losses to non-accrual loans	2.3x	2.7x	1.3x	1.3x	.6x
Non-accrual loans to loans	0.30 %	0.29 %	0.56 %	0.71 %	1.90 %
Non-accrual loans to loans excluding mortgage finance loans	0.43 %	0.38 %	0.82 %	0.98 %	2.38 %
Total NPAs to loans plus OREO	0.31 %	0.33 %	0.72 %	1.17 %	2.60 %
Total NPAs to loans excluding mortgage finance loans plus OREO	0.43 %	0.44 %	1.06 %	1.61 %	3.26 %
Capital and Liquidity Ratios					
Total capital ratio(2)	11.83 %	10.73 %	9.97 %	9.25 %	11.83 %
Tier 1 capital ratio(2)	9.46 %	9.15 %	8.27 %	8.38 %	10.58 %
Tier 1 leverage ratio	10.76 %	10.87 %	9.41 %	8.78 %	9.36 %
Average equity/average assets	9.75 %	9.68 %	7.95 %	8.33 %	8.67 %
Tangible common equity/total tangible assets(2)	8.26 %	7.87 %	7.73 %	7.29 %	7.98 %
Average net loans/average deposits	111.57 %	116.25 %	129.97 %	115.68 %	105.50 %

(1)

The consolidated operating data and consolidated balance sheet data presented above for the five most recent fiscal years have been derived from our audited consolidated financial statements. The historical results are not necessarily indicative of the results to be expected in any future period.

(2) In response to FFIEC Call Report instructions issued in early April 2013, we began using a 100% risk weight for our mortgage finance loans commencing with our March 31, 2013 Form 10-Q. We were required to amend our 2012 and 2011 Call Reports for this change in risk weighting, as well as the previously reported risk-weighted capital ratios for December 31, 2012 and 2011. We were not required to amend the ratios for December 31, 2010.

Table of Contents

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

Forward-Looking Statements

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. Forward-looking statements describe our future plans, strategies and expectations and are based on certain assumptions. Words such as "believes", "expects," "estimates," "anticipates", "plans", "goals", "objectives", "expects", "intends", "seeks", "likely", "targeted", "continue", "remain", "will", "should", "may" and ot 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 our confidence in our strategies and our expectations about financial performance, market growth, market and regulatory trends and developments, acquisitions and divestitures, new technologies, services and opportunities and earnings.

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, increased default rates and loan losses or adverse changes in the industry concentrations of our loan portfolio.
- Developments adversely affecting our commercial, entrepreneurial and professional customers.
- Changes in the U.S. economy in general or the Texas economy specifically resulting in deterioration of credit quality or reduced demand for credit or other financial services we offer, including declines and volatility in oil and gas prices.
- Changes in the value of commercial and residential real estate securing our loans or in the demand for credit to support the purchase and ownership of such assets.
- The failure of assumptions supporting our allowance for loan losses causing it to become inadequate as loan quality decreases and losses and charge-offs increase.
- A 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.
- Failure to execute our business strategy, including any inability to expand into new markets and lines of business in Texas, regionally and nationally.
- Loss of access to capital market transactions and other sources of funding, or a failure to effectively balance our funding sources with cash demands by depositors and borrowers.
- Failure to successfully develop and launch new lines of business and new products and services within the expected time frames and budgets, or failure to anticipate and appropriately manage the associated risks.
- The failure to attract and retain key personnel or the loss of key individuals or groups of employees.
- Legislative and regulatory changes imposing further restrictions and costs on our business, a failure to remain well capitalized or well managed or regulatory enforcement actions against us.
- An increase in the incidence or severity of fraud, illegal payments, security breaches and other illegal acts impacting our bank and our customers.
- Structural changes in the markets for origination, sale and servicing of residential mortgages.
- Increased or more effective competition from banks and other financial service providers in our markets.
- Material failures of our accounting estimates and risk management processes based on management judgment, or the supporting analytical and forecasting models.
- Unavailability of funds obtained from capital transactions or from our bank to fund our obligations.
- Failures of counterparties or third party vendors to perform their obligations.
- Failures or breaches of our information systems that are not effectively managed.
- Severe weather, natural disasters, acts of war or terrorism and other external events.

- Incurrence of material costs and liabilities associated with legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving us or our bank.
- Failure of our risk management strategies and procedures, including failure or circumvention of our controls.

Table of Contents

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 should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date of this report. Except as required by law, we undertake no obligation to revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise. The factors discussed herein are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results. Forward-looking statements should not be viewed as predictions and should not be the primary basis upon which investors evaluate an investment in our securities.

Overview of Our Business Operations

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

The following discussion and analysis presents the significant factors affecting our financial condition as of December 31, 2014 and 2013 and results of operations for each of the three years related to the periods ended December 31, 2014, 2013 and 2012. This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements appearing later in this report.

Year ended December 31, 2014 compared to year ended December 31, 2013

We reported net income of $136.4 million and net income available to common stockholders of $126.6 million, or $2.88 per diluted common share, for the year ended December 31, 2014, compared to net income of $121.1 million and net income available to common stockholders of $113.7 million, or $2.72 per diluted common share, for the same period in 2013. Return on average equity ("ROE") was 11.31% and return on average assets ("ROA") was 1.05% for the year ended December 31, 2014, compared to 12.82% and 1.17%, respectively, for the same period in 2013. During 2014, we completed a $175.0 million subordinated debt offering and two equity offerings totaling 4.4 million common shares, which increased common equity by $256.2 million. These transactions had the effect of reducing ROE during 2014. The ROA decrease resulted from the subordinated debt offering and from a combination of reduced yields on loans and an increase in average liquidity assets for the year ended December 31, 2014 compared to the same period of 2013.

Net income increased $15.3 million for the year ended December 31, 2014 compared to 2013. The $15.3 million increase was primarily the result of a $57.5 million increase in net interest income, offset by a $3.0 million increase in the provision for credit losses, a $1.5 million decrease in non-interest income, a $28.4 million increase in non-interest expense and a $9.3 million increase in income tax expense.

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

Year ended December 31, 2013 compared to year ended December 31, 2012

We reported net income of $121.0 million and net income available to common stockholders of $113.7 million, or $2.72 per diluted common share, for the year ended December 31, 2013, compared to net income and net income available to common stockholders of $120.7 million, or $3.01 per diluted common share, for the same period in 2012. Return on average equity was 12.82% and return on average assets was 1.17% for the year ended December 31, 2013, compared to 16.93% and 1.35%, respectively, for the same period in 2012.

Net income increased $337,000 for the year ended December 31, 2013 compared to 2012. The $337,000 increase was primarily the result of a $42.6 million increase in net interest income, a $984,000 increase in non-interest income and a $1.1 million decrease in income tax expense, offset by a $7.5 million increase in the provision for credit losses and a $36.9 million increase in non-interest expense.

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

Net Interest Income

Net interest income was $477.0 million for the year ended December 31, 2014 compared to $419.5 million for the same period of 2013. The increase in net interest income was primarily due to an increase of $2.7 billion in average earning assets as compared to the same period of 2013. The increase in average earning assets from 2013 included a $2.4 billion increase in average net loans and a $300.6 million increase in liquidity assets, offset by a $28.0 million decrease in average securities. For the year ended December 31, 2014, average net loans, liquidity assets and securities represented 96%, 4% and less than 1%, respectively, of average earning assets compared to 98%, 1% and 1%, respectively, in 2013.

Table of Contents

Average interest-bearing liabilities for the year ended December 31, 2014 increased $1.2 billion from the year ended December 31, 2013, which included a $1.3 billion increase in interest-bearing deposits and a $160.6 million increase in long-term debt as a result of the Bank's issuance of subordinated notes in January 2014, offset by a $273.4 million decrease in other borrowings. For the same periods, the average balance of demand deposits increased to $4.2 billion from $3.0 billion. The average cost of total deposits and borrowed funds remained flat at 0.17% for the year ended December 31, 2014, compared to the same period in the prior year. The total cost of interest-bearing liabilities included $8.7 million attributable to the $175.0 million in long-term subordinated debt issued in January 2014. Including the increase in long-term subordinated debt during 2014, the average cost of interest-bearing liabilities increased from 0.40% for the year ended December 31, 2013 to 0.50% for the same period of 2014.

Net interest income was $419.5 million for the year ended December 31, 2013 compared to $376.9 million for the same period of 2012. The increase in net interest income was primarily due to an increase of $1.4 billion in average earning assets as compared to the same period of 2012. The increase in average earning assets from 2012 included a $1.4 billion increase in average net loans offset by a $40.2 million decrease in average securities. For the year ended December 31, 2013, average net loans, liquidity assets and securities represented 98%, 1% and 1%, respectively, of average earning assets compared to 98%, 1% and 1%, respectively, in 2012.

Average interest-bearing liabilities for the year ended December 31, 2013 increased $95.6 million from the year ended December 31, 2012, which included a $947.9 million increase in interest-bearing deposits, a $932.4 million decrease in other borrowings and an $80.1 million increase in subordinated notes. For the same periods, the average balance of demand deposits increased to $3.0 billion from $2.0 billion. The average cost of interest-bearing liabilities increased from 0.35% for the year ended December 31, 2012 to 0.40% in 2013 related to the subordinated notes issued in the third quarter of 2012.

Volume/Rate Analysis

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

	Years Ended December 31,					
	2014/2013			2013/2012		
	Net	Change Due To(1)		Net	Change Due To(1)	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest income:						
Securities(2)	$(1,430)	$(1,330)	$(100)	$(1,845)	$(1,780)	$(65)
Loans held for investment, mortgage finance loans	6,197	22,763	(16,566)	(5,411)	1,765	(7,176)
Loans held for investment	64,095	84,854	(20,759)	53,177	64,598	(11,421)
Federal funds sold	142	35	107	52	49	3
Deposits in other banks	675	700	(25)	23	96	(73)
Total	69,679	107,022	(37,343)	45,996	64,728	(18,732)
Interest expense:						
Transaction deposits	274	38	236	(165)	172	(337)
Savings deposits	3,808	3,312	496	1,857	3,110	(1,253)
Time deposits	—	82	(82)	(1,146)	(698)	(448)
Deposits in foreign branches	33	55	(22)	(160)	(220)	60
Other borrowings	(473)	(510)	37	(1,922)	(1,847)	(75)
Long-term debt	8,828	10,602	(1,774)	5,070	5,272	(202)
Total	12,470	13,579	(1,109)	3,534	5,789	(2,255)
Net interest income	$57,209	$93,443	$(36,234)	$42,462	$58,939	$(16,477)

(1) Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

(2) Taxable equivalent rates used where applicable assuming a 35% tax rate.

Net interest margin, which is defined as the ratio of net interest income to average earning assets, decreased from 4.22% for 2013 to 3.78% in 2014. This 44 basis point decrease was due to the growth in loans with lower yields, the impact of the January 2014 subordinated note offering and the $300.6 million increase in average balances of liquidity assets, which includes Federal funds sold and deposits in other banks. Funding costs, including demand deposits and borrowed funds, remained at .17% for 2014 compared to .17% for 2013. The spread on total earning assets, net of the cost of deposits and borrowed funds, was 3.91%

Table of Contents

for 2014 compared to 4.30% for 2013. The decrease resulted from the reduction in yields on total loans, primarily due to the increased proportion of mortgage finance loans to total loans. Total funding costs, including all deposits, long-term debt and stockholders' equity increased to .29% for 2014 compared to .24% for 2013. Average long-term debt increased by $160.6 million from 2013 and the average interest rate on long-term debt for 2014 was 4.85% compared to 4.40% for 2013.

Net interest margin decreased from 4.41% for 2012 to 4.22% for 2013. This 19 basis point decrease was a result of a decrease in interest income as a percent of earning assets offset by a reduction in funding costs. Total cost of funding remained consistent at .24% for 2012 and 2013. Funding costs, including demand deposits and borrowed funds, decreased from .21% for 2012 to .17% for 2013. The cost of subordinated debt issued in September 2012 and the trust preferred as a percent of total earning assets was .10% for 2013 compared to .06% for 2012.

Table of Contents

Consolidated Daily Average Balances, Average Yields and Rates

	Year ended December 31,								
	2014			2013			2012		
	Average Balance	Revenue / Expense(1)	Yield / Rate(2)	Average Balance	Revenue / Expense(1)	Yield / Rate(2)	Average Balance	Revenue / Expense(1)	Yield / Rate(2)
Assets									
Securities—taxable	$43,029	$1,590	3.70 %	$59,031	$2,325	3.94 %	$90,796	$3,681	4.05 %
Securities—non-taxable	6,171	366	5.93 %	18,147	1,061	5.85 %	26,579	1,550	5.83 %
Federal funds sold	83,816	207	0.25 %	54,547	65	0.12 %	11,497	13	0.11 %
Deposits in other banks	360,857	906	0.25 %	89,503	231	0.26 %	61,192	208	0.34 %
Loans held for investment, mortgage finance loans	2,948,938	94,061	3.19 %	2,342,149	87,864	3.75 %	2,298,651	93,275	4.06 %
Loans held for investment	9,265,435	417,545	4.51 %	7,471,676	353,450	4.73 %	6,148,860	300,273	4.88 %
Less reserve for loan losses	91,363	—	—	78,282	—	—	72,087	—	—
Loans, net	12,123,010	511,606	4.22 %	9,735,543	441,314	4.53 %	8,375,424	393,548	4.70 %
Total earning assets	12,616,883	514,675	4.08 %	9,956,771	444,996	4.47 %	8,565,488	399,000	4.66 %
Cash and other assets	399,728			391,633			400,472		
Total assets	$13,016,611			$10,348,404			$8,965,960		
Liabilities and stockholders' equity									
Transaction deposits	$960,812	$938	0.10 %	$908,415	$664	0.07 %	$752,040	$829	0.11 %
Savings deposits	4,938,039	14,339	0.29 %	3,756,560	10,531	0.28 %	2,765,089	8,674	0.31 %
Time deposits	417,317	1,629	0.39 %	397,329	1,629	0.41 %	530,816	2,775	0.52 %
Deposits in foreign branches	361,203	1,239	0.34 %	345,506	1,206	0.35 %	411,891	1,366	0.33 %
Total interest-bearing deposits	6,677,371	18,145	0.27 %	5,407,810	14,030	0.26 %	4,459,836	13,644	0.31 %
Other borrowings	379,877	746	0.20 %	653,318	1,219	0.19 %	1,585,723	3,141	0.20 %
Subordinated notes	271,617	16,202	5.97 %	111,000	7,327	6.60 %	30,934	2,037	6.58 %
Trust preferred subordinated debentures	113,406	2,489	2.19 %	113,406	2,536	2.24 %	113,406	2,756	2.43 %
Total interest-bearing liabilities	7,442,271	37,582	0.50 %	6,285,534	25,112	0.40 %	6,189,899	21,578	0.35 %
Demand deposits	4,188,173			2,967,063			1,984,171		
Other liabilities	116,566			94,592			78,700		
Stockholders' equity	1,269,601			1,001,215			713,190		
Total liabilities and stockholders' equity	$13,016,611			$10,348,404			$8,965,960		
Net interest income		$477,093			$419,884			$377,422	
Net interest margin			3.78 %			4.22 %			4.41 %
Net interest spread			3.58 %			4.07 %			4.31 %
Loan spread			4.05 %			4.36 %			4.49 %

(1)

The loan averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income. Loan interest income includes loan fees totaling $50.0 million, $37.8 million and $33.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Taxable equivalent rates used where applicable assuming a 35% tax rate.

31

Table of Contents

Non-interest Income

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Service charges on deposit accounts	$7,253	$6,783	$6,605
Trust fee income	4,937	5,023	4,822
Bank owned life insurance (BOLI) income	2,067	1,917	2,168
Brokered loan fees	13,981	16,980	17,596
Swap fees	2,992	5,520	4,909
Other	11,281	7,801	6,940
Total non-interest income	$42,511	$44,024	$43,040

Non-interest income decreased by $1.5 million during the year ended December 31, 2014 to $42.5 million, compared to $44.0 million during the same period in 2013. This decrease was primarily due to a $3.0 million decrease in brokered loan fees as a result of lower per loan fees in our mortgage finance business. Swap fee income decreased $2.5 million during 2014 compared to the same period of 2013. These fees fluctuate from time to time based on the number and volume of transactions closed during the quarter. Swap fees are fees related to customer swap transactions and are received from the institution that is our counterparty on the transaction. Offsetting these decreases was a $3.5 million increase in other non-interest income. Other non-interest income includes such items as letter of credit fees and other general operating income, none of which account for 1% or more of total interest income and non-interest income.

Non-interest income increased by $1.0 million during the year ended December 31, 2013 to $44.0 million, compared to $43.0 million during the same period in 2012. The increase was primarily due to an $861,000 increase in other non-interest income.

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 and general economic conditions. In order to achieve continued growth in non-interest income, we may need to introduce new products or enter into new lines of business or expand existing lines of business. Any new product introduction or new market entry could place additional demands on capital and managerial resources and introduce new risks to our business.

Non-interest Expense

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Salaries and employee benefits	$169,051	$157,752	$121,456
Net occupancy expense	20,866	16,821	14,852
Marketing	15,989	16,203	13,449
Legal and professional	21,182	18,104	17,557
Communications and technology	18,667	13,762	11,158
FDIC insurance assessment	10,919	8,057	5,568
Allowance and other carrying costs for OREO	85	1,788	9,075
Litigation settlement expense	—	(908)	4,000
Other(1)	28,355	25,150	22,766
Total non-interest expense	$285,114	$256,729	$219,881

(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 year ended December 31, 2014 increased $28.4 million compared to the same period of 2013 primarily related to increases in salaries and employee benefits, net occupancy expense, legal and professional expense, communications and data processing and FDIC insurance assessment, offset by a decrease in allowance and other carrying costs for OREO.

Salaries and employee benefits expense increased $11.3 million to $169.1 million during the year ended December 31, 2014. This increase resulted primarily from general business growth.

Table of Contents

Net occupancy expense for the year ended December 31, 2014 increased $4.0 million as a result of general business growth and continued build-out needed to support our growth.
Legal and professional expense increased $3.1 million, or 17%, for the year ended December 31, 2014 compared to the same period in 2013. Our legal and professional expense will continue to fluctuate from year to year and could increase in the future with growth and as we respond to continued regulatory changes and strategic initiatives.
Communications and technology expense increased $4.9 million to $18.7 million during the year ended December 31, 2014 as a result of general business and customer growth and continued build-out needed to support that growth.
FDIC insurance assessment expense increased $2.8 million from $8.1 million in 2013 to $10.9 million primarily as a result of the difference in rates applied to banks with over $10 billion in assets.
For the year ended December 31, 2014, allowance and other carrying costs for OREO decreased $1.7 million to $85,000, which is consistent with the decrease in our OREO balances during 2014.
Non-interest expense for the year ended December 31, 2013 increased $36.9 million compared to the same period of 2012 primarily related to increases in salaries and employee benefits, marketing expense, communications and data processing and FDIC insurance assessment, offset by decreases in allowance and other carrying costs for OREO and litigation settlement expense.
Salaries and employee benefits expense increased $36.3 million to $157.8 million during the year ended December 31, 2013. Of the $36.3 million increase during 2013, approximately $7.7 million related to a charge taken to reflect the financial effect of the planned organizational change announced during the second quarter of 2013 related to the retirement and transition of our CEO and included assumptions about future payouts that may or may not occur. These payouts, when and if realized, will be directly linked to our performance and stock price, but were required to be estimated at the time of the event. Additionally, there was another $2.2 million of charges recorded in the second quarter of 2013 related to the increased probability that certain company financial performance targets for executive cash-based incentives would be met. Additionally, these cash-based and performance units were expensed based on current stock prices, which increased significantly during 2013 resulting in a $3.7 million increase in expense as compared to 2012. The remaining $22.7 million increase was primarily due to general business growth and build-out.
Marketing expense for the year ended December 31, 2013 increased $2.8 million compared to the same period in 2012. Marketing expense for the year ended December 31, 2013 included $1.0 million of direct marketing and advertising expense and $4.0 million in business development expense compared to $850,000 and $3.1 million, respectively, in 2012. Marketing expense for the year ended December 31, 2013 also included $11.2 million for the purchase of miles related to the American Airlines AAdvantage® program and treasury management deposit programs compared to $9.5 million during 2012. Marketing expense may increase as we seek to further develop our brand, reach more of our target customers and expand in our target markets.
Legal and professional expense increased $547,000, or 3%, for the year ended December 31, 2013 compared to the same period in 2012.
Communications and technology expense increased $2.6 million to $13.8 million during the year ended December 31, 2013 as a result of general business and customer growth and continued build-out needed to support that growth.
FDIC insurance assessment expense increased $2.5 million from $5.6 million in 2012 to $8.1 million primarily as a result of a $3.0 million assessment by the FDIC that was paid during the third quarter of 2013. The assessment related to the year-end call reports for 2011 and 2012, which were amended for the change in the risk weight applicable to our mortgage finance loan portfolio as described in Note 13 – Regulatory Restrictions. As previously disclosed, the amendment caused one capital ratio to retroactively fall below “well-capitalized” for December 31, 2012 and 2011.
For the year ended December 31, 2013, allowance and other carrying costs for OREO decreased $7.3 million to $1.8 million, $920,000 of which related to deteriorating values of assets held in OREO. The decrease is consistent with the decrease in our OREO balances during 2013.

Analysis of Financial Condition

Loans

Our total loans have grown at an annual rate of 26%, 13% and 30% in 2014, 2013 and 2012, respectively, reflecting the continued build-up of our lending operations. 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, representing 71% of total loans at December 31, 2014. Consumer loans generally have represented 1% or less of the portfolio from December 31, 2010 to December 31, 2014. Mortgage finance loans relate to our mortgage warehouse lending operations in which we invest in mortgage loan ownership interests that are typically sold within

Table of Contents

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 December 31, 2014, we had $1.6 billion in syndicated loans, $369.2 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. In addition, as of December 31, 2014, none of our syndicated loans were on non-accrual.

The following table summarizes our loans on a gross basis by major category as of the dates indicated (in thousands):

	December 31,				
	2014	2013	2012	2011	2010
Commercial	$5,869,219	$5,020,565	$4,106,419	$3,275,150	$2,592,924
Mortgage finance	4,102,125	2,784,265	3,175,272	2,080,081	1,194,209
Construction	1,416,405	1,262,905	737,637	422,026	270,008
Real estate	2,807,127				