TEXAS CAPITAL BANCSHARES INC/TX
Form 10-K
February 23, 2011

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

þ Annual Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the fiscal year ended December 31, 2010
o Transition Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the transition period from ____ to ____ (No fee required)

Texas Capital Bancshares, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	001-34657	75-2679109
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)
2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A.	75201	214-932-6600
(Address of principal executive offices)	(Zip Code)	(Registrant s telephone number, including area code)

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

Common stock, 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, as defined in Rule 405 of the Securities Act. Yes o No þ

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 o No þ

Indicate by check mark whether the issuer (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 þ No o

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 o No o

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. o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

As of June 30, 2010, 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 upon the closing price per share of the registrant s common stock as reported on The Nasdaq Global Select Market, was approximately $572,842,000. There were 37,116,772 shares of the registrant s common stock outstanding on February 22, 2011.

Documents Incorporated by Reference

Portions of the registrant s Proxy Statement relating to the 2011 Annual Meeting of Stockholders, which will be filed no later than April 7, 2011, are incorporated by reference into Part III of this Form 10-K.

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ITEM 1. *BUSINESS*

Background

Texas Capital Bancshares, Inc., a financial holding company, is the parent of Texas Capital Bank, National Association, a Texas-based bank headquartered in Dallas, with banking offices in Dallas, Houston, Fort Worth, Austin and San Antonio, the state s five largest metropolitan areas. All of our business activities are conducted through our bank subsidiary. Our market focus is commercial businesses and high net worth individuals, and we offer a variety of banking products and services to our customers. We have focused on organic growth, maintenance of credit quality and bankers with strong personal and professional relationships in their communities.

We focus on serving the needs of commercial and high net worth customers, the core of our model since our organization in March 1998. We do not incur the costs of competing in an over-branched and over-crowded consumer market. We are primarily a secured lender in Texas, and, as a result, we have experienced a low percentage of charge-offs relative to both total loans and non-performing loans since inception. Our loan portfolio is diversified by industry, collateral and geography in Texas.

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 December 2006 through December 2010 (in thousands):

	December 31				
	2010	2009	2008	2007	2006
Loans held for investment	$ 4,711,330	$ 4,457,293	$ 4,027,871	$ 3,462,608	$ 2,722,097
Total loans(1)	5,905,539	5,150,797	4,524,222	3,636,774	2,921,111
Assets(1)	6,448,179	5,698,318	5,141,034	4,287,853	3,659,445
Demand deposits	1,451,307	899,492	587,161	529,334	513,930
Total deposits	5,455,401	4,120,725	3,333,187	3,066,377	3,069,330
Stockholders equity	528,319	481,360	387,073	295,138	253,515

(1) From continuing operations.

The following table provides information about the growth of our loan portfolio by type of loan from December 2006 to December 2010 (in thousands):

	December 31				
	2010	2009	2008	2007	2006
Commercial loans	$ 2,592,924	$ 2,457,533	$ 2,276,054	$ 2,035,049	$ 1,602,577
Total real estate loans	2,029,766	1,903,127	1,656,221	1,347,429	1,068,963
Construction loans	270,008	669,426	667,437	573,459	538,586

Real estate term loans	1,759,758	1,233,701	988,784	773,970	530,377
Loans held for sale	1,194,209	693,504	496,351	174,166	199,014
Loans held for sale from discontinued operations	490	586	648	731	16,844
Equipment leases	95,607	99,129	86,937	74,523	45,280
Consumer loans	21,470	25,065	32,671	28,334	21,113

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, insurance agencies, commercial finance and leasing companies, full service brokerage firms and discount brokerage firms. We believe that many middle market companies and high net worth individuals 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 the customer with regard to its 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. We believe that, if we service these customers properly, we will be able to establish long-term relationships and provide multiple products to our customers, thereby enhancing our profitability.

Business Strategy

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

- target middle market businesses and high net worth individuals;
- grow our loan and deposit base in our existing markets by hiring additional experienced Texas bankers;
- continue the emphasis on credit policy to provide for credit quality consistent with long-term objectives;
- improve our financial performance through the efficient management of our infrastructure and capital base, which includes:
  - leveraging our existing infrastructure to support a larger volume of business;
  - maintaining stringent internal approval processes for capital and operating expenses;
  - extensive use of outsourcing to provide cost-effective operational support with service levels consistent with large-bank operations; and
- extend our reach within our target markets of Austin, Dallas, Fort Worth, Houston and San Antonio 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;
- equipment leasing;

treasury management services;

trust and wealth management services; and

letters of credit.

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

personal trust and wealth management 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;

consumer loans, both secured and unsecured;

branded Visa® credit card accounts, including gold-status accounts; and

internet banking.

Lending Activities

We target our lending to middle market businesses and high net worth individuals that meet our credit standards. The credit standards are set by our standing Credit Policy Committee with the assistance of our Bank s Chief Credit Officer, who is charged with ensuring that credit standards are met by loans in our portfolio. Our Credit Policy Committee is comprised of senior Bank officers including our Bank s Chief Executive Officer, our Bank s President/Chief Lending Officer and our Bank s Chief Credit 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 intitiation, 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.

Trust and Wealth Management

Our trust and wealth management 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

In June 2003, we received authorization from the Cayman Islands Monetary Authority to establish a branch of our bank in the Cayman Islands. We believe that a Cayman Islands branch of our bank enables us to offer more competitive cash management and deposit products to our core customers. Our Cayman Islands branch consists of an agented office to facilitate our offering of these products. We opened our Cayman Islands branch in September 2003. All deposits in the Cayman Branch come from U.S. based customers of our Bank. Deposits do not originate from foreign sources, and funds transfers neither come from nor go to facilities outside of the U.S. All deposits are in U.S. dollars. As of December 31, 2010, our Cayman Islands deposits totaled $458.9 million.

Employees

As of December 31, 2010, we had 699 full-time employees relating to our continuing operations. 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

Current banking laws contain numerous provisions affecting various aspects of our business. Our bank is subject to federal banking laws and regulations that impose specific requirements on and provide regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended for the protection of depositors, the deposit insurance funds of the Federal Deposit Insurance Corporation, or the FDIC, and the banking system as a whole, rather than for the protection of our stockholders. Banking regulators have broad enforcement powers over financial holding companies and banks and their affiliates, including the power to establish regulatory requirements, impose large fines and other penalties for violations of laws and regulations. The following is a brief summary of laws and regulations to which we are subject.

National banks such as our bank are subject to examination by the Office of the Comptroller of the Currency, or the OCC. 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, loans, investments, borrowings, deposits, 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 its aggregate investment in real estate, bank premises and furniture and fixtures. National banks are currently required by the OCC to prepare quarterly reports on their financial condition and to conduct an annual audit of their financial affairs in compliance with minimum standards and procedures prescribed by the OCC.

Restrictions on Dividends and Repurchases. Our source of funding to pay dividends is our bank. Our bank is subject to the dividend restrictions set forth by the OCC. 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. In addition, under the Federal Deposit Insurance Corporation Improvement Act of 1991, our bank may not pay any dividend if payment would cause it to become undercapitalized or in the event it is undercapitalized.

It is the policy of the Federal Reserve, which regulates financial holding companies such as ours, that financial holding companies should 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 should not maintain a level of cash dividends that undermines the financial holding company s ability to serve as a source of strength to its banking subsidiaries.

If, in the opinion of the applicable federal bank regulatory authority, a depository institution or holding company is engaged in or is about to engage in an 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 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.

Supervision by the Federal Reserve. We operate as a financial holding company registered under the Bank Holding Company Act, and, as such, we are subject to supervision, regulation and examination by the Federal Reserve. The Bank Holding Company Act and other Federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Because we are a legal entity separate and distinct from our bank, our right to participate in the distribution of assets of any subsidiary upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors. In the event of a liquidation or other resolution of a subsidiary, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its stockholders, including any financial holding company (such as ours) or any stockholder or creditor thereof.

Support of Subsidiary Banks. Under Federal Reserve policy, a financial holding company is expected to act as a source of financial and managerial strength to each of its banking subsidiaries and commit resources to their support. Such support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. As discussed below, a financial holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary in order for it to be accepted by the regulators.

In the event of a financial holding company s bankruptcy under Chapter 11 of the U.S. Bankruptcy Code, the bankruptcy trustee will be deemed to have assumed and is required to cure immediately any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

Capital Adequacy Requirements. The bank regulators have adopted a system using risk-based capital guidelines to evaluate the capital adequacy of banking organizations. Under the guidelines, specific categories of assets and off-balance sheet activities such as letters of credit are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk weighted asset base. The guidelines require a minimum total risk-based capital ratio of 8% (of which at least 4% is required to consist of Tier 1 capital elements).

In addition to the risk-based capital guidelines, the OCC and the Federal Reserve uses 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. Banking organizations must maintain a minimum leverage ratio of at least 3%, although most organizations are expected to maintain leverage ratios that are at least 100 to 200 basis points above this minimum ratio.

The federal banking agencies risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve and OCC guidelines also 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. In addition, the regulations of the bank regulators provide that concentration of credit risks arising from non-traditional activities, as well as an institution s ability to manage these risks, are important factors to be taken into account by regulatory agencies in assessing an organization s overall capital adequacy.

Transactions with Affiliates and Insiders. Our bank is subject to Section 23A of the Federal Reserve Act which places limits on the amount of loans or extensions of credit to affiliates that it may make. In addition, extensions of credit must be collateralized by Treasury securities or other collateral in prescribed amounts. Most of these loans and other transactions must be secured in prescribed amounts. It also limits the amount of advances to third parties which are collateralized by our securities or obligations or the securities or obligations of any of our non-banking 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 contained in the Federal Reserve Act and Federal Reserve Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution s total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. See additional restrictions on transactions with affiliates and insiders discussed in the Dodd-Frank Act section.

Corrective Measures for Capital Deficiencies. The Federal Deposit Insurance Corporation Improvement Act imposes a regulatory matrix which requires the federal banking agencies, which include the FDIC, the OCC and the Federal Reserve, to take prompt corrective action with respect to capital deficient institutions. The prompt corrective action provisions subject undercapitalized institutions to an increasingly stringent array of restrictions, requirements and prohibitions as their capital levels deteriorate and supervisory problems mount. Should these corrective measures prove unsuccessful in recapitalizing the institution and correcting its problems, the Federal Deposit Insurance Corporation Improvement Act mandates that the institution be placed in receivership.

Pursuant to regulations promulgated under the Federal Deposit Insurance Corporation Improvement Act, the corrective actions that the banking agencies either must or may take are tied primarily to an institution s capital levels. In accordance with the framework adopted by the Federal Deposit Insurance Corporation Improvement Act, the banking agencies have developed a classification system, pursuant to which all banks and thrifts are placed into one of five categories. Agency regulations define, for each capital category, the levels at which institutions are well capitalized , adequately capitalized , undercapitalized , significantly undercapitalized and critically undercapitalized. well capitalized bank has a total risk-based capital ratio (total capital to risk-weighted assets) of 10% or higher; a Tier 1 risk-based capital ratio (Tier 1 capital to risk-weighted assets) of 6% or higher; a leverage ratio (Tier 1 capital to total adjusted assets) of 5% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. Our bank s total risk-based capital ratio was 10.19% at December 31, 2010 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 prompt corrective action and that the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects. The OCC, Federal Reserve and FDIC may, pursuant to changes in their regulatory or statutory responsibilities, determine that additional capital may be required.

In addition to requiring undercapitalized institutions to submit a capital restoration plan which must be guaranteed by its holding company (up to specified limits) in order to be accepted by the bank regulators, agency regulations contain broad restrictions on activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With some exceptions, an insured depository institution is

prohibited from making capital distributions, including dividends, and is

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prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution s capital decreases, the OCC s enforcement powers become more severe. 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.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

BASEL III. On December 15, 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, known as Basel III. When fully phased in on January 1, 2019, Basel III requires banks to maintain the following new standards and introduces a new capital measure Common Equity Tier 1 , or CET1 . Basel III increases the CET1 to risk-weighted assets to 4.5%, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target CET1 to risk-weighted assets ratio to 7%. It requires banks to maintain a minimum ratio of Tier 1 capital to risk weighted assets of at least 6.0%, plus the capital conservation buffer effectively resulting in Tier 1 capital ratio of 8.5%. Basel III increases the minimum total capital ratio to 8.0% plus the capital conservation buffer, increasing the minimum total capital ratio to 10.5%. Basel III also introduces a non-risk adjusted tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a multi-year period, but the implementation of the new framework will commence January 1, 2013. On that date, banks will be required to meet the following minimum capital ratios: 3.5% CET1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets and 8.0% total capital to risk-weighted assets. Although the Basel III framework is not directly binding on the U.S. bank regulatory agencies, the regulatory agencies will likely implement changes to the capital adequacy standards applicable to the insured depository institutions and their holding companies in light of Basel III.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of Sarbanes-Oxley, written certifications by our chief executive officer and chief financial officer are required. These certifications attest that our quarterly and annual reports do not contain any untrue statement of a material fact.

Financial Modernization Act of 1999. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the Modernization 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; and

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 Modernization 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 Bank Holding Company Act, 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 governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. 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, and expanded the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued a number of implementing regulations which apply various requirements of the USA Patriot Act to financial institutions such as our bank. These regulations 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 Dodd-Frank Act. On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act will have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, or Council, the Federal Reserve, the OCC, and the FDIC.

The following items provide a brief description of certain provisions of the Dodd-Frank Act that may have an affect 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. 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. It could also result in uncertainty concerning compliance, with attendant regulatory and litigation risks.

The Dodd-Frank Act makes permanent the general $250,000 deposit insurance limit for insured deposits. The Dodd-Frank Act also extends until January 1, 2013, federal deposit coverage for the full net amount held by depositors in non-interest bearing transaction accounts. Amendments to the FDIC Act also revise the assessment base against which an insured depository institution s deposit insurance premiums paid to DIF will be calculated. Under the amendments, the assessment base will no longer be the institution s deposit base, but rather its average consolidated total assets less its average tangible equity. Additionally, the Dodd-Frank Act

makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent 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. Several of these provisions could increase the FDIC deposit insurance premiums paid by us.

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 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 strengthens the existing limits on a depository institution s credit exposure to one borrower. Federal banking law currently limits a federal thrift s ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

The Dodd-Frank Act authorizes the establishment of the Consumer Financial Protection Bureau (the CFPB), which has the power to issue rules governing all financial institutions that offer financial services and products to consumers. The CFPB has the authority to monitor markets for consumer financial products to ensure that consumers are protected from abusive practices. Financial institutions will be subject to increased compliance and enforcement costs associated with regulations established by the CFPB.

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 Dodd-Frank.

The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will 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 clawback 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 disclosure on board leadership structure

Many of the requirements of the Dodd-Frank Act will be implemented over time and most will be subject to regulations implemented over the course of several years. 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. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict

what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

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. We will provide a printed copy of any of the aforementioned documents to any requesting shareholder.

ITEM 1A. *RISK FACTORS*

An investment in our common stock involves certain risks. You should consider carefully the following risks and other information in this report, including our financial information and related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Risk Factors Associated With Our Business

We must effectively manage our credit risk. There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, including increased risks of fraud perpetrated by customers of the bank and risks resulting from uncertainties as to the future value of collateral. The risk of non-payment of loans is inherent in commercial banking. Although we attempt to minimize our credit risk by carefully monitoring the concentration of our loans within specific industries and through prudent loan approval practices in all categories of our lending, we cannot assure you that such monitoring and approval procedures will reduce these lending risks. We cannot assure you that our credit administration personnel, policies and procedures will adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio.

Our results of operations and financial condition would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses. Experience in the banking industry indicates that a portion of our loans in all categories of our lending business will become delinquent, and some may only be partially repaid or may never be repaid at all. Our methodology for establishing the adequacy of the allowance for loan losses depends on subjective application of risk grades as indicators of borrowers ability to repay. Deterioration in general economic conditions and unforeseen risks affecting customers may have an adverse effect on borrowers capacity to repay timely their obligations before risk grades could reflect those changing conditions. In times of improving credit quality, with growth in our loan portfolio, the allowance for loan losses may decrease as a percent of total loans. Changes in economic and market conditions may increase the risk that the allowance would become inadequate if borrowers experience economic and other conditions adverse to their businesses. Maintaining the adequacy of our allowance for loan losses may require that we make significant and unanticipated increases in our provisions for loan losses, which would materially affect our results of operations and capital adequacy. Recognizing that many of our loans individually represent a significant percentage of our total allowance for loan losses, adverse collection experience in

a relatively small number of loans could require an increase in our allowance. Federal regulators, as an integral part of their respective supervisory functions, periodically review our allowance for loan losses. The regulatory agencies may require us to change classifications or grades on loans, increase the allowance for loan losses with large provisions for

loan losses and to recognize further loan charge-offs based upon their judgments, which may be different from ours. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our results of operations and financial condition.

Our growth plans are dependent on the availability of capital and funding. Our historical dependence on trust preferred and other forms of debt capital became limited by market conditions beyond our control, as has been evidenced with the economic downturn and issues affecting the financial services industry. Pricing of capital, in terms of interest or dividend requirements or dilutive impact on earnings available to shareholders, has increased dramatically, and an increase in costs of capital can have a direct impact on operating performance and the ability to achieve growth objectives. Costs of funding could also increase dramatically and affect our growth objectives, as well as our financial performance. Additionally, the FDIC s guarantee on non-interest bearing deposits was extended to January 1, 2013 but subsequent to that date we could be adversely affected in our ability to attract and maintain non-interest bearing deposits as a source of cost-effective funding. Adverse changes in operating performance or financial condition or changes in statutory or regulatory requirements could make raising additional capital difficult or extremely expensive.

Our operations are significantly affected by interest rate levels. Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income we earn as a result of interest paid to us on loans and investments and interest we pay to third parties such as our depositors and those from whom we borrow funds. Like most financial institutions, we are affected by changes in general interest rate levels, which are currently at record low levels, and by other economic factors beyond our control. Prolonged periods of unusually low interest rates may have an adverse effect on earnings or returns by reducing the value of demand deposits, stockholders equity and fixed rate liabilities with rates higher than available earning assets. Interest rate risk can result from mismatches between the dollar amount of repricing or maturing assets and liabilities and from mismatches in the timing and rate at which our assets and liabilities reprice. Although we have implemented strategies which we believe reduce the potential effects of changes in interest rates on our results of operations, these strategies will not always be successful. In addition, any substantial and prolonged increase in market interest rates could reduce our customers desire to borrow money from us or adversely affect their ability to repay their outstanding loans by increasing their costs since most of our loans have adjustable interest rates that reset periodically. If our borrowers ability to repay is affected, our level of non-performing assets would increase and the amount of interest earned on loans would decrease, thereby having an adverse effect on operating results. Any of these events could adversely affect our results of operations or financial condition.

Our business faces unpredictable economic and business conditions. General economic conditions and specific business conditions impact the banking industry and our customers businesses. 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 depends somewhat on factors beyond our control, including:

- national and local economic conditions, including incidence of customer fraud evident at times of severe economic weakness;
- the supply and demand for investable funds;
- interest rates; and
- federal, state and local laws affecting these matters.

Substantial deterioration in any of the foregoing conditions, as we have experienced with the current economic downturn, can have a material adverse effect on our results of operations and financial condition, and we may not be

able to sustain our historical rate of growth. Our bank s customer base is primarily commercial in nature, and our bank does not have a significant branch network or retail deposit base. In periods of economic downturn, business and commercial deposits may tend to be more volatile than traditional retail consumer deposits and, therefore, during these periods our financial condition and results of operations could be adversely affected to a greater degree than our competitors that have a larger retail customer base.

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We are dependent upon key personnel. Our success depends to a significant extent upon the performance of certain key employees, the loss of whom could have an adverse effect on our business. Although we have entered into employment agreements with certain employees, we cannot assure you that we will be successful in retaining key employees.

Our business is concentrated in Texas and a downturn in the economy of Texas may adversely affect our business. A substantial majority of our business is located in Texas. As a result, our financial condition and results of operations may be affected by changes in the Texas economy. A prolonged period of economic recession or other adverse economic conditions in Texas may result in an increase in non-payment of loans, a decrease in collateral value and higher incidence of fraud.

Our business strategy focuses on organic growth within our target markets and, if we fail to manage our growth effectively, it could negatively affect our operations. We intend to develop our business principally through organic growth. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. In order to execute our growth strategy successfully, we must, among other things:

- identify and expand into suitable markets and lines of business;
- build our customer base;
- maintain credit quality;
- attract sufficient deposits to fund our anticipated loan growth;
- attract and retain qualified bank management in each of our targeted markets;
- identify and pursue suitable opportunities for opening new banking locations;
- maintain adequate regulatory capital; and
- maintain sufficient infrastructure to support growth, including meeting increasing regulatory requirements.

Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy.

We compete with many larger financial institutions which have substantially greater financial resources than we have. Competition among financial institutions in Texas 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 and other financial institutions. Many of these competitors have substantially greater financial resources, lending limits and larger branch networks than we do, and are able to offer a broader range of products and services than we can. Failure to compete effectively for deposit, loan and other banking customers in our markets could cause us to lose market share, slow our growth rate and may have an adverse effect on our financial condition and results of operations.

The risks involved in commercial lending may be material. We generally invest a greater proportion of our assets in commercial loans than other banking institutions of our size, and our business plan calls for continued efforts to

increase our assets invested in these loans. Commercial loans may involve a higher degree of credit risk than some other types of loans due, in part, to their larger average size, the effects of changing economic conditions on commercial loans, the dependency on the cash flow of the borrowers businesses to service debt, the sale of assets securing the loans, and disposition of collateral which may not be readily marketable. Losses incurred on a relatively small number of commercial loans could have a materially adverse impact on our results of operations and financial condition.

Real estate lending in our core Texas markets involves risks related to a decline in value of commercial and residential real estate. Our real estate lending activities, and the exposure to fluctuations in real estate values, are significant and expected to 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 the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized and we may not be able to realize the amount of security that we anticipated at the time of originating the loan. 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 in our markets. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of borrowers dependent on the sale or refinancing of property. Failure to sell some loans held for sale in accordance with contracted terms may result in mark to market charges to other operating income. In addition, after the mark to market, we may transfer the loans into the loans held for investment portfolio where they will then be subject to changes in grade, classification, accrual status, foreclosure, or loss which could have an effect on the adequacy of the allowance for loan losses. When conditions warrant, we may find it beneficial to restructure loans to improve prospects of collectability, and such actions may require loans to be treated as troubled debt restructurings and/or non-performing loans.

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. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, 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 or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an 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.

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

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our customers. In addition, we must be able to protect the computer systems and network infrastructure utilized by us against physical damage, security breaches and service disruption caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and deter potential customers. Although we, with the help of third-party service providers, will continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, the failure of our customers to maintain appropriate security for their systems may increase our risk of loss. We have and will continue to incur costs with the training of our customers about protection of their systems. However, we cannot be assured that this training will be adequate to avoid risk to our customers or, under unknown circumstances to us.

We are subject to extensive government regulation and supervision. We are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit

insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy, operations and growth, among other things. These regulations also impose obligations to maintain appropriate policies, procedures and

controls, among other things, 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. The changes in regulation and requirements imposed on financial institutions, such as the recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and recently adopted Basel III accords, could subject us to additional costs, impose requirements for additional capital, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. We expend substantial effort and incur costs to improve our systems, audit capabilities, staffing and training in order to satisfy regulatory requirements, but the regulatory authorities may determine that such efforts are insufficient. 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. In addition, the FDIC has imposed higher general and special assessments on deposits based on general industry conditions and as a result of changes in specific programs, and there is no restriction on the amount by which the FDIC may increase deposit assessments in the future. These increased FDIC assessments have affected our earnings to a significant degree, and the industry may be subject to additional assessments, fees or taxes.

Furthermore, Sarbanes-Oxley, and the related rules and regulations promulgated by the SEC and Financial Industry Regulatory Authority (FINRA) that are applicable to us, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. As a result, we have experienced, and may continue to experience, greater compliance costs.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business. Severe weather, natural disasters, 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. Periodically, hurricanes have caused extensive flooding and destruction along the coastal areas of Texas, including communities where we conduct business, and our operations in Houston have been disrupted to a minor degree. While the impact of these hurricanes did not significantly affect us, other severe weather or natural disasters, acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our management maintains significant control over us. Our current executive officers and directors beneficially own approximately 5% of the outstanding shares of our common stock. Accordingly, our current executive officers and directors are able to influence, to a significant extent, the outcome of all matters required to be submitted to our stockholders for approval (including decisions relating to the election of directors) and other significant corporate matters.

There are substantial regulatory limitations on changes of control. With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be acting in concert from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our 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.

We are subject to claims and litigation pertaining to fiduciary responsibility, employment practices and other general business matters litigation. From time to time, customers make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal action related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for those products and services. In addition, employees can make claims related to our employment practices. If such claims or legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or adversely affect the market perception of us. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls, 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.

New lines of business or new products and services may subject us to additional risks. From time to time, we may develop and grow new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks 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. All service offerings, including current offerings and those which may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond our control.

Risks Associated With Our Common Stock

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 results of operations;
- recommendations by securities analysts;

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 the failures of other financial institutions in the current economic downturn;

- 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;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; 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 current 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. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. 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.

An investment in our common stock is not an insured deposit. Our common stock is not a bank deposit and, therefore, is 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 common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

The holders of our junior subordinated debentures have rights that are senior to those of our shareholders. As of December 31, 2010, we had $113.4 million in junior subordinated debentures outstanding that were issued to our statutory trusts. The trusts purchased the junior subordinated debentures from us using the proceeds from the sale of trust preferred securities to third party investors. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us to the extent not paid or made by each trust, provided the trust has funds available for such obligations.

Our junior subordinated debentures are senior to our shares of common stock. As a result, we must make payments on our junior subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to our 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 common stock.

We do not currently pay dividends. Our ability to pay dividends is limited and we may be unable to pay future dividends. We do not currently pay dividends on our common stock. Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of our bank subsidiary, Texas Capital Bank, to pay dividends to us is limited by its obligations to maintain sufficient capital and by other general restrictions on its dividends that are applicable to our regulated bank subsidiary. If these regulatory requirements are not met, our subsidiary bank will not be able to pay dividends to us, and we could be unable to pay dividends on our common stock or meet debt or other contractual obligations.

Risks Associated With Our Industry

The earnings of financial services companies are significantly affected by general business and economic conditions. As a financial services company, our operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuation in both debt and equity capital markets, broad trends in industry and finance and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control. Continued weakness or further deterioration in economic conditions could result in decreases in loan collateral values and increases in loan delinquencies, non-performing assets and losses on loans and other real estate acquired through foreclosure of loans. Industry conditions, competition and the performance of our bank could also result in a decrease in demand for our products and services, among other things, any of which could have a material adverse impact on our results of operations and financial condition.

There can be no assurance that recent and future legislation will not subject us to heightened regulation, and the impact of such legislation on us cannot be reliably determined at this time. On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which imposes significant regulatory and compliance changes. 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 the new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our results of operations and financial condition. We cannot predict what additional legislation may be enacted affecting banks and bank holding companies and their operations, or what regulations might be adopted by bank regulators or the effects thereof. In light of current economic conditions in the financial markets and the United States economy, Congress and regulators have increased their focus on the regulation of the banking industry. If enacted, any new legislative or regulatory initiatives could affect us in substantial and unpredictable ways, including increased compliance costs and additional operating restrictions on our business, and could result in an adverse effect on our business, financial condition and results of operations.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our results of operations and financial condition.

We compete in an industry that continually experiences technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements. The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services which our customers may require. Many of our competitors have substantially greater resources to invest in technological improvements. 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.

Consumers and businesses may decide not to use banks to complete their financial transactions. Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. The possibility of eliminating banks as intermediaries could result in the loss of interest and fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our

results of operations and financial condition.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None

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ITEM 2. PROPERTIES

As of December 31, 2010, we conducted business at nine full service banking locations and one operations center. Our operations center houses our loan and deposit operations and the BankDirect call center. We lease the space in which our banking centers and the operations call center are located. These leases expire between March 2013 and May 2021, 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 Suite 700 Dallas, Texas 75201
Operations center, banking location	2350 Lakeside Drive Suite 800 Richardson, Texas 75083
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
Banking location	500 Throckmorton Suite 300 Fort Worth, Texas 76102
Banking location	114 W. 7th St. Suite 100 Austin, Texas 78701
Banking location	745 East Mulberry Street Suite 350 San Antonio, Texas 78212
Banking location	7373 Broadway Suite 100 San Antonio, Texas 78209

Banking location	One Riverway Suite 150 Houston, Texas 77056

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ITEM 3. *LEGAL PROCEEDINGS*

We are not involved in any material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on our results of operations or financial condition.

ITEM 4. *[REMOVED AND RESERVED]*

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 22, 2011, there were approximately 308 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 and state 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 2009 and 2010.

	Price Per Share	
Quarter Ended	**High**	**Low**
March 31, 2009	13.63	6.55
June 30, 2009	16.24	9.87
September 30, 2009	18.30	14.25
December 31, 2009	17.03	12.98
March 31, 2010	19.39	13.75
June 30, 2010	21.45	14.86
September 30, 2010	18.85	15.03
December 31, 2010	22.73	16.65

Equity Compensation Plan Information

The following table presents certain information regarding our equity compensation plans as of December 31, 2010.

Plan Category	**Number of Securities to Be Issued Upon Exercise of Outstanding Options,**	**Weighted Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans**

	Warrants and Rights			
Equity compensation plans approved by security holders	2,147,004	$	14.81	559,760
Equity compensation plans not approved by security holders				
Total	2,147,004	$	14.81	559,760

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Stock Performance Graph

The following table and graph sets forth the cumulative total stockholder return for the Company s common stock beginning on August 12, 2003, the date of the Company s initial public offering 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 August 12, 2003. The performance graph represents past performance and should not be considered to be an indication of future performance.

	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Texas Capital Bancshares, Inc.	$ 21.62	$ 22.38	$ 19.88	$ 18.25	$ 13.36	$ 13.96	$ 21.34
Russell 2000 Index RTY	658.72	681.26	796.70	775.75	509.18	633.31	792.00
Nasdaq Bank Index CBNK	3,288.71	3,154.28	3,498.55	2,746.89	2,098.35	1,693.34	1,882.37

TCBI Stock Performance Graph

Source: Bloomberg

ITEM 6. *SELECTED CONSOLIDATED FINANCIAL DATA*

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

(in thousands, except per share, average share and percentage data)	At or For The Year Ended December 31				
	2010	**2009**	**2008**	**2007**	**2006**
Consolidated Operating Data (1)					
Interest income	$ 279,810	$ 243,153	$ 248,930	$ 289,292	$ 236,482
Interest expense	38,136	46,462	97,193	149,540	119,312
Net interest income	241,674	196,691	151,737	139,752	117,170
Provision for credit losses	53,500	43,500	26,750	14,000	4,000
Net interest income after provision for credit losses	188,174	153,191	124,987	125,752	113,170
Non-interest income	32,263	29,260	22,470	20,627	17,684
Non-interest expense	163,488	145,542	109,651	98,606	86,912
Income from continuing operations before income taxes	56,949	36,909	37,806	47,773	43,942
Income tax expense	19,626	12,522	12,924	16,420	14,961
Income from continuing operations	37,323	24,387	24,882	31,353	28,981
Income (loss) from discontinued operations (after-tax)	(136)	(235)	(616)	(1,931)	(57)
Net income	37,187	24,152	24,266	29,422	28,924
Preferred stock dividends		5,383			
Net income available to common shareholders	$ 37,187	$ 18,769	$ 24,266	$ 29,422	$ 28,924
Consolidated Balance Sheet Data(1)					
Total assets(3)	$ 6,445,679	$ 5,698,318	$ 5,141,034	$ 4,287,853	$ 3,659,445
Loans held for investment	4,711,330	4,457,293	4,027,871	3,462,608	2,722,097
Loans held for sale	1,194,209	693,504	496,351	174,166	199,014
Loans held for sale from discontinued operations	490	586	648	731	16,844
Securities available-for-sale	185,424	266,128	378,752	440,119	520,091

Demand deposits	1,451,307	899,492	587,161	529,334	513,930
Total deposits	5,455,401	4,120,725	3,333,187	3,066,377	3,069,330
Federal funds purchased	283,781	580,519	350,155	344,813	165,955
Other borrowings	14,106	376,510	930,452	439,038	45,604
Trust preferred subordinated debentures	113,406	113,406	113,406	113,406	113,406
Stockholders equity	528,319	481,360	387,073	295,138	253,515

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(in thousands, except per share, average share and percentage data)	At or For The Year Ended December 31 2010	2009	2008	2007	2006
Other Financial Data					
Income per share:					
Basic					
Income from continuing operations	$ 1.02	$ .56	$ .89	$ 1.20	$ 1.12
Net income	1.02	.55	.87	1.12	1.11
Diluted					
Income from continuing operations	1.00	.55	.89	1.18	1.10
Net income	1.00	.55	.87	1.10	1.09
Tangible book value per share(4)	13.89	12.96	12.19	10.92	9.32
Book value per share(4)	14.15	13.23	12.44	11.22	9.82
Weighted average shares:					
Basic	36,627,329	34,113,285	27,952,973	26,187,084	25,945,065
Diluted	37,346,028	34,410,454	28,048,463	26,678,571	26,468,811
Selected Financial Ratios:					
Performance Ratios					
From continuing operations:					
Net interest margin	4.28%	3.89%	3.54%	3.82%	3.84%
Return on average assets	.63%	.46%	.55%	.80%	.88%
Return on average equity	7.23%	5.15%	7.46%	11.51%	12.62%
Efficiency ratio	59.68%	64.41%	62.94%	61.48%	64.45%
Non-interest expense to average earning assets	2.88%	2.87%	2.54%	2.68%	2.83%
From consolidated:					
Net interest margin	4.28%	3.89%	3.54%	3.82%	4.00%
Return on average assets	.62%	.45%	.54%	.75%	.87%
Return on average equity	7.21%	5.10%	7.28%	10.80%	12.59%
Asset Quality Ratios					
Net charge-offs (recoveries) to average loans(2)	1.14%	.46%	.35%	.07%	.08%
Reserve for loan losses to loans held for investment(2)	1.52%	1.52%	1.13%	.92%	.74%
Reserve for loan losses to non-accrual loans	.6x	.7x	1.0x	1.5x	2.2x
Non-accrual loans to loans(2)	2.38%	2.15%	1.18%	.62%	.33%
Total NPAs to loans plus OREO(2)	3.25%	2.74%	1.81%	.69%	.37%

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(In thousands, except per share, average share and percentage data)	**At or For The Year Ended December 31**				
	2010	**2009**	**2008**	**2007**	**2006**
Capital and Liquidity Ratios					
Total capital ratio	11.83%	11.98%	10.92%	10.56%	11.16%
Tier 1 capital ratio	10.58%	10.73%	9.97%	9.41%	9.68%
Tier 1 leverage ratio	9.36%	10.54%	10.21%	9.38%	9.18%
Average equity/average assets	8.67%	8.91%	7.38%	6.98%	6.96%
Tangible common equity/ total tangible assets(4)	7.98%	8.18%	7.36%	6.73%	6.74%
Average net loans/average deposits	105.50%	128.43%	120.03%	103.64%	93.89%

(1) The consolidated statement of operating data and consolidated balance sheet data presented above for the five most recent fiscal years ended December 31 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) Excludes loans held for sale.

(3) From continuing operations.

(4) Excludes unrealized gains/losses on securities.

Consolidated Interim Financial Information (Unaudited)

(in thousands except per share and average share data)	2010 Selected Quarterly Financial Data			
	Fourth	**Third**	**Second**	**First**
Interest income	$ 75,432	$ 72,600	$ 67,472	$ 64,306
Interest expense	9,477	9,994	9,587	9,078
Net interest income	65,955	62,606	57,885	55,228
Provision for credit losses	12,000	13,500	14,500	13,500
Net interest income after provision for credit losses	53,955	49,106	43,385	41,728
Non-interest income	9,178	8,101	8,036	6,948
Non-interest expense	44,582	42,602	39,118	37,186
Income from continuing operations before income taxes	18,551	14,605	12,303	11,490
Income tax expense	6,475	5,074	4,187	3,890
Income from continuing operations	12,076	9,531	8,116	7,600
Loss from discontinued operations (after-tax)	(22)	(5)	(54)	(55)
Net income	$ 12,054	$ 9,526	$ 8,062	$ 7,545
Basic earnings per share:				
Income from continuing operations	$ .33	$ .26	$ .22	$ .21
Net income	$ .33	$ .26	$ .22	$ .21
Diluted earnings per share:				
Income from continuing operations	$ .32	$ .25	$ .22	$ .21
Net income	$ .32	$ .25	$ .22	$ .21
Average shares:				
Basic	36,855,000	36,784,000	36,670,000	36,191,000
Diluted	37,658,000	37,445,000	37,487,000	36,784,000

(In thousands except per share data)	2009 Selected Quarterly Financial Data Fourth	Third	Second	First
Interest income	$ 65,137	$ 62,197	$ 60,013	$ 55,806
Interest expense	10,031	10,631	11,211	14,589
Net interest income	55,106	51,566	48,802	41,217
Provision for credit losses	10,500	13,500	11,000	8,500
Net interest income after provision for credit losses	44,606	38,066	37,802	32,717
Non-interest income	7,811	7,133	7,416	6,900
Non-interest expense	42,796	37,067	35,373	30,306
Income from continuing operations before income taxes	9,621	8,132	9,845	9,311
Income tax expense	3,194	2,779	3,363	3,186
Income from continuing operations	6,427	5,353	6,482	6,125
Loss from discontinued operations (after-tax)	(55)	(41)	(44)	(95)
Net income	6,372	5,312	6,438	6,030
Preferred stock dividends			4,453	930
Net income available to common shareholders	$ 6,372	$ 5,312	$ 1,985	$ 5,100
Basic earnings per share:				
Income from continuing operations	$ .18	$ .15	$ .06	$ .17
Net income	$ .18	$ .15	$ .06	$ .16
Diluted earnings per share:				
Income from continuing operations	$ .18	$ .15	$ .06	$ .17
Net income	$ .18	$ .15	$ .06	$ .16
Average shares:				
Basic	35,850,000	35,754,000	33,784,000	26,528,000
Diluted	36,311,000	36,304,000	33,866,000	31,072,000

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

Forward-Looking Statements

Statements and financial analysis contained in this document that are not historical facts are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Act). In addition, certain statements may be contained in our future filings with SEC, in press releases, and in oral and written statements made by or with our approval that are not statements of historical fact and constitute forward-looking statement within the meaning of the Act. Forward looking statements describe our future plans, strategies and expectations and are based on certain assumptions. Words such as believes , anticipates , expects , intends , targeted , continue , remain , will , should , may and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties, many of which are beyond our control that may cause actual results to differ materially from those in such statements. The important factors that could cause actual results to differ materially from the forward looking statements include, but are not limited to, the following:

(1) Changes in interest rates and the relationship between rate indices, including LIBOR and Fed Funds

(2) Changes in the levels of loan prepayments, which could affect the value of our loans or investment securities

(3) Changes in general economic and business conditions in areas or markets where we compete

(4) Competition from banks and other financial institutions for loans and customer deposits

(5) The failure of assumptions underlying the establishment of and provisions made to the allowance for credit losses and differences in assumptions utilized by banking regulators which could have retroactive impact

(6) The loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels

(7) Changes in government regulations including changes as a result of the current economic crisis. On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry.

Forward-looking statements speak only as of the date on which such statements are made. We have no obligation to update or revise any forward looking statements as a result of new information or future events. In light of these assumptions, risks and uncertainties, the events discussed in any forward looking statements in this annual report might not occur.

Overview of Our Business Operations

We commenced operations in December 1998. An important aspect of our growth strategy has been our ability to service and effectively manage a large number of loans and deposit accounts in multiple markets in Texas. Accordingly, we created an operations infrastructure sufficient to support state-wide lending and banking operations.

The following discussions and analyses present the significant factors affecting our financial condition as of December 31, 2010 and 2009 and results of operations for each of the three years in the period ended December 31, 2010. This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements appearing later in this report. Please also note the below description about our discontinued operations and how it is reflected in the following discussions of our financial condition and results of operations.

On October 16, 2006, we completed the sale of our residential mortgage lending division (RML). The sale was effective as of September 30, 2006, and, accordingly, all operating results for this discontinued component of our operations were reclassified to discontinued operations. All prior periods were restated to reflect the change. Subsequent to the end of the first quarter of 2007, Texas Capital Bank and the purchaser of its residential mortgage loan division (RML) agreed to terminate and settle the contractual arrangements related to the sale of the division.

The loss from discontinued operations was $136,000 and $235,000, net of taxes, for the years 2010 and 2009, respectively. The 2010 losses are primarily related to continuing legal and salary expenses incurred in dealing with the remaining loans and requests from investors related to the repurchase of previously sold loans. We still have approximately $490,000 in loans held for sale from discontinued operations that are carried at the estimated market value at year-end, which is less than the original cost. We plan to sell these loans, but timing and price to be realized cannot be determined at this time due to market conditions. In addition, we continue to address requests from investors related to repurchasing loans previously sold. While the balances as of December 31, 2010 include a liability for exposure to additional contingencies, including risk of having to repurchase loans previously sold, we recognize that market conditions may result in additional exposure to loss and the extension of time necessary to complete the discontinued mortgage operation. Our mortgage warehouse lending operations were not part of the sale, and are included in the results from continuing operations. Except as otherwise noted, all amounts and disclosures throughout this document reflect only the Company s continuing operations.

Year ended December 31, 2010 compared to year ended December 31, 2009

We reported net income of $37.3 million for the year ended December 31, 2010, compared to $24.4 million for the same period in 2009. We reported net income available to common shareholders of $37.3 million, or $1.00 per diluted common share, for the year ended December 31, 2010, compared to $19.0 million, or $.55 per diluted common share, for the same period in 2009 as a result of preferred dividends paid in 2009. Return on average equity was 7.23% and return on average assets was .63% for the year ended December 31, 2010, compared to 5.15% and .46%, respectively, for the same period in 2009.

Net income increased $12.9 million, or 53%, for the year ended December 31, 2010, and net income available to common shareholders increased $18.3 million, or 96%, compared to the same period in 2009. The $12.9 increase was primarily the result of a $45.0 increase in net interest income and a $3.0 million increase in non-interest income, offset by a $10.0 million increase in the provision for credit losses and a $17.9 million increase in non-interest expense, and a $7.1 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, 2009 compared to year ended December 31, 2008

We reported net income of $24.4 million for the year ended December 31, 2009, compared to $24.9 million for the same period in 2008. We reported net income available to common shareholders of $19.0 million, or $.55 per diluted common share, for the year ended December 31, 2009, compared to $24.9 million, or $.89 per diluted common share, for the same period in 2008 as a result of preferred dividends paid. Return on average equity was 5.15% and return on average assets was .46% for the year ended December 31, 2009, compared to 7.46% and .55%, respectively, for the same period in 2008.

Net income decreased $495,000, or 2%, for the year ended December 31, 2009, and net income available to common shareholders decreased $5.9 million, or 24%, compared to the same period in 2008. The $495,000 decrease was primarily the result of a $16.8 million increase in the provision for credit losses and a $35.9 million increase in non-interest expense, offset by a $45.0 million increase in net interest income and a $6.8 million increase in

non-interest income and a $402,000 decrease in income tax expense.

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

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Net Interest Income

Net interest income was $241.7 million for the year ended December 31, 2010 compared to $196.7 million for the same period of 2009. The increase in net interest income was primarily due to an increase of $593.7 million in average earning assets and the increase in our net interest margin. The increase in average earning assets from 2009 included an $546.1 million increase in average net loans offset by a $92.0 million decrease in average securities. For the year ended December 31, 2010, average net loans and securities represented 93% and 4%, respectively, of average earning assets compared to 93% and 6%, respectively, in 2009.

Average interest bearing liabilities for the year ended December 31, 2010 increased $222.2. million from the year ended December 31, 2009, which included a $964.5 million increase in interest bearing deposits and a $742.2 million decrease in other borrowings. For the same periods, the average balance of demand deposits increased to $1.1 billion from $760.8 million.. The average cost of interest bearing liabilities decreased from 1.14% for the year ended December 31, 2009 to 0.89% in 2010, reflecting the continued low market interest rates, and our focus on reducing deposit rates.

Net interest income was $196.7 million for the year ended December 31, 2009 compared to $151.7 million for the same period of 2008. The increase in net interest income was primarily due to an increase of $764.8 million in average earning assets and the increase in our net interest margin. The increase in average earning assets from 2008 included an $835.3 million increase in average net loans offset by a $76.6 million decrease in average securities. For the year ended December 31, 2009, average net loans and securities represented 93% and 6%, respectively, of average earning assets compared to 91% and 9%, respectively, in 2008.

Average interest bearing liabilities for the year ended December 31, 2009 increased $431.0 million from the year ended December 31, 2008, which included a $206.4 million increase in interest bearing deposits and a $224.6 million increase in other borrowings. For the same periods, the average balance of demand deposits increased to $760.8 million from $529.5 million. The significant increase in average other borrowings is a result of the combined effects of maturities of transaction-specific deposits and growth in loans during 2009. The average cost of interest bearing liabilities decreased from 2.67% for the year ended December 31, 2008 to 1.14% in 2009, reflecting the significant decline in market interest rates.

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Volume/Rate Analysis

	Years Ended December 31,					
	2010/2009			2009/2008		
		Change Due To(1)			Change Due To(1)	
(in thousands)	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest income:						
Securities(2)	$ (4,200)	$ (4,136)	$ (64)	$ (4,184)	$ (3,586)	$ (598)
Loans	40,503	26,823	13,680	(1,509)	49,955	(51,464)
Federal funds sold	179	395	(216)	(137)	(51)	(86)
Deposits in other banks	72	126	(54)	13	111	(98)
	36,554	23,208	13,346	(5,817)	46,429	(52,246)
Interest expense :						
Transaction deposits	732	474	258	(221)	178	(399)
Savings deposits	5,695	8,186	(2,491)	(4,320)	7,299	(11,619)
Time deposits	(9,163)	(4,833)	(4,330)	(16,477)	3,532	(20,009)
Deposits in foreign branches	(1,779)	(161)	(1,618)	(14,010)	(9,271)	(4,739)
Borrowed funds	(3,811)	(3,196)	(615)	(15,703)	5,032	(20,735)
	(8,326)	470	(8,796)	(50,731)	6,770	(57,501)
Net interest income	$ 44,880	$ 22,738	$ 22,142	$ 44,914	$ 39,659	$ 5,255

(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.

Net interest margin from continuing operations, the ratio of net interest income to average earning assets, from continuing operations increased from 3.89% in 2009 to 4.28% in 2010. This 39 basis point increase was a result of a decline in the costs of interest bearing liabilities and growth in non-interest bearing deposits. Total cost of funding decreased from .87% for 2009 to .64% for 2010. Also contributing to the increase in net interest margin was a 14 basis point increase in the yield on earning assets from 2009.

Net interest margin from continuing operations, the ratio of net interest income to average earning assets, from continuing operations increased from 3.54% in 2008 to 3.89% in 2009. This 35 basis point increase was a result of a steep decline in the costs of interest bearing liabilities and growth in non-interest bearing deposits and stockholders equity. Total cost of funding decreased from 2.15% for 2008 to .87% for 2009. The benefit of the reduction in funding costs was partially offset by a 99 basis point decline in yields on earning assets.

Consolidated Daily Average Balances, Average Yields and Rates

	Year Ended December 31							
	2010			2009			2008	
except percentage data)	**Average Balance**	**Revenue/ Expense(1)**	**Yield/ Rate**	**Average Balance**	**Revenue/ Expense(1)**	**Yield/ Rate**	**Average Balance**	**Revenue Expense(**
axable	$ 183,363	$ 8,023	4.38%	$ 269,888	$ 11,928	4.42%	$ 343,870	$ 16,00
on-taxable(2)	39,360	2,243	5.70%	44,873	2,538	5.66%	47,450	2,65
sold	112,716	210	0.19%	8,196	31	0.38%	11,744	16
her banks	47,365	116	0.24%	12,266	44	0.36%	2,675	3
sale	883,033	41,808	4.73%	596,271	28,336	4.75%	255,808	14,84
	4,475,668	228,195	5.10%	4,200,174	201,164	4.79%	3,685,301	216,16
or loan losses	71,942			55,784			35,769	
	5,286,759	270,003	5.11%	4,740,661	229,500	4.84%	3,905,340	231,00
assets	5,669,563	280,595	4.95%	5,075,884	244,041	4.81%	4,311,079	249,85
assets	281,448			245,034			206,634	
	$ 5,951,011			$ 5,320,918			$ 4,517,713	
stockholders equity								
eposits	$ 437,674	$ 974	0.22%	$ 147,961	$ 242	0.16%	$ 106,720	$ 46
its	2,142,541	15,777	0.74%	1,182,442	10,082	0.85%	784,685	14,40
	913,616	11,707	1.28%	1,188,964	20,870	1.76%	1,086,252	37,34
reign branches	401,155	4,851	1.21%	411,116	6,630	1.61%	746,399	20,64
bearing deposits	3,894,986	33,309	0.86%	2,930,483	37,824	1.29%	2,724,056	72,85
ngs	280,899	1,155	0.41%	1,023,198	4,406	0.43%	798,647	17,89
d subordinated								
	113,406	3,672	3.24%	113,406	4,232	3.73%	113,406	6,44
bearing liabilities	4,289,291	38,136	0.89%	4,067,087	46,462	1.14%	3,636,109	97,19
sits	1,116,260			760,776			529,471	
es	29,492			19,207			18,616	
equity	515,968			473,848			333,517	
s and stockholders equity	$ 5,951,011			$ 5,320,918			$ 4,517,713	
come		$ 242,459			$ 197,579			$ 152,66
argin			4.28%			3.89%		
read			4.06%			3.67%		

verages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.

quivalent rates used where applicable.

ormation from discontinued operations:

r sale from discontinued						
	$	564	$	600	$	699
ds		564		600		699
come	$	36	$	61	$	5
argin consolidated		4.28%		3.89%		

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Non-interest Income

(in thousands)	Year Ended December 31 2010	2009	2008
Service charges on deposit accounts	$ 6,392	$ 6,287	$ 4,699
Trust fee income	3,846	3,815	4,692
Bank owned life insurance (BOLI) income	1,889	1,579	1,240
Brokered loan fees	11,190	9,043	3,242
Equipment rental income	4,134	5,557	5,995
Other(1)	4,812	2,979	2,602
Total non-interest income	$ 32,263	$ 29,260	$ 22,470

(1) Other income includes such items as letter of credit fees, swap 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 $3.0 million, or 10%, during the year ended December 31, 2010 to $32.3 million, compared to $29.3 million during the same period in 2009. The increase was primarily due to an increase in brokered loan fees, which increased $2.2 million to $11.2 million for the year ended December 31, 2010, compared to $9.0 million for the same period in 2009 due to an increase in our mortgage warehouse lending volume. Other non-interest income increased $1.8 million primarily related to losses on sale of assets we experienced in 2009 not recurring in 2010, as well as an increase in swap fees during 2010. These increases were offset by a $1.4 million decrease in equipment rental income related to a decline in the leased equipment portfolio.

Non-interest income increased by $6.8 million, or 30%, during the year ended December 31, 2009 to $29.3 million, compared to $22.5 million during the same period in 2008. The increase was primarily due to an increase in brokered loan fees, which increased $5.8 million to $9.0 million for the year ended December 31, 2009, compared to $3.2 million for the same period in 2008 due to an increase in our mortgage warehouse lending volume. Service charges increased $1.6 million to $6.3 million for the year ended December 31, 2009, compared to $4.7 million for the same period in 2008 due to lower earnings credit rates and an increase in fees. These increases were offset by an $877,000 decrease in trust fee income, which is due to the overall lower market values of trust assets.

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

Non-interest Expense

(in thousands)	Year Ended December 31 2010	2009	2008

Salaries and employee benefits	$ 85,298	$ 73,419	$ 61,438
Net occupancy expense	12,314	12,291	9,631
Leased equipment depreciation	3,297	4,319	4,667
Marketing	5,419	3,034	2,729
Legal and professional	11,837	11,846	9,622
Communications and technology	8,511	6,510	5,152
FDIC insurance assessment	9,202	8,464	1,797
Allowance and other carrying costs for OREO	10,404	10,345	1,541
Other(1)	17,206	15,314	13,074
Total non-interest expense	$ 163,488	$ 145,542	$ 109,651

(1) Other expense includes such items as courier expenses, regulatory assessments other than FDIC insurance, due from bank charges, software amortization and maintenance, 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, 2010 increased $17.9 million compared to the same period of 2009 primarily related to increases in salaries and employee benefits, marketing expense and FDIC assessment expenses.

Salaries and employee benefits expense increased $11.9 million to $85.3 million during the year ended December 31, 2010. This increase resulted primarily from general business growth.

Leased equipment depreciation expense decreased by $1.0 million during the year ended December 31, 2010 due to the decline in the leased equipment portfolio.

Marketing expense for the year ended December 31, 2010 increased $2.4 million compared to the same period in 2009. Marketing expense for the year ended December 31, 2010 included $1.0 million of direct marketing and advertising expense and $2.2 million in business development expense compared to $515,000 and $1.7 million, respectively, in 2009. Marketing expense for the year ended December 31, 2010 also included $2.2 million for the purchase of miles related to the American Airlines AAdvantage® program compared to $856,000 during 2009. Marketing may increase as we seek to further develop our brand, reach more of our target customers and expand in our target markets.

Communications and technology expense increased $2.0 million to $8.5 million during the year ended December 31, 2010 as a result of general business and customer growth.

FDIC insurance assessment expense increased by $738,000 from $8.5 million in 2009 to $9.2 million due to higher rates and an increase in our deposit base. The FDIC assessment rates may continue to increase and will continue to be a factor in our expense growth.

Non-interest expense for the year ended December 31, 2009 increased $35.9 million compared to the same period of 2008 primarily related to increases in salaries and employee benefits, FDIC assessment expenses, and expenses related to other real estate owned (OREO) included valuation allowances.

Salaries and employee benefits expense increased by $12.0 million to $73.4 million during the year ended December 31, 2009. This increase resulted primarily from general business growth.

Occupancy expense increased by $2.7 million to $12.3 million during the year ended December 31, 2009 compared to the same period in 2008 and is related to expansion of leased facilities to support our general business growth.

Legal and professional expenses increased $2.2 million, or 23%, during the year ended December 31, 2009 mainly related to general business growth, and continued regulatory and compliance costs. Regulatory and compliance continue to be a factor in our expense growth and we anticipate that they will continue to increase.

FDIC insurance assessment expense increased by $6.7 million from $1.8 million in 2008 to $8.5 million in 2009 due to the rate increase and special assessment. The FDIC assessment rates may continue to increase and will continue to be a factor in our expense growth.

Allowance and other carrying costs for OREO increased $8.8 million during the year ended December 31, 2009 related to deteriorating values of assets held in OREO. Of the $10.3 million expense for 2009, $6.6 million was related to establishing and increasing the valuation allowance during the year and $1.2 million related to direct write-downs of the OREO balance.

Analysis of Financial Condition

Loan Portfolio

Our loan portfolio has grown at an annual rate of 24%, 14% and 15% in 2008, 2009 and 2010, respectively, reflecting the build-up of our lending operations. Our business plan focuses primarily on lending to middle market businesses and high net worth individuals, and as such, commercial and real estate loans have comprised a majority of our loan portfolio since we commenced operations, comprising 73% of total loans at December 31, 2010. Construction loans have decreased from 18% of the portfolio at December 31, 2006 to 5% of the portfolio at December 31, 2010. Consumer loans generally have represented 1% or less of the portfolio

from December 31, 2006 to December 31, 2010. Loans held for sale, which relates to our mortgage warehouse lending operations and are principally mortgage loans being warehoused for sale (typically within 10 to 20 days), fluctuate based on the level of market demand in the product. Due to market conditions experienced in the mortgage industry during 2007, loans not sold within the normal timeframe were transferred to the loans held for investment portfolio. Loans were transferred at a lower of cost or market basis and are then subject to normal loan review, grading and reserve allocation requirements. The remaining balance of loans transferred was $5.5 million at December 31, 2010, and $467,000 of such loans were NPAs with allocated reserves of approximately $158,000.

We originate substantially all of the loans held in our portfolio, except participations in residential mortgage loans held for sale, select loan participations and syndications, which are underwritten independently by us prior to purchase, and certain USDA and SBA government guaranteed loans that we purchase in the secondary market. We also participate in syndicated loan relationships, both as a participant and as an agent. As of December 31, 2010, we have $521.5 million in syndicated loans, $165.9 million of which we acted as agent. All syndicated loans, whether we act as agent or participant, are underwritten to the same standards as all other loans originated by us. In addition, as of December 31, 2010, none of our syndicated loans were nonperforming, and none are considered potential problem loans.

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

	December 31				
	2010	**2009**	**2008**	**2007**	**2006**
Commercial	$ 2,592,924	$ 2,457,533	$ 2,276,054	$ 2,035,049	$ 1,602,577
Construction	270,008	669,426	667,437	573,459	538,586
Real estate	1,759,758	1,233,701	988,784	773,970	530,377
Consumer	21,470	25,065	32,671	28,334	21,113
Equipment leases	95,607	99,129	86,937	74,523	45,280
Loans held for sale	1,194,209	693,504	496,351	174,166	199,014
Total	$ 5,933,976	$ 5,178,358	$ 4,548,234	$ 3,659,501	$ 2,936,947

Commercial Loans and Leases. Our commercial loan portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards. Our commercial loans and leases are underwritten after carefully evaluating and understanding the borrower s ability to operate profitably. Our underwriting standards are designed to promote relationship banking rather than making loans on a transaction basis. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually and are supported by accounts receivable, inventory, equipment and other assets of our clients businesses. At December 31, 2010, funded commercial loans and leases totaled approximately $2.7 billion, approximately 45% of our total funded loans.

Real Estate Loans. Approximately 23% of our real estate loan portfolio (excluding construction loans) and 7% of the total portfolio is comprised of loans secured by properties other than market risk or investment-type real estate. Market risk loans are real estate loans where the primary source of repayment is expected to come from the sale or lease of the real property collateral. We generally provide temporary financing for commercial and residential

property. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Our real estate loans generally have maximum terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Appraised values may be highly variable due to market conditions and impact of the inability of potential purchasers and lessees to obtain financing and lack of transactions at comparable values. At December 31, 2010, real estate term loans totaled approximately $1.8 billion, or 30% of our total funded

loans; of this total, $1,525.5 million were loans with floating rates and $234.2 million were loans with fixed rates.

Construction Loans. Our construction loan portfolio consists primarily of single-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial investment of the borrowers equity. However, construction loans are generally based upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment extremely sensitive to overall economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, NPA status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees. At December 31, 2010, funded construction real estate loans totaled approximately $270.0 million, approximately 5% of our total funded loans.

Loans Held for Sale. Our loans held for sale portfolio consists of participations purchased in single-family residential mortgages funded through our warehouse lending group. These loans are typically on our balance sheet for 10 to 20 days or less. We have agreements with mortgage lenders and participate in individual loans they originate. All loans are subject to pre-committed programs for permanent financing with financially sound investors. Substantially all loans are conforming loans. At December 31, 2010, loans held for sale totaled approximately $1.2 billion, approximately 20% of our total funded loans.

Letters of Credit. We issue standby and commercial letters of credit, and can service the international needs of our clients through correspondent banks. At December 31, 20010, our commitments under letters of credit totaled approximately $54.8 million.

Portfolio Geographic and Industry Concentrations

We continue to lend primarily in Texas. As of December 31, 2010, a substantial majority of the principal amount of the loans held for investment in our portfolio was to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions in Texas. The table below summarizes the industry concentrations of our funded loans at December 31, 2010. The risks created by these concentrations have been considered by management in the determination of the adequacy of the

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allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each balance sheet date.

(in thousands)	**Amount**	**Percent of Total Loans**
Services	$ 2,208,811	37.2%
Loans held for sale	1,194,209	20.1%
Contracting construction and real estate development	580,215	9.8%
Investors and investment management companies	671,592	11.3%
Petrochemical and mining	506,759	8.5%
Personal/household	196,360	3.3%
Manufacturing	224,569	3.8%
Retail	116,421	2.0%
Wholesale	156,326	2.6%
Contracting trades	47,607	0.8%
Government	14,558	0.3%
Agriculture	16,549	0.3%
Total	$ 5,933,976	100.0%

Our largest concentration in any single industry is in services. Loans extended to borrowers within the services industries include loans to finance working capital and equipment, as well as loans to finance investment and owner-occupied real estate. Significant trade categories represented within the services industries include, but are not limited to, real estate services, financial services, leasing companies, transportation and communication, and hospitality services. Borrowers represented within the real estate services category are largely owners and managers of both residential and non-residential commercial real estate properties. Personal/household loans include loans to certain high net worth individuals for commercial purposes, in addition to consumer loans. Loans held for sale are those loans originated by our mortgage warehouse lending group. Loans extended to borrowers within the contracting industry are comprised largely of loans to land developers and to both heavy construction and general commercial contractors. Many of these loans are secured by real estate properties, the development of which is or may be financed by our bank. Loans extended to borrowers within the petrochemical and mining industries are predominantly loans to finance the exploration and production of petroleum and natural gas. These loans are generally secured by proven petroleum and natural gas reserves.

We make loans that are appropriately collateralized under our credit standards. Approximately 97% of our funded loans are secured by collateral. Over 90% of the real estate collateral is located in Texas. The table

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below sets forth information regarding the distribution of our funded loans among various types of collateral at December 31, 20010 (in thousands except percentage data):

	Amount	Percent of Total Loans
Collateral type:		
Real property	$ 2,029,766	34.2%
Business assets	1,736,423	29.2%
Loans held for sale	1,194,209	20.1%
Energy	396,489	6.7%
Unsecured	193,266	3.3%
Other assets	149,477	2.5%
Highly liquid assets	175,064	3.0%
Rolling stock	41,021	0.7%
U. S. Government guaranty	18,261	0.3%
Total	$ 5,933,976	100.0%

As noted in the table above, 34.2% of our loans are secured by real estate. The table below summarizes our real estate loan portfolio as segregated by the type of property securing the credit. Property type concentrations are stated as a percentage of year-end total real estate loans as of December 31, 2010 (in thousands except percentage data):

	Amount	Percent of Total Real Estate Loans
Property type:		
Market Risk		
Commercial buildings	$ 614,188	30.3%
Unimproved land	168,815	8.3%
Apartment buildings	184,539	9.1%
Shopping center/mall buildings	167,348	8.2%
1-4 Family dwellings (other than condominium)	132,825	6.5%
Residential lots	71,201	3.5%
Hotel/motel buildings	97,586	4.8%
Other	168,337	8.3%
Other Than Market Risk		
Commercial buildings	228,708	11.3%
1-4 Family dwellings (other than condominium)	80,991	4.0%
Other	115,228	5.7%
Total real estate loans	$ 2,029,766	100.0%

The table below summarizes our market risk real estate portfolio as segregated by the geographic region in which the property is located (in thousands except percentage data):

	Amount	Percent of Total
Geographic region:		
Dallas/Fort Worth	$ 654,538	40.8%
Houston	307,342	19.2%
Austin	189,354	11.8%
San Antonio	244,893	15.3%
Other Texas cities	87,039	5.4%
Other states	121,673	7.5%
Total market risk real estate loans	$ 1,604,839	100.0%

We extend market risk real estate loans, including both construction/development financing and limited term financing, to professional real estate developers and owners/managers of commercial real estate projects and properties who have a demonstrated record of past success with similar properties. Collateral properties include office buildings, shopping centers, apartment buildings, residential and commercial tract development located primarily within our five major metropolitan markets in Texas. As such loans are generally repaid through the borrowers sale or lease of the properties, loan amounts are determined in part from an analysis of pro forma cash flows. Loans are also underwritten to comply with product-type specific advance rates against both cost and market value. We engage a variety of professional firms to supply appraisals, market study and feasibility reports, environmental assessments and project site inspections to complement our internal resources to best underwrite and monitor these credit exposures.

The determination of collateral value is critically important when financing real estate. As a result, obtaining current and objectively prepared appraisals is a major part of our underwriting and monitoring processes. Generally, our policy requires a new appraisal every three years. However, in the current economic downturn where real estate values have been fluctuating rapidly, more current appraisals are obtained when warranted by conditions such as a borrower s deteriorating financial condition, their possible inability to perform on the loan, and the increased risks involved with reliance on the collateral value as sole repayment of the loan. Generally, loans graded substandard or worse where real estate is a material portion of the collateral value and/or the income from the real estate or sale of the real estate is the primary source of debt service, annual appraisals are obtained. In all cases, appraisals are reviewed to determine reasonableness of the appraised value. The reviewer will challenge whether or not the data used is adequate and relevant, form an opinion as to the appropriateness of the appraisal methods and techniques used, and determine if overall the analysis and conclusions of the appraiser can be relied upon. Both the appraisal process and the appraisal review process have become increasingly difficult in the current economic environment with the lack of comparable sales which is partially as a result of the lack of available financing which has ultimately led to overall depressed real estate values.

Large Credit Relationships

The market areas we serve include the five major metropolitan markets of Texas, including Austin, Dallas, Fort Worth, Houston and San Antonio. As a result, we originate and maintain large credit relationships with numerous customers in the ordinary course of business. The legal limit of our bank is approximately $85 million and our house limit is generally $15 to $20 million. We consider large credit relationships to be those with commitments equal to or in excess of $10.0 million. The following table provides additional information on our large credit relationships outstanding at year-end (in thousands):

	2010			2009		
	Number of Relationships	Period-End Balances		Number of Relationships	Period-End Balances	
		Committed	Outstanding		Committed	Outstanding
$20.0 million and greater	25	$ 598,299	$ 446,093	15	$ 353,585	$ 297,189
$10.0 million to $19.9 million	122	2,242,013	1,687,786	128	1,733,593	1,272,870

Growth in outstanding balances related to large credit relationships primarily resulted from an increase in commitments. The following table summarizes the average per relationship committed and outstanding loan balance related to our large credit relationships at year-end (in thousands):

	2010			2009		
	Number of	Average Balances		Number of	Average Balances	
	Relationships	Committed	Outstanding	Relationships	Committed	Outstanding
$20.0 million and greater	25	$ 23,932	$ 17,844	15	$ 23,572	$ 19,813
$10.0 million to $19.9 million	122	18,377	13,834	128	13,544	9,944

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Loan Maturity and Interest Rate Sensitivity on December 31, 2010

		Remaining Maturities of Selected Loans		
(in thousands)	**Total**	**Within 1 Year**	**1-5 Years**	**After 5 Years**
Loan maturity:				
Commercial	$ 2,592,924	$ 1,343,629	$ 1,201,094	$ 48,201
Construction	270,008	166,288	100,424	3,296
Real estate	1,759,758	478,329	987,827	293,602
Consumer	21,470	14,232	3,638	3,600
Equipment leases	95,607	9,070	83,999	2,538
Total loans held for investment	$ 4,739,767	$ 2,011,548	$ 2,376,982	$ 351,237
Interest rate sensitivity for selected loans with:				
Predetermined interest rates	$ 864,707	$ 491,961	$ 286,097	$ 86,649
Floating or adjustable interest rates	3,875,060	1,519,587	2,090,885	264,588
Total loans held for investment	$ 4,739,767	$ 2,011,548	$ 2,376,982	$ 351,237

Interest Reserve Loans

As of December 31, 2010, we had $191.0 million in loans with interest reserves, which represents approximately 71% of our construction loans. Loans with interest reserves are common when originating construction loans, but the use of interest reserves is carefully controlled by our underwriting standards. The use of interest reserves is based on the feasibility of the project, the creditworthiness of the borrower and guarantors, and the loan to value coverage of the collateral. The interest reserve account allows the borrower, when financial conditions precedents are met to draw loan funds to pay interest charges on the outstanding balance of the loan. When drawn, the interest is capitalized and added to the loan balance, subject to conditions specified at the time the credit is approved and during the initial underwriting. We have effective and ongoing controls for monitoring compliance with loan covenants for advancing funds and determination of default conditions. When lending relationships involve financing of land on which improvements will be constructed, construction funds are not advanced until borrower has received lease or purchase commitments which will meet cash flow coverage requirements. We maintain current financial statements on the borrowing entity and guarantors, as well as periodical inspections of the project and analysis of whether the project is on schedule or delayed. Updated appraisals are ordered when necessary to validate the collateral values to support all advances, including reserve interest. Advances of interest reserves are discontinued if collateral values do not support the advances or if the borrower does not comply with other terms and conditions in the loan agreements. In addition, most of our construction lending is performed in Texas and our lenders are very familiar with trends in local real estate. At a point where we believe that our collateral position is jeopardized, we retain the right to stop the use of the interest reserves. As of December 31, 2010, none of our loans with interest reserves were on nonaccrual.

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Non-performing Assets

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

	Year Ended December 31		
	2010	2009	2008
Non-accrual loans:(1)			
Commercial	$ 42,543	$ 34,021	$ 15,676
Construction	21	20,023	12,392
Real estate	62,497	34,764	16,209
Consumer	706	273	296
Equipment leases	6,323	6,544	2,926
Total non-accrual loans	112,090	95,625	47,499
Repossessed assets:			
OREO(3)	42,261	27,264	25,904
Other repossessed assets	451	162	25
Total other repossessed assets	42,712	27,426	25,929
Total non-performing assets	$ 154,802	$ 123,051	$ 73,428
Restructured loans	$ 4,319	$	$
Loans past due 90 days and accruing(2)	$ 6,706	$ 6,081	$ 4,115

(1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately $10.5 million, $3.6 million and $2.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(2) At December 31, 2010, 2009 and 2008, loans past due 90 days and still accruing includes premium finance loans of $3.3 million, $2.4 million and $2.1 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

(3) At December 31, 2010 and 2009, OREO balance is net of $12.9 million and $6.6 million valuation allowance, respectively.

Total nonperforming assets at December 31, 2010 increased $30.5 million from December 31, 2009, compared to $49.6 million at December 31, 2008. The increases in the past two years are reflective of the overall economic deterioration during 2009 and 2010. As a result our allowance for loans losses as a percentage of loans, as well as our provision for credit losses recorded in 2009 and 2010 have increased over levels experienced prior to 2009.

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The table below summarizes the non-accrual loans as segregated by loan type and type of property securing the credit as of December 31, 2010 (in thousands):

Non-accrual loans:	
Commercial	
Lines of credit secured by the following:	
Oil and gas properties	$ 19,981
Various single family residences and notes receivable	10,926
Assets of the borrowers	8,010
Other	3,626
Total commercial	42,543
Real estate	
Secured by:	
Commercial property	16,150
Unimproved land and/or undeveloped residential lots	24,114
Rental properties and multi-family residential real estate	8,887
Single family residences	8,249
Other	5,097
Total real estate	62,497
Construction	21
Consumer	706
Leases (commercial leases primarily secured by assets of the lessor)	6,323
Total non-accrual loans	$ 112,090

Reserves on impaired loans were $14.7 million at December 31, 2010, compared to $18.4 million at December 31, 2009 and $13.1 million at December 31, 2008. We recognized $566,000 in interest income on non-accrual loans during 2010 compared to $25,000 in 2009 and $33,000 in 2008. Additional interest income that would have been recorded if the loans had been current during the years ended December 31, 2010, 2009 and 2008 totaled $10.5 million, $3.6 million and $2.9 million, respectively. Average impaired loans outstanding during the years ended December 31, 2010, 2009 and 2008 totaled $120.6 million, $62.3 million and $26.7 million, respectively.

Generally, we place loans on non-accrual when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. As of December 31, 20010, none of our non-accrual loans were earning on a cash basis.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the original loan agreement. Reserves on impaired loans are measured based on the present value of the expected future cash flows discounted at the loan s effective interest rate or the fair value of the underlying collateral.

At December 31, 2010, we had $6.7 million in loans past due 90 days and still accruing interest. Of this total, $3.3 million are premium finance loans. These loans are primarily secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take

180 days or longer from the cancellation date.

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Restructured loans are loans on which, due to the borrower s financial difficulties, we have granted a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current rate for new debt with similar risk, or a reduction of the face amount of debt, either forgiveness of principal or accrued interest. As of December 31, 20010 we have $4.3 million in loans considered restructured that are not already on nonaccrual. Of the nonaccrual loans at December 31, 2010, $26.5 million met the criteria for restructured. A loan continues to qualify as restructured until a consistent payment history has been evidenced, generally no less than twelve months. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Potential problem loans consist of loans that are performing in accordance with contractual terms, but for which we have concerns about the borrower s ability to comply with repayment terms because of the borrower s potential financial difficulties. We monitor these loans closely and review their performance on a regular basis. At December 31, 2010 and 2009, we had $25.3 million and $53.1 million in loans of this type, which were not included in non-accrual loans. The decrease in the amount of potential problem loans from December 2009 to December 2010 is consistent with the increase in nonperforming loans that we have experienced this year.

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

	Year Ended December 31		
	2010	**2009**	**2008**
Beginning balance	$ 27,264	$ 25,904	$ 2,671
Additions	29,559	23,466	28,835
Sales	(6,058)	(14,265)	(5,602)
Valuation allowance	(6,587)	(6,619)	
Direct write-downs	(1,917)	(1,222)	
Ending balance	$ 42,261	$ 27,264	$ 25,904

The following table summarizes the assets held in OREO at December 31, 2010 (in thousands):

OREO:	
Unimproved commercial real estate lots and land	$ 7,561
Commercial buildings	15,170
Undeveloped land and residential lots	13,031
Multifamily lots and land	1,228
Other	5,271
Total OREO	$ 42,261

When foreclosure occurs, fair value, which is generally based on appraised values, may result in partial charge-off of loan upon taking property, and so long as property is retained, reductions in appraised values will result in valuation adjustment taken as non-interest expense. In addition, if the decline in value is believed to be permanent and not just driven by market conditions, a direct write-down to the OREO balance may be taken. We generally pursue sales of OREO when conditions warrant, but we may choose to hold certain properties for a longer term, which can result in additional exposure related to the appraised values during that holding period. During the year ended December 31, 20010, we recorded $8.5 million in valuation expense. Of the $8.5 million, $6.6 million related to increases to the valuation allowance, and $1.9 million related to direct write-downs.

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Summary of Loan Loss Experience

The provision for loan losses is a charge to earnings to maintain the reserve for loan losses at a level consistent with management s assessment of the collectability of the loan portfolio in light of current economic conditions and market trends. We recorded a provision for credit losses of $53.5 million for the year ended December 31, 2010, $43.5 million for the year ended December 31, 2009, and $26.8 million for the year ended December 31, 2008. The amount of reserves and provision required to support the reserve have increased over the last two years as a result of credit deterioration in our loan portfolio driven by negative changes in national and regional economic conditions and the impact of those conditions on the financial condition of borrowers and the values of assets, including real estate assets, pledged as collateral.

The reserve for loan losses is comprised of specific reserves for impaired loans and an estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We regularly evaluate our reserve for loan losses to maintain an adequate level to absorb estimated loan losses inherent in the loan portfolio. Factors contributing to the determination of reserves include the credit worthiness of the borrower, changes in the value of pledged collateral, and general economic conditions. All loan commitments rated substandard or worse and greater than $500,000 are specifically reviewed for loss potential. For loans deemed to be impaired, a specific allocation is assigned based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk-weighted by product type to calculate the required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management s judgment, should be charged off.

The reserve allocation percentages assigned to each credit grade have been developed based primarily on an analysis of our historical loss rates. The allocations are adjusted for certain qualitative factors for such things as general economic conditions, changes in credit policies and lending standards. Changes in the trend and severity of problem loans can cause the estimation of losses to differ from past experience. In addition, the reserve considers the results of reviews performed by independent third party reviewers as reflected in their confirmations of assigned credit grades within the portfolio. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We evaluate many factors and conditions in determining the unallocated portion of the allowance, including the economic and business conditions affecting key lending areas, credit quality trends and general growth in the portfolio. The allowance is considered adequate and appropriate, given management s assessment of potential losses within the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in the Company s market areas and other factors.

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality. The changes are reflected in the general reserve and in specific reserves as the collectability of larger classified loans is evaluated with new information. As our portfolio has matured, historical loss ratios have been closely monitored, and our reserve adequacy relies primarily on our loss history. Currently, the review of reserve adequacy is performed by executive management and presented to our board of directors for their review, consideration and ratification on a quarterly basis.

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The reserve for credit losses, which includes a liability for losses on unfunded commitments, totaled $73.4 million at December 31, 2010, $70.9 million at December 31, 2009 and $46.8 million at December 31, 2008. The total reserve percentage decreased to 1.56% at year-end 2010 from 1.59% and 1.16% of loans held for investment at December 31, 2009 and 2008, respectively. The total reserve percentage has increased over the past two years as a result of the effects of national and regional economic conditions on borrowers and values of assets pledged as collateral. These changes in economic conditions have resulted in increases in loans with weakened credit quality and nonperforming loans. The overall reserve for loan losses continues to be driven by the loan loss reserve methodology as described above. At December 31, 2010, we believe the reserve is sufficient to cover all expected losses in the portfolio and has been derived from consistent application of the methodology described above. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, our estimate of expected losses in the portfolio could also change, which would affect the level of future provisions for loan losses.

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The table below presents a summary of our loan loss experience for the past five years (in thousands except percentage and multiple data):

	Year Ended December 31				
	2010	2009	2008	2007	2006
Reserve for loan losses:					
Beginning balance	$ 67,931	$ 45,365	$ 31,686	$ 20,063	$ 18,897
Loans charged-off:					
Commercial	27,723	4,000	7,395	2,528	2,525
Real estate Construction	12,438	6,508	1,866	313	
Real estate Term	9,517	4,696	4,168		
Consumer	216	502	193	48	3
Equipment leases	1,555	4,022	12	81	76
Total	51,449	19,728	13,634	2,970	2,604
Recoveries:					
Commercial	176	124	759	642	462
Real estate Construction	1	13			
Real estate Term	138	53	47		
Consumer	4	28	13	15	1
Equipment leases	158	54	79	131	247
Total	477	272	898	788	710
Net charge-offs (recoveries)	50,972	19,456	12,736	2,182	1,894
Provision for loan losses	54,551	42,022	26,415	13,805	3,060
Ending balance	$ 71,510	$ 67,931	$ 45,365	$ 31,686	$ 20,063
Reserve for off-balance sheet credit losses:					
Beginning balance	$ 2,948	$ 1,470	$ 1,135	$ 940	$
Provision (benefit) for off-balance sheet credit losses	(1,051)	1,478	335	195	940
Ending balance	$ 1,897	$ 2,948	$ 1,470	$ 1,135	$ 940
Total reserve for credit losses	$ 73,407	$ 70,879	$ 46,835	$ 32,821	$ 21,003
Total provision for credit losses	$ 53,500	$ 43,500	$ 26,750	$ 14,000	$ 4,000
Reserve for loan losses to loans held for investment(2)	1.52%	1.52%	1.16%	.95%	.77%
Net charge-offs (recoveries) to average loans(2)	1.14%	.46%	.35%	.07%	.08%
Total provision for credit losses to average loans(2)	1.20%	1.04%	.73%	.46%	.17%
Recoveries to total charge-offs	.93%	1.38%	6.59%	26.53%	27.27%
Reserve for loan losses as a multiple of net charge-offs	1.4x	3.5x	3.6x	14.5x	10.6x
	.14%	.24%	.10%	.09%	.08%

Reserve for off-balance sheet credit losses to off-balance sheet credit commitments					
Combined reserves for credit losses to loans held for investment(2)	1.56%	1.59%	1.16%	.95%	.77%
Non-performing assets:					
Non-accrual(1)	$ 112,090	$ 95,625	$ 47,499	$ 21,385	$ 9,088
OREO(4)	42,261	27,264	25,904	2,671	882
Total	$ 154,351	$ 122,889	$ 73,403	$ 24,056	$ 9,970
Restructured loans	$ 4,319	$	$	$	$
Loans past due (90 days) and still accruing(3)	$ 6,706	$ 6,081	$ 4,115	$ 4,147	$ 2,142
Reserve for loan losses to non-performing loans	.6x	.7x	1.0x	1.5x	2.2x

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(1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately $10.5 million, $3.6 million and $2.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(2) Excludes loans held for sale.

(3) At December 31, 2010, 2009 and 2008, loans past due 90 days and still accruing includes premium finance loans of $3.3 million, $2.4 million and $2.1 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

(4) At December 31, 2010 and 2009, OREO balance is net of $12.9 million and $6.6 million valuation allowance, respectively.

Loan Loss Reserve Allocation

	December 31									
n thousands except	**2010**		**2009**		**2008**		**2007**		**2006**	
ercentage data)	**Reserve**	**% of Loans(1)**	**Reserve**	**% of Loans(1)**	**Reserve**	**% of Loans(1)**	**Reserve**	**% of Loans(1)**	**Reserve**	**% of Loans(1**
oan category:										
ommercial	$ 15,918	55%	$ 33,269	55%	$ 23,348	56%	$ 16,466	58%	$ 8,992	59%
onstruction	7,336	6	10,974	15	7,563	17	5,032	17	4,081	19
eal estate	38,049	37	14,874	28	10,518	24	4,736	22	2,910	19
onsumer	306		1,258		1,095	1	1,989	1	589	1
quipment leases	5,405	2	2,960	2	1,790	2	723	2	482	2
nallocated	4,496		4,596		1,051		2,740		3,009	
otal	$ 71,510	100%	$ 67,931	100%	$ 45,365	100%	$ 31,686	100%	$ 20,063	100%

(1) Excludes loans held for sale.

During 2010, the reserve allocated to all categories of loans increased compared to 2009 primarily due to increases in the level of allocations required by our loan loss reserve methodology. The percentage of the reserve allocated to construction decreased in the current year compared to 2009, consistent with the decrease in the construction portfolio during 2010. The percentage increase in real estate reserve is related to the overall economic downturn. Property values continued to decline in 2010, resulting in higher required reserves for these loans. This is also consistent with the increase in nonperforming loans in this category we ve experienced in 2010.

Securities Portfolio

Securities are identified as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income (loss) in stockholders equity, net of taxes. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments.

During the year ended December 31, 2010, we maintained an average securities portfolio of $222.7 million compared to an average portfolio of $314.8 million for the same period in 2009 and $391.3 million for the same period in 2008. At December 31, 2010 and 2009, the portfolios were primarily comprised of mortgage-backed

securities. Of the mortgage-backed securities, substantially all are guaranteed by U.S. government agencies. Our portfolio included no impaired securities during 2010 and 2009.

Our net unrealized gain on the securities portfolio value decreased from a net gain of $9.5 million, which represented 3.70% of the amortized cost, at December 31, 2009, to a net gain of $8.2 million, which represented 4.65% of the amortized cost, at December 31, 2010. During 2009, the unrealized gain on the securities portfolio value increased from a net gain of $2.9 million, which represented 0.77% of the amortized cost, at December 31, 2008, to a net gain of $9.5 million, which represented 3.70% of the amortized cost, at December 31, 2009. Changes in value reflect changes in market interest rates and the total balance of securities.

The average expected life of the mortgage-backed securities was 2.0 years at December 31, 2010 and 2.1 years at December 31, 2009. The effect of possible changes in interest rates on our earnings and equity is discussed under Interest Rate Risk Management.

The following presents the amortized cost and fair values of the securities portfolio at December 31, 2010, 2009 and 2008 (in thousands):

	At December 31					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
U.S. Treasuries	$	$	$	$	$ 28,299	$ 28,296
Mortgage-backed securities	126,838	133,724	201,824	209,987	288,701	291,716
Corporate securities	5,000	5,000	5,000	4,683	5,000	4,810
Municipals	37,841	39,085	42,314	43,826	46,370	46,531
Equity securities(1)	7,506	7,615	7,506	7,632	7,506	7,399
Total available-for-sale securities	$ 177,185	$ 185,424	$ 256,644	$ 266,128	$ 375,876	$ 378,752

(1) Equity securities consist of Community Reinvestment Act funds.

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

	At December 31, 2010				
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
Available-for-sale:					
Mortgage-backed securities (1):					
Amortized cost	$ 8,048	$ 12,509	$ 50,038	$ 56,243	$ 126,838
Estimated fair value	8,125	12,938	53,074	59,587	133,724
Weighted average yield(3)	4.499%	4.348%	4.815%	4.083%	4.424%
Corporate securities :					
Amortized cost		5,000			5,000
Estimated fair value		5,000			5,000
Weighted average yield(3)		7.375%			7.375%
Municipals : (2)					
Amortized cost	3,210	21,542	13,089		37,841
Estimated fair value	3,241	22,373	13,471		39,085
Weighted average yield(3)	4.879%	5.440%	5.766%		5.506%
Equity securities :					
Amortized cost					7,506
Estimated fair value					7,615
Total available-for-sale securities :					
Amortized cost					$ 177,185
Estimated fair value					$ 185,424

(1) Actual maturities may differ significantly from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The average expected life of the mortgage-backed securities was 2.0 years at December 31, 2010.

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

(3) Yields are calculated based on amortized cost.

The following table discloses, as of December 31, 2010 and 2009, our investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2010						
Mortgage-backed securities	$ 3,681	$ (5)	$	$	$ 3,681	$ (5)
Corporate securities						
Municipals						
	$ 3,681	$ (5)	$	$	$ 8,706	$ (5)
December 31, 2009						
Mortgage-backed securities	$ 452	$ (1)	$ 2,553	$ (28)	$ 3,005	$ (29)
Corporate securities			4,683	(317)	4,683	(317)
Municipals	1,018	(2)			1,018	(2)
	$ 1,470	$ (3)	$ 7,236	$ (345)	$ 8,706	$ (348)

We believe the investment securities in the table above are within ranges customary for the banking industry. At December 31, 2010, the number of investment positions in this unrealized loss position totals 1. We do not believe these unrealized losses are other than temporary as (1) we do not have the intent to sell any of the securities in the table above; and (2) it is not probable that we will be unable to collect the amounts contractually due. The unrealized losses noted at December 31, 2009 were interest rate related, and losses have decreased as rates have decreased in 2009 and remained low during 2010. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

Deposits

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

Average deposits for the year ended December 31, 2010 increased $1.3 billion compared to the same period of 2009. Average demand deposits, interest bearing transaction and savings increased by $355.5 million, $289.7 million and $960.1 million, respectively, while time deposits (including deposits in foreign branches) decreased $285.3 million during the year ended December 31, 2010 as compared to the same period of 2009. The average cost of deposits decreased in 2010 mainly due to decreasing market interest rates during 2010, as well as our focused effort to reduce rates paid on deposits.

Average deposits for the year ended December 31, 2009 increased $437.7 million compared to the same period of 2008. Average demand deposits, interest bearing transaction and savings increased by $231.3 million, $41.2 million and $397.8 million, respectively, while time deposits (including deposits in foreign branches) decreased $232.6 million during the year ended December 31, 2009 as compared to the same period of 2008. The average cost of deposits decreased in 2009 mainly due to decreasing market interest rates during 2009.

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Deposit Analysis

(in thousands)	Average Balances 2010	2009	2008
Non-interest bearing	$ 1,116,260	$ 760,776	$ 529,471
Interest bearing transaction	437,674	147,961	106,720
Savings	2,142,541	1,182,441	784,685
Time deposits	913,616	1,188,964	1,086,252
Deposits in foreign branches	401,155	411,116	746,399
Total average deposits	$ 5,011,246	$ 3,691,258	$ 3,253,527

As with our loan portfolio, most of our deposits are from businesses and individuals in Texas, particularly the Dallas metropolitan area. As of December 31, 2010, approximately 72% of our deposits originated out of our Dallas metropolitan banking centers. Uninsured deposits at December 31, 2010 were 50% of total deposits, compared to 55% of total deposits at December 31, 2009 and 40% of total deposits at December 31, 2008. The presentation for 2010, 2009 and 2008 does reflect combined ownership, but does not reflect all of the account styling that would determine insurance based on FDIC regulations.

At December 31, 2010, we had $456.1 million in interest bearing time deposits of $100,000 or more in foreign branches related to our Cayman Islands branch.

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

(in thousands)	December 31 2010	2009	2008
Months to maturity:			
3 or less	$ 406,616	$ 632,796	$ 1,000,893
Over 3 through 6	179,438	132,865	204,982
Over 6 through 12	153,173	120,561	80,161
Over 12	43,197	26,541	32,066
Total	$ 782,424	$ 912,763	$ 1,318,102

Liquidity and Capital Resources

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, which are formulated and monitored by our senior management and our Balance Sheet Management Committee (BSMC), and which take into account the marketability of assets, the sources and stability of

funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2010 and 2009, our principal source of funding has been our customer deposits, supplemented by short-term borrowings primarily from federal funds purchased and Federal Home Loan Bank (FHLB) borrowings.

Our liquidity needs have typically been fulfilled through growth in our core customer deposits and supplemented with brokered deposits and borrowings as needed. Our goal is to obtain as much of our funding for loans held for investment and other earnings assets as possible from deposits of these core customers. These deposits are generated principally through development of long-term relationships with customers and stockholders and our retail network, which is mainly through BankDirect. In addition to deposits from our core customers, we also have access to incremental deposits through brokered retail certificates of deposit, or

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CDs. During 2010, growth in customer deposits eliminated the need for use of brokered CDs and none were outstanding at December 31, 2010 During 2009 brokered CDs were generally of short maturities, 30 to 90 days, and were used to supplement temporary differences in the growth in loans, including growth in specific categories of loans, compared to customer deposits. The following tab summarizes our core customer deposits and brokered deposits (in millions):

	December 31 2010	2009
Deposits from core customers	$ 5,455.4	$ 3,902.4
Deposits from core customers as a percent of total deposits	100.0%	94.7%
Brokered deposits	$	$ 218.3
Brokered deposits as a percent of total deposits	0.0%	5.3%
Average deposits from core customers	$ 4,982.6	$ 3,163.8
Average deposits from core customers as a percent of total quarterly average deposits	99.4%	85.7%
Average brokered deposits	$ 28.6	$ 527.5
Average brokered deposits as a percent of total quarterly average deposits	0.6%	14.3%

We have acces to sources of brokered deposits of not less than an additional $3.3 billion. Based on the reduction in brokered CDs, customer deposits (total deposits minus brokered CDs) at December 31, 2010 increased $1.6 billion from December 31, 2009.

Additionally, we have borrowing sources available to supplement deposits and meet our funding needs. Such borrowings are generally used to fund our loans held for sale, due to their liquidity, short duration and interest spreads available. These borrowing sources include federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are smaller than our bank) and from our upstream correspondent bank relationships (which consist of banks that are larger than our bank), customer repurchase agreements, treasury, tax and loan notes, and advances from the FHLB and the Federal Reserve. The following table summarizes our borrowings:

	2010			2009			2008		
usands)	Balance	Rate	Maximum Outstanding at any Month End	Balance	Rate	Maximum Outstanding at any Month End	Balance	Rate	Maxin Outstar at ar Month
l funds sed	$ 283,781	.32%		$ 580,519	.33%		$ 350,155	.47%	
ner repurchase nents	10,920	.05%		25,070	.10%		77,732	.05%	
ry, tax and loan	3,100	.00%		5,940	.00%		2,720	.00%	
borrowings	86	2.21%		325,000	.11%		800,000	.71%	
short-term vings							10,000	1.19%	

erm borrowings							40,000	1.19%	
borrowings				20,500	.84%				
referred inated ures	113,406	2.23%		113,406	3.19%		113,406	4.40%	
orrowings	$ 411,293		$ 653,665	$ 1,070,435		$ 1,753,181	$ 1,394,103		$ 1,28

(1) Interest rate as of period end.

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The following table summarizes our other borrowing capacities in excess of balances outstanding:

(in thousands)	**2010**	**2009**	**2008**
FHLB borrowing capacity relating to loans	$ 869,089	$ 738,682	$ 139,000
FHLB borrowing capacity relating to securities	120,823	57,101	62,420
Total FHLB borrowing capacity	$ 989,912	$ 795,783	$ 201,420
Unused federal funds lines available from commercial banks	$ 482,460	$ 736,560	$ 573,500

In connection with the FDIC s Temporary Liability Guarantee Program (TLGP), we had the capacity to issue up to $1.1 billion in indebtedness which will be guaranteed by the FDIC for a limited period of time to newly issued senior unsecured debt and non-interest bearing deposits. The notes were issued prior to October 31, 2009 and have maturities no later than December 31, 2012. As of December 31, 2010, all of these notes had matured compared to $20.5 million outstanding at December 31, 2009.

From November 2002 to September 2006 various Texas Capital Statutory Trusts were created and subsequently issued fixed and/or floating rate Capital Securities in various private offerings totaling $113.4 million. As of December 31, 20010, the details of the trust preferred subordinated debentures are summarized below:

(In thousands)	**Texas Capital Bancshares Statutory Trust I**	**Texas Capital Bancshares Statutory Trust II**	**Texas Capital Bancshares Statutory Trust III**	**Texas Capital Bancshares Statutory Trust IV**	**Texas Capital Bancshares Statutory Trust V**
Date issued	November 19, 2002	April 10, 2003	October 6, 2005	April 28, 2006	September 29, 2006
Capital securities issued	$10,310	$10,310	$25,774	$25,774	$41,238
Floating or fixed rate securities	Floating	Floating	Fixed/Floating(1)	Floating	Floating
Interest rate on subordinated debentures	3 month LIBOR + 3.35%	3 month LIBOR + 3.25%	3 month LIBOR + 1.51%	3 month LIBOR + 1.60%	3 month LIBOR + 1.71%
Maturity date	November 2032	April 2033	December 2035	June 2036	September 2036

(1) Interest rate is a fixed rate of 6.19% for five years through December 15, 2010, and a floating rate of interest for the remaining 25 years that resets quarterly to 1.51% above the three-month LIBOR.

After deducting underwriter s compensation and other expenses of each offering, the net proceeds were available to the Company to increase capital and for general corporate purposes, including use in investment and lending activities. Interest payments on all subordinated debentures are deductible for federal income tax purposes. As of December 31, 2010, the weighted average quarterly rate on the subordinated debentures was 3.06%, compared to 3.24% average for all of 2010, and 3.73% for all of 2009.

Our equity capital averaged $516.0 million for the year ended December 31, 2010 as compared to $473.8 million in 2009 and $333.5 million in 2008. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the foreseeable future.

On September 10, 2008, we completed a sale of 4 million shares of our common stock in a private placement to a number of institutional investors. The purchase price was $14.50 per share, and net proceeds from the sale totaled $55 million. The new capital is being used for general corporate purposes, including capital for support of anticipated growth of our bank.

On January 16, 2009, we completed the issuance of $75 million of perpetual preferred stock and related warrants under the U.S. Department of Treasury s voluntary Capital Purchase Program (CPP or the Program). The preferred stock was repurchased in May 2009. In connection with the repurchase, we recorded a $3.9 million accelerated deemed dividend in the second quarter of 2009 representing the unamortized difference between the book value and the carrying value of the preferred stock repurchased from the Treasury. The $3.9 million accelerated deemed dividend, combined with the previously scheduled preferred dividend of $523,000 for the second quarter of 2009 and the preferred dividend of $930,000 paid in the first quarter of 2009, resulted in a total dividend and reduction of earnings available to common stockholders of $5.4 million for the year ended December 31, 2009. In the first quarter of 2010, the Treasury auctioned these warrants, and as of December 31, 2010, the warrants to purchase 758,086 shares at $14.84 per share were still outstanding.

On May 8, 2009, we completed a sale of 4.6 million shares of our common stock in a public offering. The purchase price was $13.75 per share, and net proceeds from the sale totaled $59.4 million. The new capital is being used for general corporate purposes, including capital for support of anticipated growth of our bank.

On January 27, 2010, we entered into an Equity Distribution Agreement with Morgan Stanley & Co. Incorporated, pursuant to which we may, from time to time, offer and sell shares of our common stock, having aggregate gross sales proceeds of up to $40,000,000. Sales of the shares were made by means of brokers transactions on or through the NASDAQ Global Select Market at market prices prevailing at the time of the sale or as otherwise agreed to by us and Morgan Stanley. During the year ended December 31, 2010 we sold 734,835 shares at an average price of $17.58. Net proceeds on the sales are approximately $12.5 million, are being used for general corporate purposes. During the fourth quarter of 2010, we did not sell any shares under the program.

Our capital ratios remain above the levels required to be well capitalized and have been enhanced with the additional capital raised since 2008 through 2010 and will allow us to grow organically with the addition of loan and deposit relationships.

Our actual and minimum required capital amounts and actual ratios are as follows (in thousands, except percentage data):

	Regulatory Capital Adequacy			
	December 31, 2010		December 31, 2009	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets):				
Company				
Actual	$ 697,291	11.83%	$ 642,371	11.98%
Minimum required	471,565	8.00%	429,102	8.00%
Excess above minimum	225,726	3.83%	213,269	3.98%
Bank				
Actual	$ 600,331	10.19%	$ 555,635	10.36%
To be well-capitalized	589,327	10.00%	536,265	10.00%
Minimum required	471,462			