TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
October 20, 2011

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

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended September 30, 2011

o **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the transition period from __________ to __________

Commission file number 001-34657

TEXAS CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 þ o No

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On October 19, 2011, the number of shares set forth below was outstanding with respect to each of the issuer s classes of common stock:

Common Stock, par value $0.01 per share 37,463,594

Texas Capital Bancshares, Inc.
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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME UNAUDITED
(In thousands except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Interest income				
Interest and fees on loans	$81,692	$70,293	$223,241	$196,797
Securities	1,524	2,246	5,050	7,463
Federal funds sold	3	50	36	92
Deposits in other banks	44	11	306	26
Total interest income	83,263	72,600	228,633	204,378
Interest expense				
Deposits	3,191	8,760	11,479	24,938
Federal funds purchased	128	259	329	868
Repurchase agreements	2	3	6	9
Other borrowings	110		124	48
Trust preferred subordinated debentures	634	972	1,905	2,796
Total interest expense	4,065	9,994	13,843	28,659
Net interest income	79,198	62,606	214,790	175,719
Provision for credit losses	7,000	13,500	22,500	41,500
Net interest income after provision for credit losses	72,198	49,106	192,290	134,219
Non-interest income				
Service charges on deposit accounts	1,585	1,662	4,976	4,684
Trust fee income	1,091	1,013	3,111	2,947
Bank owned life insurance (BOLI) income	533	455	1,595	1,407
Brokered loan fees	2,849	3,272	7,927	7,397
Equipment rental income	223	792	1,682	3,332
Other	1,322	907	3,947	3,318
Total non-interest income	7,603	8,101	23,238	23,085
Non-interest expense				
Salaries and employee benefits	25,596	21,872	73,877	63,334
Net occupancy expense	3,367	3,128	10,120	9,174
Leased equipment depreciation	281	580	1,284	2,674
Marketing	2,455	1,333	7,311	3,221
Legal and professional	3,647	2,705	10,634	7,953
Communications and technology	2,210	2,256	7,141	6,368
FDIC insurance assessment	1,465	2,482	5,948	6,591
Allowance and other carrying costs for OREO	2,150	4,071	7,203	7,171
Other	5,015	4,175	14,330	12,420

Total non-interest expense	46,186	42,602	137,848	118,906
Income from continuing operations before income taxes	33,615	14,605	77,680	38,398
Income tax expense	11,905	5,074	27,323	13,151
Income from continuing operations	21,710	9,531	50,357	25,247
Loss from discontinued operations (after-tax)	(7)	(5)	(121)	(114)
Net income	$21,703	$ 9,526	$ 50,236	$ 25,133
Basic earnings per common share				
Income from continuing operations	$ 0.58	$ 0.26	$ 1.35	$ 0.69
Net income	$ 0.58	$ 0.26	$ 1.35	$ 0.69
Diluted earnings per common share				
Income from continuing operations	$ 0.56	$ 0.25	$ 1.31	$ 0.68
Net income	$ 0.56	$ 0.25	$ 1.31	$ 0.67

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands except per share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 120,569	$ 104,866
Federal funds sold		75,000
Securities, available-for-sale	142,895	185,424
Loans held for sale	1,909,567	1,194,209
Loans held for sale from discontinued operations	395	490
Loans held for investment (net of unearned income)	5,302,584	4,711,330
Less: Allowance for loan losses	67,897	71,510
Loans held for investment, net	5,234,687	4,639,820
Premises and equipment, net	11,596	11,568
Accrued interest receivable and other assets	265,412	225,309
Goodwill and intangible assets, net	20,646	9,483
Total assets	$7,705,767	$6,446,169
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$1,661,125	$1,451,307
Interest bearing	3,204,985	3,545,146
Interest bearing in foreign branches	620,353	458,948
Total deposits	5,486,463	5,455,401
Accrued interest payable	671	2,579
Other liabilities	65,389	48,577
Federal funds purchased	321,930	283,781
Repurchase agreements	27,059	10,920
Other borrowings	1,102,905	3,186
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	7,117,823	5,917,850
Stockholders equity:		
Preferred stock, $.01 par value, $1,000 liquidation value:		
Authorized shares 10,000,000		
Issued shares		
Common stock, $.01 par value:		
Authorized shares 100,000,000		

Issued shares 37,458,179 and 36,957,104 at September 30, 2011 and December 31, 2010	374	369
Additional paid-in capital	346,405	336,796
Retained earnings	236,043	185,807
Treasury stock (shares at cost: 417 at September 30, 2011 and December 31, 2010)	(8)	(8)
Accumulated other comprehensive income, net of taxes	5,130	5,355
Total stockholders equity	587,944	528,319
Total liabilities and stockholders equity	$7,705,767	$6,446,169

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands except share data)

	Preferred Stock		Common Stock				Treasury Stock			
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Income, Net of Taxes	Total
Balance at December 31, 2009		$	35,919,941	$ 359	$ 326,224	$ 148,620	(417)	$ (8)	$ 6,165	$ 481,360
Comprehensive income:										
Net income (unaudited)						25,133				25,133
Change in unrealized gain on available-for-sale securities, net of taxes of $153 (unaudited)									283	283
Total comprehensive income (unaudited)										25,416
Tax expense related to exercise of stock-based awards (unaudited)					295					295
Stock-based compensation expense recognized in earnings (unaudited)					4,931					4,931
Issuance of stock related to stock-based awards (unaudited)			137,671	2	579					581
Issuance of common stock (unaudited)			734,835	7	12,497					12,504
Purchase of non-controlling interest of bank					(9,469)					(9,469)

owned subsidiary (unaudited)								
Balance at September 30, 2010 (unaudited)	$ 36,792,447	$ 368	$ 335,057	$ 173,753	(417)	$ (8)	$ 6,448	$ 515,618
Balance at December 31, 2010	$ 36,957,104	$ 369	$ 336,796	$ 185,807	(417)	$ (8)	$ 5,355	$ 528,319
Comprehensive income:								
Net income (unaudited)				50,236				50,236
Change in unrealized gain on available-for-sale securities, net of taxes of $121 (unaudited)							(225)	(225)
Total comprehensive income (unaudited)								50,011
Tax expense related to exercise of stock-based awards (unaudited)			2,196					2,196
Stock-based compensation expense recognized in earnings (unaudited)			5,802					5,802
Issuance of stock related to stock-based awards (unaudited)	501,075	5	1,611					1,616
Balance at September 30, 2011 (unaudited)	$ 37,458,179	$ 374	$ 346,405	$ 236,043	(417)	$ (8)	$ 5,130	$ 587,944

See accompanying notes to consolidated financial statements

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED
(In thousands)

	Nine months ended September 30,	
	2011	2010
Operating activities		
Net income from continuing operations	$ 50,357	$ 25,247
Adjustments to reconcile net income to net cash (used in) operating activities:		
Provision for credit losses	22,500	41,500
Depreciation and amortization	4,114	5,272
Amortization and accretion on securities	63	110
Bank owned life insurance (BOLI) income	(1,595)	(1,407)
Stock-based compensation expense	5,802	4,931
Tax benefit from stock option exercises	2,196	295
Excess tax benefits from stock-based compensation arrangements	(6,274)	843
Originations of loans held for sale	(17,790,459)	(14,612,637)
Proceeds from sales of loans held for sale	17,075,496	13,906,933
(Gain) loss on sale of assets	(145)	27
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(59,388)	(13,030)
Accrued interest payable and other liabilities	15,026	12,274
Net cash used in operating activities of continuing operations	(682,307)	(629,642)
Net cash used in operating activities of discontinued operations	(26)	(108)
Net cash used in operating activities	(682,333)	(629,750)
Investing activities		
Maturities and calls of available-for-sale securities	7,575	4,425
Principal payments received on available-for-sale securities	34,544	59,852
Net increase in loans held for investment	(617,762)	(59,508)
Purchase of premises and equipment, net	(2,539)	(3,807)
Proceeds from sale of foreclosed assets	19,741	4,733
Cash paid for acquisition	(11,482)	(9,469)
Net cash used in investing activities of continuing operations	(569,923)	(3,774)
Financing activities		
Net increase in deposits	31,062	1,286,308
Proceeds from issuance of stock related to stock-based awards	1,616	581
Proceeds from issuance of common stock		12,504
Net increase (decrease) in other borrowings	1,115,858	(355,345)
Excess tax benefits from stock-based compensation arrangements	6,274	(843)
Net increase (decrease) in federal funds purchased	38,149	(331,056)
Net cash provided by financing activities of continuing operations	1,192,959	612,149

Net decrease in cash and cash equivalents		(59,297)		(21,375)
Cash and cash equivalents at beginning of period		179,866		125,439
Cash and cash equivalents at end of period	$	120,569	$	104,064
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	15,210	$	28,297
Cash paid during the period for income taxes		19,516		21,776
Non-cash transactions:				
Transfers from loans/leases to OREO and other repossessed assets		19,254		22,357

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Texas Capital Bancshares, Inc. (the Company), a Delaware bank holding company, was incorporated in November 1996 and commenced operations in March 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association (the Bank). The Bank currently provides commercial banking services to its customers primarily in Texas and concentrates on middle market commercial and high net worth customers.

Basis of Presentation

The accounting and reporting policies of Texas Capital Bancshares, Inc. conform to accounting principles generally accepted in the United States and to generally accepted practices within the banking industry. Our consolidated financial statements include the accounts of Texas Capital Bancshares, Inc. and its subsidiary, the Bank. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make interim financial information not misleading. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2010, included in our Annual Report on Form 10-K filed with the SEC on February 23, 2011 (the 2010 Form 10-K). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for possible loan losses, the valuation allowance for other real estate owned (OREO), the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

Accumulated Other Comprehensive Income, Net

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income, net. Accumulated comprehensive income, net for the nine months ended September 30, 2011 and 2010 is reported in the accompanying consolidated statements of changes in stockholders equity.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments.

(2) EARNINGS PER COMMON SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Numerator:				
Net income from continuing operations	$ 21,710	$ 9,531	$ 50,357	$ 25,247
Loss from discontinued operations	(7)	(5)	(121)	(114)
Net income	$ 21,703	$ 9,526	$ 50,236	$ 25,133
Denominator:				
Denominator for basic earnings per share weighted average shares	37,411,851	36,784,032	37,262,658	36,550,478
Effect of employee stock-based awards[(1)]	714,192	697,843	888,027	622,795
Effect of warrants to purchase common stock	309,343	77,917	304,199	106,335
Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversions	38,435,386	37,559,792	38,454,884	37,279,608
Basic earnings per common share from continuing operations	$ 0.58	$ 0.26	$ 1.35	$ 0.69
Basic earnings per common share from discontinued operations				
Basic earnings per common share	$ 0.58	$ 0.26	$ 1.35	$ 0.69
Diluted earnings per share from continuing operations	$ 0.56	$ 0.25	$ 1.31	$ 0.68
Diluted earnings per share from discontinued operations				(0.01)
Diluted earnings per common share	$ 0.56	$ 0.25	$ 1.31	$ 0.67

(1) Stock options, SARs and RSUs outstanding of 93,400 at September 30, 2011 and 1,540,969 at September 30, 2010 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

(3) SECURITIES

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 in stockholders equity, net of taxes. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method. Our net unrealized gain on the available-for-sale securities portfolio value decreased from a gain of $8.2 million, which represented 4.65% of the amortized cost at December 31, 2010, to a gain of $7.9 million, which represented 5.85% of the amortized cost at September 30, 2011.

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The following is a summary of securities (in thousands):

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Residential mortgage-backed securities	$ 92,253	$6,334	$	$ 98,587
Corporate securities	5,000			5,000
Municipals	30,244	1,377		31,621
Equity securities[1]	7,506	181		7,687
	$135,003	$7,892	$	$142,895

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Residential mortgage-backed securities	$126,838	$6,891	$ (5)	$133,724
Corporate securities	5,000			5,000
Municipals	37,841	1,244		39,085
Equity securities[1]	7,506	109		7,615
	$177,185	$8,244	$ (5)	$185,424

(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):

	September 30, 2011				
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
Available-for-sale:					
Residential mortgage-backed securities:[1]					
Amortized cost	$ 38	$ 8,943	$ 37,581	$ 45,691	$ 92,253
Estimated fair value	38	9,306	40,485	48,758	98,587
Weighted average yield[3]	6.499%	4.535%	4.788%	3.845%	4.297%
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	2,707	20,484	7,053		30,244
Estimated fair value	2,743	21,460	7,418		31,621
Weighted average yield[3]	5.242%	5.501%	5.855%		5.561%
Equity securities:					
Amortized cost	7,506				7,506
Estimated fair value	7,687				7,687
Total available-for-sale securities:					
Amortized cost					$ 135,003
Estimated fair value					$ 142,895

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

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

(3) Yields are calculated based on amortized cost.

Securities with carrying values of approximately $63.3 million were pledged to secure certain borrowings and deposits at September 30, 2011. Of the pledged securities at September 30, 2011, approximately $15.9 million were pledged for certain deposits, and approximately $47.4 million were pledged for repurchase agreements.
At September 30, 2011, we did not have any investment securities in an unrealized loss position. The following table discloses, as of December 31, 2010, 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):
December 31, 2010

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$3,681	$ (5)	$	$	$3,681	$ (5)
	$3,681	$ (5)		$	$3,681	$ (5)

At September 30, 2011, we did not have any investment positions in an unrealized loss position. The unrealized losses at December 31, 2010 are interest rate related, and losses have decreased as rates have decreased in 2009 and remained low during 2010 and 2011. 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. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2011 and December 31, 2010, loans were as follows (in thousands):

	September 30, 2011	December 31, 2010
Commercial	$3,049,524	$2,592,924
Construction	442,408	270,008
Real estate	1,751,672	1,759,758
Consumer	23,954	21,470
Leases	65,943	95,607
Gross loans held for investment	5,333,501	4,739,767
Deferred income (net of direct origination costs)	(30,917)	(28,437)
Allowance for loan losses	(67,897)	(71,510)
Total loans held for investment, net	5,234,687	4,639,820
Loans held for sale	1,909,567	1,194,209
Total	$7,144,254	$5,834,029

We continue to lend primarily in Texas. As of September 30, 2011, 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 within this area. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each

balance sheet date.

We purchase participations in mortgage loans primarily for sale in the secondary market through our mortgage warehouse lending division. Accordingly, these loans are classified as held for sale and are carried at the lower of cost or fair value, determined on an aggregate basis.

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, and any needed reserve is recorded in other liabilities. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management s judgment, should be charged off.
We have several pass credit grades that are assigned to loans based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring. Within our criticized/classified credit grades are special mention, substandard, and doubtful. Special mention loans are those that are currently protected by sound worth and paying capacity of the borrower, but that are potentially weak and constitute an additional credit risk. The loan has the potential to deteriorate to a substandard grade due to the existence of financial or administrative deficiencies. Substandard loans are inadequately protected by sound worth and paying capacity of the borrower and of the collateral pledged. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Substandard loans can be accruing or can be on nonaccrual depending on the circumstances of the individual loans. Loans classified as doubtful have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable. The possibility of loss is extremely high. All doubtful loans are on nonaccrual.
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. Historical loss rates are adjusted to account for current environmental conditions which we believe are likely to cause loss rates to be higher or lower than past experience. Each quarter we produce an adjustment range for environmental factors unique to us and our market. 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.
The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades and nonaccrual status as of September 30, 2011 and December 31, 2010 (in thousands):

September 30, 2011

	Commercial	Construction	Real Estate	Consumer	Leases	Total
Grade:						
Pass	$2,957,001	$409,714	$1,625,334	$23,589	$57,871	$5,073,509
Special mention	40,505	1,739	32,810	50	4,637	79,741
Substandard-accruing	39,344	9,667	64,361	6	159	113,537
Non-accrual	12,674	21,288	29,167	309	3,276	66,714
Total loans held for investment	$3,049,524	$442,408	$1,751,672	$23,954	$65,943	$5,333,501

December 31, 2010

	Commercial	Construction	Real Estate	Consumer	Leases	Total
Grade:						
Pass	$2,461,769	$243,843	$1,549,400	$20,312	$78,715	$4,354,039
Special mention	45,754	19,856	59,294	76	1,552	126,532
Substandard-accruing	42,858	6,288	88,567	376	9,017	147,106
Non-accrual	42,543	21	62,497	706	6,323	112,090
Total loans held for investment	$2,592,924	$270,008	$1,759,758	$21,470	$95,607	$4,739,767

The following table details activity in the reserve for loan losses by portfolio segment for the nine months ended September 30, 2011. Allocation of a portion of the reserve to one category of loans does not preclude its availability to absorb losses in other categories.

(in thousands)	Commercial	Construction	Real Estate	Consumer	Leases	Unallocated	Total
Beginning balance	$15,918	$ 7,336	$38,049	$ 306	$ 5,405	$4,496	$71,510
Provision for possible loan losses	11,289	3,024	(7,379)	3,616	7,135	4,438	22,123
Charge-offs	7,170		18,837	317	980		27,304
Recoveries	798	248	305	5	212		1,568
Net charge-offs	6,372	(248)	18,532	312	768		25,736
Ending balance	$20,835	$10,608	$12,138	$3,610	$11,772	$8,934	$67,897
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 3,064	$ 312	$ 2,568	$ 52	$ 353	$	$ 6,349
Loans collectively evaluated for							

impairment							
Ending balance	$ 3,064	$ 312	$ 2,568	$ 52	$ 353	$	$ 6,349

Activity in the reserve for loan losses during the nine months ended September 30, 2010 was as follows (in thousands):

Balance at the beginning of the period	$ 67,931
Provision for loan losses	41,671
Net charge-offs:	
Loans charged-off	34,199
Recoveries	252
Net charge-offs	33,947
Balance at the end of the period	$ 75,655

Generally we place loans on non-accrual when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. The table below summarizes our non-accrual loans by type and purpose as of September 30, 2011 (in thousands):

Commercial	
Business loans	$ 12,674
Construction	
Market risk	21,288
Real estate	
Market risk	21,190
Commercial	5,570
Secured by 1-4 family	2,407
Consumer	309
Leases	3,276
Total non-accrual loans	$ 66,714

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following table details our impaired loans, by portfolio class as of September 30, 2011 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	$ 1,688	$ 2,249	$	$ 2,665	$
Construction					
Market risk	19,354	19,354		19,564	119
Real estate					
Market risk	7,740	10,460		10,151	
Commercial	5,379	5,379		2,142	
Secured by 1-4 family	1,349	1,349		450	
Total impaired loans with no allowance recorded	$35,510	$ 38,791	$	$34,972	$ 119
With an allowance recorded:					
Commercial					
Business loans	$10,986	$ 12,490	$3,064	$10,708	$
Construction					
Market risk	1,934	1,934	312	2,367	
Real estate					
Market risk	13,450	16,739	2,165	21,978	
Commercial	191	191	29	191	
Secured by 1-4 family	1,058	1,058	374	1,949	
Consumer	309	309	52	319	
Leases	3,276	3,276	353	1,678	

Total impaired loans with an allowance recorded	$31,204	$ 35,997	$6,349	$39,190	$
Combined:					
Commercial					
Business loans	$12,674	$ 14,739	$3,064	$13,373	$
Construction					
Market risk	21,288	21,288	312	21,931	119
Real estate					
Market risk	21,190	27,199	2,165	32,129	
Commercial	5,570	5,570	29	2,333	
Secured by 1-4 family	2,407	2,407	374	2,399	
Consumer	309	309	52	319	
Leases	3,276	3,276	353	1,678	
Total impaired loans with an allowance recorded	$66,714	$ 74,788	$6,349	$74,162	$ 119

Average impaired loans outstanding during the nine months ended September 30, 2011 and 2010 totaled $74.2 million and $148.3 million, respectively.

The table below provides an age analysis of our past due loans that are still accruing as of September 30, 2011 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Greater Than 90 Days and Accruing[(1)]
Commercial							
Business loans	$ 4,525	$2,224	$3,003	$ 9,752	$2,439,355	$2,449,107	$3,003
Energy					587,743	587,743	
Construction							
Market risk	89			89	410,617	410,706	
Secured by 1-4 family					10,415	10,415	
Real estate							
Market risk	4,070	1,288		5,358	1,320,407	1,325,765	
Commercial	11,433			11,433	302,337	313,770	
Secured by 1-4 family	6,085	123		6,208	76,761	82,969	
Consumer	509			509	23,136	23,645	
Leases	52	37		89	62,578	62,667	
Total loans held for investment	$26,763	$3,672	$3,003	$33,438	$5,233,349	$5,266,787	$3,003

(1) Loans past due 90 days and still accruing includes premium finance loans of $2.5 million. 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.

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, or either forgiveness of either principal or accrued interest. As of September 30, 2011, we have $25.0 million in loans considered restructured that are not already on nonaccrual. Of the nonaccrual loans at September 30, 2011, $23.2 million met the criteria for restructured. A loan continues to qualify as restructured until a consistent payment history or change in borrower s financial condition 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.

The following table summarizes, as of September 30, 2011, loans that have been restructured during 2011 (in thousands):

	Pre-Restructuring Outstanding	Post-Restructuring Outstanding

	Number of Contracts	Recorded Investment	Recorded Investment
Commercial business loans	3	$ 2,140	$ 1,984
Construction market risk	1	2,620	1,915
Real estate market risk	9	43,374	37,569
Real estate - 1-4 family	1	1,217	1,349
Total new restructured loans in 2011	14	$ 49,351	$ 42,817

The restructured loans generally include terms to reduce the interest rate and extend payment terms. We have not forgiven any principal on the above loans. The $6.5 million decrease in the post-restructuring recorded investment compared to the pre-restructuring recorded investment is due to $4.5 million in charge-offs and $2.0 million in paydowns. At September 30, 2011, $16.1 million of the above loans restructured in 2011 are on non-accrual.

The following table summarizes, as of September 30, 2011, loans that were restructured within the last 12 months that have subsequently defaulted (in thousands):

	Number of Contracts	Recorded Investment
Real estate market risk	1	4,371

The above loan was subsequently foreclosed and is included in the September 30, 2011 OREO balance.

(5) OREO AND VALUATION ALLOWANCE FOR LOSSES ON OREO

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Beginning balance	$27,285	$42,077	$ 42,261	$27,264
Additions	12,661	2,999	19,254	22,357
Sales	(2,488)	(2,757)	(20,012)	(4,797)
Valuation allowance for OREO	(1,601)	(3,654)	(3,522)	(6,048)
Direct write-downs	(61)	(19)	(2,185)	(130)
Ending balance	$35,796	$38,646	$ 35,796	$38,646

(6) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

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The table below summarizes our financial instruments whose contract amounts represent credit risk at September 30, 2011 (in thousands):

Commitments to extend credit	$1,705,398
Standby letters of credit	66,376

(7) REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Company s and the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company s and the Bank s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2011, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below. As shown below, the Company s capital ratios exceed the regulatory definition of well capitalized as of September 30, 2011 and 2010. As of June 30, 2011, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since the notification that management believes have changed the Bank s category. Based upon the information in its most recently filed call report, the Bank continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action and continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

	September 30,	
	2011	2010
Risk-based capital:		
Tier 1 capital	9.67%	10.69%
Total capital	10.68%	11.94%
Leverage	9.77%	10.00%

(8) STOCK-BASED COMPENSATION

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

Stock-based compensation consists of options issued prior to the adoption of Accounting Standards Codification (ASC) 718, *Compensation Stock Compensation* (ASC 718), SARs and restricted stock units (RSUs). The SARs and RSUs were granted from 2006 through 2010.

(in thousands)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Stock- based compensation expense recognized:				
Unvested options	$	$ 39	$	$ 208
SARs	303	509	1,028	1,484
RSUs	1,312	1,217	4,774	3,238
Total compensation expense recognized	$ 1,615	$ 1,765	$ 5,802	$ 4,930

	September 30, 2011 Options	September 30, 2011 SARs and RSUs
Unrecognized compensation expense related to unvested awards	$	$ 12,078
Weighted average period over which expense is expected to be recognized, in years		3.04

(9) DISCONTINUED OPERATIONS

Subsequent to the end of the first quarter of 2007, we and the purchaser of our residential mortgage loan division (RML) agreed to terminate and settle the contractual arrangements related to the sale of the division, which had been completed as of the end of the third quarter of 2006. Historical operating results of RML are reflected as discontinued operations in the financial statements.

During the three months ended September 30, 2011 and 2010, the loss from discontinued operations was $7,000 and $5,000, net of taxes, respectively. For the nine months ended 2011 and 2010, the loss from discontinued operations was $121,000 and $114,000, net of taxes, respectively. The 2011 and 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 $395,000 in loans held for sale from discontinued operations that are carried at the estimated market value at quarter-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 September 30, 2011 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.

(10) FAIR VALUE DISCLOSURES

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date. The adoption of ASC 820 did not have an impact on our financial statements except for the expanded disclosures noted below.

We determine the fair market values of our financial instruments based on the fair value hierarchy. The standard describes three levels of inputs that may be used to measure fair value as provided below.

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include U.S. Treasuries that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by

observable market data for substantially the full term of the assets or liabilities. Level 2 assets include U.S. government and agency mortgage-backed debt securities, corporate securities, municipal bonds, and Community Reinvestment Act funds. This category includes derivative assets and liabilities where values are based on internal cash flow models supported by market data inputs.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. This category also includes impaired loans and OREO where collateral values have been based on third party appraisals; however, due to current economic conditions, comparative sales data typically used in appraisals may be unavailable or more subjective due to lack of market activity. Additionally, this category includes certain mortgage loans that were transferred from loans held for sale to loans held for investment at a lower of cost or fair value.

Assets and liabilities measured at fair value at September 30, 2011 are as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Available for sale securities:[1]			
Mortgage-backed securities	$	$ 98,587	$
Corporate securities		5,000	
Municipals		31,621	
Other		7,687	
Loans[2] [4]			22,580
OREO[3] [4]			35,796
Derivative asset[5]		19,193	
Derivative liability[5]		(19,193)	

(1) Securities are measured at fair value on a recurring basis, generally monthly.

(2) Includes certain mortgage loans that have been transferred to loans held for investment from loans held for sale at the lower of cost or market. Also, includes impaired loans that have been measured for impairment at the fair value of the loan s collateral.

(3) OREO is transferred from loans to OREO at fair value less selling costs.

(4) Fair value of loans and OREO is measured on a nonrecurring basis, generally annually or more often as warranted by market and economic conditions

(5) Derivative assets and liabilities are measured at fair value on a recurring basis, generally quarterly.

Level 3 Valuations

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

Loans

During the three months ended September 30, 2011, certain impaired loans were reevaluated and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. The $22.6 million total above includes impaired loans at September 30, 2011 with a carrying value of $19.9 million that were reduced by specific valuation allowance allocations totaling $1.7 million for a total reported fair value of $18.2 million based on collateral valuations utilizing Level 3 valuation inputs. Fair values were based on third party appraisals; however, based on the current economic conditions, comparative sales data typically

used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity. Also included in this total are $5.3 million in mortgage warehouse loans that were reduced by specific valuation allowance allocations totaling $795,000, for a total reported fair value of $4.4 million. Certain mortgage loans that were transferred from loans held for sale to loans held for investment were valued based on third party broker pricing. As the dollar amount and number of loans being valued is very small, a comprehensive market analysis is not obtained or considered necessary. Instead, we conduct a general polling of one or more mortgage brokers for indications of general market prices for the types of mortgage loans being valued, and we consider values based on recent experience in selling loans of like terms and comparable quality.

OREO

Certain foreclosed assets, upon initial recognition, were valued based on third party appraisals. At September 30, 2011, OREO with a carrying value of $46.5 million was reduced by specific valuation allowance allocations totaling $10.7 million for a total reported fair value of $35.8 million based on valuations utilizing Level 3 valuation inputs. Fair values were based on third party appraisals; however, based on the current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity.

Fair Value of Financial Instruments

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

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

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$ 120,569	$ 120,569	$ 179,866	$ 179,866
Securities, available-for-sale	142,895	142,895	185,424	185,424
Loans held for sale	1,909,567	1,909,567	1,194,209	1,194,209
Loans held for sale from discontinued operations	395	395	490	490
Loans held for investment, net	5,234,687	5,242,158	4,639,820	4,652,588
Derivative asset	19,193	19,193	6,874	6,874
Deposits	5,486,463	5,498,520	5,455,401	5,457,692
Federal funds purchased	321,930	321,930	283,781	283,781
Borrowings	1,129,964	1,129,966	14,106	14,107
Trust preferred subordinated debentures	113,406	113,406	113,406	113,406
Derivative liability	19,193	19,193	6,874	6,874

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

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents approximate their fair value.

Securities

The fair value of investment securities is based on prices obtained from independent pricing services which are based on quoted market prices for the same or similar securities.

Loans, net

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

Derivatives

The estimated fair value of the interest rate swaps are based on internal cash flow models supported by market data inputs.

Deposits

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

Federal funds purchased, other borrowings and trust preferred subordinated debentures

The carrying value reported in the consolidated balance sheet for federal funds purchased and other borrowings approximates their fair value. The fair value of other borrowings and trust preferred subordinated debentures is estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar borrowings.

Off-balance sheet instruments

Fair values for our off-balance sheet instruments which consist of lending commitments and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. Management believes that the fair value of these off-balance sheet instruments is not significant.

(11) STOCKHOLDERS EQUITY

We had comprehensive income of $21.6 million for the three months ended September 30, 2011 and comprehensive income of $9.2 million for the three months ended September 30, 2010. Comprehensive income during the three months ended September 30, 2011 included a net after-tax loss of $92,000 and comprehensive income during the three months ended September 30, 2010 included a net after-tax loss of $319,000 due to changes in the net unrealized gains/losses on securities available-for-sale.

(12) LEGAL MATTERS

We are aggressively defending against a $65.4 million jury verdict that was rendered in August 2011, in Antlers, Oklahoma, a town in rural Pushmataha County. The case was filed by one of the guarantors of a defaulted loan. No judgment has yet been entered by the trial court. The case has been removed to federal district court where we will pursue a dismissal of the suit, a change in verdict or a new trial. The removal is being contested. We will appeal any adverse judgment that is subsequently entered. We have been advised by counsel that there are numerous grounds for appeal.

In addition, we intend to pursue aggressively our suit originally filed in Texas in April 2010 against the plaintiff in the Oklahoma case and other guarantors of the defaulted loan. The loss related to the loan was recognized in the second quarter of 2010, and we have no remaining balance sheet exposure on the principal balance of the loan. As we currently believe a materially negative outcome in this matter is not probable, we have not established a reserve related to any potential exposure.

(13) NEW ACCOUNTING PRONOUNCEMENTS

FASB ASC 310 Receivables (ASC 310) was amended to enhance disclosures about credit quality of financing receivables and the allowance for credit losses. The amendments require an entity to disclose credit quality information, such as internal risk grades, more detailed nonaccrual and past due information, and modifications of its financing receivables. The disclosures under ASC 310, as amended, were effective for interim and annual reporting periods ending on or after December 15, 2010. This amendment did not have a significant impact on our financial results, but it has significantly expanded the disclosures that we are required to provide.

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On April 5, 2011, the FASB issued ASU 2011-02 A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring , which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance was effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. Any changes to the impairment measurement of a receivable restructured in a troubled debt restructuring should be recognized on a prospective basis in the first interim or annual period beginning on or after June 15, 2011. We have evaluated the guidance included in this amendment and have determined that it does not result in any new troubled debt restructurings that should be reported.

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QUARTERLY FINANCIAL SUMMARY UNAUDITED

Consolidated Daily Average Balances, Average Yields and Rates

(In thousands)

	For the three months ended September 30, 2011			For the three months ended September 30, 2010		
	Average Balance	Revenue/ Expense[1]	Yield/ Rate	Average Balance	Revenue/ Expense[1]	Yield/ Rate
Assets						
Securities taxable	$ 115,871	$ 1,214	4.16%	$ 173,835	$ 1,890	4.31%
Securities non-taxable[2]	33,051	477	5.73%	38,357	548	5.67%
Federal funds sold	20,864	3	0.06%	107,404	50	0.18%
Deposits in other banks	36,495	44	0.48%	18,766	11	0.23%
Loans held for sale from continuing operations	1,191,375	13,340	4.44%	1,074,309	12,760	4.71%
Loans	5,219,496	68,352	5.20%	4,493,998	57,533	5.08%
Less reserve for loan losses	66,215			74,810		
Loans, net of reserve	6,344,656	81,692	5.11%	5,493,497	70,293	5.08%
Total earning assets	6,550,937	83,430	5.05%	5,831,859	72,792	4.95%
Cash and other assets	333,563			267,923		
Total assets	$ 6,884,500			$ 6,099,782		
Liabilities and Stockholders Equity						
Transaction deposits	$ 412,203	$ 52	0.05%	$ 465,370	$ 189	0.16%
Savings deposits	2,253,123	1,664	0.29%	2,222,431	4,228	0.75%
Time deposits	468,196	1,032	0.87%	955,703	3,044	1.26%
Deposits in foreign branches	588,221	443	0.30%	418,112	1,299	1.23%
Total interest bearing deposits	3,721,743	3,191	0.34%	4,061,616	8,760	0.86%
Other borrowings	894,073	240	0.11%	230,043	262	0.45%
Trust preferred subordinated debentures	113,406	634	2.22%	113,406	972	3.40%
Total interest bearing liabilities	4,729,222	4,065	0.34%	4,405,065	9,994	0.90%
Demand deposits	1,525,087			1,142,735		
Other liabilities	53,233			28,997		
Stockholders equity	576,958			522,985		
	$ 6,884,500			$ 6,099,782		

Total liabilities and stockholders equity						
Net interest income		$ 79,365			$ 62,798	
Net interest margin			4.81%			4.27%
Net interest spread			4.71%			4.05%
Additional information from discontinued operations:						
Loans held for sale	$ 396			$ 581		
Borrowed funds	396			581		
Net interest income		$ 8			$ 11	
Net interest margin consolidated			4.81%			4.27%

(1) The loan averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.

(2) Taxable equivalent rates used where applicable.

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QUARTERLY FINANCIAL SUMMARY UNAUDITED

Consolidated Daily Average Balances, Average Yields and Rates

(In thousands)

	For the nine months ended September 30, 2011			For the nine months ended September 30, 2010		
	Average Balance	Revenue/ Expense [1]	Yield/ Rate	Average Balance	Revenue/ Expense [1]	Yield/ Rate
Assets						
Securities taxable	$ 127,627	$ 4,060	4.25%	$ 192,860	$ 6,357	4.41%
Securities non-taxable [2]	35,321	1,523	5.76%	39,870	1702	5.71%
Federal funds sold	26,410	36	0.18%	69,179	92	0.18%
Deposits in other banks	129,669	306	0.32%	14,580	26	0.24%
Loans held for sale from continuing operations	913,410	31,608	4.63%	734,340	26,494	4.82%
Loans	4,945,863	191,633	5.18%	4,456,179	170,303	5.11%
Less reserve for loan losses	68,115			71,054		
Loans, net of reserve	5,791,158	223,241	5.15%	5,119,465	196,797	5.14%
Total earning assets	6,110,185	229,166	5.01%	5,435,954	204,974	5.04%
Cash and other assets	312,465			280,061		
Total assets	$ 6,422,650			$ 5,716,015		
Liabilities and Stockholders Equity						
Transaction deposits	$ 377,998	$ 162	0.06%	$ 438,859	$ 842	0.26%
Savings deposits	2,395,100	5,735	0.32%	2,018,256	11,799	0.78%
Time deposits	572,161	4,304	1.01%	876,919	8,639	1.32%
Deposits in foreign branches	461,038	1,278	0.37%	384,328	3,658	1.27%
Total interest bearing deposits	3,806,297	11,479	0.40%	3,718,362	24,938	0.90%
Other borrowings	431,661	459	0.14%	303,801	925	0.41%
Trust preferred subordinated debentures	113,406	1,905	2.25%	113,406	2,796	3.30%
Total interest bearing liabilities	4,351,364	13,843	0.43%	4,135,569	28,659	0.93%
Demand deposits	1,466,456			1,041,799		
Other liabilities	47,074			27,438		
Stockholders equity	557,756			511,209		

Total liabilities and stockholders equity	$ 6,422,650			$ 5,716,015		
Net interest income		$ 215,323			$ 176,315	
Net interest margin			4.71%			4.34%
Net interest spread			4.59%			4.11%
Additional information from discontinued operations:						
Loans held for sale	$ 433			$ 583		
Borrowed funds	433			583		
Net interest income		$ 25			$ 36	
Net interest margin consolidated			4.71%			4.34%

(1) The loan averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.

(2) Taxable equivalent rates used where applicable.

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

Forward-Looking Statements

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 statements 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
(8) Claims and litigation, whether founded or unfounded, may result in significant financial liability if legal actions are not resolved in a manner favourable to us.

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 quarterly report might not occur.

Results of Operations

Except as otherwise noted, all amounts and disclosures throughout this document reflect continuing operations. See Part I, Item 1 herein for a discussion of discontinued operations at Note (9) Discontinued Operations.

Summary of Performance

We reported net income of $21.7 million, or $0.56 per diluted common share, for the third quarter of 2011 compared to $9.5 million, or $0.25 per diluted common share, for the third quarter of 2010. Return on average equity was 14.93% and return on average assets was 1.25% for the third quarter of 2011, compared to 7.23% and .62%, respectively, for the third quarter of 2010. Net income for the nine months ended September 30,

2011 totaled $50.4 million, or $1.31 per diluted common share, compared to $25.2 million, or $0.68 per diluted common share, for the same period in 2010. Return on average equity was 12.07% and return on average assets was 1.05% for the nine months ended September 30, 2011 compared to 6.60% and .59%, respectively, for the same period in 2010.

Net income increased $12.2 million, or 128%, for the three months ended September 30, 2011, and increased $25.2 million, or 99%, for the nine months ended September 30, 2011, as compared to the same period in 2010. The $12.2 million increase during the three months ended September 30, 2011, was primarily the result of a $16.6 million increase in net interest income and a $6.5 million decrease in the provision for credit losses, offset by a $498,000 decrease in non-interest income, a $3.6 million increase in non-interest expense and a $6.8 million increase in income tax expense. The $25.2 million increase during the nine months ended September 30, 2011 was primarily the result of a $39.1 million increase in net interest income, a $19.0 million decrease in the provision for credit losses and a $153,000 increase in non-interest income, offset by a $18.9 million increase in non-interest expense and a $14.2 million increase in income tax expense.

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

Net Interest Income

Net interest income was $79.2 million for the third quarter of 2011, compared to $62.6 million for the third quarter of 2010. The increase was due to an increase in average earning assets of $719.1 million as compared to the third quarter of 2010 and an increase in the net interest margin from 4.27% to 4.81%. The increase in average earning assets included a $725.5 million increase in average loans held for investment and a $117.1 million increase in loans held for sale, offset by a $63.3 million decrease in average securities. For the quarter ended September 30, 2011, average net loans and securities represented 97% and 2%, respectively, of average earning assets compared to 95% and 4% in the same quarter of 2010.

Average interest bearing liabilities increased $324.1 million from the third quarter of 2010, which included a $339.9 million decrease in interest bearing deposits and a $664.0 million increase in other borrowings. The increase in average other borrowings was directly related to the growth in loans held for sale. The reduction in deposits resulted from initiatives to reduce funding costs associated with excess liquidity from deposit growth experienced during 2010. The average cost of interest bearing deposits decreased from .86% for the quarter ended September 30, 2010 to .34% for the same period of 2011. The change in funding composition reduced the cost of deposits and borrowed funds to .29% in the third quarter of 2011 compared to .83% in the third quarter of 2010.

Net interest income was $214.8 million for the nine months ended September 30, 2011, compared to $175.7 million for the same period of 2010. The increase was due to an increase in average earning assets of $674.2 million as compared to the nine months ended September 30, 2010 and an increase in the net interest margin from 4.34% to 4.71%. The increase in average earning assets included a $489.7 million increase in average loans held for investment and a $179.1 million increase in loans held for sale, offset by a $69.8 million decrease in average securities. For the nine months ended September 30, 2011, average net loans and securities represented 95% and 3%, respectively, of average earning assets compared to 95% and 4% in the same period of 2010.

Average interest bearing liabilities increased $215.8 million compared to the first nine months of 2010, which included a $87.9 million increase in interest bearing deposits and a $127.9 million increase in other borrowings. The increase in average other borrowings is a result of an increase in loans in excess of the growth in demand deposits and interest bearing deposits, increasing the need for borrowed funds. The average cost of interest bearing deposits decreased from .93% for the nine months ended September 30, 2010 to .43% for the same period of 2011.

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

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	Three months ended September 30, 2011/2010			Nine months ended September 30, 2011/2010		
	Net	Change Due To(1)		Net	Change Due To(1)	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest income:						
Securities(2)	$ (747)	$ (706)	$ (41)	$ (2,476)	$ (2,344)	$ (132)
Loans held for sale	580	1,390	(810)	5,114	6,461	(1,347)
Loans held for investment	10,819	9,288	1,531	21,330	18,714	2,616
Federal funds sold	(47)	(40)	(7)	(56)	(57)	1
Deposits in other banks	33	10	23	280	205	75
Total	10,638	9,942	696	24,192	22,979	1,213
Interest expense:						
Transaction deposits	(137)	(22)	(115)	(680)	(117)	(563)
Savings deposits	(2,564)	58	(2,622)	(6,064)	2,203	(8,267)
Time deposits	(2,012)	(1,553)	(459)	(4,335)	(3,002)	(1,333)
Deposits in foreign branches	(856)	528	(1,384)	(2,380)	730	(3,110)
Borrowed funds	(360)	756	(1,116)	(1,357)	389	(1,746)
Total	(5,929)	(233)	(5,696)	(14,816)	203	(15,019)
Net interest income	$16,567	$10,175	$ 6,392	$ 39,008	$22,776	$ 16,232

(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, was 4.81% for the third quarter of 2011 compared to 4.27% for the third quarter of 2010. This 54 basis point increase was a result of a decline in the costs of interest bearing liabilities and growth in non-interest bearing deposits and stockholders equity, as well as improved pricing on loans held for investment. Total cost of funding, including demand deposits and stockholders equity decreased from .65% for the third quarter of 2010 to .23% for the third quarter of 2011. The benefit of the reduction in funding costs was complimented by a 1 basis point increase in yields on earning assets.

Non-interest Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Service charges on deposit accounts	$1,585	$1,662	$ 4,976	$ 4,684
Trust fee income	1,091	1,013	3,111	2,947
Bank owned life insurance (BOLI) income	533	455	1,595	1,407
Brokered loan fees	2,849	3,272	7,927	7,397

Equipment rental income	223	792	1,682	3,332
Other	1,322	907	3,947	3,318
Total non-interest income	$7,603	$8,101	$23,238	$23,085

Non-interest income decreased $498,000 during the three months ended September 30, 2011 compared to the same period of 2010. This decrease is primarily related to a decrease of $569,000 in equipment rental income due to the continued decline in the leased equipment portfolio. Brokered loan fees decreased $423,000 due to fees that are realized at the time of sale. Offsetting these decreases is a $415,000 increase in other non-interest income and small increases in various categories.

Non-interest income increased $153,000 during the nine months ended September 30, 2011 to $23.2 million compared to $23.1 million during the same period of 2010. The increase is primarily related to an increase of $530,000 in brokered loan fees as compared to the same period in 2010, related to an increase in warehouse lending volumes. Service charges increased $292,000 during the nine months ended September 30, 2011 as

compared to the same period in 2010 related to an increase in the level of demand deposits and treasury management business activity. Other non-interest income increased $629,000 as compared to 2011, as well as small increases in various other categories. Offsetting these increases was a $1.7 million decrease in equipment rental income related to a decline in the leased equipment portfolio.

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

Non-interest Expense

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Salaries and employee benefits	$25,596	$21,872	$ 73,877	$ 63,334
Net occupancy expense	3,367	3,128	10,120	9,174
Leased equipment depreciation	281	580	1,284	2,674
Marketing	2,455	1,333	7,311	3,221
Legal and professional	3,647	2,705	10,634	7,953
Communications and technology	2,210	2,256	7,141	6,368
FDIC insurance assessment	1,465	2,482	5,948	6,591
Allowance and other carrying costs for OREO	2,150	4,071	7,203	7,171
Other	5,015	4,175	14,330	12,420
Total non-interest expense	$46,186	$42,602	$137,848	$118,906

Non-interest expense for the third quarter of 2011 increased $3.6 million, or 8%, to $46.2 million from $42.6 million in the third quarter of 2010. The increase is primarily attributable to a $3.7 million increase in salaries and employee benefits, which was primarily due to general business growth.

Occupancy expense for the three months ended September 30, 2011 increased $239,000, or 8%, compared to the same quarter in 2010 as a result of general business growth.

Leased equipment depreciation expense for the three months ended September 30, 2011 decreased $299,000 compared to the same quarter in 2010 as a result of the continued decline in the leased equipment portfolio.

Marketing expense for the three months ended September 30, 2011 increased $1.1 million, or 84%, compared to the same quarter in 2010, which was primarily due to general business growth and treasury management programs.

Legal and professional expense for the three months ended September 30, 2011 increased $942,000, or 35%, compared to same quarter in 2010. Our legal and professional expense will continue to fluctuate from quarter to quarter and could increase in the future as we respond to continued regulatory changes, strategic initiatives and increased cost of resolving problem assets under current economic conditions.

FDIC insurance assessment expense for the three months ended September 30, 2011 decreased by $1.0 million from $2.5 million in 2010 to $1.5 million as a result of changes to the FDIC assessment method.

For the three months ended September 30, 2011, allowance and other carrying costs for OREO decreased $1.9 million, to $2.2 million, $1.7 million of which related to deteriorating values of assets held in OREO. Of the $1.7 million valuation expense in the third quarter of 2011, $61,000 related to direct write-downs of the OREO balance and $1.6 million related to increasing the valuation allowance.

Non-interest expense for the nine months ended September 30, 2011 increased $18.9 million, or 16%, compared to the same period in 2010. Salaries and employee benefits increased $10.6 million to $73.9 million from $63.3 million, which was primarily due to general business growth.

Occupancy expense for the nine months ended September 30, 2011 increased $946,000, or 10%, compared to the same period in 2010 related to general business growth.

Leased equipment depreciation expense for the nine months ended September 30, 2011 decreased $1.4 million as a result of the continued decline in the leased equipment portfolio.

Marketing expense for the nine months ended September 30, 2011 increased $4.1 million, or 128%, compared to the same period in 2010, which was primarily the result of general business growth and treasury management programs.

Legal and professional expense for the nine months ended September 30, 2011 increased $2.7 million, or 34%, compared to the same period in 2010 mainly related to business growth and continued regulatory and compliance costs.

FDIC insurance assessment expense for the nine months ended September 30, 2011 decreased $643,000 compared to the same period in 2010 as a result of changes to the FDIC assessment method.

Analysis of Financial Condition

Loan Portfolio

Total loans net of allowance for loan losses at September 30, 2011 increased $1.3 billion from December 31, 2010 to $7.1 billion. Combined commercial, construction and consumer loans increased $631.5 million, offset by a combined decrease in real estate loans and leases of $37.8 million. Loans held for sale increased $715.4 million from December 31, 2010 as a result of continued low mortgage rates.

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

	September 30, 2011	December 31, 2010
Commercial	$3,049,524	$2,592,924
Construction	442,408	270,008
Real estate	1,751,672	1,759,758
Consumer	23,954	21,470
Leases	65,943	95,607
Gross loans held for investment	5,333,501	4,739,767
Deferred income (net of direct origination costs)	(30,917)	(28,437)
Allowance for loan losses	(67,897)	(71,510)
Total loans held for investment, net	5,234,687	4,639,820
Loans held for sale	1,909,567	1,194,209
Total	$7,144,254	$5,834,029

We continue to lend primarily in Texas. As of September 30, 2011, 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 risks created by these concentrations have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each balance sheet date.

We originate substantially all of the loans 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 September 30,

2011, we have $806.4 million in syndicated loans, $258.2 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 September 30, 2011, $21.1 million of our syndicated loans were nonperforming.

Summary of Loan Loss Experience

The provision for credit losses is a charge to earnings to maintain the reserve for loan losses at a level consistent with management s assessment of the loan portfolio in light of current economic conditions and market trends. We recorded a provision of $7.0 million during the third quarter of 2011 compared to $13.5 million in the third quarter of 2010 and $8.0 million in the second quarter of 2011. The amount of reserves and provision required to support the reserve generally increased in 2009 and 2010 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. However, in 2011 we have experienced improvements in credit quality and seen levels of reserves and provision decrease.

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.

The combined reserve for credit losses, which includes a liability for losses on unfunded commitments, totaled $70.2 million at September 30, 2011, $73.4 million at December 31, 2010 and $78.4 million at September 30, 2010. The total reserve percentage decreased to 1.32% at September 30, 2011 from 1.56% of loans held for

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investment at December 31, 2010 and decreased from 1.75% of loans held for investment at September 30, 2010. The total reserve percentage had increased in 2009 and 2010 as a result of the effects of national and regional economic conditions on borrowers and values of assets pledged as collateral. The combined reserve is starting to trend down as we recognize losses on loans for which there were specific or general allocations of reserves and see improvement in our overall credit quality. The overall reserve for loan losses continues to result from consistent application of the loan loss reserve methodology as described above. At September 30, 2011, 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.

Activity in the reserve for loan losses is presented in the following table (in thousands):

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Year ended December 31, 2010
Reserve for loan losses:			
Beginning balance	$ 71,510	$ 67,931	$ 67,931
Loans charged-off:			
Commercial	7,170	16,588	27,723
Real estate construction		12,438	12,438
Real estate term	18,837	3,766	9,517
Consumer	317		216
Equipment leases	980	1,407	1,555
Total charge-offs	27,304	34,199	51,449
Recoveries:			
Commercial	798	129	176
Real estate construction	248	1	1
Real estate term	305	37	138
Consumer	5	2	4
Equipment leases	212	83	158
Total recoveries	1,568	252	477
Net charge-offs	25,736	33,947	50,972
Provision for loan losses	22,123	41,671	54,551
Ending balance	$ 67,897	$ 75,655	$ 71,510
Reserve for off-balance sheet credit losses:			
Beginning balance	$ 1,897	$ 2,948	$ 2,948
Provision (benefit) for off-balance sheet credit losses	377	(171)	(1,051)
Ending balance	$ 2,274	$ 2,777	$ 1,897
Total reserve for credit losses	$ 70,171	$ 78,432	$ 73,407
Total provision for credit losses	$ 22,500	$ 41,500	$ 53,500
Reserve for loan losses to loans held for investment[2]	1.28%	1.69%	1.52%
Net charge-offs to average loans[1] [2]	0.70%	1.02%	1.14%
Total provision for credit losses to average loans[2]	0.61%	1.25%	1.20%
Recoveries to total charge-offs	5.74%	0.74%	0.93%
Reserve for off-balance sheet credit losses to off- balance sheet credit commitments	0.13%	0.21%	0.14%
Combined reserves for credit losses to loans held for investment[2]	1.32%	1.75%	1.56%
Non-performing assets:			
Non-accrual loans	$ 66,714	$ 127,054	$112,090

OREO[4]	35,796	38,646	42,261
Total	$102,510	$ 165,700	$154,351
Restructured loans	$ 24,963	$	$ 4,319
Loans past due 90 days and still accruing[3]	3,003	2,428	6,706
Reserve as a percent of non-performing loans[2]	1.0x	.6x	.6x

(1) Interim period ratios are annualized.

(2) Excludes loans held for sale.

(3) At September 30, 2011, December 31, 2010 and September 30, 2010, loans past due 90 days and still accruing includes premium finance loans of $2.5 million, $3.3 million and $1.6 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 September 30, 2011, December 31, 2010 and September 30, 2010, OREO balance is net of $10.7 million, $12.9 million and $12.5 million valuation allowance, respectively.

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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):

	September 30, 2011	September 30, 2010	December 31, 2010
Non-accrual loans			
Commercial	$12,674	$ 51,859	$ 42,543
Construction	21,288	633	21
Real estate	29,167	72,147	62,497
Consumer	309	345	706
Leases	3,276	2,070	6,323
Total non-accrual loans	$66,714	$127,054	$112,090

The table below summarizes the non-accrual loans as segregated by loan type and type of property securing the credit as of September 30, 2011 (in thousands):

Non-accrual loans:	
Commercial	
Lines of credit secured by the following:	
Various single family residences and notes receivable	$ 7,755
Assets of the borrowers	2,453
Other	2,466
Total commercial	12,674
Construction	
Secured by:	
Unimproved land and/or undeveloped residential lots	21,270
Other	18
Total construction	21,288
Real estate	
Secured by:	
Commercial property	8,560
Unimproved land and/or undeveloped residential lots	6,179
Rental properties and multi-family residential real estate	2,954
Single family residences	5,995
Other	5,479
Total real estate	29,167
Consumer	309
Leases (commercial leases primarily secured by assets of the lessor)	3,276
Total non-accrual loans	$ 66,714

Generally, we place loans on non-accrual when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. As of September 30, 2011, $19.4 million 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.

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At September 30, 2011, we had $3.0 million in loans past due 90 days and still accruing interest. At September 30, 2011, $2.5 million of the loans past due 90 days and still accruing 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.

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, or either forgiveness of either principal or accrued interest. As of September 30, 2011, we have $25.0 million in loans considered restructured that are not already on nonaccrual. Of the nonaccrual loans at September 30, 2011, $23.2 million met the criteria for restructured. A loan continues to qualify as restructured until a consistent payment history or change in borrower s financial condition 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 September 30, 2011 and 2010, we had $18.1 million and $52.8 million, respectively, in loans of this type which were not included in either non-accrual or 90 days past due categories.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Beginning balance	$27,285	$42,077	$ 42,261	$27,264
Additions	12,661	2,999	19,254	22,357
Sales	(2,488)	(2,757)	(20,012)	(4,797)
Valuation allowance for OREO	(1,601)	(3,654)	(3,522)	(6,048)
Direct write-downs	(61)	(19)	(2,185)	(130)
Ending balance	$35,796	$38,646	$ 35,796	$38,646

The following table summarizes the assets held in OREO at September 30, 2011 (in thousands):

Unimproved commercial real estate lots and land	$ 4,867
Commercial buildings	9,385
Undeveloped land and residential lots	18,028
Multifamily lots and land	801
Other	2,715
Total OREO	$35,796

When foreclosure occurs, fair value, which is generally based on appraised values, may result in partial charge-off of a loan upon taking property, and so long as property is retained, subsequent 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 three and nine months ended September 30, 2011, we recorded $1.7 million and $5.7 million in valuation expense, respectively. Of the $1.7 million recorded for the three months ended September 30, 2011, $1.6 million related to increases to the valuation allowance, and $61,000 related to direct write-downs. Of the $5.7 million recorded for the nine months ended September 30, 2011, $3.5 million related to increases to the valuation allowance, and $2.2 million related to direct write-downs.

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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 demonstrated 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 year ended December 31, 2010 and for nine months ended September 30, 2011, our principal source of funding has been our customer deposits, supplemented by our short-term and long-term borrowings, primarily from federal funds purchased and Federal Home Loan Bank (FHLB) borrowings.

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 CDs. Since December 31, 2009, growth in customer deposits eliminated the need for use of brokered CDs and none were outstanding at September 30, 2011. In prior periods, 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 table summarizes our core customer deposits and brokered deposits (in millions):

	September 30, 2011	September 30, 2010	December 31, 2010
Deposits from core customers	$5,486.5	$5,407.0	$5,455.4
Deposits from core customers as a percent of total deposits	100.0%	100.0%	100.0%
Average deposits from core customers(1)	$5,272.8	$4,760.2	$4,982.6
Average deposits from core customers as a percent of total quarterly average deposits(1)	100.0%	100.0%	99.4%
Average brokered deposits(1)	$	$	$ 28.6
Average brokered deposits as a percent of total quarterly average deposits(1)	0.0%	0.0%	0.6%

(1) Annual averages presented for December 31, 2010.

We have access to sources of brokered deposits of not less than an additional $3.3 billion. Customer deposits (total deposits minus brokered CDs) increased by $79.5 million from September 30, 2010 and increased $31.1 million from December 31, 2010.

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 as of September 30, 2011 (in thousands):

Federal funds purchased	$ 321,930
Customer repurchase agreements	27,059
Treasury, tax and loan notes	2,834
FHLB borrowings	1,100,071
Trust preferred subordinated debentures	113,406
Total borrowings	$ 1,565,300
Maximum outstanding at any month-end during the year	$ 1,565,300

The following table summarizes our other borrowing capacities in excess of balances outstanding at September 30, 2011 (in thousands):

FHLB borrowing capacity relating to loans	$ 24,376
FHLB borrowing capacity relating to securities	55,900
Total FHLB borrowing capacity	$ 80,276
Unused federal funds lines available from commercial banks	$390,720

Our equity capital averaged $557.8 million for the nine months ended September 30, 2011, as compared to $511.2 million for the same period in 2010. This increase reflects our retention of net earnings during this period. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the near future.

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

Commitments and Contractual Obligations

The following table presents significant fixed and determinable contractual obligations to third parties by payment date. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. As of September 30, 2011, our significant fixed and determinable contractual obligations to third parties were as follows (in thousands):

	Within One Year	After One but Within Three Years	After Three but Within Five Years	After Five Years	Total
Deposits without a stated maturity[(1)]	$4,372,052	$	$	$	$4,372,052
Time deposits[(1)]	1,076,077	26,471	11,095	768	1,114,411
Federal funds purchased[(1)]	321,930				321,930
Customer repurchase agreements[(1)]	27,059				27,059
Treasury, tax and loan notes[(1)]	2,834				2,834
FHLB borrowings[(1)]	1,100,000		71		1,100,071

Operating lease obligations[1] [2]	2,226	24,565	15,846	40,545	83,182
Trust preferred subordinated debentures[1]				113,406	113,406
Total contractual obligations	$6,902,178	$51,036	$ 27,012	$154,719	$7,134,945

(1) Excludes interest.

(2) Non-balance sheet item.

SEC guidance requires disclosure of critical accounting policies. The SEC defines critical accounting policies as those that are most important to the presentation of a company s financial condition and results, and require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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We follow financial accounting and reporting policies that are in accordance with accounting principles generally accepted in the United States. The more significant of these policies are summarized in Note 1 to the consolidated financial statements. Not all these significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC s definition of critical accounting policies.

Management considers the policies related to the allowance for loan losses as the most critical to the financial statement presentation. The total allowance for loan losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (ASC) 310, *Receivables*, and ASC 450, *Contingencies*. The allowance for loan losses is established through a provision for loan losses charged to current earnings. The amount maintained in the allowance reflects management s continuing evaluation of the loan losses inherent in the loan portfolio. The allowance for loan losses is comprised of specific reserves assigned to certain classified loans and general reserves. Factors contributing to the determination of specific reserves include the credit-worthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of determining the general reserve, the portfolio is segregated by product types in order to recognize differing risk profiles among categories, and then further segregated by credit grades. See Summary of Loan Loss Experience for further discussion of the risk factors considered by management in establishing the allowance for loan losses.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices, or equity prices. Additionally, the financial instruments subject to market risk can be classified either as held for trading purposes or held for other than trading.

We are subject to market risk primarily through the effect of changes in interest rates on our portfolio of assets held for purposes other than trading. The effect of other changes, such as foreign exchange rates, commodity prices, and/or equity prices do not pose significant market risk to us.

The responsibility for managing market risk rests with the BSMC, which operates under policy guidelines established by our board of directors. The negative acceptable variation in net interest revenue due to a 200 basis point increase or decrease in interest rates is generally limited by these guidelines to +/- 5%. These guidelines also establish maximum levels for short-term borrowings, short-term assets and public and brokered deposits. They also establish minimum levels for unpledged assets, among other things. Compliance with these guidelines is the ongoing responsibility of the BSMC, with exceptions reported to our board of directors on a quarterly basis.

Interest Rate Risk Management

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of September 30, 2011, and is not necessarily indicative of positions on other dates. The balances of interest rate sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. The mismatch between repricings or maturities within a time period is commonly referred to as the gap for that period. A positive gap (asset sensitive), where interest rate sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite results on the net interest margin. To reflect anticipated prepayments, certain asset and liability categories are shown in the table using estimated cash flows rather than contractual cash flows. The Company employs interest rate floors in certain variable rate loans to enhance the yield on those loans at times when market interest rates are extraordinarily low. The degree of asset sensitivity, spreads on loans and net interest margin may be reduced until rates increase by an amount sufficient to eliminate the effects of floors. The adverse effect of floors as market rates increase may also be offset by the positive gap, the extent to which rates on deposits and other funding sources lag increasing market rates and changes in composition of funding.

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Interest Rate Sensitivity Gap Analysis
September 30, 2011
(In thousands)

	0-3 mo Balance	4-12 mo Balance	1-3 yr Balance	3+ yr Balance	Total Balance
Securities[1]	$ 26,171	$ 34,550	$ 44,010	$ 38,164	$ 142,895
Total variable loans	6,166,313	50,881	36,998	6,902	6,261,094
Total fixed loans	496,487	230,641	170,019	85,222	982,369
Total loans[2]	6,662,800	281,522	207,017	92,124	7,243,463
Total interest sensitive assets	$ 6,688,971	$ 316,072	$ 251,027	$ 130,288	$ 7,386,358
Liabilities:					
Interest bearing customer deposits	$ 3,331,280	$	$	$	$ 3,331,280
CDs & IRAs	232,208	223,516	26,471	11,863	494,058
Total interest bearing deposits	3,563,488	223,516	26,471	11,863	3,825,338
Repurchase agreements, Federal funds purchased, FHLB borrowings	1,451,823		71		1,451,894
Trust preferred subordinated debentures				113,406	113,406
Total borrowings	1,451,823		71	113,406	1,565,300
Total interest sensitive liabilities	$ 5,015,311	$ 223,516	$ 26,542	$ 125,269	$ 5,390,638
GAP	$ 1,673,660	$ 92,556	$ 224,485	$ 5,019	$
Cumulative GAP	1,673,660	1,766,216	1,990,701	1,995,720	1,995,720
Demand deposits					$ 1,661,125
Stockholders equity					587,944
Total					$ 2,249,069

(1) Securities based on fair market value.

(2) Loans include loans held for sale and are stated at gross.

The table above sets forth the balances as of September 30, 2011 for interest bearing assets, interest bearing liabilities, and the total of non-interest bearing deposits and stockholders equity. While a gap interest table is useful in analyzing interest rate sensitivity, an interest rate sensitivity simulation provides a better illustration of the sensitivity of earnings

to changes in interest rates. Earnings are also affected by the effects of changing interest rates on the value of funding derived from demand deposits and stockholders equity. We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. We quantify and measure interest rate risk exposure using a model to dynamically simulate the effect of changes in net interest income relative to changes in interest rates and account balances over the next twelve months based on three interest rate scenarios. These are a most likely rate scenario and two shock test scenarios.

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

The two shock test scenarios assume a sustained parallel 200 basis point increase or decrease, respectively, in interest rates. As short-term rates continued to fall during 2009 and remain low in 2010, we could not assume interest rate decreases of any amount as the results of the decreasing rates scenario would not be meaningful. We will continue to evaluate these scenarios as interest rates change, until short-term rates rise above 3.0%.

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

	Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario 200 bp Increase September 30, 2011
Change in net interest income	$ 21,807

The simulations used to manage market risk are based on numerous assumptions regarding the effect of changes in interest rates on the timing and extent of repricing characteristics, future cash flows, and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies, among other factors.

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ITEM 4. CONTROLS AND PROCEDURES

Our management, including our chief executive officer and chief financial officer, have evaluated our disclosure controls and procedures as of September 30, 2011, and concluded that those disclosure controls and procedures are effective. There have been no changes in our internal controls or in other factors known to us that could materially affect these controls subsequent to their evaluation, nor any corrective actions with regard to significant deficiencies and material weaknesses. While we believe that our existing disclosure controls and procedures have been effective to accomplish these objectives, we intend to continue to examine, refine and formalize our disclosure controls and procedures and to monitor ongoing developments in this area.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are aggressively defending against a $65.4 million jury verdict that was rendered in August 2011, in Antlers, Oklahoma, a town in rural Pushmataha County. The case was filed by one of the guarantors of a defaulted loan. No judgment has yet been entered by the trial court. The case has been removed to federal district court where we will pursue a dismissal of the suit, a change in verdict or a new trial. The removal is being contested. We will appeal any adverse judgment that is subsequently entered. We have been advised by counsel that there are numerous grounds for appeal.

In addition, we intend to pursue aggressively our suit originally filed in Texas in April 2010 against the plaintiff in the Oklahoma case and other guarantors of the defaulted loan. The loss related to the loan was recognized in the second quarter of 2010, and we have no remaining balance sheet exposure on the principal balance of the loan. As we currently believe a materially negative outcome in this matter is not probable, we have not established a reserve related to any potential exposure.

ITEM 1A. RISK FACTORS

There has not been any material change in the risk factors previously disclosed in the Company s 2010 Form 10-K for the fiscal year ended December 31, 2010.

ITEM 5. EXHIBITS

(a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
101	The following materials from Texas Capital Bancshares, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements

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SIGNATURES

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

TEXAS CAPITAL BANCSHARES, INC.

Date: October 20, 2011

/s/ Peter B. Bartholow

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

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EXHIBIT INDEX

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***	Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.