



FORM 10-K

TEXAS CAPITAL BANCSHARES INC/TX – TCBI

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Annual report which provides a comprehensive overview of the company for the past year

Part IV

- ITEM 1. BUSINESS
- ITEM 2. PROPERTIES
- ITEM 3. LEGAL PROCEEDINGS
- ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND
- ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA
- ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
- ITEM 7A. QUANTITATIVE AND QUALITATIVE
- ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
- ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
- ITEM 11. EXECUTIVE COMPENSATION
- ITEM 12. SECURITY OWNERSHIP OF CERTAIN
- ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
- ITEM 14. CONTROLS AND PROCEDURES
- ITEM 15. EXHIBITS
- SIGNATURES
- CERTIFICATIONS
- EXHIBIT INDEX
- EX-10.3 (EXECUTIVE EMPLOYMENT AGREEMENT)
- EX-10.4 (EXECUTIVE EMPLOYMENT AGREEMENT)
- EX-10.5 (EXECUTIVE EMPLOYMENT AGREEMENT)
- EX-10.6 (EXECUTIVE EMPLOYMENT AGREEMENT)
- EX-21 (Subsidiaries of the registrant)
- EX-99.1 (Exhibits not specifically designated by another number and by investment companies)
- EX-99.2 (Exhibits not specifically designated by another number and by investment companies)

TEXAS CAPITAL BANCSHARES, INC.
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ANNUAL REPORT
for the
Year Ended
December 31, 2002

TABLE OF CONTENTS

Part I		
Item 1.	Business.....	1
Item 2.	Properties.....	13
Item 3.	Legal Proceedings.....	14
Part II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters.....	15
Item 6.	Selected Consolidated Financial Data.....	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	19
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk.....	41
Item 8.	Financial Statements and Supplementary Data.....	43
Part III		
Item 10.	Directors and Executive Officers of the Registrant.....	70
Item 11.	Executive Compensation.....	70
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	70
Item 13.	Certain Relationships and Related Transactions.....	70
Item 14.	Controls and Procedures.....	71
Part IV		
Item 15.	Exhibits.....	71

ITEM 1. BUSINESS

BACKGROUND

We were organized in March 1998 to serve as the holding company for an independent bank managed by Texans and oriented to the needs of the Texas marketplace. We decided that the most efficient method of building an independent bank was to acquire an existing bank and substantially increase the equity capitalization of the bank through private equity financing. The acquisition of an existing bank was attractive because it would enable us to avoid the substantial delay involved in chartering a new national or state bank. Our predecessor bank, Resource Bank, N.A., headquartered in Dallas, Texas, had completed the chartering process and commenced operations in October 1997. We acquired Resource Bank in December 1998.

We also concluded that substantial equity capital was needed to enable us to compete effectively with the subsidiary banks of nationwide banking conglomerates that operate in the Texas market. Accordingly, in June 1998, we commenced a private offering of our common stock and were successful in raising approximately \$80.0 million upon completion of the offering.

GROWTH HISTORY

We have grown substantially in both size and profitability since our formation. The table below sets forth data regarding the growth of key areas of our business from December 1998 through December 2002.

	2002	2001	December 31 2000	1999	1998
	-----	-----	-----	-----	-----
	(In Thousands)				
Loans	\$1,122,506	\$ 903,979	\$ 629,109	\$ 227,600	\$ 11,092
Assets	1,793,282	1,164,779	908,428	408,579	89,311
Deposits	1,196,535	886,077	794,857	287,068	16,018
Stockholders' equity	124,976	106,359	86,197	72,912	73,186

The following table provides information about the growth of our loan portfolio by type of loan from December 1998 to December 2002.

	2002	2001	December 31 2000	1999	1998
	-----	-----	-----	-----	-----
	(In Thousands)				
Commercial loans	\$ 509,505	\$ 402,302	\$ 325,774	\$ 152,749	\$ 2,227
Total real estate loans	455,154	398,307	248,804	63,344	7,696
Construction loans	172,451	180,115	83,931	11,565	4,554
Permanent real estate loans	282,703	218,192	164,873	51,779	3,142
Equipment leases	17,546	34,552	17,093	642	--
Consumer loans	24,195	25,054	36,092	10,865	1,169

THE TEXAS MARKET

The Texas marketplace has historically been served by independent Texas banks. In 1986, all ten of the largest banks with operations in Texas were headquartered in Texas. Bankers often spent their entire careers working in Texas-based banks in a single community. As a result, their knowledge of the community was based on years of experience providing banking services to businesses and prominent individuals. The business and personal relationships of these bankers within the community often spanned many years. The banking crisis of the late 1980s changed the Texas banking industry

dramatically. The collapse of the Texas energy industry spurred by the precipitous decline in the price of oil beginning in 1986, combined with the collapse of the Texas real estate market, caused virtually every bank and thrift in Texas to experience severe financial difficulty as the value of the collateral for their real estate and energy loans plummeted.

By 1993, nine of the ten largest commercial banks in Texas had been closed by federal regulators or sold to out-of-state bank conglomerates, due in significant part to these difficulties. A number of large independent Texas banks became branches of out-of-state nationwide banks. It is our perception that these nationwide banks focused their Texas operations more on retail consumer banking clients and large commercial clients with revenues over \$250 million and reduced their emphasis on the established banking relationships with middle market businesses and high net worth individuals that had been built over years of experience by the bankers of the independent Texas banks. Many of these experienced bankers with established relationships in their communities left the banking industry, joined smaller community banks and thrifts or the nationwide, out-of state banks that had entered the Texas market following the economic crisis of the 1980s. Today, Texas' four largest banking organizations by deposits are headquartered outside of Texas and approximately 54% of total deposits in the state are controlled by out-of-state organizations. We believe that many middle market companies and high net worth individuals are interested in banking with a company headquartered in, and with decision-making authority based in, Texas and with established Texas bankers who have the expertise to act as trusted advisors to the customer with regard to its banking needs. Our banking centers, which are serviced by experienced bankers with lending expertise in the specific industries found in their market areas and established community ties, can offer these customers responsive, personalized service. We believe that, if we service these customers properly, we will be able to establish long-term relationships and provide multiple products to our customers, thereby enhancing our profitability.

We believe that the Texas economy presents an attractive opportunity to build an independent bank managed by Texans and oriented to the needs of the Texas economic marketplace. The population of Texas in 2001 was estimated at 21.1 million, making it the second most populous state in the country. From 1990 to 2001, the population of Texas grew by approximately 4.2 million, representing a 24.5% increase. Approximately 85% of the residents of Texas live in metropolitan areas and population growth in metropolitan areas accounted for approximately 91% of the increase in population from 1990 to 2000. In terms of population, Texas is expected to be among the ten fastest growing states in the U.S. over the period from 2001 to 2006, and the third fastest growing state of the ten most populous states over that period. In addition, average 2001 per capita income of \$26,430 in our target markets (the five largest metropolitan markets in the state of Texas) was above the U.S. average and is expected to grow faster than any of the ten largest metropolitan statistical areas in the U.S. for the period 2001 to 2006. The Texas banking markets have grown over the past five years, with statewide deposits increasing from \$184.2 billion in 1996 to \$243.4 billion in 2001, representing a compounded annual growth rate of 5.74%, compared to 5.38% nationally. The Texas economy has diversified substantially from its energy-driven economy of the 1970s and 1980s to include a greater diversification among industries such as services, technology and manufacturing. Accordingly, we expect that the local Texas markets will grow faster than most in the U.S. with less volatility than experienced in the past, providing opportunities for above-average growth and potential profitability for us. Although current estimates of future economic and demographic data may indicate a favorable trend, there is no assurance that the actual results will follow those trends, especially as the Texas market may be subject to unexpected economic downturns.

BUSINESS STRATEGY

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

- o Target middle market business and high net worth individual market segments;

- o Focus our business development efforts on the key major metropolitan markets in Texas;
- o Hire experienced bankers and open strategically-located banking centers;
- o Efficiently manage our infrastructure and capital base, which includes:
 - o leveraging our existing infrastructure to support a larger volume of business;
 - o tight internal approval processes for capital and operating expenses; and
 - o extensive use of outsourcing to provide cost-effective operational support with service levels consistent with large-bank operations;
- o Continue to use BankDirect, our Internet banking website, as a way to diversify our funding sources by attracting retail deposits on a nationwide basis; and
- o Expand our geographic reach and business mix by hiring qualified local bankers, establishing select banking locations and completing selective acquisitions in new markets.

TARGET THE ATTRACTIVE MIDDLE MARKET BUSINESS AND HIGH NET WORTH INDIVIDUAL MARKET SEGMENTS.

Our business strategy concentrates on business customers with annual revenues between \$5 million and \$250 million, commonly referred to as "middle market" businesses, and high net worth individual customers, which we generally define as individuals with net worth in excess of \$1 million. We believe these core customers are currently underserved in Texas. It is our perception that the Texas operations of the large nationwide banks generally do not emphasize middle market businesses or high net worth individuals, preferring instead to focus on retail consumer banking clients and large commercial clients with revenues over \$250 million. Smaller community banks, savings and loans, and credit unions tend to focus on residential mortgage loans, consumer loans and retail deposit accounts. As a result of these market conditions, we believe we can operate successfully by focusing on middle market businesses and high net worth individuals. These customers generally have the size and sophistication to demand customized products and services, which we believe our bankers are well-equipped to understand and provide due to their experience and personal relationships with their clients.

FOCUS OUR BUSINESS DEVELOPMENT EFFORTS ON THE KEY METROPOLITAN MARKETS IN TEXAS.

The relationships of our bankers tend to be centered on the large metropolitan areas of Texas. In addition, these metropolitan areas offer high concentrations of our core middle market business and high net worth individual customers. We also believe the diverse nature of the middle market business communities in large Texas metropolitan markets provides us with a broad, diverse customer base that will allow us to spread our lending risks throughout a number of different borrowers and industries. As a result, we intend to focus our development efforts on these market areas.

GROW OUR LOAN AND DEPOSIT BASE IN OUR EXISTING MARKETS BY HIRING ADDITIONAL EXPERIENCED BANKERS AND OPENING SELECT STRATEGICALLY LOCATED BANKING CENTERS.

We believe that the experience and personal relationships of our bankers provide a competitive advantage and are a critical factor in our ability to grow our business. The personal relationships of our bankers increase our opportunities to market our products and services to existing customers and obtain new customers, particularly among our core middle market business and high net worth individual customers in our markets. We believe that the experience of our bankers allows them to better appreciate and anticipate the needs and demands of our customers. We provide our bankers with substantial latitude

regarding their customers and, as much as possible, we attempt to allow local bankers to resolve issues that arise. This reinforces the relationship between our bankers and the customers and enables us to better benefit from our bankers' knowledge of our customers, their industry and their community. We intend to continue to hire bankers with extensive banking, community and personal relationships, particularly in market areas where we do not have an established presence. We also intend to use the knowledge and experience of our bankers in our market areas to identify potential new lending relationships.

IMPROVE OUR FINANCIAL PERFORMANCE THROUGH THE EFFICIENT MANAGEMENT OF OUR INFRASTRUCTURE AND CAPITAL BASE, WHICH INCLUDES:

- o LEVERAGING OUR EXISTING INFRASTRUCTURE TO SUPPORT A LARGER VOLUME OF BUSINESS

We have made investments in our infrastructure in order to centralize many of our critical operations, such as credit policy, finance, data processing and loan application processing. We believe that our existing infrastructure can accommodate substantial additional growth without substantial additional capital expenditures. We also believe that the centralization of our administrative operations enables us to maximize efficiency through economies of scale without jeopardizing the personal relationships of our bankers with their customers.

- o TIGHT INTERNAL APPROVAL PROCESSES FOR CAPITAL AND OPERATING EXPENSES

We maintain stringent cost control practices and policies to increase the efficiency of our operations. A part of the annual bonuses we pay our managers is based on the extent to which they are successful in containing expenses and increasing efficiency. In addition, all salary increases and capital expenditures in excess of \$25,000 are reviewed by a committee comprised of our senior management. Capital expenditures in excess of \$10,000 must be approved by our chief financial officer.

- o EXTENSIVE USE OF OUTSOURCING TO PROVIDE COST-EFFECTIVE OPERATIONAL SUPPORT WITH SERVICE LEVELS CONSISTENT WITH LARGE-BANK OPERATIONS

We use outside service providers where they can increase the efficiency of our operations. Currently, our loan documentation, data processing and bank operations, and almost all our internal, regulatory and audit examinations, are provided by outside service providers. We intend to continue to review our operations to determine where we can contain costs by using third party service providers.

CONTINUE TO USE BANKDIRECT AS A WAY TO DIVERSIFY OUR FUNDING SOURCES BY ATTRACTING DEPOSITS ON A NATIONWIDE BASIS.

We currently use BankDirect as a source of retail deposits to fund our lending activities. We intend to continue to use BankDirect to attract depositors that retain higher balances in their accounts.

EXPAND OUR GEOGRAPHIC REACH AND BUSINESS MIX BY HIRING QUALIFIED BANKERS, ESTABLISHING SELECT BANKING LOCATIONS AND COMPLETING SELECTIVE ACQUISITIONS.

We intend to expand our business by hiring experienced bankers in our current market areas and in new market areas. We believe that hiring bankers in our current market areas will augment our business by providing us with access to established relationships with potential new customers and industries in our current market areas. In addition, hiring experienced bankers in other markets can enable us to enter new market areas with an established presence and existing relationships in that market area. Selective acquisitions of other banks or the addition of select banking locations can also allow us to expand and grow our business. Acquisitions of banks that have lower ratios of loans to deposits than us can also allow us to significantly increase our net deposits, increasing our ability to make loans to our core customers. Expanding our banking network into an underserved area may also allow us

to increase our deposits and fund our lending activities. Although we do not have any current commitments with respect to acquisitions or additional banking locations, we believe that acquisitions and the establishment of select banking locations are potentially available in our existing market areas and in new market areas and we intend to pursue such opportunities in the future.

PRODUCTS AND SERVICES

We offer a variety of loan, deposit account and other financial products and services to our customers. At December 31, 2002, we maintained approximately 15,200 deposit accounts and 2,700 loan accounts.

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

- o commercial loans for working capital and to finance internal growth, acquisitions and leveraged buyouts;
- o permanent real estate and construction loans;
- o equipment leasing;
- o cash management services;
- o trust and escrow services;
- o letters of credit; and
- o business insurance products.

INDIVIDUAL CUSTOMERS. We also provide complete banking services for our individual customers, including:

- o personal trust and wealth management services;
- o certificates of deposit;
- o interest bearing and non-interest bearing checking accounts with optional features such as Visa(R) debit/ ATM cards and overdraft protection;
- o traditional savings accounts;
- o consumer loans, both secured and unsecured;
- o mortgages and home equity loans;
- o branded Visa(R) credit card accounts, including gold-status accounts; and
- o personal insurance products.

LENDING ACTIVITIES

We target our lending to middle market businesses and high net worth individuals that meet our credit standards. The credit standards are set by our standing Credit Policy Committee with the assistance of our Chief Credit Officer, who is charged with ensuring that credit standards are met by loans in our portfolio. Our Credit Policy Committee is comprised of senior bank officers including the President of our bank, our Chief Lending Officer and our Chief Credit Officer. Our credit standards for commercial borrowers reference numerous criteria with respect to the borrower, including historical and projected financial information, strength of management, acceptable collateral and associated advance rates, and market conditions and trends in the borrower's industry. In addition, prospective loans are also analyzed based on current industry concentrations in our loan portfolio to prevent an unacceptable concentration of loans in any particular industry. We believe our credit standards are similar to the standards generally employed by large nationwide banks in the markets we serve. We believe that we differentiate our bank from its competitors by focusing on and aggressively marketing to our core customers and accommodating, to the extent permitted by our credit standards, their individual needs.

We generally extend variable rate loans in which the interest rate fluctuates with a predetermined indicator such as the United States prime rate or the London Inter-Bank Offered Rate (LIBOR). Our use of variable rate loans is designed to protect us from risks associated with interest rate fluctuations since the rates of interest earned will automatically reflect such fluctuations. As of December 31, 2002, approximately 90% of the loans by outstanding principal balance in our portfolio were variable rate loans.

COMMERCIAL LOANS. Our commercial loan portfolio is comprised of lines of credit for working capital and term loans to finance equipment and other business assets. Our lines of credit for working capital generally are renewed on an annual basis and our term loans generally have terms of two to five years. Our lines of credit and term loans typically have floating interest rates. Commercial loans can contain risk factors unique to the business of each customer. In order to mitigate these risks and better serve our customers, we seek to gain an understanding of the business of each customer and the reliability of their cash flow, so that we can place appropriate value on collateral taken and structure the loan to maintain collateral values at appropriate levels. In analyzing credit risk, we generally focus on the business experience of our borrowers' management. We prefer to lend to borrowers with an established track record of loan repayment and predictable growth and cash flow. Our energy production loans are usually collateralized with proven reserves and have amortization schedules that extend for one-half of the projected life plus one year of the proven reserves. We also rely on the experience of our bankers and their relationships with our customers to aid our understanding of the customer and its business. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit typically are reviewed annually and are supported by accounts receivable, inventory and equipment. Depending on the risk profile of the borrower, we may require periodic aging of receivables, as well as borrowing base certificates representing current levels of inventory, equipment, and accounts receivables. Our term loans are typically also secured by the assets of our clients' businesses. Commercial borrowers are required to provide updated personal and corporate financial statements at least annually. At December 31, 2002, funded commercial loans totaled approximately \$509.5 million, approximately 45.4% of our total funded loans.

PERMANENT REAL ESTATE LOANS. Approximately one half of our permanent real estate loan portfolio is comprised of loans secured by commercial properties occupied by the borrower. We also provide temporary financing for commercial and residential property. Our permanent real estate loans generally have terms of five to seven years. We generally avoid long-term loans for commercial real estate held for investment. Our permanent real estate loans have both floating and fixed rates. Depending on the financial situation of the borrower, we may require periodic appraisals of the property to verify the ongoing quality of our collateral. At December 31, 2002, funded permanent real estate loans totaled approximately \$282.7 million, approximately 25.2% of our total funded loans.

CONSTRUCTION LOANS. Our construction loan portfolio consists primarily of single-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment. We closely monitor the status of each construction loan and the underlying project throughout its term. These loans typically have floating rates and commitment fees. Typically, we require full investment of the borrower's equity in construction projects prior to releasing our funds. Generally, we do not allow our borrowers to recoup their equity from the sale proceeds of finished units until we have recovered our funds on the overall project. We use a title company to disburse periodic draws from the construction loan to attempt to avoid title problems at the end of the project. At December 31, 2002, funded construction real estate loans totaled approximately \$172.5 million, approximately 15.4% of our total funded loans.

EQUIPMENT LEASES. We provide equipment financing in the form of capital and operating leases. Our lease financings generally have terms of three to five years. The leases are secured by the equipment purchased with the lease financing. Interest rates are generally fixed and based on the actual depreciation of the collateral equipment. At December 31, 2002, funded equipment lease financings totaled approximately \$17.5 million, approximately 1.6% of our total funded loans.

LETTERS OF CREDIT. We issue standby or performance letters of credit, and can service the international needs of our clients through correspondent banks. At December 31, 2002, our commitments under letters of credit totaled approximately \$22.1 million.

CONSUMER LOANS. Our consumer loan portfolio consists of personal lines of credit and loans to acquire personal assets such as automobiles and boats. Our personal lines of credit generally have terms of one year and our term loans generally have terms of three to five years. Our lines of credit typically have floating interest rates. We generally require assets as collateral for consumer loans, but if the financial situation of the customer is sufficient, we will grant unsecured lines of credit. We also examine the personal liquidity of our individual borrowers, in some cases requiring agreements to maintain a minimum level of liquidity, to insure that the borrower has sufficient liquidity to repay the loan. Due to low levels of profitability, interest rate risks and collateral risks, we do not consider secured consumer loans, such as automobile loans, a core part of our business. Our rates are generally higher than the rates offered by other providers of these loans. At December 31, 2002, funded consumer loans totaled approximately \$24.2 million, approximately 2.2% of our total funded loans. Of these funded consumer loans, approximately \$8.3 million are not secured by specific collateral or are unsecured, representing approximately 34.1% of our total funded consumer loans.

We infrequently make consumer residential real estate loans consisting primarily of first and second mortgage loans for residential properties. We do not retain long-term, fixed rate residential real estate loans in our portfolio due to interest rate and collateral risks and low levels of profitability. We do not consider consumer residential real estate loans a core part of our business. Our rates are generally higher than the rates offered by other providers of these loans.

We maintain a diversified loan portfolio and do not focus on any particular industry or group of related industries. Credit policies and underwriting guidelines are tailored to address the unique risks associated with each industry represented in the portfolio. The table below sets forth information regarding the distribution of our funded loans among various industries at December 31, 2002.

	Funded Loans	
	Amount	Percent of Total
	(Dollars in Thousands)	
Agriculture	\$ 10,488	0.9%
Contracting	111,349	9.9
Government	9,519	0.8
Manufacturing	76,638	6.8
Personal/household	187,256	16.7
Petrochemical and mining	133,752	11.9
Retail	19,779	1.8
Services	424,003	37.8
Wholesale	68,054	6.1
Investors and investment management companies	81,668	7.3
Total	\$ 1,122,506	100.0%

Loans extended to borrowers within the contracting industry are composed largely of loans to land subdividers and developers and to both heavy construction and general commercial contractors. Many of these loans are secured by real estate properties, the development of which is being funded by our bank's financing. Loans extended to borrowers within the petrochemical and mining industries are predominantly loans to finance the exploration and production of petroleum and natural gas. These loans are generally secured by proven petroleum and natural gas reserves. Personal/household loans include loans to certain high net worth individuals for commercial purposes and mortgage loans held for sale, in addition to consumer loans. Loans extended to borrowers within the services industries include loans to finance working capital and equipment, as well as loans to finance investment and owner-occupied real estate. Significant trade categories represented within the services industry include, but are not limited to, real estate services, financial services, leasing companies, transportation and communication, and

hospitality services. Borrowers represented within the real estate services category are largely owners and managers of both residential and non-residential commercial real estate properties.

We make loans that are appropriately collateralized under our credit standards. Over 90% of our funded loans are secured by collateral. The table below sets forth information regarding the distribution of our funded loans among various types of collateral at December 31, 2002.

Funded Loans		
	Amount	Percent of Total
(Dollars in Thousands)		
Business assets	\$ 200,512	17.9%
Energy	114,552	10.2
Highly liquid assets	181,782	16.2
Real property	455,679	40.6
Rolling stock	26,347	2.4
U. S. Government guaranty	38,489	3.4
Agricultural assets	166	

DEPOSIT PRODUCTS

We offer a variety of deposit products to our core customers at interest rates that are competitive with other banks. Our business deposit products include commercial checking accounts, lockbox accounts, cash concentration accounts, and other cash management products. Our consumer deposit products include checking accounts, savings accounts, money market accounts and certificates of deposit. We also allow our consumer deposit customers to access their accounts, transfer funds, pay bills and perform other account functions over the Internet and through ATM machines. At December 31, 2002, we maintained approximately 7,900 deposit accounts at our traditional bank, representing approximately \$990.3 million in total deposits.

BANKDIRECT

BankDirect, our Internet banking website, operates as a division of our bank. It provides a valuable source of deposit funds. As of December 31, 2002, BankDirect had a total of approximately 7,300 existing deposit accounts containing total deposits of approximately \$206.2 million.

BankDirect provides a complete line of consumer deposit products at attractive interest rates primarily to large depositors. We do not currently nor do we currently intend to offer loans or other credit products through BankDirect. The Internet-based approach of BankDirect allows our customers to conduct banking activities from any computer that has access to the Internet and a secure web browser. Its deposit products and services include interest bearing checking, savings and money market accounts and certificates of deposit. BankDirect customers can direct payments, transfer funds and perform other account functions through a secure web browser. In addition, customers can access their accounts at any ATM machine. All banking transactions are encrypted and all transactions are routed to and from an Internet server within our security system.

TRUST AND ASSET MANAGEMENT

Our trust services include investment management, personal trust and estate services, custodial services, retirement accounts and related services. Our investment management professionals work with our clients to define objectives, goals and strategies for their investment portfolios. We assist the client with the selection of an investment manager and work with the client to tailor the investment program

accordingly. Our trust and estate account administrators work with our clients and their attorneys to establish their estate plans. We work closely with our clients and their beneficiaries to ensure that their needs are met and to advise them on financial matters. When serving as trustee or executor, we often structure and oversee investment portfolios. We also provide our clients with custodial services for the safekeeping of their assets. Consistent with our focus on relationship building, we emphasize a high level of personal service in our trust area, including prompt collection and reinvestment of interest and dividend income, daily valuation, tracking of tax information, customized reporting and ease of security settlement. We also offer retirement products such as individual retirement accounts and administrative services for retirement vehicles such as pension and profit sharing plans.

INSURANCE AND INVESTMENT SERVICES

Texas Capital Bank Wealth Management Services, Inc. was formed as a wholly-owned subsidiary of our bank in April 2002. Texas Capital Bank Wealth Management Services brokers corporate and personal property and casualty insurance as well as group health and life insurance products to individuals and businesses. We anticipate that it will also seek to offer limited securities brokerage services in the future.

EMPLOYEES

As of December 31, 2002, we had 215 full-time employees, 116 of whom were officers of our bank. None of our employees is represented by a collective bargaining agreement and we consider our relations with our employees to be good.

REGULATION AND SUPERVISION

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

National banks such as our bank are subject to examination by the Office of the Comptroller of the Currency, or the OCC. Deposits in a national bank are insured by the FDIC up to a maximum amount (generally \$100,000 per depositor). The OCC and the FDIC regulate or monitor all areas of a national bank's operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rate risk management, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC requires national banks to maintain capital ratios and imposes limitations on its aggregate investment in real estate, bank premises and furniture and fixtures. National banks are currently required by the OCC to prepare quarterly reports on their financial condition and to conduct an annual audit of their financial affairs in compliance with minimum standards and procedures prescribed by the OCC.

RESTRICTIONS ON DIVIDENDS. Our source of funding to pay dividends is our bank. Our bank is subject to the dividend restrictions set forth by the OCC. Under such restrictions, national banks may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's net profits plus the retained net profits from the prior two years, less any required transfers to surplus. As of December 31, 2002, our bank could not pay any dividends under this test without prior OCC approval. In addition, under the Federal Deposit Insurance Corporation Improvement Act of 1991, our bank may not

pay any dividend if payment would cause it to become undercapitalized or in the event it is undercapitalized.

It is the policy of the Federal Reserve, which regulates bank holding companies such as ours, that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

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

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

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

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

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

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

In addition to the risk-based capital guidelines, the Federal Reserve uses a leverage ratio as an additional tool to evaluate the capital adequacy of banking organizations. The leverage ratio is a

company's Tier 1 capital divided by its average total consolidated assets. Banking organizations must maintain a minimum leverage ratio of at least 3%, although most organizations are expected to maintain leverage ratios that are at least 100 to 200 basis points above this minimum ratio.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing significant internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. In addition, the regulations of the bank regulators provide that concentration of credit risks arising from non-traditional activities, as well as an institution's ability to manage these risks, are important factors to be taken into account by regulatory agencies in assessing an organization's overall capital adequacy.

TRANSACTIONS WITH AFFILIATES AND INSIDERS. Our bank is subject to Section 23A of the Federal Reserve Act which places limits on the amount of loans or extensions of credit to, or investments in, or other transactions with, affiliates that it may make. In addition, extensions of credit must be collateralized by Treasury securities or other collateral in prescribed amounts. Most of these loans and other transactions must be secured in prescribed amounts. It also limits the amount of advances to third parties which are collateralized by our securities or obligations or the securities or obligations of any of our non-banking subsidiaries.

Our bank also is subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits an institution from engaging in transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliated companies. We are subject to restrictions on extensions of credit to executive officers, directors, principal stockholders, and their related interests. These restrictions contained in the Federal Reserve Act and Federal Reserve Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

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

Pursuant to regulations promulgated under the Federal Deposit Insurance Corporation Improvement Act, the corrective actions that the banking agencies either must or may take are tied primarily to an institution's capital levels. In accordance with the framework adopted by the Federal Deposit Insurance Corporation Improvement Act, the banking agencies have developed a classification system, pursuant to which all banks and thrifts will be placed into one of five categories. Agency regulations define, for each capital category, the levels at which institutions are "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized." A well capitalized bank has a total risk-based capital ratio (total capital to risk-weighted assets) of 10% or higher; a Tier 1 risk-based capital ratio (Tier 1 capital to risk-weighted assets) of 6% or higher; a leverage ratio (Tier 1 capital to total adjusted assets) of 5% or higher; and is not subject to any

written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. Our bank's total risk-based capital ratio was 10.29% at December 31, 2002 and, as a result, it is currently classified as "well capitalized" for purposes of the FDIC's prompt corrective action regulations.

In addition to requiring undercapitalized institutions to submit a capital restoration plan which must be guaranteed by its holding company (up to specified limits) in order to be accepted by the bank regulators, agency regulations contain broad restrictions on activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With some exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the FDIC's enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The FDIC has only very limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator if the capital deficiency is not corrected promptly.

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

FINANCIAL MODERNIZATION ACT OF 1999. The Gramm-Leach-Bliley Financial Modernization Act of 1999:

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

The Modernization Act also modifies other current financial laws, including laws related to financial privacy and community reinvestment. The financial privacy provisions generally prohibit financial institutions, including us, from disclosing nonpublic personal financial information to nonaffiliated third parties unless customers have the opportunity to "opt out" of the disclosure.

International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001. The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "IMLAFA") contains anti-money laundering measures affecting insured depository institutions, broker-dealers and certain other financial institutions. The IMLAFA requires U.S. financial institutions to adopt new policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions' operations. We have established policies and procedures to ensure compliance with the IMLAFA.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the information reporting requirements and file annual reports, quarterly reports, special reports, proxy statements and other information with the United States Securities and Exchange Commission. We file such reports and statements electronically so those filings will be available to the public on the world wide web at the United States Securities and Exchange Commission's website. The address of that site is www.sec.gov. These materials are also available at the public reference facilities of the United States Securities and Exchange Commission at:

- o 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549
- o 500 West Madison Street, Suite 1400, Chicago, Illinois 60661
- o 75 Park Place, Room 1400, New York, New York 10007

In addition, you can have copies made and sent to you by contacting the Public Reference Section of the United States Securities and Exchange Commission by telephone at 1-800-732-0330. If you prefer, you can also write to the Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549. We also make copies of our filings with the United States Securities and Exchange Commission available on our website. The address of our website is texascapitalbank.com.

ITEM 2. PROPERTIES

As of December 31, 2002, we conducted business at eight full service banking locations and one operations center. Our operations center houses our loan and deposit operations and the BankDirect call center. We lease the space in which our banking centers and the operations call center are located. These leases expire between December 2003 and September 2012, not including any renewal options that may be available.

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

Type of Location -----	Address -----
Executive offices, banking location	2100 McKinney Avenue Suite 900 Dallas, Texas 75201
Operations center	6060 North Central Expressway Suite 800 Dallas, Texas 75206
Banking location	4230 Lyndon B. Johnson Freeway Suite 100 Dallas, Texas 75244
Banking location	5910 North Central Expressway Suite 150 Dallas, Texas 75206
Banking location	5800 Granite Parkway Suite 150 Plano, Texas 75024

<u>Type of Location</u> -----	<u>Address</u> -----
Banking location	1600 West 7th Street Suite 200 Fort Worth, Texas 76102
Motor banking location	400 East Belknap Street Fort Worth, Texas 76102
Banking location	600 Congress Avenue Suite 250 Austin, Texas 78701
Banking location	745 East Mulberry Street Suite 150 San Antonio, Texas 78212

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND
RELATED STOCKHOLDER MATTERS

There is no established public trading market for our common stock. Our common stock and preferred stock are held by approximately 865 identified holders. Certain holders hold both common and preferred shares and have only been counted as one holder.

We have not paid cash dividends on our shares of common stock to date, and we intend during the near term to retain any earnings available for dividends for the development and growth of our business. In addition, our ability to pay dividends is restricted by Federal banking regulations. Our long-term plan, however, calls for the payment of cash dividends when circumstances permit, although no assurance can be given if or when we will adopt a policy of paying cash dividends. The declaration and payment of future cash dividends will depend on, among other things, our earnings, the general economic and regulatory climate, our liquidity and capital requirements, and other factors deemed relevant by our Board of Directors.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrant and Rights	Number of Securities Remaining Available for Future Issuance
	-----	-----	-----
Equity compensation plans approved by security holders	2,259,828	\$ 6.69	402,377
Equity compensation plans not approved by security holders (1)	84,274	6.80	--
	-----	-----	-----
Total	2,344,102	\$ 6.69	402,377
	=====	=====	=====

(1) Refers to deferred compensation agreement. See further discussion in Note 11.

RECENT OFFERINGS OF UNREGISTERED SECURITIES

In December 2001 and January 2002, we sold 753,301 shares and 303,841 shares, respectively, of 6.0% Series A Convertible Preferred Stock for \$17.50 per share in a private offering pursuant to Rule 506. With respect to the private offerings pursuant to Rule 506, we determined the exemption was available based on our compliance with the requirements of Rule 506 and the representations by each investor in such offering that such investor qualified as an "accredited investor" under Rule 506 or was represented by an appropriate purchaser representative.

Each share of 6.0% Series A Convertible Preferred Stock (the Preferred Stock) is currently convertible into two shares of the common stock of the Company. The Preferred Stock is automatically converted into common stock in the event of (a) a change of control; (b) a public offering of the common stock of the Company at a price of \$17.50 per share (pre-dividend) or more; (c) if the Company's common stock is listed on the New York Stock Exchange or the Nasdaq National Market and the average closing price of such stock for 30 days is \$17.50 or more (pre-dividend); or (d) if, as a result of a change in the Federal Reserve capital adequacy guidelines, the Preferred Stock does not qualify as Tier I capital. The Preferred Stock may also be converted at any time at the discretion of the holder. The Preferred Stock is mandatorily converted upon the fifth anniversary of the issuance date of the Preferred Stock.

In November 2002, we sold \$10,000,000 aggregate liquidation amount of floating rate capital securities (the Capital Securities) issued by our subsidiary Connecticut statutory trust, Texas Capital Bancshares Statutory Trust I (the Trust). We received \$9,750,000 after a deduction of \$250,000 in commissions to SunTrust Capital Markets, Inc., the Placement Agent. The Capital Securities were subsequently transferred to a pooled investment vehicle sponsored by STI Investment Management, Inc.

The proceeds from the sale of the Capital Securities, together with the proceeds from the sale by the Trust of its Common Securities to our holding corporation, Texas Capital Bancshares, Inc., were invested in our Floating Rate Junior Subordinated Deferrable Interest Debentures of Texas Capital Bancshares due 2032 (the Debentures), which were issued pursuant to an Indenture dated November 19, 2002, between Texas Capital Bancshares and State Street Bank and Trust Company of Connecticut, National Association (State Street), as Trustee. Both the Capital Securities and the Debentures have a floating rate, which resets quarterly, equal to 3-month LIBOR plus 3.35%. Payments of distributions and other amounts due on the Capital Securities are guaranteed by Texas Capital Bancshares, to the extent that the Trust has funds available for the payments of such distributions but fails to make such payments, pursuant to a Guarantee Agreement, dated November 19, 2002, between the Company and State Street, as Guarantee Trustee. The Debentures and Capital Securities may be redeemed at the option of the Company on fixed quarterly dates beginning on November 19, 2007.

We sold the Capital Securities in a non-public offering pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company believed this exemption was available because the Capital Securities were sold in a private transaction to a single professional management entity that is highly sophisticated and experienced with investments similar to the Capital Securities and meets the definition of an "institutional investor" under Rule 144A of the Securities Act. The Capital Securities were subsequently transferred to a securitized pool in a private transaction exempt from the Securities Act pursuant to Rule 144A.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

We formed our wholly-owned subsidiary bank through the acquisition of Resource Bank, National Association on December 18, 1998. Our bank's financial statements include the operations of our bank from December 18, 1998. The operations of Resource Bank, N.A. prior to December 18, 1998 are shown separately as predecessor financial statements.

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	March 1, 1998 (Inception) through December 31, 1998
(In thousands, except per share, average share and percentage data)					
SELECTED OPERATING DATA (1)					
Interest income	\$ 70,142	\$ 70,594	\$ 55,769	\$ 14,414	\$ 213
Interest expense	27,896	35,539	32,930	6,166	32
Net interest income	42,246	35,055	22,839	8,248	181
Provision for loan losses	5,629	5,762	6,135	2,687	1
Net interest income after provision for loan losses	36,617	29,293	16,704	5,561	180
Non-interest income	8,625	5,983	1,957	358	4
Non-interest expense	35,370	29,432	35,158	15,217	923
Income (loss) before income taxes	9,872	5,844	(16,497)	(9,298)	(739)
Income tax expense	2,529	--	--	--	--
Net income (loss)	7,343	5,844	(16,497)	(9,298)	(739)
SELECTED BALANCE SHEET DATA (1)					
Total assets	1,793,282	1,164,779	908,428	408,579	89,311
Loans	1,122,506	903,979	629,109	227,600	11,092
Securities available-for-sale	553,169	206,365	184,952	164,409	3,171
Securities held-to-maturity	--	--	28,366	--	--
Deposits	1,196,535	886,077	794,857	287,068	16,018
Federal funds purchased	83,629	76,699	11,525	--	--
Other borrowings	365,831	86,899	7,061	46,267	--
Long-term debt	10,000	--	--	--	--
Stockholders' equity	124,976	106,359	86,197	72,912	73,186
OTHER FINANCIAL DATA (3)					
Income (loss) per share:					
Basic	\$ 0.33	\$ 0.31	\$ (0.95)	\$ (0.61)	\$ *
Diluted	0.32	0.30	(0.95)	(0.61)	*
Tangible book value per share (5)	5.80	5.08	4.46	4.67	5.37
Book value per share (5)	5.87	5.15	4.54	4.79	5.51
SELECTED FINANCIAL RATIOS:					
PERFORMANCE RATIOS					
Return on average assets	0.54%	0.58%	(2.42)%	(4.45)%	(5.83)%(4)
Return on average equity	6.27%	6.44%	(20.02)%	(12.13)%	(12.52)%(4)
Net interest margin	3.28%	3.62%	3.51%	4.12%	5.65%(4)
Efficiency ratio (2)	69.53%	71.72%	141.79%	176.82%	205.18%(4)
Non-interest expense to average assets	2.59%	2.90%	5.15%	7.28%	10.64%(4)
Weighted average shares: (3)					
Basic	19,145,255	18,957,652	17,436,628	15,132,496	*
Diluted	19,344,874	19,177,204	17,436,628	15,132,496	*
ASSET QUALITY RATIOS					
Net charge-offs to average loans	0.38%	0.26%	--	0.01%	--
Allowance for loan losses to total loans	1.30%	1.39%	1.42%	1.22%	0.90%
Allowance for loan losses to non-performing loans	499.42%	110.23%	--	--	--
Non-performing and renegotiated loans to total loans	.26%	1.26%	--	--	--

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	March 1, 1998 (Inception) through December 31, 1998
(In thousands, except per share, average share and percentage data)					
CAPITAL AND LIQUIDITY RATIOS					
Total capital ratio	11.32%	11.73%	10.98%	23.84%	267.01%
Tier 1 capital ratio	10.16%	10.48%	9.94%	22.98%	266.64%
Tier 1 leverage ratio	7.66%	9.46%	9.62%	21.32%	397.86%
Average equity/average assets	8.57%	8.93%	12.07%	36.67%	46.58%(4)
Tangible equity/assets	6.89%	9.00%	9.31%	17.42%	79.85%
Average loans/average deposits	96.31%	95.54%	72.92%	81.12%	68.36%(4)

(1) The consolidated statement of operations data and consolidated balance sheet data presented above for the four most recent fiscal years ended December 31 have been derived from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, independent auditors. The historical results are not necessarily indicative of the results to be expected in any future period.

(2) Represents non-interest expense divided by the sum of net interest income and non-interest income for the periods shown.

(3) Amounts have been adjusted to reflect the one-for-one stock dividend, which was declared on July 30, 2002 and which was payable on September 16, 2002, pursuant to which each stockholder received one additional share of common stock for each share of common stock owned as of July 30, 2002.

(4) Percentage is calculated using the combined results of Resource Bank and TCBI for 1998.

(5) Amounts for December 31, 2001 are adjusted to reflect the conversion of 753,301 shares of preferred stock outstanding on such date into 1,506,602 shares of common stock as each preferred share is convertible into two shares of common stock. Amounts for December 31, 2002 are adjusted to reflect the conversion of 1,057,142 shares of preferred stock outstanding on such date into 2,114,284 shares of common stock as each preferred share is convertible into two shares of common stock.

* Not meaningful.

	Resource Bank	
	January 1 through December 18, 1998	October 3, 1997 (Inception) through December 31, 1997
(In thousands, except per share, average share and percentage data)		
SELECTED OPERATING DATA		
Interest income	\$ 1,097	\$ 86
Interest expense	377	10
Net interest income	720	76
Provision for loan losses	69	30
Net interest income after provision for loan losses	651	46
Non-interest income	60	3
Non-interest expense	1,057	271
Loss before taxes	(346)	(222)
Income tax expense	--	--
Net loss	(346)	(222)
SELECTED BALANCE SHEET DATA		
Total assets	19,605	8,060
Loans	11,102	1,532
Securities available-for-sale	3,175	--
Deposits	15,166	3,386
Federal funds purchased	--	--
Other borrowings	--	--
Stockholders' equity	4,292	4,638

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

OVERVIEW OF OUR OPERATING RESULTS

Our bank was formed through the acquisition of Resource Bank, N.A., which itself had been organized in 1997. Upon completion of our \$80 million private equity offering and acquisition of our predecessor bank, we commenced operations in December 1998. The amount of capital we raised, which we believe is the largest amount of start-up capital ever raised for a national bank, was intended to support a significant level of near-term growth and permit us to originate and retain loans of a size and type that our targeted customers, middle market businesses and high net worth individuals, would find attractive. Our large initial capitalization has resulted in reduced levels of return on equity to date. However, as we build our loan and investment portfolio we expect our return on equity to increase to normalized levels.

An important aspect of our growth strategy is the ability to service and effectively manage a large number of loans and deposit accounts in multiple markets in Texas. Accordingly, we created an operations infrastructure sufficient to support state-wide lending and banking operations. We believe that our existing infrastructure will allow us to grow our business over the next two to three years both geographically and with respect to the size and number of loan and deposit accounts without substantial additional capital expenditures.

During 1999 and 2000, we established a total of seven banking centers in key metropolitan markets in Texas. We also invested resources in hiring experienced bankers, which required a significant period of time for both recruiting and transitioning them from their previous employers. In conjunction with our roll-out of operations in 1999, we undertook a significant advertising and marketing campaign to increase brand name recognition of the traditional banking activities of our bank and of BankDirect, particularly in the Dallas/Fort Worth business community. Once we had achieved our initial goals, we were able to significantly reduce our advertising expenses [from \$2.3 million (which excludes approximately \$1.9 million in expenses attributable to American Airlines AAdvantage(R) minimum mile requirements and co-branded advertising) in 2000 to \$278,000 in 2001] and place more emphasis on targeted marketing to, and relationship-building efforts with, selected business groups, charities and communities. As we enter new market areas, we intend to evaluate the efficiency of selected advertising to brand our name and increase our recognition in those markets.

Our historical financial results reflect the development of our company in its early stages, notably in connection with initial start-up costs and the raising and retention of excess capital to fund our planned growth. In 1999 and 2000, we incurred significant non-interest expenses for the start-up and infrastructure costs described above, while revenue items gradually increased as we began to source and originate loans and other earning assets. In 2001 and 2002, we achieved improved levels of profitability as these costs have been spread over a larger asset base.

Our historical results also reflect the evolving role of BankDirect, the Internet banking division of our bank, in our business. When we launched BankDirect in 1999, we aimed to quickly establish a significant market position and establish a significant deposit base with which to fund our growth. Accordingly, we committed substantial resources to advertising for BankDirect and offered its deposit products at very attractive rates. Our efforts were successful, and BankDirect grew to account for approximately \$369.7 million in deposits by the end of 2000, providing much of the liquidity we required to increase our lending activities during 2000. By early 2001, however, deposits at our traditional bank had grown to an amount sufficient to fund a much larger portion of our ongoing lending activities. As a result, we decided to reorient the focus of BankDirect towards higher balance depositors to reduce our management requirements and expenses. To this end, we restructured the account fees charged by BankDirect and lowered the rates on deposit products. This reorientation toward customers with higher deposit balances allowed us to significantly reduce our expenses related to BankDirect [from \$6.8 million

in 2000 (which excludes approximately \$1.9 million in expenses attributable to American Airlines AAdvantage(R) minimum mile requirements and co-branded advertising) to \$3.0 million in 2001, a decrease of over 56%], while substantially increasing the average balance held in our BankDirect accounts and lowering the total number of accounts serviced by BankDirect. As of December 31, 2002, BankDirect provided a significant, but not primary, source of funding for us, accounting for approximately 17% of our deposits.

Our operating results have improved significantly over the past several years as we moved into full operations. The table below shows the annual growth rate of our net interest income, net income, assets, loans and deposits:

	At or For December 31, 2002	Annual Growth Rate (1)	At or For December 31, 2001	Annual Growth Rate (1)	At or For December 31, 2000	Annual Growth Rate (1)	At or For December 31, 1999	Annual Growth Rate (1)
(In Thousands)								
Net interest income	\$ 42,246	21%	\$ 35,055	53%	\$ 22,839	177%	\$ 8,248	815%
Net income (loss)	7,343	26%	5,844	135%	(16,497)	*	(9,298)	*
Assets	1,793,282	54%	1,164,779	28%	908,428	122%	408,579	357%
Loans	1,122,506	24%	903,979	44%	629,109	176%	227,600	1,952%
Deposits	1,196,535	35%	886,077	11%	794,857	177%	287,068	1,692%

(1) The annual growth rate with respect to period data is the percentage growth of the item in the period shown compared to the most recently completed prior period. For purposes of calculating the 1999 annual growth rate, results of our bank and Resource Bank, our predecessor bank, for 1998 have been combined. The annual growth rate with respect to data as of a particular date is the percentage growth of the item at the date shown compared to the most recent prior date.

* Not meaningful.

The growth in our profitability is based on several key factors:

- o we have successfully grown our asset base significantly each year;
- o we have been able to maintain stable and diverse funding sources, resulting in increased net interest income from 2000 onward, despite a falling interest rate environment and the fact that most of our loans have floating interest rates;
- o the growth in our asset base has resulted in annual growth of 815%, 177%, 53% and 21% in our principal earnings source, net interest income, in 1999, 2000, 2001 and 2002, respectively; and
- o since the completion of our initial advertising and marketing campaigns and the reorientation of BankDirect, we have been able to tightly control non-interest expenses; this has contributed to a substantial improvement of our efficiency ratio from 176.8% in 1999 to 69.5% during 2002.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

We recorded net income of \$7.3 million net of \$2.5 million in income tax expense, or \$0.32 per diluted common share, for 2002 compared to \$5.8 million, or \$0.30 per diluted common share, for 2001. Returns on average assets and average equity were 0.54% and 6.27%, respectively, for 2002 compared to 0.58% and 6.44%, respectively, for 2001. The decrease in return on average assets and average equity resulted from the accrual of current income tax expense during 2002.

The increase in net income for 2002 was due to an increase in both net interest income and non-interest income partially offset by an increase in non-interest expense. Net interest income increased by \$7.2 million, or 20.5%, from \$35.1 million in 2001 to \$42.3 million. The increase in net interest income was due to an increase in average earning assets of \$319.5 million or 33.0%.

Non-interest income increased by \$2.6 million in 2002 to \$8.6 million, compared to \$6.0 million in 2001. Our service charge income increased by \$915,000, from \$1.9 million in 2001 to \$2.8 million in

2002, due to an overall increase in deposits for 2002, which resulted in more service charges on deposit accounts. We had cash processing fees of \$993,000 associated with a special cash management project for a client in the first quarter of 2002. Also, our trust income increased by \$161,000, to \$987,000 for 2002 compared to \$826,000 for 2001, due to continued growth in trust assets. Other non-interest income increased by \$1.1 million in 2002 to \$2.5 million from \$1.4 million in 2001, primarily related to Bank Owned Life Insurance (BOLI) income, mortgage warehouse fees and letter of credit fees. Gain on sale of securities in 2002 was \$1.4 million and \$1.9 million in 2001, due to our ability to realize substantial profits from sales of fixed-rate debt securities as a result of rapid declines in overall interest rates.

Non-interest expense increased by \$6.0 million in 2002 to \$35.4 million compared to \$29.4 million in 2001. The increase was partially due to an increase in salaries and employee benefits of \$1.7 million, a \$1.1 million increase in legal and professional expense and \$1.2 million of IPO expenses. Advertising increased \$958,000 to \$1.2 million in 2002. 2002 advertising expenses included direct marketing and branding for the traditional banking activities of our bank of \$586,000 and for BankDirect of \$12,000, as well as American Airlines AAdvantage(R) minimum mile requirements of \$630,000 and co-branded advertising with American Airlines AAdvantage(R) of \$8,000. We did not purchase any miles in 2001 because the miles that we were contractually required to purchase in 2000 were sufficient to cover our mileage rewards to customers in 2001.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

We recorded net income of \$5.8 million for 2001 compared to a net loss of \$16.5 million for 2000. Diluted income (loss) per common share was \$0.30 for 2001 and \$(0.95) for 2000. Returns on average assets and average equity were 0.58% and 6.44%, respectively, for 2001 compared to (2.42)% and (20.02)%, respectively, for 2000.

The increase in net income for 2001 was due to an increase in both net interest income and non-interest income and a substantial decrease in non-interest expenses. Net interest income increased by \$12.2 million, or 53.5%, to \$35.1 million for 2001 compared to \$22.8 million for 2000. The increase in net interest income was primarily due to an increase of \$317.0 million in average earning assets, combined with an 11 basis point increase in the net interest margin.

Non-interest income increased by \$4.0 million in 2001 to \$6.0 million, compared to \$2.0 million in 2000. The increase was in part due to an overall increase in deposits for 2001, which resulted in more service charges on deposit accounts. Also, our trust income increased by \$252,000, to \$826,000 for 2001 compared to \$574,000 for 2000, due to continued growth in trust assets. Other non-interest income increased by \$521,000 in 2001 to \$1.4 million from \$877,000 in 2000, primarily related to mortgage warehouse fees, letter of credit fees, investment fees, rental income, and gain on sale of leases. Gain on sale of securities in 2001 was \$1.9 million compared to \$19,000 in 2000, due to our ability to realize substantial profits from sales of fixed-rate debt securities as a result of rapid declines in overall interest rates.

Non-interest expense decreased by \$5.8 million in 2001 to \$29.4 million compared to \$35.2 million in 2000. The decrease was due, in part, to a reduction in total full-time employees from 234 at December 31, 2000 to 198 at December 31, 2001. 75% of this decrease in full-time employees from 2000 to 2001 was attributable to a reduction in BankDirect employees from 40 to 13. Also, we reduced advertising expenses to \$278,000 in 2001 compared to \$4.2 million in 2000. 2000 advertising expenses included direct marketing and branding for the traditional banking activities of our bank of \$724,000 and for BankDirect of \$1.6 million, as well as American Airlines AAdvantage(R) minimum mile requirements of \$1.1 million and co-branded advertising with American Airlines AAdvantage(R) of \$752,000. We did not purchase any miles in 2001 because the miles that we were contractually required to purchase in 2000 were sufficient to cover our mileage rewards to customers in 2001. Also, a reduction in other non-interest expense was due to the accrual in 2000 of a \$1.8 million contingent liability related to an agreement to provide merchant card processing for a customer who ceased operations and filed for bankruptcy in December 2000. Approximately \$300,000 of this liability was reversed in 2001.

NET INTEREST INCOME

Net interest income was \$42.3 million for the year ended December 31, 2002 compared to \$35.1 million for the same period of 2001. The increase was primarily due to an increase in average earning assets of \$319.5 million for 2002 as compared to 2001. The increase in average earning assets from 2002 included a \$176.2 million increase in average net loans, which represented 74.0% of average earning assets for the year ended December 31, 2002 compared to 80.3% for 2001. The decrease reflected management's decision to tighten lending standards during 2002 pending clearer signs of improvement in the U.S. economy. Securities increased to 24.8% of average earning assets in 2002 compared to 18.2% in 2001.

Average interest bearing liabilities increased \$268.0 million in 2002 compared to 2001, due, in part, to a \$120.7 million increase in interest bearing deposits and a \$147.3 million increase in borrowings. Average borrowings were 18.3% of average total assets for 2002 compared to 10.1% in 2001. The increase in average borrowings was primarily related to an increase in federal funds purchased and securities sold under repurchase agreements, and was used to supplement deposits in funding loan growth and securities purchases. The average cost of interest bearing liabilities decreased from 4.35% for the year ended December 31, 2001 to 2.57% in 2002, reflecting the continuing decline in market interest rates and a \$55.8 million increase in non-interest bearing deposits.

Net interest income increased by \$12.2 million, or 53.5%, in 2001 to \$35.1 million compared to \$22.8 million in 2000. The increase in net interest income was primarily due to a significant increase in average earning assets. Average earning assets increased by \$317.0 million during 2001, primarily due to continued growth in our lending portfolio. Additionally, the mix of earning assets improved during 2001. Average loans, which generally have higher yields than other types of earning assets, increased to 80.3% of average earning assets in 2001 compared to 64.5% of average earning assets in 2000.

Average interest bearing liabilities also increased by \$269.9 million during 2001 compared to 2000. Of this amount, interest bearing deposits increased \$186.6 million and borrowings increased \$83.3 million. Average borrowings were 10.1% of average total assets for 2001 compared to 2.9% for 2000. The increase in borrowings was used to supplement deposits in funding the growth in loans. The average cost of interest bearing liabilities decreased in 2001 to 4.35% from 6.02% in 2000. The decrease was mainly due to the overall decline in market interest rates, as well as the additional lowering of rates on BankDirect deposits and a \$51.0 million increase in non-interest bearing deposits.

VOLUME/RATE ANALYSIS

(In Thousands)

Years Ended December 31,

	2002/2001			2001/2000			2000/1999		
	Change Due To(1)			Change Due To(1)			Change Due To(1)		
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest income:									
Securities	\$ 4,724	\$ 8,740	\$ (4,016)	\$(2,848)	\$(1,811)	\$(1,037)	\$ 8,048	\$ 6,820	\$ 1,228
Loans	(4,849)	13,464	(18,313)	18,954	34,432	(15,478)	31,989	27,516	4,473
Federal funds sold	(337)	7	(344)	(1,198)	(846)	(352)	1,227	820	407
Deposits in other banks	10	11	(1)	(83)	1	(84)	91	8	83
	(452)	22,222	(22,674)	14,825	31,776	(16,951)	41,355	35,164	6,191
Interest expense:									
Transaction deposits	(414)	255	(669)	383	584	(201)	456	305	151
Savings deposits	(7,214)	(452)	(6,762)	(2,621)	4,497	(7,118)	13,787	11,461	2,326
Time deposits	(2,908)	6,558	(9,466)	2,294	5,734	(3,439)	11,897	9,706	2,191
Borrowed funds	2,893	5,416	(2,523)	2,553	5,218	(2,665)	624	448	176
	(7,643)	11,777	(19,420)	2,609	16,033	(13,423)	26,764	21,920	4,844
Net interest income	\$ 7,191	\$10,445	\$ (3,254)	\$12,216	\$15,743	\$ (3,528)	\$14,591	\$13,244	\$ 1,347

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

Net interest margin decreased from 3.62% in 2001 to 3.28% in 2002. This decrease was due primarily to the falling rate environment in which our balance sheet continues to be asset sensitive, which means we had more loans repricing than deposits over the year. The cost of interest bearing liabilities decreased by 178 basis points in 2002, primarily due to overall lower market interest rates, and an increase in non-interest bearing deposits.

Net interest margin increased from 3.51% in 2000 to 3.62% in 2001. This increase was due primarily to lower cost of funds and continued strong asset yields in a falling rate environment. The cost of interest bearing liabilities decreased by 167 basis points in 2001, primarily due to lower interest rates offered as a result of a reorientation of BankDirect, overall lower market interest rates, and an increase in non-interest bearing deposits.

CONSOLIDATED DAILY AVERAGE BALANCES, AVERAGE YIELDS AND RATES

Texas Capital Bancshares									
	Year ended 2002			Year ended 2001			Year ended 2000		
	Average Balance	Revenue/ Expense(1)	Yield/ Rate	Average Balance	Revenue/ Expense(1)	Yield/ Rate	Average Balance	Revenue/ Expense(2)	Yield/ Rate
Assets									
Taxable securities	\$ 318,864	\$ 15,484	4.86%	\$ 175,945	\$ 10,760	6.12%	\$ 202,955	\$ 13,608	6.70%
Federal funds sold	14,874	243	1.63%	14,688	580	3.95%	28,025	1,778	6.34%
Deposits in other banks	558	28	5.02%	351	18	5.13%	348	101	29.02%
Loans	966,964	54,387	5.62%	787,879	59,236	7.52%	424,782	40,282	9.48%
Less reserve for loan losses	13,226	--	--	10,335	--	--	4,619	--	--
Loans, net	953,738	54,387	5.70%	777,544	59,236	7.62%	420,163	40,282	9.59%
Total earning assets	1,288,034	70,142	5.45%	968,528	70,594	7.29%	651,491	55,769	8.56%
Cash and other assets	77,688			47,789			31,023		
Total assets	\$1,365,722			\$1,016,317			\$ 682,514		
Liabilities and stockholders' equity									
Transaction deposits	\$ 52,155	\$ 491	0.94%	\$ 40,673	\$ 905	2.23%	\$ 19,198	\$ 522	2.72%
Savings deposits	349,128	6,671	1.91%	360,865	13,885	3.85%	283,594	16,506	5.82%
Time deposits	433,731	14,061	3.24%	312,826	16,969	5.42%	224,933	14,675	6.52%
Total interest bearing deposits	835,014	21,223	2.54%	714,364	31,759	4.45%	527,725	31,703	6.01%
Other borrowings	249,000	6,608	2.65%	102,840	3,780	3.68%	19,579	1,227	6.27%
Long-term debt	1,178	65	5.52%	--	--	--	--	--	--
Total interest bearing liabilities	1,085,192	27,896	2.57%	817,204	35,539	4.35%	547,304	32,930	6.02%
Demand deposits	155,298			99,471			48,483		
Other liabilities	8,138			8,878			4,326		
Stockholders' equity	117,094			90,764			82,401		
Total liabilities and stockholders' equity	\$1,365,722			\$1,016,317			\$ 682,514		
Net interest income		\$ 42,246			\$ 35,055			\$ 22,839	
Net interest income to earning assets			3.28%			3.62%			3.51%
Net interest spread			2.88%			2.94%			2.54%

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

(2) Revenue from deposits in other banks includes interest earned on capital while held in an escrow account, which was established in connection with our private equity offering.

NON-INTEREST INCOME

	Year ended December 31		
	2002	2001	2000
	(In thousands)		
Service charges on deposit account	\$ 2,772	\$ 1,857	\$ 487
Trust fee income	987	826	574
Gain on sale of securities	1,375	1,902	19
Cash processing fees	993	--	--
Other	2,498	1,398	877
Total non-interest income	\$ 8,625	\$ 5,983	\$ 1,957
	=====	=====	=====

Non-interest income increased \$2.6 million, or 44.2%, in the year ended December 31, 2002 as compared to 2001. Service charges on deposit accounts increased \$915,000 for the year ended December 31, 2002 as compared to the same period in 2001. This increase was due to the significant increase in deposits, which resulted in a higher volume of transactions. Trust fee income increased \$161,000 due to continued growth of trust assets during 2002. Cash processing fees totaled \$993,000 for the year ended December 31, 2002. These fees were related to a special project that occurred during the first quarter of 2002. Other non-interest income increased by \$1.1 million due to BOLI income, mortgage warehousing fees and letter of credit fees.

Non-interest income for the year ended December 31, 2001 increased \$4.0 million, or 205.7%, to \$6.0 million compared with \$2.0 million in 2000. Service charges on deposit accounts increased \$1.4 million, or 281.3%, in 2001 as compared to 2000 due to the large increase in total deposits, which resulted in a higher volume of transactions. Service charges on deposit accounts contributed 31.0% of our non-interest income for 2001 compared to 24.9% of our non-interest income in 2000. Trust fee income increased by \$252,000 in 2001 compared to 2000, while contributing 13.8% of non-interest income for 2001 compared to 29.3% for 2000. Other non-interest income increased by \$521,000, or 59.4%, compared to 2000 due to mortgage warehouse fees, letter of credit fees, investment fees, rental income and gain on sale of leases. Gain on sale of securities increased in 2001 to \$1.9 million compared to \$19,000 in 2000.

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 markets. Any new product introduction or new market entry would likely place additional demands on capital and managerial resources.

NON-INTEREST EXPENSE

	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
	(In thousands)		
Salaries and employee benefits	\$ 16,757	\$ 15,033	\$ 15,330
Net occupancy expense	5,001	4,795	4,122
Advertising and affinity payments	1,236	278	4,182
Legal and professional	3,038	1,898	2,823
Communications and data processing	2,839	2,930	1,804
Franchise taxes	108	120	145
IPO expenses	1,190	--	--
Other (1)	5,201	4,378	6,752
	-----	-----	-----
Total non-interest expense	\$ 35,370	\$ 29,432	\$ 35,158
	=====	=====	=====

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

Non-interest expense for the year ended December 31, 2002 increased \$6.0 million, or 20.2%, compared to the same period of 2001. Salaries and employee benefits increased by \$1.7 million or 11.5% which accounts for 29.0% of the increase in non-interest expense. Total full time employees increased from 198 at December 31, 2001 to 215 at December 31, 2002.

Net occupancy expense for the year ended December 31, 2002 increased by \$206,000, or 4.3%, mainly related to the relocation of our operations center in the last quarter of 2001.

Advertising expense for the year ended December 31, 2002 increased \$958,000, or 344.6%, compared to 2001. Advertising expense for the year ended December 31, 2002 included \$586,000 of direct marketing and branding, including print ads for the traditional bank and \$12,000 for BankDirect, \$630,000 for the purchase of miles related to the American Airlines AAdvantage(R) program and \$8,000 of co-branded advertising with American Airlines. We did not purchase any miles in 2001 because the miles that we were contractually required to purchase in 2000 were sufficient to cover our mileage rewards to customers for 2001. In 2002, we are purchasing miles as we utilize them. Legal and professional expenses increased \$1.1 million or 60.1%, mainly related to legal expenses incurred with our non-performing loans and leases. Communications and data processing expense for the year ended December 31, 2002 decreased \$91,000, or 3.1%, due to some increased efficiencies in our communications costs. IPO expenses of \$1.2 million were recognized as our offering attempt has been postponed until more favorable market conditions return.

Non-interest expense totaled \$29.4 million for 2001 compared to \$35.2 million in 2000, a decrease of \$5.8 million, or 16.3%. Approximately \$297,000, or 5.2%, of this decrease in 2001 compared to 2000 was related to salary and employee benefits. Total full time employees decreased from 234 at December 31, 2000 to 198 at December 31, 2001. The decrease was due to our realignment of staffing levels during the second quarter of 2001. Most of this decrease was due to a reduction in BankDirect employees from 40 to 13, relating to our decision to reorient the focus of BankDirect toward higher-balance depositors.

Net occupancy expense for 2001 increased \$673,000 or 16.3%. The increase was primarily due to our use of all of our primary locations for the entire year, as well as the relocation of our operations center in the last quarter of the year.

Advertising expense for 2001 totaled \$278,000 compared to \$4.2 million in 2000. Advertising expense in 2000 included direct marketing with print and online ads, branding for the traditional bank and BankDirect, and minimum miles and co-branding related to the American Airlines AAdvantage(R) program.

Legal and professional expense for 2001 totaled \$1.9 million compared to \$2.8 million in 2000. This decrease is partially due to costs incurred in 2000 related to obtaining final regulatory approval for the formation of a state chartered savings bank in connection with a possible restructuring of our operations (which we decided not to pursue), and an investment banking fee related to BankDirect. Legal and professional expenses for 2000 also included a \$150,000 accrual related to legal expenses associated with the contingent liability related to the merchant card processing arrangement, which is discussed below. Communications and data processing expenses increased to \$2.9 million in 2001, as compared to \$1.8 million in 2000. This increase is due to the strong growth in our loans and non-interest bearing deposits, which created significantly more transactions to be processed. Included in other expenses in 2000 was a \$1.8 million contingent liability related to an agreement to provide merchant card processing for a customer who ceased operations and filed for bankruptcy in December 2000. Other expenses in 2001 include a reversal of approximately \$300,000 of the \$1.8 million contingent liability, as the actual losses were less than the original amount accrued.

INCOME TAXES

We were utilizing net operating loss carryforwards for the first nine months of 2002, but have expensed \$2.5 million of current tax expense based on the expected effective rate for 2002.

As we incurred net operating losses for 2000, and utilized net operating loss carryforwards for 2001, there was no current or deferred provision for income taxes in those periods. Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At December 31, 2002, we had a net deferred tax asset of \$2.2 million with a reserve of \$5.4 million. In assessing the need for a valuation allowance, the Company has not assumed future taxable income. It is not practical to determine the amount of deferred tax assets that will turn around in a time period that will allow such assets to be recovered through carryback to the 2002 tax year, primarily as a result of uncertainty concerning the period in which charge-offs will be recorded and sustained as tax deductions. As a result, the Company has provided a valuation allowance for a portion of its deferred tax assets.

At December 31, 2001, we had a net deferred tax asset of \$7.0 million, with a reserve equal to that amount. Net operating loss carryforwards at December 31, 2001 were \$6.3 million.

LINES OF BUSINESS

We operate two principal lines of business under our bank - the traditional bank and BankDirect, an Internet-only bank that is operated as a division of our bank. BankDirect, which provides a complete line of consumer deposit services but offers no credit products, has been a net provider of funds, and the traditional bank has been a net user of funds. In order to provide a consistent measure of the net interest margin for BankDirect, we use a multiple pool funds transfer rate to calculate credit for funds provided. This method takes into consideration the current market conditions during the reporting period.

During the launch of BankDirect in 1999, we incurred approximately \$1.9 million in start-up expenses. In 2000, we committed significant resources to advertising and marketing for BankDirect, including approximately \$1.9 million spent on AAdvantage(R) miles and co-branded advertising with American Airlines AAdvantage(R). As a result, our non-interest expense related to BankDirect increased to approximately \$8.7 million in 2000.

In February 2001, we reoriented BankDirect towards higher balance depositors and restructured the account fees charged by BankDirect. As a result, we reduced our non-interest expense related to BankDirect to \$3.0 million for 2001. In addition, our higher fees resulted in an increase in non-interest income for 2001 to approximately \$300,000 from approximately \$30,000 in 2000. The historical results below illustrate the evolving role and focus of BankDirect in our business. As management's approach to evaluating the operating performance of BankDirect changes, management will continue to assess the appropriate reporting of BankDirect as a separate segment.

THE TRADITIONAL BANK

	Year Ended December 31		
	2002	2001	2000
	-----	-----	-----
	(In thousands, except percentage data)		
Net interest income	\$ 41,299	\$ 34,344	\$ 20,860
Provision for loan losses	5,629	5,762	6,135
Non-interest income	8,490	5,671	1,927
Non-interest expense	30,466	25,431	24,288
	-----	-----	-----
Net income (loss)	\$ 13,694	\$ 8,822	\$ (7,636)
	=====	=====	=====
Average assets	\$ 1,365,377	\$ 1,016,301	\$ 682,497
Total assets	1,792,395	1,164,763	908,412
Return on average assets	1.00%	.87%	(1.12)%

BANKDIRECT

	Year Ended December 31		
	2002	2001	2000
	-----	-----	-----
	(In thousands)		
Net interest income	\$ 1,012	\$ 711	\$ 1,901
Non-interest income	135	312	30
Non-interest expense	2,515	2,985	8,692
	-----	-----	-----
Net loss	\$ (1,368)	\$ (1,962)	\$ (6,761)
	=====	=====	=====

CONSOLIDATED INTERIM FINANCIAL INFORMATION

(In Thousands except Per Share Data)

	2002			
	Selected Quarterly Financial Data			
	Fourth	Third	Second	First
Interest income	\$ 20,067	\$ 18,062	\$ 16,533	\$ 15,480
Interest expense	8,303	7,188	6,319	6,086
Net interest income	11,764	10,874	10,214	9,394
Provision for loan losses	1,270	2,380	808	1,171
Net interest income after provision for loan losses	10,494	8,494	9,406	8,223
Non-interest income	2,106	1,488	1,460	2,196
Securities gains, net	--	1,375	--	--
Non-interest expense	10,027	8,563	8,439	8,341
Income before income taxes	2,573	2,794	2,427	2,078
Income tax expense	701	700	608	520
Net income	1,872	2,094	1,819	1,558
Preferred stock dividends	(280)	(280)	(276)	(261)
Income available to common stockholders	\$ 1,592	\$ 1,814	\$ 1,543	\$ 1,297
Earnings per share:				
Basic	\$.08	\$.09	\$.08	\$.07
Diluted	\$.08	\$.09	\$.08	\$.07
Average shares:				
Basic	19,160,000	19,149,000	19,133,000	19,054,000
Diluted	19,352,000	19,723,000	19,336,000	19,257,000

(In Thousands except Per Share Data)

	2001			
	Selected Quarterly Financial Data			
	Fourth	Third	Second	First
Interest income	\$ 16,391	\$ 18,514	\$ 17,678	\$ 18,011
Interest expense	7,018	8,862	9,416	10,243
Net interest income	9,373	9,652	8,262	7,768
Provision for loan losses	1,910	1,730	1,292	830
Net interest income after provision for loan losses	7,463	7,922	6,970	6,938
Non-interest income	1,341	1,006	921	813
Securities gains, net	567	354	540	441
Non-interest expense	7,277	7,235	7,265	7,655
Income before income taxes	2,094	2,047	1,166	537
Income tax expense	--	--	--	--
Net income	2,094	2,047	1,166	537
Preferred stock dividends	(26)	--	--	--
Income available to common stockholders	\$ 2,068	\$ 2,047	\$ 1,166	\$ 537
Earnings per share:				
Basic	\$.11	\$.11	\$.06	\$.03
Diluted	\$.11	\$.11	\$.06	\$.03
Average shares:				
Basic	19,034,000	18,975,000	18,918,000	18,901,000
Diluted	19,398,000	19,145,000	19,090,000	19,074,000

ANALYSIS OF FINANCIAL CONDITION

LOAN PORTFOLIO. Our loan portfolio has grown at an annual rate of 176%, 44% and 24% in 2000, 2001 and 2002, respectively, reflecting the build-up of our lending operations. Our business plan focuses primarily on lending to middle market businesses and high net worth individuals, and accordingly, commercial and real estate loans have comprised a majority of our loan portfolio since we commenced operations, increasing from 48.4% of total loans at December 31, 1998 to 70.6% of total loans at December 31, 2002. Construction loans have decreased from 41.1% of the portfolio at December 31, 1998 to 15.4% of the portfolio at December 31, 2002. Consumer loans have decreased from 10.5% of the portfolio at December 31, 1998 to 2.2% of the portfolio at December 31, 2002. Loans held for sale, which are principally residential mortgage loans being warehoused for sale (typically within 30 days), fluctuate based on the level of market demand in the product.

We originate substantially all of the loans held in our portfolio, except in certain instances we have purchased individual leases and lease pools (primarily commercial and industrial equipment and vehicles), as well as select loan participations and USDA government guaranteed loans.

The following summarizes our loan portfolios by major category as of the dates indicated:

(In Thousands)	Texas Capital Bancshares				
	December 31, 2002	December 31, 2001	December 31, 2000	December 31, 1999	December 31, 1998
Commercial	\$ 509,505	\$ 402,302	\$ 325,774	\$ 152,749	\$ 2,227
Construction	172,451	180,115	83,931	11,565	4,554
Real estate	282,703	218,192	164,873	51,779	3,142
Consumer	24,195	25,054	36,092	10,865	1,169
Leases	17,546	34,552	17,093	642	--
Loans held for sale	116,106	43,764	1,346	--	--
Total	\$ 1,122,506	\$ 903,979	\$ 629,109	\$ 227,600	\$ 11,092

We continue to lend primarily in Texas. As of December 31, 2002, a substantial majority of the principal amount of the loans in our portfolio was to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions in Texas. Within the loan portfolio, loans to the services industry were \$424.0 million, or 37.8%, of total loans at December 31, 2002. Other notable concentrations include \$187.3 million in personal/household loans (which includes loans to certain high net worth individuals for commercial purposes and mortgage loans held for sale, in addition to consumer loans), and \$133.8 million in petrochemical and mining loans. 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.

LOAN MATURITY AND INTEREST RATE SENSITIVITY ON DECEMBER 31, 2002

(In Thousands)	Total	Remaining Maturities of Selected Loans		
		Within 1 Year	1-5 Years	After 5 Years
Loan maturity:				
Commercial	\$ 509,505	\$ 283,197	\$ 186,105	\$ 40,203
Construction	172,451	93,612	71,065	7,774
Total	\$ 681,956	\$ 376,809	\$ 257,170	\$ 47,977
Interest rate sensitivity for selected loans with:				
Predetermined interest rates	\$ 35,746	\$ 9,211	\$ 23,880	\$ 2,655
Floating or adjustable interest rates	646,210	367,598	233,290	45,322
Total	\$ 681,956	\$ 376,809	\$ 257,170	\$ 47,977

SUMMARY OF LOAN LOSS EXPERIENCE

The provision for loan losses is a charge to earnings to maintain the reserve for loan losses at a level consistent with management's assessment of the loan portfolio in light of current economic conditions and market trends. We recorded a provision of \$5.6 million for the year ended December 31, 2002, \$5.8 million for 2001 and \$6.1 million for 2000. These provisions were made to reflect management's assessment of the risk of loan losses specifically including the significant growth in outstanding loans during each of these periods.

The reserve for loan losses is comprised of specific reserves assigned to certain classified loans and general reserves. We regularly evaluate our reserve for loan losses to maintain an adequate level to absorb loan losses inherent in the loan portfolio. 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. All loans rated doubtful and all commitments rated substandard that are at least \$1,000,000 are specifically reviewed for impairment as appropriate. A reserve is recorded when the carrying amount of the loan exceeds the discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. We consider all loans graded substandard or worse to be potential problem loans. As of December 31, 2002, there were \$11.8 million in loans rated substandard or worse that are not included as non-accrual or 90 days past due and still accruing. 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 greater than \$50,000. 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 that portion of the required reserve assigned to unfunded loan commitments.

The reserve allocation percentages assigned to each credit grade have been developed based on an analysis of historical loss rates at selected peer banks, adjusted for certain qualitative factors, and on our management's experience. Qualitative adjustments for such things as general economic conditions, changes in credit policies and lending standards, and changes in the trend and severity of problem loans, can cause the estimation of future losses to differ from past experience. The unallocated portion of the general reserve, which takes into account industry comparable reserve ratios, serves to compensate for additional areas of uncertainty. 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 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 actual credit losses. The changes are reflected in both the general reserve and in specific reserves as the collectibility of larger classified loans is regularly recalculated with new information. As our portfolio matures, historical loss ratios are being closely monitored. Eventually, our reserve adequacy analysis will rely more on our loss history and less on the experience of peer banks. 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 reserve for loan losses, which is available to absorb losses inherent in the loan portfolio, totaled \$14.5 million at December 31, 2002, \$12.6 million at December 31, 2001 and \$8.9 million at December 31, 2000. This represents 1.30%, 1.39% and 1.42% of total loans at December 31, 2002, 2001 and 2000, respectively.

The table below presents a summary of our loan loss experience for the past five years.

SUMMARY OF LOAN LOSS EXPERIENCE

Texas Capital Bancshares					
	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Inception through December 31, 1998
(In thousands, except percentage and multiple data)					
Beginning balance	\$ 12,598	\$ 8,910	\$ 2,775	\$ 100	\$ --
Loans charged-off:					
Commercial	2,096	1,418	--	--	--
Consumer	11	--	--	12	--
Leases	1,740	656	--	--	--
Total	3,847	2,074	--	12	--
Recoveries:					
Leases	116	--	--	--	--
Commercial	42	--	--	--	--
	158	--	--	--	--
Net charge-offs	3,689	2,074	--	12	--
Provision for loan losses	5,629	5,762	6,135	2,687	1
Additions due to acquisition of Resource Bank	--	--	--	--	99
Ending balance	\$ 14,538	\$ 12,598	\$ 8,910	\$ 2,775	\$ 100
Reserve for loan losses to loans outstanding at year-end	1.30%	1.39%	1.42%	1.22%	.90%
Net charge-offs to average loans	.38	.26	--	.01	--
Provision for loan losses to average loans	.58	.73	1.44	2.73	1.03(1)
Recoveries to gross charge-offs	4.11	--	--	--	--
Reserve as a multiple of net charge-offs	3.9x	6.1x	--	231.3x	--
Non-performing and renegotiated loans:					
Loans past due (90 days)	\$ 135	\$ 384	\$ --	\$ --	\$ 15
Non-accrual	2,776	6,032	--	--	--
Renegotiated	--	5,013	--	--	--
Total	\$ 2,911	\$ 11,429	\$ --	\$ --	\$ 15
Reserve as a percent of non-performing and renegotiated loans	499.42%	110.23%	--	--	666.67%

(1) Percentage is calculated using the combined results of Resource Bank and TCBI for 1998.

LOAN LOSS RESERVE ALLOCATION

Texas Capital Bancshares										
	December 31, 2002		December 31, 2001		December 31, 2000		December 31, 1999		December 31, 1998	
	Reserve	% of Loans	Reserve	% of Loans	Reserve	% 199 Loans	Reserve	% of Loans	Reserve	% of Loans
(In thousands, except percentage data)										
Loan category:										
Commercial	\$ 4,818	45%	\$ 7,549	45%	\$ 3,136	52%	\$ 1,428	67%	\$ --	20%
Construction	2,008	15	1,004	20	498	13	174	5	--	41
Real estate	3,193	36	1,738	29	2,250	26	499	23	--	28
Consumer	114	2	116	2	144	6	187	5	--	11
Leases	706	2	623	4	384	3	--	--	--	--
Unallocated	3,699	--	1,568	--	2,498	--	487	--	100	--
Total	\$ 14,538	100%	\$ 12,598	100%	\$ 8,910	100%	\$ 2,775	100%	\$ 100	100%

NON-PERFORMING ASSETS

Non-performing assets include non-accrual loans and leases, accruing loans 90 or more days past due, restructured loans, and other repossessed assets. We had non-accrual loans and leases of \$2,776,000, with reserves of \$832,000, at December 31, 2002, non-accrual loans and leases of \$6,032,000, with reserves of \$1,213,000, at December 31, 2001, a non-accrual lease of \$572,000, with a specific reserve of \$277,000, at December 31, 2000 and no non-accrual loans or leases at December 31, 1999 and 1998. At December 31, 2002, our non-accrual loans and leases consisted of \$641,000 in commercial loans, \$1,367,000 in real estate loans, \$26,000 in consumer loans and \$742,000 in leases. At December 31, 2001, our non-accrual loans and leases consisted of \$5,767,000 in commercial loans and \$265,000 in leases. At December 31, 2002 and

2001, we had \$135,000 and \$384,000, respectively, in

accruing loans past due 90 days or more. We had one loan relationship in the amount of \$5,013,000 that was restructured and returned to accrual status during 2001. The restructuring included a charge-off and a principal reduction from the borrower. Interest income recorded on impaired loans during 2002 was approximately \$64,000. Interest income that would have been recorded if the loans had been current during 2002 totaled \$771,000. At December 31, 2002, we had \$181,000 in other repossessed assets.

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.

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 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.

SECURITIES PORTFOLIO

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

During the year ended December 31, 2002, we maintained an average securities portfolio of \$318.9 million compared to an average portfolio of \$176.0 million for the same period in 2001. We used additional securities in 2002 to increase our earnings by taking advantage of market spreads between returns on assets and the cost of funding these assets. The December 31, 2002 portfolio was primarily comprised of mortgage-backed securities. The mortgage-backed securities in our portfolio at December 31, 2002 consisted solely of government agency mortgage-backed securities.

Our unrealized gain on the securities portfolio value increased from a loss of \$507,000, which represented 0.25% of the amortized cost, at December 31, 2001, to a gain of \$10.0 million, which represented 1.8% of the amortized cost, at December 31, 2002.

During 2001, we maintained an average securities portfolio of \$176.0 million compared to an average portfolio of \$203.0 million in 2000. The average securities portfolio was not increased in 2001 due to the strong growth in our loans. The December 31, 2001 portfolio was comprised primarily of mortgage-backed securities. The mortgage-backed securities in our portfolio at December 31, 2001 consisted primarily of government agency mortgage-backed securities.

Our unrealized loss on the securities portfolio value increased slightly from \$482,000, which represented 0.23% of the amortized cost, at December 31, 2000, to \$507,000, which represented 0.25% of the amortized cost, at December 31, 2001.

The average expected life of the mortgage-backed securities was 2.4 years at December 31, 2002 and 4.7 years at December 31, 2001. The effect of possible changes in interest rates on our earnings and equity is discussed under "Interest Rate Risk Management."

The following presents the book values and fair values of the securities portfolio at December 31, 2002, 2001 and 2000.

SECURITIES

(In Thousands)

	Texas Capital Bancshares					
	December 31, 2002		December 31, 2001		December 31, 2000	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
U.S. Treasuries	\$ 3,291	\$ 3,291	\$ 1,298	\$ 1,297	\$ --	\$ --
U.S. Government Agency	--	--	--	--	71,488	70,847
Mortgage-backed securities	530,271	540,280	199,060	198,571	76,957	77,088
Other debt securities	--	--	--	--	31,726	31,755
Equity securities (1)	9,590	9,598	6,514	6,497	5,262	5,262
Total available-for-sale	543,152	553,169	206,872	206,365	185,433	184,952
Held-to-maturity:						
Other debt securities	--	--	--	--	28,366	28,539
Total held-to-maturity	--	--	--	--	28,366	28,539
Total securities	\$ 543,152	\$ 553,169	\$ 206,872	\$ 206,365	\$ 213,799	\$ 213,491

(1) Equity securities consist of Federal Reserve Bank stock, Federal Home Loan Bank stock, and Community Reinvestment Act funds.

The amortized cost and estimated fair value of securities are presented below by contractual maturity:

	At December 31, 2002					Total
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years		
Available-for-sale:						
U. S. Treasuries :						
Amortized cost	\$ 3,291	\$ --	\$ --	\$ --	\$ --	\$ 3,291
Estimated fair value	\$ 3,291	\$ --	\$ --	\$ --	\$ --	\$ 3,291
Weighted average yield	1.407%	--	--	--	--	1.407%
Mortgage-backed securities : (1)						
Amortized cost	--	1,348	36,529	492,394	--	530,271
Estimated fair value	--	1,394	37,326	501,560	--	540,280
Weighted average yield	--	5.796%	5.013%	5.066%	--	5.064%
Equity securities :						
Amortized cost	--	--	--	--	--	9,590
Estimated fair value	--	--	--	--	--	9,598
Total available-for-sale securities :						
Amortized cost						\$ 543,152
Estimated fair value						\$ 553,169

(1) Actual maturities may differ significantly from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The average expected life of the mortgage-backed securities was 2.4 years at December 31, 2002.

DEPOSITS

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

Average deposits for the year ended December 31, 2002 increased \$176.5 million compared to the same period of 2001. Demand deposits, interest bearing transaction accounts, and time deposits increased by \$55.8 million, \$11.5 million, and \$120.9 million, respectively, during the year ended December 31, 2002 as compared to the same period of 2001. Savings accounts decreased by \$11.7 million. The average cost of deposits decreased in 2002 due to lower market interest rates.

Average deposits for 2001 increased \$237.6 million compared to 2000. Demand deposits, interest bearing transaction accounts, savings, and time deposits increased by \$51.0 million, \$21.5 million, \$77.3 million and \$87.9 million, respectively, in 2001 compared to 2000. The average cost of deposits decreased in 2001 mainly due to lower market interest rates and BankDirect's reorientation toward higher deposit customers and its restructuring of account fees.

DEPOSIT ANALYSIS

(In Thousands)

	Texas Capital Bancshares Average Balances		
	2002	2001	2000
Non-interest bearing	\$ 155,298	\$ 99,471	\$ 48,483
Interest bearing transaction	52,155	40,673	19,198
Savings	349,128	360,865	283,594
Time deposits	433,731	312,826	224,933
Total average deposits	\$ 990,312	\$ 813,835	\$ 576,208

Uninsured deposits at December 31, 2002 were 57% of total deposits, compared to 47% of total deposits at December 31, 2001 and 36% of total deposits at December 31, 2000. Uninsured deposits as used in this presentation for 2000 and 2001 was based on a simple analysis of account balances over and under \$100,000 and does not reflect combined ownership and other account styling that would determine insurance based on FDIC regulations. The presentation for 2002 does reflect combined ownership, but does not reflect all of the account styling that would determine insurance based on FDIC regulations.

At December 31, 2002, approximately 9% of our total deposits were comprised of a number of short-term maturity deposits from a single municipal entity. We use these funds to increase our net interest income from excess securities that we pledge as collateral for these deposits.

MATURITY OF DOMESTIC CDS AND OTHER TIME DEPOSITS IN AMOUNTS OF \$100,000 OR MORE

(In Thousands)

	Texas Capital Bancshares		
	December 31, 2002	December 31, 2001	December 31, 2000
Months to maturity:			
3 or less	\$ 174,518	\$ 143,264	\$ 51,579
Over 3 through 6	47,041	20,854	28,588
Over 6 through 12	28,905	29,491	28,739
Over 12	174,715	32,486	7,431
Total	\$ 425,179	\$ 226,095	\$ 116,337

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 bank's balance sheet committee, and which take into account the

marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2001 and 2002, our principal source of funding has been our customer deposits, supplemented by our short-term and long-term borrowings, primarily from securities sold under repurchase agreements and federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are considered to be smaller than our bank).

Since early 2001, our liquidity needs have primarily been fulfilled through growth in our traditional bank customer and stockholder deposits. Our goal is to obtain as much of our funding as possible from deposits of these customers and stockholders, which as of December 31, 2002, comprised \$810.3 million, or 67.7%, of total deposits, compared to \$581.3 million, or 65.6%, of total deposits, at December 31, 2001. These traditional deposits are generated principally through development of long-term relationships with customers and stockholders.

In addition to deposits from our traditional bank customers and stockholders, we also have access to incremental consumer deposits through BankDirect, our Internet banking facility, and through brokered retail certificates of deposit, or CDs. As of December 31, 2002, BankDirect deposits comprised \$206.2 million, or 17.2%, of total deposits, and brokered retail CDs comprised \$180.0 million, or 15.0%, of total deposits. Our dependence on Internet deposits and retail brokered CDs is limited by our internal funding guidelines, which as of December 31, 2002, limited borrowing from these sources to 15-25% and 10-20%, respectively, of total deposits.

Additionally, we have borrowing sources available to supplement deposits and meet our funding needs. These borrowing sources include federal funds purchased from our downstream correspondent bank relationships and from our upstream correspondent bank relationships (which consist of banks that are considered to be larger than our bank), securities sold under repurchase agreements, treasury, tax and loan notes, and advances from the Federal Home Loan Bank, or FHLB. As of December 31, 2002, our borrowings consisted of a total of \$292.0 million of securities sold under repurchase agreements, \$83.6 million of downstream federal funds purchased, \$10.1 million from customer repurchase agreements, \$49.5 million of FHLB borrowings and \$14.2 million of treasury, tax and loan notes. Credit availability from the FHLB is based on our bank's financial and operating condition and borrowing collateral we hold with the FHLB. At December 31, 2002, borrowings from the FHLB consisted of approximately \$49.5 million of overnight advances bearing interest at 1.4%. Our unused FHLB borrowing capacity at December 31, 2002 was approximately \$245.0 million. As of December 31, 2002, none of our borrowings consisted of upstream federal funds purchased, although we had unused upstream federal fund lines available from commercial banks of approximately \$37.5 million. During the year ended December 31, 2002, our average borrowings from these sources were 18.3% of average assets, which is well within our internal funding guidelines, which limit our dependence on borrowing sources to 15-25% of total assets. In accordance with our current internal guidelines, excess funding capacity is monitored and maintained at a level in excess of 25% of total assets at all times. The maximum amount of borrowed funds outstanding at any month-end during the year ended December 31, 2002 was \$449.5 million, or 25.1% of total assets.

On November 19, 2002, Texas Capital Bancshares Statutory Trust I, a newly-formed subsidiary of the Company, issued \$10,000,000 of its Floating Rate Capital Securities Cumulative Trust Preferred Securities (the Trust Preferred) in a private offering. Proceeds of the Trust Preferred were invested in the Floating Rate Junior Subordinated Deferrable Interest Securities (the Subordinated Debentures) of the Company. Interest rate on the Trust Preferred Subordinated Debentures is three month LIBOR plus 3.35%. After deducting underwriter's compensation and other expenses of the offering, the net proceeds were available to the Company to increase capital and for general corporate purposes, including use in investment and lending activities. Interest payments on the Subordinated Debentures are deductible for federal income tax purposes.

The Trust Preferred and the Subordinated Debentures each mature in November 2032. If certain conditions are met, the maturity dates of the Trust Preferred and the Subordinated Debentures may be shortened to a date not earlier than November 19, 2007. The Trust Preferred and the Subordinated Debentures also may be redeemed prior to maturity if certain events occur. The Trust Preferred is subject to mandatory redemption, in whole or in part, upon repayment of the Subordinated Debentures at maturity or their earlier redemption. The Company also has the right, if certain conditions are met, to defer payment of interest on the Subordinated Debentures, which would result in a deferral of dividend payments on the Trust Preferred, at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period. The payment by the Company of the principal and interest on the Subordinated Debentures are subordinated and junior in light of payment to the prior payment in full of all senior indebtedness of the Company, whether outstanding at this time or incurred in the future.

As of December 31, 2002, our contractual obligations and commercial commitments, other than deposit liabilities, were as follows:

(In thousands)	At December 31, 2002				
	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
Federal funds purchased	\$ 83,629	\$ --	\$ --	\$ --	\$ 83,629
Securities sold under repurchase agreements	56,548	235,437	--	--	291,985
Customer repurchase agreements	10,098	--	--	--	10,098
Treasury, tax and loan notes	14,248	--	--	--	14,248
FHLB borrowings	49,500	--	--	--	49,500
Operating lease obligations	2,572	4,980	4,946	6,002	18,500
Long-term debt	--	--	--	10,000	10,000
Total contractual obligations	\$ 216,595	\$ 240,417	\$ 4,946	\$ 16,002	\$ 477,960

The contractual amount of our financial instruments with off-balance sheet risk expiring by period at December 31, 2002 is presented below:

(In thousands)	At December 31, 2002				
	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
Commitments to extend credit	\$ 224,303	\$ 94,592	\$ 8,974	\$ 3,273	\$ 331,142
Standby letters of credit	20,244	1,882	--	--	22,126
Total contractual obligations	\$ 244,547	\$ 96,474	\$ 8,974	\$ 3,273	\$ 353,268

Due to the nature of our unfunded loan commitments, including unfunded lines of credit, the amounts presented in the table above do not necessarily represent amounts that we anticipate funding in the periods presented above.

Our equity capital averaged \$117.1 million for the year ended December 31, 2002 as compared to \$90.8 million in 2001 and \$82.4 million in 2000. These increases reflect our retention of net earnings during these periods. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the future.

Our actual and minimum required capital amounts and actual ratios are as follows:

Regulatory Capital Adequacy						
December 31, 2002		December 31, 2001		December 31, 2000		
Amount	Ratio	Amount	Ratio	Amount	Ratio	
(In thousands, except percentage data)						
Total capital (to risk-weighted assets):						
COMPANY						
Actual	\$141,688	11.32%	\$117,921	11.73%	\$ 93,968	10.98%
To be well-capitalized	N/A	N/A	N/A	N/A	N/A	N/A
Minimum required	100,160	8.00%	80,431	8.00%	68,448	8.00%
Excess above well-capitalized	N/A	N/A	N/A	N/A	N/A	N/A
Excess above minimum	41,528	3.32%	37,490	3.73%	25,520	2.98%
BANK						
Actual	\$128,696	10.29%	\$114,551	11.39%	\$ 82,925	9.69%
To be well-capitalized	125,111	10.00%	100,538	10.00%	85,558	10.00%
Minimum required	100,089	8.00%	80,430	8.00%	68,446	8.00%
Excess above well-capitalized	3,585	.29%	14,013	1.39%	(2,633)	(0.31%)
Excess above minimum	28,607	2.29%	34,121	3.39%	14,479	1.69%
Tier 1 capital (to risk-weighted assets):						
COMPANY						
Actual	\$127,146	10.16%	\$105,353	10.48%	\$ 85,058	9.94%
To be well-capitalized	N/A	N/A	N/A	N/A	N/A	N/A
Minimum required	50,080	4.00%	40,216	4.00%	34,224	4.00%
Excess above well-capitalized	N/A	N/A	N/A	N/A	N/A	N/A
Excess above minimum	77,066	6.16%	65,137	6.48%	50,834	5.94%
BANK						
Actual	\$114,154	9.12%	\$101,983	10.14%	\$ 74,015	8.65%
To be well-capitalized	75,066	6.00%	60,323	6.00%	51,335	6.00%
Minimum required	50,044	4.00%	40,215	4.00%	34,223	4.00%
Excess above well-capitalized	39,088	3.12%	41,660	4.14%	22,680	2.65%
Excess above minimum	64,110	5.12%	61,768	6.14%	39,792	4.65%
Tier 1 capital (to average assets):						
COMPANY						
Actual	\$127,146	7.66%	\$105,353	9.46%	\$ 85,058	9.62%
To be well-capitalized	N/A	N/A	N/A	N/A	N/A	N/A
Minimum required	66,400	4.00%	44,545	4.00%	35,367	4.00%
Excess above well-capitalized	N/A	N/A	N/A	N/A	N/A	N/A
Excess above minimum	60,746	3.66%	60,808	5.46%	49,691	5.62%
BANK						
Actual	\$114,154	6.88%	\$101,983	9.16%	\$ 74,015	8.37%
To be well-capitalized	82,949	5.00%	55,681	5.00%	44,208	5.00%
Minimum required	66,359	4.00%	44,544	4.00%	35,366	4.00%
Excess above well-capitalized	31,205	1.88%	46,302	4.16%	29,807	3.37%
Excess above minimum	47,795	2.88%	57,439	5.16%	38,649	4.37%

CRITICAL ACCOUNTING POLICIES

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

We follow financial accounting and reporting policies that are in accordance with generally accepted accounting principles. 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 policies 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 Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 5, Accounting for 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.

Management considers the policies related to income taxes to be critical to the financial statement presentation. The Company utilizes the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation reserve is provided against deferred tax assets unless it is more likely than not that such deferred tax assets will be realized.

The Company has a gross deferred tax asset of \$6.7 million at December 31, 2002. The asset is realizable to the extent it offsets deferred tax liabilities in a given year, creates a loss that can be carried back and offset against 2002 taxes paid or reduces future taxable income. The Company has not assumed future income in assessing the recoverability of the deferred tax assets due to the uncertainty surrounding current economic conditions and the fact that the Company has a limited operating history and is in an accumulated deficit position for the most recent three years. As a result, the Company has provided a valuation allowance related to deferred taxes unless such assets are certain to turn around during a period in which losses could be carried back to 2002 or in the same period as an offsetting deferred tax liability is certain to turn around. The largest component of the valuation allowance relates to the allowance for loan losses, as it is not practical to determine the exact period in which a charge-off would be recorded and sustained as a tax deduction.

At such time as the Company concludes it is appropriate to consider future taxable income in assessing the recoverability of the deferred tax asset, all or a portion of the allowance would be reversed resulting in a reduction of tax expense.

NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives.

Additionally, Statement 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized.

We have tested goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. We performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002 and annual assessment as of October 1, and no impairment was noted.

For comparative purposes, the prior period results shown below have been adjusted to reflect the impact the change in accounting would have had if it had been adopted for the periods shown.

(In thousands)	December 31, 2002	December 31, 2001	December 31, 2000
	-----	-----	-----
Net income (loss):			
As reported	\$ 7,343	\$ 5,844	\$ (16,497)
Amortization expense	--	125	125
	-----	-----	-----
Net income (loss) without amortization expense	\$ 7,343	\$ 5,969	\$ (16,372)
	=====	=====	=====
Basic income (loss) per share:			
As reported	\$ 0.33	\$ 0.31	\$ (0.95)
Excluding amortization expense	\$ 0.33	\$ 0.31	\$ (0.94)
Diluted income (loss) per share:			
As reported	\$ 0.32	\$ 0.30	\$ (0.95)
Excluding amortization expense	\$ 0.32	\$ 0.31	\$ (0.94)

CONTROLS AND PROCEDURES

The Company's chief executive officer and chief financial officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15d-14(c) under the Exchange Act) as of December 31, 2002 and concluded that those disclosure controls and procedures are effective.

There have been no changes in the Company's internal controls or in other factors known to the Company that could significantly affect these controls subsequent to their evaluation, nor any corrective actions with regard to significant deficiencies and material weaknesses.

While the Company believes that its existing disclosure controls and procedures have been effective to accomplish these objectives, the Company intends to continue to examine, refine and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

ITEM 7A. QUANTITATIVE AND QUALITATIVE
DISCLOSURE 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 and/or equity prices.

We are subject to market risk primarily through the effect of changes in interest rates on our portfolio of assets. 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 Balance Sheet Management Committee, which operates under policy guidelines established by our board of directors. The negative acceptable variation in net interest income due to a 200 basis point increase or decrease in interest rates is generally limited by these guidelines to +/- 10%. These guidelines also establish maximum levels for short-term borrowings, short-term assets and brokered deposits. They also establish minimum levels for unpledged assets, among other things. Compliance with these guidelines is the ongoing responsibility of the Balance Sheet Management Committee, with exceptions reported to our board of directors on a quarterly basis.

INTEREST RATE RISK MANAGEMENT

We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. We quantify and measure interest rate exposure using a model to dynamically simulate the effect of changes in net interest income relative to changes in interest rates 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 London Interbank Offering Rate are the basis for most of our variable-rate loan pricing. The 30-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 fell below 2.0% at the end of 2001 and below 1.5% by the end of 2002, we could not assume interest rate changes of 200 basis points as the results in the decreasing rates scenario would be negative rates. Therefore, we are using 150 and 100 basis point variances for 2001 and 2002 for our "shock test" scenarios until short-term rates rise above 2.0%.

Our interest rate risk exposure model incorporates assumptions regarding the level of interest rate or changes in outstanding balances 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)

	Texas Capital Bancshares			
	Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario			
	200 bp Increase December 31, 2002	100 bp Decrease December 31, 2002	150 bp Increase December 31, 2001	150 bp Decrease December 31, 2001
Change in net interest income	\$ 8,172	\$ (5,397)	\$ 3,246	\$ (3,811)

The estimated changes in interest rates on net interest income are within guidelines established by our board of directors for all interest rate scenarios.

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.

We expect our balance sheet will continue to be asset sensitive over the next twelve months, which means that we will have more loans repricing than deposits over this period. This is largely due to the concentration of our assets in variable rate (rather than fixed rate) loans. If, as we expect will occur, interest rates rise in 2003, this asset-sensitivity will tend to result in an increase in our interest margin, all other factors being equal. In the event of a rising rate environment, management may choose to fund investment securities purchased with term liabilities/deposits to lock in a return. Investment securities are generally held in the "available-for-sale" category so that gains and losses can be realized as appropriate. At certain times, we use the "held-to-maturity" category if we are not planning to sell these securities before maturity.

As of December 31, 2002, the bank sourced approximately 17% of its total deposits from retail consumer deposit customers through BankDirect, our Internet banking facility. These retail consumer deposits may be more interest rate sensitive than our other deposits as a result of the extremely competitive Internet banking market.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

	Page Reference
Consolidated Financial Statements	
Report of Independent Auditors	44
Consolidated Balance Sheets - December 31, 2002 and December 31, 2001	45
Consolidated Statements of Operations - Years ended December 31, 2002, 2001 and 2000	46
Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2002, 2001 and 2000	47
Consolidated Statements of Cash Flows - Years ended December 31, 2002, 2001 and 2000	48
Notes to Consolidated Financial Statements	49

Report of Independent Auditors

The Stockholders and Board of Directors
Texas Capital Bancshares, Inc.

We have audited the accompanying consolidated balance sheets of Texas Capital Bancshares, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Capital Bancshares, Inc. at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Dallas, Texas
February 21, 2003

Texas Capital Bancshares, Inc.
Consolidated Balance Sheets
(In Thousands except Share Data)

	December 31	
	2002	2001
	-----	-----
ASSETS		
Cash and due from banks	\$ 88,744	\$ 44,260
Federal funds sold	--	12,360
Securities, available-for-sale	553,169	206,365
Loans, net	988,019	841,907
Loans held for sale	116,106	43,764
Premises and equipment, net	3,829	4,950
Accrued interest receivable and other assets	41,919	9,677
Goodwill, net	1,496	1,496
	-----	-----
Total assets	\$ 1,793,282	\$ 1,164,779
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 238,873	\$ 136,266
Interest bearing	957,662	749,811
	-----	-----
	1,196,535	886,077
Accrued interest payable	3,826	2,848
Other liabilities	8,485	5,897
Federal funds purchased	83,629	76,699
Repurchase agreements	302,083	76,986
Other borrowings	63,748	9,913
Long-term debt:		
Guaranteed preferred beneficial interests in the Company's subordinated debentures	10,000	--
	-----	-----
Total liabilities	1,668,306	1,058,420
Commitments and contingencies--Note 16		
Stockholders' equity:		
Series A convertible preferred stock, \$.01 par value, 6%:		
Authorized shares - 10,000,000		
Issued shares - 1,057,142 and 753,301 at December 31, 2002 and 2001, respectively		
	11	8
Common stock, \$.01 par value:		
Authorized shares - 100,000,000		
Issued shares - 18,500,812 and 18,400,310 at December 31, 2002 and 2001, respectively		
	185	184
Series A-1 non-voting common stock, \$.01 par value:		
Issued shares - 695,516 and 741,392 at December 31, 2002 and 2001, respectively		
	7	7
Additional paid-in capital	131,881	127,378
Accumulated deficit	(13,347)	(20,690)
Treasury stock (shares at cost: 97,246 and 87,516 at December 31, 2002 and 2001, respectively)	(668)	(594)
Deferred compensation	573	573
Accumulated other comprehensive income (loss)	6,334	(507)
	-----	-----
Total stockholders' equity	124,976	106,359
	-----	-----
Total liabilities and stockholders' equity	\$ 1,793,282	\$ 1,164,779
	=====	=====

See accompanying notes.

Texas Capital Bancshares, Inc.
Consolidated Statements of Operations
(In Thousands except Per Share Data)

	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
Interest income:			
Interest and fees on loans	\$ 54,387	\$ 59,236	\$ 40,282
Securities	15,484	10,760	13,608
Federal funds sold	243	580	1,778
Deposits in other banks	28	18	101
	-----	-----	-----
Total interest income	70,142	70,594	55,769
Interest expense:			
Deposits	21,223	31,759	31,703
Federal funds purchased	1,540	2,107	485
Other borrowings	5,068	1,673	742
Long-term debt	65	--	--
	-----	-----	-----
Total interest expense	27,896	35,539	32,930
Net interest income	42,246	35,055	22,839
Provision for loan losses	5,629	5,762	6,135
	-----	-----	-----
Net interest income after provision for loan losses	36,617	29,293	16,704
Non-interest income:			
Service charges on deposit accounts	2,772	1,857	487
Trust fee income	987	826	574
Gain on sale of securities	1,375	1,902	19
Cash processing fees	993	--	--
Other	2,498	1,398	877
	-----	-----	-----
Total non-interest income	8,625	5,983	1,957
Non-interest expense:			
Salaries and employee benefits	16,757	15,033	15,330
Net occupancy expense	5,001	4,795	4,122
Advertising and affinity payments	1,236	278	4,182
Legal and professional	3,038	1,898	2,823
Communications and data processing	2,839	2,930	1,804
Franchise taxes	108	120	145
IPO expenses	1,190	--	--
Other	5,201	4,378	6,752
	-----	-----	-----
Total non-interest expense	35,370	29,432	35,158
	-----	-----	-----
Income (loss) before income taxes	9,872	5,844	(16,497)
Income tax expense	2,529	--	--
	-----	-----	-----
Net income (loss)	7,343	5,844	(16,497)
Preferred stock dividends	(1,097)	(26)	--
	-----	-----	-----
Income (loss) available to common stockholders	\$ 6,246	\$ 5,818	\$(16,497)
	=====	=====	=====
Income (loss) per share:			
Basic	\$.33	\$.31	\$ (.95)
	=====	=====	=====
Diluted	\$.32	\$.30	\$ (.95)
	=====	=====	=====

See accompanying notes.

Texas Capital Bancshares, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(In Thousands except Share Data)

	Series A Convertible Preferred Stock		Common Stock		Series A-1 Non-voting Common Stock		Additional Paid-in Capital
	Shares	Amount	Shares	Amount	Shares	Amount	
Balance at December 31, 1999	--	\$ --	14,519,040	\$ 145	853,388	\$ 9	\$ 86,840
Comprehensive income (loss):							
Net loss	--	--	--	--	--	--	--
Change in unrealized loss on available-for-sale securities, net of reclassification amount of \$19	--	--	--	--	--	--	--
Total comprehensive income (loss)	--	--	--	--	--	--	--
Stock issued	--	--	3,743,422	37	--	--	27,036
Transfers	--	--	41,132	1	(41,132)	(1)	--
Purchase of treasury stock	--	--	--	--	--	--	--
Sale of treasury stock	--	--	--	--	--	--	--
Deferred compensation arrangement	--	--	--	--	--	--	--
Balance at December 31, 2000	--	--	18,303,594	183	812,256	8	113,876
Comprehensive income (loss):							
Net income	--	--	--	--	--	--	--
Change in unrealized loss on available-for-sale securities, net of reclassification amount of \$1,902	--	--	--	--	--	--	--
Total comprehensive income	--	--	--	--	--	--	--
Sale of Series A convertible preferred stock	753,301	8	--	--	--	--	13,175
Sale of common stock	--	--	25,852	--	--	--	159
Preferred dividends payable	--	--	--	--	--	--	(26)
Transfers	--	--	70,864	1	(70,864)	(1)	--
Purchase of treasury stock	--	--	--	--	--	--	--
Sale of treasury stock	--	--	--	--	--	--	194
Balance at December 31, 2001	753,301	8	18,400,310	184	741,392	7	127,378
Comprehensive income (loss):							
Net income	--	--	--	--	--	--	--
Change in unrealized loss on available-for-sale securities, net of taxes of \$3,683, net of reclassification amount of \$1,375	--	--	--	--	--	--	--
Total comprehensive income	--	--	--	--	--	--	--
Sale of Series A convertible preferred stock	303,841	3	--	--	--	--	5,247
Sale of common stock	--	--	54,626	1	--	--	350
Preferred dividends	--	--	--	--	--	--	(1,097)
Transfers	--	--	45,876	--	(45,876)	--	--
Purchase of treasury stock	--	--	--	--	--	--	--
Sale of treasury stock	--	--	--	--	--	--	3
Balance at December 31, 2002	1,057,142	\$ 11	18,500,812	\$ 185	695,516	\$ 7	\$ 131,881

	Accumulated Deficit	Treasury Stock		Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount			
Balance at December 31, 1999	\$ (10,037)	(185,056)	\$ (1,169)	\$ 322	\$ (3,198)	\$ 72,912
Comprehensive income (loss):						
Net loss	(16,497)	--	--	--	--	(16,497)
Change in unrealized loss on available-for-sale securities, net of reclassification amount of \$19	--	--	--	--	2,716	2,716
Total comprehensive income (loss)	--	--	--	--	--	(13,781)
Stock issued	--	--	--	--	--	27,073
Transfers	--	--	--	--	--	--
Purchase of treasury stock	--	(23,112)	(144)	--	--	(144)
Sale of treasury stock	--	22,000	137	--	--	137
Deferred compensation arrangement	--	(34,660)	(251)	251	--	--
Balance at December 31, 2000	(26,534)	(220,828)	(1,427)	573	(482)	86,197
Comprehensive income (loss):						
Net income	5,844	--	--	--	--	5,844
Change in unrealized loss on available-for-sale securities, net of reclassification amount of \$1,902	--	--	--	--	(25)	(25)
Total comprehensive income	--	--	--	--	--	5,819
Sale of Series A convertible preferred stock	--	--	--	--	--	13,183
Sale of common stock	--	--	--	--	--	159

Preferred dividends payable	--	--	--	--	--	(26)
Transfers	--	--	--	--	--	--
Purchase of treasury stock	--	(70,670)	(452)	--	--	(452)
Sale of treasury stock	--	203,982	1,285	--	--	1,479
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2001	(20,690)	(87,516)	(594)	573	(507)	106,359
Comprehensive income (loss):						
Net income	7,343	--	--	--	--	7,343
Change in unrealized loss on available-for-sale securities, net of taxes of \$3,683, net of reclassification amount of \$1,375	--	--	--	--	6,841	6,841
					-----	-----
Total comprehensive income						14,184
Sale of Series A convertible preferred stock	--	--	--	--	--	5,250
Sale of common stock	--	--	--	--	--	351
Preferred dividends	--	--	--	--	--	(1,097)
Transfers	--	--	--	--	--	--
Purchase of treasury stock	--	(14,144)	(103)	--	--	(103)
Sale of treasury stock	--	4,414	29	--	--	32
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2002	\$ (13,347)	(97,246)	\$ (668)	\$ 573	\$ 6,334	\$ 124,976
	=====	=====	=====	=====	=====	=====

See accompanying notes.

Texas Capital Bancshares, Inc.
Consolidated Statements of Cash Flows
(In Thousands)

	Year ended December 31		
	2002	2001	2000
OPERATING ACTIVITIES			
Net income (loss)	\$ 7,343	\$ 5,844	\$ (16,497)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Provision for loan losses	5,629	5,762	6,135
Depreciation and amortization	1,721	1,922	1,599
Amortization and accretion on securities	2,696	386	(418)
Bank owned life insurance (BOLI) income	(735)	--	--
Gain on sale of securities	(1,375)	(1,902)	(19)
Loss on sale of assets	--	12	--
Originations of loans held for sale	(1,192,981)	(607,318)	--
Proceeds from sales of loans held for sale	1,120,639	564,900	--
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(5,992)	459	(5,465)
Accrued interest payable and other liabilities	(371)	(69)	6,456
Net cash used in operating activities	(63,426)	(30,004)	(8,209)
INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(485,930)	(259,571)	(146,124)
Proceeds from sales of available-for-sale securities	41,471	142,250	110,498
Maturities and calls of available-for-sale securities	6,500	68,195	--
Purchase of held-to-maturity securities	--	--	(28,226)
Principal payments received on securities	100,357	57,570	18,096
Net increase in loans	(152,613)	(232,064)	(398,291)
Purchase of premises and equipment, net	(242)	(648)	(3,175)
Purchase of BOLI	(25,000)	--	--
Net cash used in investing activities	(515,457)	(224,268)	(447,222)
FINANCING ACTIVITIES			
Net increase in checking, money market and savings accounts	128,609	52,411	313,025
Net increase in certificates of deposit	181,849	38,809	194,764
Sale of common stock	351	159	27,073
Issuance of trust preferred	10,000	--	--
Net other borrowings	278,932	79,838	(39,206)
Net federal funds purchased	6,930	65,174	11,525
Sale of preferred stock	5,250	13,183	--
Sale (purchase) of treasury stock	(71)	1,027	(7)
Dividends paid	(843)	--	--
Net cash provided by financing activities	611,007	250,601	507,174
Net increase (decrease) in cash and cash equivalents	32,124	(3,671)	51,743
Cash and cash equivalents, beginning of year	56,620	60,291	8,548
Cash and cash equivalents, end of year	\$ 88,744	\$ 56,620	\$ 60,291
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	\$ 26,918	\$ 36,344	\$ 30,535
Cash paid during the year for income taxes	1,450	--	--
Non-cash transactions:			
Transfers from loans/leases to other repossessed assets	515	--	--
Transfers from loans/leases to premises and equipment	358	--	--

See accompanying notes.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF BUSINESS

Texas Capital Bancshares, Inc. (Texas Capital Bancshares or 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 was formed on December 18, 1998 through the acquisition of Resource Bank, National Association (Resource Bank). The Company owns all of the outstanding common securities of Texas Capital Bancshares Statutory Trust I, which is a Connecticut business trust. All significant intercompany accounts and transactions have been eliminated upon consolidation.

All business is conducted through the Bank. BankDirect, a division of the Bank, provides online banking services through the Internet. The Bank currently provides commercial banking services to its customers in Texas. The Bank concentrates on middle market commercial and high net worth customers, while BankDirect provides basic consumer banking services to Internet users.

Amounts and disclosures have been adjusted to reflect a one-for-one stock dividend which was declared on July 30, 2002, and which was paid by September 16, 2002, pursuant to which each stockholder received one additional share of common stock for each share of common stock owned as of July 30, 2002.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents include amounts due from banks and federal funds sold.

SECURITIES

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

Trading Account

Securities acquired for resale in anticipation of short-term market movements are classified as trading, with realized and unrealized gains and losses recognized in income. To date, the Company has not had any activity in its trading account.

Held-to-Maturity and Available-for-Sale

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity or trading and marketable equity securities not classified as trading are classified as available-for-sale. Available-for-sale securities are stated at fair value, with the unrealized gains and losses reported in a separate component of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

amortization and accretion is included in interest income from securities. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

LOANS

Loans (which include leases) are either secured or unsecured based on the type of loan and the financial condition of the borrower. Repayment is generally expected from cash flows of borrowers. The Company is exposed to risk of loss on loans which may arise from any number of factors including problems within the respective industry of the borrower or from local economic conditions. Access to collateral, in the event of borrower default, is reasonably assured through adherence to applicable lending laws and through sound lending standards and credit review procedures.

Loans are stated at the amount of unpaid principal reduced by deferred income (net of costs) and an allowance for loan losses. Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Loan origination fees, net of direct loan origination costs, and commitment fees, are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

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

The accrual of interest on loans is discontinued when it is considered impaired and/or 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 book balance of the asset is deemed to be collectible. If collectibility is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current.

Loans held for sale are carried at cost which approximates market.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance for loan losses includes specific reserves for impaired loans and an estimate of losses inherent in the loan portfolio at the balance sheet date, but not yet identified with specific loans. Loans deemed to be uncollectible are charged against the allowance when management believes that the collectibility of the principal is unlikely and subsequent recoveries, if any, are credited to the allowance. Management's periodic evaluation of the adequacy of the allowance is based on an assessment of the current loan portfolio, including known inherent risks, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions.

REPOSSESSED ASSETS

Reposessed assets consist of collateral that has been reposessed. Collateral that has been reposessed is recorded at the lower of fair value less selling costs or the book value of the loan or lease prior to repossession. Writedowns are provided for subsequent declines in value and are recorded in other non-interest expense.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Gains or losses on disposals of premises and equipment are included in results of operations.

ADVERTISING, WEBSITE DEVELOPMENT COSTS, AND SOFTWARE

Advertising costs are expensed as incurred. Costs incurred in connection with the initial website development are capitalized and amortized over a period not to exceed three years. Ongoing maintenance and enhancements of websites are expensed as incurred. Costs incurred in connection with development or purchase of internal use software are capitalized and amortized over a period not to exceed five years. Both website development and internal use software costs are included in other assets in the consolidated financial statements.

INTANGIBLE ASSETS

Through December 31, 2001, the excess of cost over the fair value of net identifiable assets of businesses acquired (goodwill) was amortized on a straight-line basis over a period not in excess of 20 years. All intangible assets were evaluated annually or more often when economic conditions indicated an impairment might exist to determine recoverability of their carrying value. These conditions would include an ongoing negative performance history and a forecast of anticipated performance that was significantly below management's initial expectation for the acquired entity. Impairment would have been determined based on the estimated discounted cash flows of the entity acquired over the remaining amortization period.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142, which was effective January 1, 2002, prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, Statement 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized.

As of January 1, 2002, the Company ceased amortizing goodwill. The Company has tested goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002 and annual assessment as of October 1, and no impairment was indicated.

For comparative purposes, the prior year results shown below have been adjusted to reflect the impact the change in accounting would have had if it had been adopted for the periods shown.

(In thousands)	December 31, ----- 2002 -----	December 31, ----- 2001 -----	December 31, ----- 2000 -----
Net income (loss):			
As reported	\$ 7,343	\$ 5,844	\$ (16,497)
Amortization expense	--	125	125
Net income (loss) without amortization expense	\$ 7,343 =====	\$ 5,969 =====	\$ (16,372) =====

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	December 31, 2002	December 31, 2001	December 31, 2000
	-----	-----	-----
Basic income (loss) per share:			
As reported	\$ 0.33	\$ 0.31	\$ (0.95)
Excluding amortization expense	0.33	0.31	(0.94)
Diluted income (loss) per share:			
As reported	\$ 0.32	\$ 0.30	\$ (0.95)
Excluding amortization expense	0.32	0.31	(0.94)

STOCK-BASED COMPENSATION

At December 31, 2002, the Company had a stock-based employee compensation plan, which is described more fully in Note 11. The Company accounts for those plans under the recognition and measurement principles of ABP Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

(In Thousands except Share Data)	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
Net income (loss) as reported	\$ 7,343	\$ 5,844	\$(16,497)
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	(691)	(648)	(433)
Pro forma net income (loss)	6,652	5,196	(16,930)
Basic income (loss) per share:			
As reported	\$.33	\$.31	\$ (.95)
Pro forma	.29	.27	(.97)
Diluted income (loss) per share:			
As reported	\$.32	\$.30	\$ (.95)
Pro forma	.29	.27	(.97)

The fair value of these options was estimated at the date of grant using a Black-Scholes value option pricing model with the following weighted average assumptions used for 2002, 2001 and 2000, respectively: a risk free interest rate of 4.46%, 4.85 % and 6.50%, a dividend yield of 0%, a volatility factor of .001, .001 and .055, and an estimated life of five years.

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 the Company's 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 a reliable single measure of the fair value of its employee stock options.

See Note 11 for additional disclosures regarding stock-based compensation.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized gains or losses on the Company's available-for-sale securities are included in accumulated other comprehensive income (loss).

INCOME TAXES

The Company and its subsidiary file a consolidated federal income tax return. The Company utilizes the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation reserve is provided against deferred tax assets unless it is more likely than not that such deferred tax assets will be realized.

RECLASSIFICATION

Certain reclassifications have been made to the 2001 and 2000 consolidated financial statements to conform to the 2002 presentation.

2. SECURITIES

The following is a summary of securities:

(In Thousands)

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U. S. Treasuries	\$ 3,291	\$ --	\$ --	\$ 3,291
Mortgage-backed securities	530,271	10,011	(2)	540,280
Equity securities	9,590	8	--	9,598
	<u>\$ 543,152</u>	<u>\$ 10,019</u>	<u>\$ (2)</u>	<u>\$ 553,169</u>
	=====	=====	=====	=====

(In Thousands)

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U. S. Treasuries	\$ 1,298	\$ --	\$ (1)	\$ 1,297
Mortgage-backed securities	199,060	925	(1,414)	198,571
Equity securities	6,514	--	(17)	6,497
	<u>\$ 206,872</u>	<u>\$ 925</u>	<u>\$ (1,432)</u>	<u>\$ 206,365</u>
	=====	=====	=====	=====

Held-to-maturity securities with an amortized cost of \$28,366,000 were transferred to available-for-sale effective January 1, 2001 in accordance with the provisions of FAS 133 adoption. As of the date of the transfer, the securities had an unrealized gain of \$173,000 and were recorded at an estimated fair value of \$28,539,000.

2. SECURITIES (CONTINUED)

The amortized cost and estimated fair value of securities are presented below by contractual maturity:

(In Thousands)	December 31, 2002				
	Less Than One Year	One to Five Years	Five to Ten Years	After Ten Years	Total
Available-for-Sale Securities:					
U.S. Treasuries:					
Amortized cost	\$ 3,291	\$ --	\$ --	\$ --	\$ 3,291
Estimated fair value	3,291	--	--	--	3,291
Weighted average yield	1.407%	--	--	--	1.407%
Mortgage-backed securities: (1)					
Amortized cost	--	1,348	36,529	492,394	530,271
Estimated fair value	--	1,394	37,326	501,560	540,280
Weighted average yield	--	5.796%	5.013%	5.066%	5.064%
Equity securities:					
Amortized cost					9,590
Estimated fair value					9,598
Total available-for-sale securities:					
Amortized cost					\$ 543,152
Estimated fair value					\$ 553,169

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

Securities with carrying values of approximately \$509,034,000 and \$182,503,000 were pledged to secure certain borrowings and deposits at December 31, 2002 and 2001, respectively. See Note 7 for discussion of securities securing borrowings. Of the pledged securities at December 31, 2002 and 2001, approximately \$150,939,000 and \$63,800,000, respectively, were pledged for certain deposits.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are summarized by category as follows (in thousands):

	December 31	
	2002	2001
Commercial	\$ 509,505	\$ 402,302
Construction	172,451	180,115
Real estate	282,703	218,192
Consumer	24,195	25,054
Leases	17,546	34,552
Loans held for sale	116,106	43,764
	1,122,506	903,979
Deferred income (net of direct origination costs)	(3,843)	(5,710)
Allowance for loan losses	(14,538)	(12,598)
Loans, net	\$ 1,104,125	\$ 885,671

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The majority of the loan portfolio is comprised of loans to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. Within the loan portfolio, loans to the services industry were \$424.0 million or 37.8% of total loans at December 31, 2002. Other notable segments include personal/household (which includes loans to certain high net worth individuals for commercial purposes and mortgage loans held for sale, in addition to consumer loans), \$187.3 million and petrochemical and mining, \$133.8 million at December 31, 2002. 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.

The changes in the allowance for loan losses are summarized as follows (in thousands):

	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
Balance, beginning of year	\$ 12,598	\$ 8,910	\$ 2,775
Provision for loan losses	5,629	5,762	6,135
Loans charged off	(3,847)	(2,074)	--
Recoveries	158	--	--
	-----	-----	-----
Balance, end of year	\$ 14,538	\$ 12,598	\$ 8,910
	=====	=====	=====

The Bank had impaired loans and leases in the amount of \$2,776,000 and \$6,032,000 with reserves of \$832,000 and \$1,213,000 as of December 31, 2002 and 2001, respectively. Also, the Bank had one loan relationship in the amount of \$5,013,000 that was restructured during 2001. The restructuring included a charge-off and a principal reduction from the borrower. Interest income recorded on impaired loans during 2002 was approximately \$64,000. Interest income that would have been recorded if the loans had been current during 2002 totaled \$771,000. Average impaired loans outstanding during the years ended December 31, 2002 and 2001 totaled \$5,563,000 and \$3,041,000, respectively.

During the normal course of business, the Company and subsidiary may enter into transactions with related parties, including their officers, employees, directors, significant stockholders and their related affiliates. It is the Company's policy that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. Loans to related parties, including officers and directors, were approximately \$15,963,000 and \$14,955,000 at December 31, 2002 and 2001, respectively. During the years ended December 31, 2002 and 2001, total advances were approximately \$19,452,000 and \$26,527,000 and total paydowns were \$18,444,000 and \$19,117,000, respectively.

4. GOODWILL

Prior to the adoption of FAS 142, goodwill acquired in the acquisition of Resource Bank in December 1998 was being amortized over 15 years. Accumulated amortization related to intangibles totaled approximately \$374,000 at December 31, 2002 and 2001.

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2002 and 2001 are summarized as follows:

	December 31	
	2002	2001
	-----	-----
	(In Thousands)	
Premises	\$ 3,044	\$ 2,880
Furniture and equipment	6,443	6,032
	-----	-----
Accumulated depreciation	9,487	8,912
	(5,658)	(3,962)
	-----	-----
	\$ 3,829	\$ 4,950
	=====	=====

Depreciation expense was approximately \$1,721,000 and \$1,797,000 at December 31, 2002 and 2001, respectively.

6. DEPOSITS

The scheduled maturities of interest bearing time deposits are as follows at December 31, 2002 (in thousands):

2003	\$310,317
2004	137,430
2005	70,207
2006	1,403
2007 and after	1,227

	\$520,584
	=====

At December 31, 2002 and 2001, the Bank had approximately \$25,000,000 and \$28,000,000, respectively, in deposits from related parties, including directors, stockholders, and their related affiliates.

At December 31, 2002 and 2001, interest bearing time deposits of \$100,000 or more were approximately \$425,179,000 and \$226,095,000, respectively.

7. BORROWING ARRANGEMENTS

Borrowings at December 31, 2002 consist of \$292.0 million of securities sold under repurchase agreements with a weighted average rate of 2.95%, \$10.1 million of customer repurchase agreements, and \$14.2 million of treasury, tax and loan notes. Securities sold under repurchase are with three significant counterparties which are Salomon Smith Barney at \$240.7 million, Morgan Stanley Dean Witter at \$24.9 million and Bank of America at \$26.4 million. The weighted average maturities of the Salomon, Morgan and Bank of America repurchase agreements are 25 months, 20 months and 1 month, respectively. Other borrowings also include \$49.5 million of FHLB overnight advances bearing interest of 1.4%. Based on the loans that could be pledged and securities that were not already pledged for other purposes, the Bank had an additional \$245.0 million of FHLB borrowings available at December 31, 2002. There were \$336.4 million of securities pledged for customer repurchase agreements and securities sold under repurchase agreements and \$14.5 million pledged for treasury, tax and loan notes. During the year, our average borrowings from these sources were 18.3% of average assets. The maximum amount of borrowed funds outstanding at any month-end during the year ended December 31, 2002 was \$449.5 million or 25.1% of total assets.

The Bank had \$83.6 million of downstream federal funds purchased outstanding with a rate of 1.39% at December 31, 2002. The Bank had unused upstream federal fund lines available from commercial banks

7. BORROWING ARRANGEMENTS (CONTINUED)

at December 31, 2002 of approximately \$37.5 million. Generally, these federal fund borrowings are overnight, but not to exceed seven days.

As of December 31, 2002, our borrowings and contractual obligations were as follows (in thousands)

	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
	-----	-----	-----	-----	-----
Federal funds purchased	\$ 83,629	\$ --	\$ --	\$ --	\$ 83,629
Securities sold under repurchase agreements					
	56,548	235,437	--	--	291,985
Customer repurchase agreements	10,098	--	--	--	10,098
Treasury, tax and loan notes	14,248	--	--	--	14,248
FHLB borrowings	49,500	--	--	--	49,500
Long-term debt	--	--	--	10,000	10,000
Operating lease obligations	2,572	4,980	4,946	6,002	18,500
	-----	-----	-----	-----	-----
Total contractual obligations	\$ 216,595	\$ 240,417	\$ 4,946	\$ 16,002	\$ 477,960
	=====	=====	=====	=====	=====

8. LONG-TERM DEBT

On November 19, 2002, Texas Capital Bancshares Statutory Trust I, a newly-formed subsidiary of the Company, issued \$10,000,000 of its Floating Rate Capital Securities Cumulative Trust Preferred Securities (the Trust Preferred) in a private offering. Proceeds of the Trust Preferred were invested in the Floating Rate Junior Subordinated Deferrable Interest Securities (the Subordinated Debentures) of the Company. Interest rate on the Trust Preferred Subordinated Debentures is three month LIBOR plus 3.35%. After deducting underwriter's compensation and other expenses of the offering, the net proceeds were available to the Company to increase capital and for general corporate purposes, including use in investment and lending activities. Interest payments on the Subordinated Debentures are deductible for federal income tax purposes.

The Trust Preferred and the Subordinated Debentures each mature in November 2032. If certain conditions are met, the maturity dates of the Trust Preferred and the Subordinated Debentures may be shortened to a date not earlier than November 19, 2007. The Trust Preferred and the Subordinated Debentures also may be redeemed prior to maturity if certain events occur. The Trust Preferred is subject to mandatory redemption, in whole or in part, upon repayment of the Subordinated Debentures at maturity or their earlier redemption. The Company also has the right, if certain conditions are met, to defer payment of interest on the Subordinated Debentures, which would result in a deferral of dividend payments on the Trust Preferred, at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period. The payment by the Company of the principal and interest on the Subordinated Debentures is subordinated and junior in right of payment to the prior payment in full of all senior indebtedness of the Company, whether outstanding at this time or incurred in the future.

The Company and Texas Capital Bancshares Statutory Trust I believe that, taken together, the obligations of the Company under the Trust Preferred Guarantee Agreement, the Amended and Restated Trust Agreement, the Subordinated Debentures, the Indenture and the Agreement as to Expenses and Liabilities, entered into in connection with the offering of the Trust Preferred and the Subordinated Debentures, in the aggregate constitute a full and unconditional guarantee by the Company of the obligations of Texas Capital Bancshares Statutory Trust I under the Trust Preferred.

Texas Capital Bancshares Statutory Trust I is a Connecticut business trust created for the purpose of issuing the Trust Preferred and purchasing the Subordinated Debentures, which are its sole assets. The Company owns all of the outstanding common securities, liquidation value \$1,000 per share of Texas Capital Bancshares Statutory Trust I.

8. LONG-TERM DEBT (CONTINUED)

The Trust Preferred meets the regulatory criteria for Tier I capital, subject to Federal Reserve guidelines that limit the amount of the Trust Preferred and cumulative perpetual preferred stock to an aggregate of 25% of Tier I capital. At December 31, 2002, all of the Trust Preferred was included in Tier I capital.

9. INCOME TAXES

The Company utilized its remaining net operating loss carryforwards of \$6.3 million during 2002, and incurred \$2,529,000 of current tax expense for the year ended December 31, 2002. Current income tax payable at December 31, 2002 was \$1,079,000. The Company has not recorded a deferred tax benefit due to uncertainty surrounding whether such benefit would actually be realized.

As a net operating loss was incurred during the year ended December 31, 2000 and a net operating loss carryforward was utilized for the year ended December 31, 2001, there was no current or deferred provision for income taxes.

The provision for income taxes consists of the following for periods ended:

	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
	(In thousands)		
Current:			
Federal	\$2,529	\$ --	\$ --
State	--	--	--
	-----	-----	-----
Total	\$2,529	\$ --	\$ --
	=====	=====	=====
Deferred:			
Federal	\$ --	\$ --	\$ --
State	--	--	--
	-----	-----	-----
Total	\$ --	\$ --	\$ --
	=====	=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities are as follows:

In assessing the need for a valuation allowance, the Company has not assumed future taxable income. It is not practical to determine the amount of deferred tax assets that will turn around in a time period that will allow such assets to be recovered through carryback to the 2002 tax year, primarily as a result of uncertainty concerning the period in which charge-offs will be recorded and sustained as tax deductions. As a result, the Company has provided a valuation allowance for a portion of its deferred tax assets.

9. INCOME TAXES (CONTINUED)

	December 31	
	2002	2001
	-----	-----
	(In Thousands)	
Deferred tax assets:		
Net operating loss carryforward	\$ --	\$ 2,154
Allowance for loan losses	5,088	4,283
Organizational costs/software	74	210
Depreciation	266	80
Loan origination fees	1,179	999
Non-accrual interest	96	--
Unrealized loss on securities	--	172
Other	32	81
	-----	-----
	6,735	7,979
Deferred tax liabilities:		
Loan origination costs	(567)	(691)
Cash to accrual	(156)	(309)
FHLB stock dividends	(83)	--
Unrealized gain on securities	(3,683)	--
	-----	-----
	(4,489)	(1,000)
Net deferred tax asset before valuation allowance		
	2,246	6,979
Valuation allowance	(5,400)	(6,979)
	-----	-----
Net deferred tax asset (liability)	\$(3,154)	\$ --
	=====	=====

The reconciliation of income attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is as follows:

	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
Tax at U.S. statutory rate	34%	34%	34%
Non-deductible/deductible items	(1)%	2%	(1)%
Changes in valuation allowance	(9)%	(36)%	(33)%
Other	2%	--	--
	-----	-----	-----
Total	26%	0%	0%
	=====	=====	=====

A valuation allowance equal to the total estimated tax benefit of the net deferred asset has been established at December 31, 2002 and 2001. The change in the valuation allowance for the current year is \$1.6 million.

10. SERIES A CONVERTIBLE PREFERRED STOCK

In December 2001 and January 2002, the Company issued 753,301 and 303,841 shares, respectively, of Series A Convertible Preferred Stock at \$17.50 per share. Dividends are at an annual rate of 6.0% and are payable quarterly. Each share is convertible into two shares of common stock.

Automatic conversion occurs in the event of (a) a change of control or a material event; or (b) the sale of all or substantially all of the assets of the Company; or (c) immediately prior to the closing of an underwritten public offering of shares of the common stock of the Company at a price of \$17.50 per share or greater (pre-dividend); or (d) if Texas Capital's common stock is listed for trading on the New York Stock Exchange or the Nasdaq National Market and thereafter the average closing price of such common

10. SERIES A CONVERTIBLE PREFERRED STOCK (CONTINUED)

stock for any consecutive 30 day period is at or above \$17.50 per share (pre-dividend); or (e) if there is a change in the Federal Reserve capital adequacy guidelines that results in the preferred stock not qualifying as Tier I capital. Mandatory conversion is upon the fifth anniversary date of the issuance date.

The voting rights of each share of preferred stock is equal to two votes.

Additional paid-in capital at December 31, 2002 is net of \$1,123,000 of dividends paid.

In the event of any liquidation of the Company, the preferred holders would receive out of the assets of the Company available for distribution an amount equal to \$17.50 per share plus any accrued and unpaid dividends before any distribution made to the holders of any class of stock ranking junior to the preferred stock.

11. EMPLOYEE BENEFITS

The Company has a qualified retirement plan, with a salary deferral feature designed to qualify under Section 401 of the Internal Revenue Code (the 401(k) Plan). The 401(k) Plan permits the employees of the Company to defer a portion of their compensation. Matching contributions may be made in amounts and at times determined by the Company. The Company made no such contributions for the years ended December 31, 2002 and 2001. Amounts contributed by the Company for a participant will vest over six years and will be held in trust until distributed pursuant to the terms of the 401(k) Plan. Employees of the Company are eligible to participate in the 401(k) Plan when they meet certain requirements concerning minimum age and period of credited service. All contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options.

During 2000, the Company implemented an Employee Stock Purchase Plan (ESPP). Employees are eligible for the plan when they have met certain requirements concerning period of credited service and minimum hours worked. Eligible employees may contribute a minimum of 1% to a maximum of 10% of eligible compensation up to the Section 423 of the Internal Revenue Code limit of \$25,000. The Company has allocated 160,000 shares to the plan. As of December 31, 2002 and 2001, 82,098 and 46,124 shares, respectively, had been purchased on behalf of the employees.

The Company has a stock option plan. The number of options awarded and the employees to receive the options are determined by the Board of Directors, or its designated committee. Options awarded under this plan are subject to vesting requirements. Generally, one fifth of the options awarded vest annually and expire 10 years after date of grant. Total options available under the plan at December 31, 2002 and 2001, were 2,362,205 and 1,913,846, respectively. During 2002 and 2001, 553,500 and 194,600 options were awarded at an exercise price of \$7.25, respectively.

The Company follows SFAS No. 123, Accounting for Stock Based Compensation. The statement allows the continued use of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations. Under APB 25, no compensation expense is recognized at the date of grant for the options where the exercise price of the stock options equals the market price of the underlying stock on the date of grant. Compensation expense of \$24,000 was recorded in 2002, 2001 and 2000 for the options that were granted at \$5.55 with a three-year vesting period. The Company's election to continue the use of APB 25 requires pro forma disclosures of net income as if the fair value based method of accounting had been applied. See Note 1 for those disclosures.

11. EMPLOYEE BENEFITS (CONTINUED)

A summary of the Company's stock option activity and related information for 2002, 2001 and 2000 is as follows:

	December 31, 2002		December 31, 2001		December 31, 2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	1,502,648	\$ 6.44	1,367,360	\$ 6.33	1,144,640	\$ 6.19
Options granted	553,500	7.25	194,600	7.25	282,020	6.88
Options exercised	(17,800)	6.96	--	--	(6,000)	6.25
Options forfeited	(78,520)	6.66	(59,312)	6.40	(53,300)	6.25
Options outstanding at year-end	1,959,828	\$ 6.61	1,502,648	\$ 6.44	1,367,360	\$ 6.33
Options vested at year-end	851,615	\$ 6.30	698,884	\$ 6.29	361,608	\$ 6.12
Weighted average fair value of options granted during 2002, 2001 and 2000 in which the option exercise price (\$7.25 and \$6.25) equaled the market price:	\$ 1.42		\$ 1.53		\$ 1.85	
Weighted average remaining contractual life of options currently outstanding in years:	7.19		7.53		8.31	

In September 2002, the Company granted restricted stock awards to four of its executive officers totaling 300,000 shares. The shares vest as certain stock price targets are met. If the targets are not met, the shares will cliff vest at the end of six years. The Company expensed approximately \$91,000 during 2002 related to these stock awards.

In 1999, the Company entered into a deferred compensation agreement with one of its executive officers. The agreement allows the employee to elect to defer up to 100% of his compensation on an annual basis. All deferred compensation is invested in the Company's common stock held in a rabbi trust. The stock is held in the name of the trustee, and the principal and earnings of the trust are held separate and apart from other funds of the Company, and are used exclusively for the uses and purposes of the deferred compensation agreement. The accounts of the trust have been consolidated with the accounts of the Company.

12. 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

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

	December 31	
	2002	2001
	-----	-----
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$331,142	\$319,072
Standby letters of credit	22,126	25,476

13. REGULATORY RESTRICTIONS

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 December 31, 2002, 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 Bank's capital ratios exceed the regulatory definition of well capitalized as of December 31, 2002 and 2001. As of June 30, 2002, 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.

13. REGULATORY RESTRICTIONS (CONTINUED)

(In Thousands except Percentage Data)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002:						
Total capital (to risk-weighted assets):						
COMPANY	\$141,688	11.32%	\$100,160	8.00%	N/A	N/A
Bank	128,696	10.29%	100,089	8.00%	\$125,111	10.00%
Tier 1 capital (to risk-weighted assets):						
COMPANY	\$127,146	10.16%	\$ 50,080	4.00%	N/A	N/A
Bank	114,154	9.12%	50,044	4.00%	\$75,066	6.00%
Tier 1 capital (to average assets):						
COMPANY	\$127,146	7.66%	\$ 66,400	4.00%	N/A	N/A
Bank	114,154	6.88%	66,359	4.00%	82,949	5.00%
As of December 31, 2001:						
Total capital (to risk-weighted assets):						
COMPANY	\$117,921	11.73%	\$ 80,431	8.00%	N/A	N/A
Bank	114,551	11.39%	80,430	8.00%	\$100,538	10.00%
Tier 1 capital (to risk-weighted assets):						
COMPANY	\$105,353	10.48%	\$ 40,216	4.00%	N/A	N/A
Bank	101,983	10.14%	40,215	4.00%	\$60,323	6.00%
Tier 1 capital (to average assets):						
COMPANY	\$105,353	9.46%	\$ 44,545	4.00%	N/A	N/A
Bank	101,983	9.16%	44,544	4.00%	\$55,681	5.00%

Dividends that may be paid by subsidiary banks are routinely restricted by various regulatory authorities. The amount that can be paid in any calendar year without prior approval of the Bank's regulatory agencies cannot exceed the lesser of net profits (as defined) for that year plus the net profits for the preceding two calendar years, or retained earnings. No dividends were declared or paid during 2002 or 2001.

The required balance at the Federal Reserve at December 31, 2002 and 2001 was approximately \$22,185,000 and \$11,323,000, respectively.

14. EARNINGS PER SHARE

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

	Year ended December 31		
	2002	2001	2000
Numerator:			
Net income (loss)	\$ 7,343	\$ 5,844	\$ (16,497)
Preferred stock dividends	(1,097)	(26)	--
Numerator for basic earnings (loss) per share-income (loss) available to common stockholders	6,246	5,818	(16,497)
Effect of dilutive securities:			
Preferred stock dividends (2)	--	26	--
Numerator for dilutive earnings (loss) per share-income (loss) available to common stockholders after assumed conversion	\$ 6,246	\$ 5,844	\$ (16,497)
Denominator:			
Denominator for basic earnings per share-weighted average shares	19,145,255	18,957,652	17,436,628
Effect of dilutive securities:			
Employee stock options (1)	199,619	170,020	--
Series A convertible preferred stock (2)	--	49,532	--
Dilutive potential common shares	199,619	219,552	--
Denominator for dilutive earnings per share-adjusted weighted average shares and assumed conversions	19,344,874	19,177,204	17,436,628
Basic earnings (loss) per share	\$.33	\$.31	\$ (.95)
Diluted earnings (loss) per share	\$.32	\$.30	\$ (.95)

(1) Excludes employee stock options with exercise price equal to or greater than average market price for the period of \$7.25.

(2) Effects of Series A convertible preferred stock are anti-dilutive in 2002 and are not included.

15. FAIR VALUES 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):

	December 31, 2002		December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 88,744	\$ 88,744	\$ 56,620	\$ 56,620
Securities, available-for-sale	553,169	553,169	206,365	206,365
Loans, net	1,104,125	1,110,132	885,671	891,775
Deposits	1,196,535	1,200,071	886,077	887,436
Federal funds purchased	83,629	83,629	76,699	76,699
Borrowings	365,831	367,798	86,899	86,906
Long-term debt	10,000	10,000	--	--

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 short-term investments 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

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 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.

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.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Federal funds purchased, other borrowings and long-term debt

The carrying value reported in the consolidated balance sheet for federal funds purchased and short-term borrowings approximates their fair value. The fair value of term borrowings and long-term debt 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 the Company's 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.

16. COMMITMENTS AND CONTINGENCIES

The Company leases various premises under operating leases with various expiration dates. Rent expense incurred under operating leases amounted to approximately \$2,654,000, \$2,443,000 and \$2,064,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Minimum future lease payments under operating leases are as follows:

Year ending December 31, -----	Minimum Payments -----
	(In Thousands)
2003	\$ 2,572
2004	2,459
2005	2,521
2006	2,504
2007 and thereafter	8,444

	\$18,500
	=====

17. CONTINGENT LIABILITIES

In March 2000, the Company entered into an agreement to provide merchant card processing for a customer. In December 2000, the customer ceased operations and filed for bankruptcy protection. At the time the customer filed for bankruptcy protection, there were approximately \$2.0 million in advanced credit card ticket sales. The Company was unable to determine its exact liability at December 31, 2000. However, at December 31, 2000, based upon all available information, the Company determined that \$1.8 million was the most probable loss within the range and recognized a \$1.8 million liability. The exact liability was not known until all of the chargebacks had been received and processed and all potential third party recoveries had been received by the Company which was completed during the fourth quarter of 2001. Total losses were \$1.5 million. As a result of the losses being less than the original amount accrued, approximately \$300,000 of the accrual was reversed during 2001.

18. PARENT COMPANY ONLY

Summarized financial information for Texas Capital Bancshares, Inc. - Parent Company Only follows:

BALANCE SHEETS

	December 31	
	2002	2001
	-----	-----
	(In Thousands)	
ASSETS		
Cash and cash equivalents	\$ 12,364	\$ 3,597
Investment in subsidiaries	122,294	102,989
Other assets	1,261	16
	-----	-----
Total assets	\$ 135,919	\$ 106,602
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	\$ 633	\$ 243
Long-term debt	10,310	--
	-----	-----
Total liabilities	10,943	243
	-----	-----
Preferred stock	11	8
Common stock	192	96
Additional paid-in capital	131,881	127,473
Accumulated deficit	(13,347)	(20,690)
Treasury stock	(95)	(21)
Accumulated other comprehensive income (loss)	6,334	(507)
	-----	-----
Total stockholders' equity	124,976	106,359
	-----	-----
Total liabilities and stockholders' equity	\$ 135,919	\$ 106,602
	=====	=====

STATEMENTS OF EARNINGS

	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
	(In Thousands)		
Dividend income	\$ 2	\$ --	\$ --
Interest income	--	--	78
	-----	-----	-----
Total income	2	--	78
Interest expense	67	--	--
Salaries and employee benefits	440	512	699
Legal and professional	614	--	--
IPO expense	1,190	--	--
Other non-interest expense	145	504	1,479
	-----	-----	-----
Total expense	2,456	1,016	2,178
	-----	-----	-----
Loss before income taxes and equity in undistributed income (loss) of subsidiary	(2,454)	(1,016)	(2,100)
Income tax expense (benefit)	(644)	--	--
	-----	-----	-----
Loss before equity in undistributed income (loss) of subsidiary	(1,810)	(1,016)	(2,100)
Equity in undistributed income (loss) of subsidiary	9,153	6,860	(14,397)
	-----	-----	-----
Net income (loss)	\$ 7,343	\$ 5,844	\$(16,497)
	=====	=====	=====

18. PARENT COMPANY ONLY (CONTINUED)

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2002	2001	2000
	(In Thousands)		
OPERATING ACTIVITIES			
Net income (loss)	\$ 7,343	\$ 5,844	\$(16,497)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in undistributed (income) loss of subsidiary	(9,153)	(6,860)	14,397
(Increase) decrease in other assets	(745)	1	1
Increase (decrease) in other liabilities	135	(16)	90
Net cash used in operating activities	(2,420)	(1,031)	(2,009)
INVESTING ACTIVITY			
Investment in subsidiaries	(3,310)	(21,000)	(15,000)
Investment in non-marketable equity securities	(500)	--	--
Net cash used in investing activity	(3,810)	(21,000)	(15,000)
FINANCING ACTIVITIES			
Trust preferred	10,310	--	--
Sale of preferred stock	5,250	13,183	--
Preferred stock dividends	(843)	--	--
Sale of common stock	351	159	27,073
(Purchase) sale of treasury stock, net	(71)	1,027	(7)
Net cash provided by financing activities	14,997	14,369	27,066
Net (decrease) increase in cash and cash equivalents	8,767	(7,662)	10,057
Cash and cash equivalents at beginning of year	3,597	11,259	1,202
Cash and cash equivalents at end of year	\$ 12,364	\$ 3,597	\$ 11,259

19. REPORTABLE SEGMENTS

The Company operates two principal lines of business under Texas Capital Bank: the traditional bank and BankDirect, an Internet only bank. BankDirect has been a net provider of funds and the traditional bank has been a net user of funds. In order to provide a consistent measure of the net interest margin for BankDirect, the Company uses a multiple pool funds transfer rate to calculate credit for funds provided. This method takes into consideration the current market conditions during the reporting period.

TRADITIONAL BANKING

	Year ended December 31		
	2002	2001	2000
	(In Thousands)		
Net interest income	\$ 41,299	\$ 34,344	\$ 20,860
Provision for loan losses	5,629	5,762	6,135
Non-interest income	8,490	5,671	1,927
Non-interest expense	30,466	25,431	24,288
Net income (loss)	\$ 13,694	\$ 8,822	\$ (7,636)
Average assets	\$1,365,377	\$1,016,301	\$ 682,497
Total assets	1,792,395	1,164,763	908,412
Return on average assets	1.00%	0.87%	(1.12)%

19. REPORTABLE SEGMENTS (CONTINUED)

BANKDIRECT	Year ended December 31		
	2002	2001	2000
	-----	-----	-----
	(In Thousands)		
Net interest income	\$ 1,012	\$ 711	\$ 1,901
Non-interest income	135	312	30
Non-interest expense	2,515	2,985	8,692
	-----	-----	-----
Net loss	\$(1,368)	\$(1,962)	\$(6,761)
	=====	=====	=====

Reportable segments reconciliation to the consolidated financial statements for the years ended December 31, 2002, 2001 and 2000 are as follows (in thousands):

	December 31, 2002			
	Net Interest Income	Provision for Loan Losses	Non-interest Income	Non-interest Expense
	-----	-----	-----	-----
Total reportable lines of business	\$ 42,311	\$ 5,629	\$ 8,625	\$ 32,981
Unallocated items:				
Holding company	(65)	--	--	2,389
	-----	-----	-----	-----
Texas Capital Bancshares (consolidated)	\$ 42,246	\$ 5,629	\$ 8,625	\$ 35,370
	=====	=====	=====	=====

	December 31, 2001			
	Net Interest Income	Provision for Loan Losses	Non-interest Income	Non-interest Expense
	-----	-----	-----	-----
Total reportable lines of business	\$ 35,055	\$ 5,762	\$ 5,983	\$ 28,416
Unallocated items:				
Holding company	--	--	--	1,016
	-----	-----	-----	-----
Texas Capital Bancshares (consolidated)	\$ 35,055	\$ 5,762	\$ 5,983	\$ 29,432
	=====	=====	=====	=====

	December 31, 2000			
	Net Interest Income	Provision for Loan Losses	Non-interest Income	Non-interest Expense
	-----	-----	-----	-----
Total reportable lines of business	\$ 22,761	\$ 6,135	\$ 1,957	\$ 32,980
Unallocated items:				
Holding company	78	--	--	2,178
	-----	-----	-----	-----
Texas Capital Bancshares (consolidated)	\$ 22,839	\$ 6,135	\$ 1,957	\$ 35,158
	=====	=====	=====	=====

20. RELATED PARTY TRANSACTIONS

Certain members of our board of directors provide legal and consulting services to the Company.

See Notes 3 and 6 for a description of loans and deposits with related parties.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 20, 2003, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2003.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 20, 2003, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2003.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 20, 2003, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2003.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 20, 2003, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2003.

ITEM 14. CONTROLS AND PROCEDURES

The Company's chief executive officer and chief financial officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15d-14(c) under the Exchange Act) as of December 31, 2002 and concluded that those disclosure controls and procedures are effective.

There have been no changes in the Company's internal controls or in other factors known to the Company that could significantly affect these controls subsequent to their evaluation, nor any corrective actions with regard to significant deficiencies and material weaknesses.

While the Company believes that its existing disclosure controls and procedures have been effective to accomplish these objectives, the Company intends to continue to examine, refine and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

ITEM 15. EXHIBITS

- (a) Documents filed as part of this report
- (1) All financial statements
Auditors' Report of Ernst & Young LLP
 - (2) All financial statements required by Item 8
Auditors' Report of Ernst & Young LLP
 - (3) Exhibits
 - 4.4 Certificate of Amendment of Certificate of Designation of the 6.0% Series A Convertible Preferred Stock
 - 10.3 Executive Employment Agreement between Joseph M. Grant and Texas Capital Bancshares, Inc., dated October 8, 2002
 - 10.4 Executive Employment Agreement between Raleigh Hortenstine III and Texas Capital Bancshares, Inc., dated October 8, 2002
 - 10.5 Executive Employment Agreement between George F. Jones, Jr. and Texas Capital Bancshares, Inc., dated October 8, 2002
 - 10.6 Executive Employment Agreement between C. Keith Cargill and Texas Capital Bancshares, Inc., dated October 8, 2002
- (b) Reports on Form 8-K
- Current Report filed on Form 8-K regarding Item 5 (Other Events), dated December 4, 2002
 - Current Report filed on Form 8-K regarding Item 5 (Other Events), dated December 9, 2002
- (c) Exhibits

EXHIBITS (CONTINUED)

Exhibit Number	Description
2.1	Agreement and Plan to Consolidate Texas Capital Bank with and into Resource Bank, National Association under the Charter of Resource Bank, National Association and under the Title of "Texas Capital Bank, National Association," which is incorporated by reference to Exhibit 2.1 to our registration statement on Form 10 dated August 24, 2001
2.2	Amendment to Agreement and Plan to Consolidate, which is incorporated by reference to Exhibit 2.2 to our registration statement on Form 10 dated August 24, 2001
3.1	Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our registration statement on Form 10 dated August 24, 2001
3.2	Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.2 to our registration statement on Form 10 dated August 24, 2001
3.3	Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.3 to our registration statement on Form 10 dated August 24, 2001
3.4	Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.4 to our registration statement on Form 10 dated August 24, 2001
3.5	Amended and Restated Bylaws of Texas Capital Bancshares, Inc., which is incorporated by reference to Exhibit 3.5 to our registration statement on Form 10 dated August 24, 2001
4.1	Texas Capital Bancshares, Inc. 1999 Omnibus Stock Plan, which is incorporated by reference to Exhibit 4.1 to our registration statement on Form 10 dated August 24, 2001
4.2	Texas Capital Bancshares, Inc. 2001 Employee Stock Purchase Plan, which is incorporated by reference to Exhibit 4.2 to our registration statement on Form 10 dated August 24, 2001
4.3	Certificate of Designation in connection with Texas Capital Bancshares, Inc. 2002 6.0% Series A Convertible Preferred Stock Offering which is incorporated by reference to our Form 10-K dated March 26, 2002
4.4	Certificate of Amendment of Certificate of Designation of the 6.0% Series A Convertible Preferred Stock which is incorporated by reference as Annex A to our Definitive Proxy Statement on Schedule 14A dated August 28, 2002
4.5	Placement Agreement by and among Texas Capital Bancshares, Inc., Texas Capital Bancshares Statutory Trust I and SunTrust Capital Markets, Inc. which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002

EXHIBITS (CONTINUED)

Exhibit Number	Description
4.6	Certificate of Trust of Texas Capital Bancshares Statutory Trust I, dated November 12, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
4.7	Amended and Restated Declaration of Trust by and among State Street Bank and Trust Company of Connecticut, National Association, Texas Capital Bancshares, Inc. and Joseph M. Grant, Raleigh Hortenstine III and Gregory B. Hultgren, dated November 19, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
4.8	Indenture, dated November 19, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
4.9	Guarantee Agreement between Texas Capital Bancshares, Inc., and State Street Bank and Trust Company of Connecticut, National Association, dated November 19, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
10.1	Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.2 to our registration statement on Form 10 dated August 24, 2001
10.2	Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.3 to our registration statement on Form 10 dated August 24, 2001
10.3	Executive Employment Agreement between Joseph M. Grant and Texas Capital Bancshares, Inc., dated October 8, 2002*
10.4	Executive Employment Agreement between Raleigh Hortenstine III and Texas Capital Bancshares, Inc., dated October 8, 2002*
10.5	Executive Employment Agreement between George F. Jones, Jr. and Texas Capital Bancshares, Inc., dated October 8, 2002*
10.6	Executive Employment Agreement between C. Keith Cargill and Texas Capital Bancshares, Inc., dated October 8, 2002*
21	Subsidiaries of the Registrant*
99.1	Certification of Chief Executive Officer*
99.2	Certification of Chief Financial Officer*

*Filed herewith

SIGNATURES

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

Date: March 26, 2003 TEXAS CAPITAL BANCSHARES, INC.

By: /S/ JOSEPH M. GRANT

Joseph M. Grant
Chairman of the Board of Directors and
Chief Executive Officer

Date: March 26, 2003 /S/ JOSEPH M. GRANT

Joseph M. Grant
Chairman of the Board of Directors and Chief
Executive Officer (principal executive officer)

Date: March 26, 2003 /S/ GREGORY HULTGREN

Gregory Hultgren
Chief Financial Officer
(principal financial and accounting officer)

Date: March 26, 2003 /S/ LEO CORRIGAN III

Leo Corrigan III
Director

Date: March 26, 2003 /S/ JAMES R. ERWIN

James R. Erwin
Director

Date: March 26, 2003 /S/ FREDERICK B. HEGI, JR.

Frederick B. Hegi, Jr.
Director

Date: March 26, 2003 /S/ JAMES R. HOLLAND, JR.

James R. Holland, Jr.
Director

Date: March 26, 2003 /S/ RALEIGH HORTENSTINE III

Raleigh Hortenstine III
Director

Date: March 26, 2003 /S/ GEORGE F. JONES, JR.

George F. Jones, Jr.
Director

SIGNATURES (CONTINUED)

Date: March 26, 2003 /S/ LARRY A. MAKEL

Larry A. Makel
Director

Date: March 26, 2003 /S/ WALTER W. MCALLISTER III

Walter W. McAllister III
Director

Date: March 26, 2003 S/ LEE ROY MITCHELL

Lee Roy Mitchell
Director

Date: March 26, 2003 /S/ STEVE ROSENBERG

Steve Rosenberg
Director

Date: March 26, 2003 /S/ JOHN C. SNYDER

John C. Snyder
Director

Date: March 26, 2003 /S/ ROBERT W. STALLINGS

Robert W. Stallings
Director

Date: March 26, 2003 /S/ JAMES CLEO THOMPSON, JR.

James Cleo Thompson, Jr.
Director

Date: March 26, 2003 /S/ IAN J. TURPIN

Ian J. Turpin
Director

CERTIFICATIONS

I, Joseph M. Grant, certify that:

1. I have reviewed this annual report on Form 10-K of Texas Capital Bancshares, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/S/ Joseph M. Grant

Joseph M. Grant
Chief Executive Officer

I, Gregory B. Hultgren, certify that:

1. I have reviewed this annual report on Form 10-K of Texas Capital Bancshares, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/S/ Gregory B. Hultgren

Gregory B. Hultgren
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan to Consolidate Texas Capital Bank with and into Resource Bank, National Association under the Charter of Resource Bank, National Association and under the Title of "Texas Capital Bank, National Association," which is incorporated by reference to Exhibit 2.1 to our registration statement on Form 10 dated August 24, 2001
2.2	Amendment to Agreement and Plan to Consolidate, which is incorporated by reference to Exhibit 2.2 to our registration statement on Form 10 dated August 24, 2001
3.1	Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our registration statement on Form 10 dated August 24, 2001
3.2	Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.2 to our registration statement on Form 10 dated August 24, 2001
3.3	Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.3 to our registration statement on Form 10 dated August 24, 2001
3.4	Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.4 to our registration statement on Form 10 dated August 24, 2001
3.5	Amended and Restated Bylaws of Texas Capital Bancshares, Inc., which is incorporated by reference to Exhibit 3.5 to our registration statement on Form 10 dated August 24, 2001
4.1	Texas Capital Bancshares, Inc. 1999 Omnibus Stock Plan, which is incorporated by reference to Exhibit 4.1 to our registration statement on Form 10 dated August 24, 2001
4.2	Texas Capital Bancshares, Inc. 2001 Employee Stock Purchase Plan, which is incorporated by reference to Exhibit 4.2 to our registration statement on Form 10 dated August 24, 2001
4.3	Certificate of Designation in connection with Texas Capital Bancshares, Inc. 2002 6.0% Series A Convertible Preferred Stock Offering which is incorporated by reference to our Form 10-K dated March 26, 2002
4.4	Certificate of Amendment of Certificate of Designation of the 6.0% Series A Convertible Preferred Stock which is incorporated by reference as Annex A to our Definitive Proxy Statement on Schedule 14A dated August 28, 2002
4.5	Placement Agreement by and among Texas Capital Bancshares, Inc., Texas Capital Bancshares Statutory Trust I and SunTrust Capital Markets, Inc. which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002

EXHIBIT INDEX (CONTINUED)

Exhibit Number	Description
4.6	Certificate of Trust of Texas Capital Bancshares Statutory Trust I, dated November 12, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
4.7	Amended and Restated Declaration of Trust by and among State Street Bank and Trust Company of Connecticut, National Association, Texas Capital Bancshares, Inc. and Joseph M. Grant, Raleigh Hortenstine III and Gregory B. Hultgren, dated November 19, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
4.8	Indenture, dated November 19, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
4.9	Guarantee Agreement between Texas Capital Bancshares, Inc., and State Street Bank and Trust Company of Connecticut, National Association, dated November 19, 2002 which is incorporated by reference to our Current Report Form 8-K dated December 4, 2002
10.1	Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.2 to our registration statement on Form 10 dated August 24, 2001
10.2	Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.3 to our registration statement on Form 10 dated August 24, 2001
10.3	Executive Employment Agreement between Joseph M. Grant and Texas Capital Bancshares, Inc., dated October 8, 2002*
10.4	Executive Employment Agreement between Raleigh Hortenstine III and Texas Capital Bancshares, Inc., dated October 8, 2002*
10.5	Executive Employment Agreement between George F. Jones, Jr. and Texas Capital Bancshares, Inc., dated October 8, 2002*
10.6	Executive Employment Agreement between C. Keith Cargill and Texas Capital Bancshares, Inc., dated October 8, 2002*
21	Subsidiaries of the Registrant*
99.1	Certification of Chief Executive Officer*
99.2	Certification of Chief Financial Officer*

*Filed herewith

</TEXT>
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EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into by and between Texas Capital Bancshares, Inc. (the "Company"), having a business address at 2100 McKinney, Suite 900, Dallas, Texas 75201 and Joseph M. Grant ("Executive") having a mailing address at 4305 Overhill Drive, Dallas, Texas 75205.

RECITALS

The Board of Directors of the Company (the "Board of Directors") has determined that it is in the best interests of the Company to retain the Executive's services and to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in the control of the Company or the assertion of claims and actions against employees.

The Company wishes to assure itself of the services of the Executive for the period provided in this Agreement and the Executive wishes to serve in the employ of the Company on the terms and conditions hereinafter provided.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. EMPLOYMENT. Upon the terms and subject to the conditions contained in this Agreement, the Executive agrees to provide full-time services for the Company during the Employment Term. The Executive agrees to devote his best efforts to the business of the Company, and shall perform his duties in a diligent, trustworthy, and business-like manner, all for the purpose of advancing the business of the Company. The Executive agrees to devote his entire business time, attention, skill and energy exclusively to the business of the Company. The Executive is encouraged to engage in appropriate civic, charitable or religious activities and devote a reasonable amount of time to private investments or boards or other activities provided that such activities do not interfere or conflict with the Executive's responsibilities and are not and are not likely to be contrary to the Company's interests.

2. DUTIES. The duties of the Executive shall be those duties which can reasonably be expected to be performed by a person with the title of Chairman of the Board of Directors and Chief Executive Officer and such other duties as shall be set forth as Attachment A hereto. The Executive will comply with the lawful policies and standards that the Company may establish or modify from time to time.

3. EMPLOYMENT TERM. Subject to the terms and conditions hereof, the Company agrees to employ the Executive for a term commencing on August 1, 2002 (the "Effective Date")

Grant Executive Employment Agreement 1

and continuing through August 1, 2004 (the "Employment Term"), unless otherwise set forth herein or renewed with the written agreement of both parties hereto before the expiration hereof.

4. SALARY AND BENEFITS.

(a) Base Salary. The Company shall, during the Employment Term, pay the Executive a base salary of at least \$275,000 per year, payable in accordance with the Company's regular payroll practice in effect from time to time, less applicable withholding and payroll deductions. The Company agrees to consider increasing such base salary at least annually during the Employment Term, but shall not be obligated to effectuate such an increase.

(b) Bonus. During the Employment Term, the Executive will be included in the Executive Bonus Plan adopted and revised from time to time by the Board of Directors.

(c) Equity Compensation. Concurrently with the execution of this Agreement, the Executive shall receive a restricted stock award under the Company's 1999 Omnibus Stock Plan upon the terms and conditions set forth in Attachment B to this Agreement, which is hereby incorporated herein by reference. During the Employment Term, the Executive will be eligible to receive, at the discretion of the Board of Directors, grants of stock options under the Plan.

(d) Employee Benefits and Perquisites. The Executive shall be entitled to participate in the employee benefit programs and receive other perquisites generally available to employees of the Company holding positions similar to the Executive.

5. TERMINATION OF EMPLOYMENT. The Board of Directors of the Company or the Executive may terminate the employment of the Executive at any time subject to the provisions of this Section 5.

(a) Voluntary Resignation or Termination for Cause. If the Executive shall voluntarily terminate his employment for other than Good Reason, or if the Company shall terminate the employment of the Executive for Cause, the Employment Term shall terminate immediately and the Company shall have no further obligation to make any payment under this Agreement which has not already become payable, but has not yet been paid. Notwithstanding the foregoing, with respect to any stock options or other plans or programs in which the Executive is participating at the time of termination of his employment, the Executive's rights and benefits under each such plan shall be determined in accordance with the terms, conditions, and limitations of the plan and any separate agreement executed by the Executive which may then be in effect.

For the purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder upon (i) the continued failure by the Executive after notice to perform his duties with the Company (other than any such failure resulting from death or incapacity due to physical or mental illness), (ii) a conviction of, or a plea of "guilty" or "no contest" to, a felony or a crime involving dishonesty or a breach of trust,

(iii) an act or omission that constitutes gross misconduct or moral turpitude, or (iv) a breach of any duty owed to the Company, including but not limited to the duties of loyalty and confidentiality that is injurious to the Company.

(b) Termination Without Cause; Resignation for Good Reason. If during the term of this Agreement, the Executive's employment is terminated by the Company without Cause or the Executive voluntarily terminates his employment for Good Reason, and the Executive executes a Release of any and all claims relating to or arising from his employment that he may have against the Company Group (as defined in Section 7 below) or any officer, director, agent, or employee of any entity that is part of the Company Group based on any act or omission through the date Executive's employment terminates ("Date of Termination"):

(i) The Company shall increase the annual compensation of the Executive to the "adjusted compensation" as defined herein and shall continue to pay such adjusted compensation through the end of the Employment Term; provided, however, if at such time there is less than one year remaining in the Employment Term, the Company shall continue to pay Executive the adjusted compensation for at least one year in such event.

(ii) The Company shall maintain in full force and effect for the continued benefit of the Executive, for a one year period after the Date of Termination, all health insurance benefits provided that his continued participation is possible under the general terms and provisions of such health insurance plans and programs.

For purposes of this Agreement, "Good Reason" shall mean:

(A) Without his express written consent, the assignment of Executive to a position organizationally or functionally inferior to his position with the Company on the date of this Agreement;

(B) A reduction by the Company in the Executive's base salary as in effect on the date hereof, unless such reduction is a proportionate reduction of the compensation of the Executive and all other senior officers of the Company as a part of a Company-wide effort to enhance the financial condition of the Company;

(C) The Company's requiring the Executive to be based anywhere other than the Dallas/Fort Worth Metroplex, except for required travel on the Company's business;

(D) The failure by the Company to continue to allow Executive to be eligible to participate in any stock option plan in which the Executive is participating (or plans providing substantially similar benefits) without the Executive's consent.

For purposes of this Agreement, "adjusted compensation" shall mean the annual base salary of Executive then in effect, plus the bonus paid to Executive for the preceding calendar year, multiplied by 150%.

(c) Death or Disability. The Company may terminate the Executive's employment upon the death or Disability of the Executive. As used herein, "Disability" means an illness or other disability which prevents the Executive from discharging his responsibilities under this Agreement for a period of 180 calendar days during any calendar year during the Employment Term, as determined in good faith by the Board of Directors. If the Company terminates the Executive's employment upon the death or Disability of the Executive, the Company shall continue to pay the Executive the base salary that would have been due through the first anniversary of the Date of Termination.

(d) Notice of Termination. Any termination of this Agreement by the Company for Cause, without Cause or as a result of the Executive's Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specifies the Date of Termination, if such date is other than the date of receipt of such notice.

6. CHANGE IN CONTROL.

(a) For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred at such time as:

(i) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of voting securities of the Company representing 25% or more of the Company's outstanding voting securities or rights to acquire such securities except for any voting securities issued or purchased under any employee benefit plan of the Company or its Subsidiaries; or

(ii) individuals who constitute the Board of Directors on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by a Nominating Committee solely composed of members which are Incumbent Board members, shall be, for purposes of this clause (ii), considered as though he were a member of the Incumbent Board; or

(iii) a plan of reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or similar transaction occurs or is effectuated in which the Company is not the resulting entity; provided, however, that such an event listed above will be deemed to have occurred or to have been effectuated upon receipt of all required regulatory approvals not including the lapse of any required waiting periods; or

(iv) the Board of Directors determines in its sole discretion that a Change in Control has occurred.

(b) If, during the Employment Term, a Change in Control occurs, then (i) the Executive shall be entitled to the benefits provided in paragraphs (c) and (d) of this Section 6 upon (I) the termination of the Executive's employment by the Company without Cause after the occurrence of such Change of Control, or (II) the termination of the Executive's employment by the Executive for Good Reason after the occurrence of such Change of Control; and (ii) the Executive shall be entitled to the benefits provided in paragraph (e) of this Section 6.

(c) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company shall pay Executive, as liquidated damages in place of any amounts otherwise payable to the Executive under Section 5, a single lump sum equal to (i) the Executive's Annual Compensation during the most recently completed fiscal year multiplied by (ii) 2.67. As used herein, "Annual Compensation" shall include Base Salary and any bonuses paid to the Executive with respect to any such year. Such payment shall be made in a lump sum no later than 30 days after the Date of Termination. Such payments shall not be reduced in the event Executive obtains other employment following termination of employment.

(d) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company will cause to be continued life, medical and dental coverage substantially equivalent to the coverage maintained by the Company for Executive prior to his severance at no premium cost to Executive. Such coverage and payments shall cease upon the earliest of (i) the expiration of 60 months following the Date of Termination, (ii) the date upon which the Executive obtains other employment which provides similar coverage, or (iii) the date upon which Executive qualifies for Medicare benefits under federal law.

(e) Upon the Executive's entitlement to benefits pursuant to Section 6(b)(ii), the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply.

(f) If a Change in Control occurs after the end of the Employment Term and prior to the date the Executive's restricted stock units granted under Section 5(c) have vested, then (i) if the Executive's employment is terminated after such Change of Control for: (I) death or disability, (II) by the Company without Cause, or (III) by the Executive with Good Reason, then the Executive shall be paid a single lump sum equal to (A) the Executive's Annual Compensation during the most recently completed fiscal year

multiplied by (B) 2.67; and (ii) the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply. The payment under the preceding sentence shall be made in a single lump sum no later than 30 days after the Date of Termination and shall not be reduced in the event the Executive obtains other employment following termination of employment.

(g) If a Change of Control occurs prior to the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(c), 6(d) and 6(e) above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement.

(h) If a Change of Control occurs after the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, and prior to the date all of the Executive's restricted stock units granted under Section 5(c) have vested, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(f), above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement..

(i) Notwithstanding the other provisions of this Section 6, in the event that:

(i) the aggregate payments or benefits to be made or afforded to the Executive, which are deemed to be parachute payments as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") or any successor thereof, (the "Termination Benefits") would be deemed to include an "excess parachute payment" under Section 280G of the Code; and

(ii) if such Termination Benefits were reduced to an amount (the "Non-Triggering Amount"), the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount," as determined in accordance with Section 280G and the Non-Triggering Amount less the product of the marginal rate of any applicable state and federal income tax and the Non-Triggering Amount would be greater than the aggregate value of the Termination Benefits (without such reduction) minus (a) the amount of tax required to be paid by the Executive thereon by Section 4999 of the Code and further minus (b) the product of the Termination Benefits and the marginal rate of any applicable state and federal income tax, then the Termination Benefits shall be reduced to the Non-

Triggering Amount. The allocation of the reduction required hereby among the Termination Benefits shall be determined by the Executive.

7. CONFIDENTIAL INFORMATION. The Executive recognizes and acknowledges that he will have access to certain information of members of the Company Group (as defined below) and that such information is confidential and constitutes valuable, special and unique property of such members of the Company Group. The Executive shall not at any time, either during or subsequent to the Employment Term, disclose to others, use, copy or permit to be copied, except in pursuance of his duties for and on behalf of the Company, its successors, assigns or nominees, any Confidential Information of any member of the Company Group (regardless of whether developed by the Executive) without the prior written consent of the Company or as required by law.

As used herein, "Company Group" means the Company and any entity that directly or indirectly controls, is controlled by, or is under the common control with, the Company, and for the purposes of this definition "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities, by contract or otherwise.

The term "Confidential Information" with respect to the Company means any secret or confidential information or know-how and shall include, but shall not be limited to, the plans, customers, costs, prices, uses, and application of products and services, results of investigations, studies or experiments owned or used by the Company, and all apparatus, products, processes, compositions, samples, formulas, computer programs, computer hardware designs, computer firmware designs, and servicing, marketing or manufacturing methods and techniques at any time used, developed, investigated, made or sold by the Company, before or during the Employment Term, that are not readily available to the public or that are maintained as confidential by the Company. The Executive shall maintain in confidence any Confidential Information of third parties received as a result of his employment with the Company in accordance with the Company's obligations to such third parties and the policies established by the Company.

8. DELIVERY OF DOCUMENTS UPON TERMINATION. The Executive shall deliver to the Company or its designee at the termination of his employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, and other documents and all copies thereof, made, composed or received by the Executive, solely or jointly with others, that are in the Executive's possession, custody, or control at termination and that are related in any manner to the past, present, or anticipated business of any member of the Company Group. In this regard, the Executive hereby grants and conveys to the Company all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any reports, records, papers, summaries, photographs, drawings or other documents, and writings, and copies, abstracts or summaries thereof, that may be prepared by the Executive or under his direction or that may come into his possession in any way during the term of his employment with the Company that relate in any manner to the past, present or anticipated business of any member of the Company Group.

9. DISCLOSURE AND RECEIPT OF CONFIDENTIAL INFORMATION. The Executive shall not, at any time during his employment, knowingly receive from persons not employed by the Company, any Confidential Information, as described above, not belonging to the Company, unless a valid agreement is authorized by the Company and is signed by both the Company and by the disclosing party. The Executive shall not use or disclose to other employees of the Company, during his employment with Company, Confidential Information belonging to his former employers, former business associates, or any other third parties unless written permission has been given by such third parties to the Company and accepted by the Company to allow the Company to use and/or disclose such information. The Executive shall defend and indemnify the Company Group for any breach of the covenant contained in the preceding sentence.

10. INTELLECTUAL PROPERTY. The Executive shall hold in trust for the benefit of the Company, and shall disclose promptly and fully to the Company in writing, and hereby assigns, and binds his heirs, executors, and administrators to assign, to the Company any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, and other developments (the "Developments") conceived, made, discovered or developed by him, solely or jointly with others, during the term of his employment by the Company, whether during or outside of usual working hours and whether on the Company's premises or not, that relate in any manner to the past, present or anticipated business of any member of the Company Group. All works of authorship created by the Executive during the Employment Term and any extension hereof, solely or jointly with others, shall be considered works made for hire under the Copyright Act of 1976, as amended, and shall be owned entirely by the Company. Any and all such Developments shall be the sole and exclusive property of the Company, whether patentable, copyrightable, or neither, and the Executive shall assist and fully cooperate in every way, at the Company's expense, in securing, maintaining, and enforcing, for the benefit of the Company or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries.

11. FURTHER ACTS. At the request of the Company (but without additional compensation from the Company during his employment by the Company) the Executive shall execute any and all papers and perform all lawful acts that the Company may deem necessary or appropriate to further evidence or carry out the transactions contemplated by this Agreement including, without limitation, such acts as may be necessary for the preparation, filing, prosecution, and maintenance of applications for United States letters patent and foreign letters patent, or for United States and foreign copyright, on the Developments.

12. NO COMPETITION. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs, the Executive shall not directly or indirectly engage in the business of operating a state or national bank or company providing similar services, or any other business in which any member of the Company Group directly or indirectly engages during the Employment Term; provided, however, that the restriction in this Section 12 shall apply only to the reasonable and limited geographic area consisting of any state where any member of the Company Group has an office, bank location or place of business, and Texas and any state that has a contiguous border with the State of Texas. For purposes of this Section 12, the Executive shall be deemed to engage in such a business if he directly or indirectly, engages or invests in, owns, manages, operates, controls or

participates in the ownership, management, operation or control of, is employed by, associated or in any manner connected with, or renders services or advice to, any business engaged in operating a state or national bank or other company providing similar services to those provided by the any member of the Company Group during the Employment Term; provided, however, that the Executive may invest in the securities of any enterprise (but without otherwise participating in the activities of such enterprise) if (x) such securities are listed on any national or regional securities exchange or have been registered under Section 12 of the Securities Exchange Act of 1934 and (y) the Executive does not beneficially own (as defined Rule 13d-3 promulgated under the Securities Exchange Act of 1934) in excess of 5% of the outstanding capital of such enterprise.

The Executive agrees that if a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 12 is overly restrictive and unenforceable, the court may reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 12 shall remain in full force and effect. The Executive further agrees that if a court of competent jurisdiction determines that any provision of this Section 12 is invalid or against public policy, the remaining provisions of this Section 12 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

The Executive acknowledges that the business of the Company and its Affiliates is national in scope and that the restrictions imposed by this Agreement are legitimate, reasonable and necessary to protect the Company's and its affiliates' investment in their businesses and the goodwill thereof. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

13. NO TAMPERING. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs (and for any period following the Employment Term during which Executive is receiving base salary pursuant to Section 5(b)(i) hereof) the Executive shall not (a) request, induce or attempt to influence any distributor or supplier of goods or services to any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (b) request, induce or attempt to influence any customer of any member of the Company Group that have done business with or potential customers which have been in contact with any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (c) request, induce or attempt to influence any employee of any member of the Company Group to terminate his or her employment with such member of the Company Group; or (d) hire or employ or attempt to hire or employ any employee of any member of the Company Group.

Should Executive voluntarily terminate his employment with the Company for other than Good Cause prior to August 1, 2004, the Company may at its option, elect to extend the duration of the prohibitions against Executive contained in (c) and (d) of this Section 13 for a period of an additional 12 months following the date of such termination. To exercise such option the Company must provide written notice of such election to Executive within 30 days after such termination and pay to Executive an amount equal to the base pay and bonus, if any, earned by Executive during his last 12 months of employment with the Company (less any required withholding or other taxes). In such event such amount shall be paid in equal monthly installments over such 12 month period.

14. NON-DISPARAGEMENT. The Executive and the Company agree that neither party shall at any time disparage, make negative comments or express negative opinions regarding the other party, either publicly or privately, in any communications with third-parties, verbal, written or otherwise.

15. PUBLICITY AND ADVERTISING. The Executive agrees that the Company may use his name, picture, or likeness for any advertising, publicity or other business purpose at any time, during the term of this Agreement and may continue to use materials generated during the term of this Agreement for a period of six months thereafter. Such use of the Executive's name, picture, or likeness shall not be deemed to result in any invasion of the Executive's privacy or in violation of any property right the Executive may have; and the Executive shall receive no additional consideration if his name, picture or likeness is so used. The Executive further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his name, picture or likeness by the Company shall be and are the sole property of the Company.

16. REMEDIES. The Executive acknowledges that a remedy at law for any breach or attempted breach of the Executive's obligations under Sections 7 through 15 may be inadequate, agrees that the Company is entitled to specific performance and injunctive and other equitable remedies in case of any such breach or attempted breach. The Company shall have the right to offset against amounts to be paid to the Executive pursuant to the terms hereof any amounts from time to time owing by the Executive to the Company. The termination of Executive's employment shall not be deemed to be a waiver by the Company of any breach by the Executive of this Agreement or any other obligation owed the Company, and notwithstanding such a termination the Executive shall be liable for all damages attributable to such breach. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

17. INDEMNIFICATION.

(a) In the event that the Executive is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil,

criminal, administrative or investigative, other than an action by or in the right of the Company, by reason of the fact that the Executive is or was a director, officer, employee, trustee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee trustee or agent of another corporation, partnership, joint venture, trust or other enterprise (including employee benefit plans), expressly including service as a director, officer or in a similar position with any exchange, board of trade, clearing corporation or similar institution on which the Company or any other corporation a majority of the stock of which is owned directly or indirectly by the Company had membership privileges at the relevant time during which any such position was held, shall be indemnified by the Company against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the Executive in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided, that funds paid or required to be paid to the Executive as a result of the provisions of this Section 17 shall be returned to the Company or reduced, as the case may be, to the extent that the Executive receives funds pursuant to an indemnification from any other corporation or organization. With respect to any employee benefit plan which imposes duties on, or involves services by, the Executive, if the Executive acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, he shall be deemed to have acted in a manner not opposed to the best interests of the corporation. If the Executive could be indemnified pursuant to the first sentence of this Section 17(a) except for the fact that the subject action or suit is or was by or in the right of the Company, he shall be indemnified by the Company against expenses including attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, except that no indemnification shall be made in respect of such action or suit, in respect of any claim, issue or matter as to which the Executive shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Executive is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(b) To the extent that the Executive has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 17(a), or in defense of any claim, issue or matter therein, he shall be indemnified by the Company against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith without the necessity of any action being taken by the Company. In all cases wherein such indemnification is provided by this Section 17, unless ordered by a court, indemnification shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Executive is proper in the circumstances because he has met the applicable standard of conduct specified in this Section 17. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum or (ii) by a committee of such directors designated by majority vote of such directors, even

though less than a quorum or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (v) if such quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (vi) by the holders of a majority of the shares of capital stock of the Company entitled to vote thereon.

(c) The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Executive did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Entry of a judgment by consent as part of a settlement shall not be deemed a final adjudication of liability for negligence or misconduct in the performance of duty, nor of any other issue or matter.

(d) Expenses incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by the Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company.

(e) The indemnification hereby provided shall not be deemed exclusive of any other rights to which the Executive may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, and shall continue as to the Executive once he has ceased to provide services to the Company.

18. MISCELLANEOUS PROVISIONS.

(a) Executive's Heirs, etc. The Executive may not assign his rights or delegate his duties or obligations hereunder without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. This Agreement shall be binding on the Company's successors.

(b) Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer of the Company with a copy to the Secretary of the Company, or to such other address as is specified in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) Amendment; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with any condition or provision of this Agreement to be performed by such other party, shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Except as set forth in the Indemnity Agreement, dated as of July 20, 2002, between the Executive and the Company, (the "Indemnification Agreement"), no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party, which are not set forth expressly in this Agreement. This Agreement, together with the Indemnity Agreement, constitutes the entire agreement between the parties with respect to the subject matter hereto and supersedes all prior agreements and understandings between the parties with respect to the subject matter hereto.

(d) Dispute Resolution. The Executive and the Company agree that any dispute between the Executive and the Company will be finally resolved by binding arbitration in accordance with the Federal Arbitration Act ("FAA"). The Executive and the Company agree to follow the Dispute Resolution Procedures set forth in Attachment C to this Agreement.

(e) Invalid Provisions. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holding shall not have the effect of invalidating or voiding the remainder of this Agreement and the parties hereto agree that the portion so held invalid, unenforceable or void shall, if possible, be deemed amended or reduced in scope, or otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof.

(f) Survival of the Executive's Obligations. The Executive's obligations under this Agreement shall survive regardless of whether the Executive's employment by the Company is terminated, voluntarily or involuntarily, by the Company or the Executive, with or without Cause.

(g) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together with constitute one and the same instrument.

(h) Governing. This Agreement shall be governed by and construed under the laws of the State of Texas.

(i) Captions and Gender. The use of captions and Section headings herein is for purposes of convenience only and shall not affect the interpretation or substance of any provisions contained herein. Similarly, the use of the masculine gender with respect to pronouns in this Agreement is for purposes of convenience and includes either sex who may be a signatory.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of the 8th day of October, 2002.

EXECUTIVE

/s/ Joseph M. Grant

Joseph M. Grant

TEXAS CAPITAL BANCSHARES, INC.

By: /s/ F.B. Hegi, Jr.

Name: F.B. Hegi, Jr.

Title: Director

Grant Executive Employment Agreement 14

[Exhibits Omitted]

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EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into by and between Texas Capital Bancshares, Inc. (the "Company"), having a business address at 2100 McKinney, Suite 900, Dallas, Texas 75201 and Raleigh Hortenstine III ("Executive") having a mailing address at 6316 Douglas Avenue, Dallas, Texas 75205.

RECITALS

The Board of Directors of the Company (the "Board of Directors") has determined that it is in the best interests of the Company to retain the Executive's services and to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in the control of the Company or the assertion of claims and actions against employees.

The Company wishes to assure itself of the services of the Executive for the period provided in this Agreement and the Executive wishes to serve in the employ of the Company on the terms and conditions hereinafter provided.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. EMPLOYMENT. Upon the terms and subject to the conditions contained in this Agreement, the Executive agrees to provide full-time services for the Company during the Employment Term. The Executive agrees to devote his best efforts to the business of the Company, and shall perform his duties in a diligent, trustworthy, and business-like manner, all for the purpose of advancing the business of the Company. The Executive agrees to devote his entire business time, attention, skill and energy exclusively to the business of the Company. The Executive is encouraged to engage in appropriate civic, charitable or religious activities and devote a reasonable amount of time to private investments or boards or other activities provided that such activities do not interfere or conflict with the Executive's responsibilities and are not and are not likely to be contrary to the Company's interests.

2. DUTIES. The duties of the Executive shall be those duties which can reasonably be expected to be performed by a person with the title of President and such other duties as shall be set forth as Attachment A hereto. The Executive will comply with the lawful policies and standards that the Company may establish or modify from time to time.

3. EMPLOYMENT TERM. Subject to the terms and conditions hereof, the Company agrees to employ the Executive for a term commencing on August 1, 2002 (the "Effective Date") and continuing through August 1, 2004 (the "Employment Term"), unless otherwise set forth herein or renewed with the written agreement of both parties hereto before the expiration hereof.

4. SALARY AND BENEFITS.

(a) Base Salary. The Company shall, during the Employment Term, pay the Executive a base salary of at least \$250,000 per year, payable in accordance with the Company's regular payroll practice in effect from time to time, less applicable withholding and payroll deductions. The Company agrees to consider increasing such base salary at least annually during the Employment Term, but shall not be obligated to effectuate such an increase.

(b) Bonus. During the Employment Term, the Executive will be included in the Executive Bonus Plan adopted and revised from time to time by the Board of Directors.

(c) Equity Compensation. Concurrently with the execution of this Agreement, the Executive shall receive a restricted stock award under the Company's 1999 Omnibus Stock Plan upon the terms and conditions set forth in Attachment B to this Agreement, which is hereby incorporated herein by reference. During the Employment Term, the Executive will be eligible to receive, at the discretion of the Board of Directors, grants of stock options under the Plan.

(d) Employee Benefits and Perquisites. The Executive shall be entitled to participate in the employee benefit programs and receive other perquisites generally available to employees of the Company holding positions similar to the Executive.

5. TERMINATION OF EMPLOYMENT. The Board of Directors of the Company or the Executive may terminate the employment of the Executive at any time subject to the provisions of this Section 5.

(a) Voluntary Resignation or Termination for Cause. If the Executive shall voluntarily terminate his employment for other than Good Reason, or if the Company shall terminate the employment of the Executive for Cause, the Employment Term shall terminate immediately and the Company shall have no further obligation to make any payment under this Agreement which has not already become payable, but has not yet been paid. Notwithstanding the foregoing, with respect to any stock options or other plans or programs in which the Executive is participating at the time of termination of his employment, the Executive's rights and benefits under each such plan shall be determined in accordance with the terms, conditions, and limitations of the plan and any separate agreement executed by the Executive which may then be in effect.

For the purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder upon (i) the continued failure by the Executive after notice to perform his duties with the Company (other than any such failure resulting from death or incapacity due to physical or mental illness), (ii) a conviction of, or a plea of "guilty" or "no contest" to, a felony or a crime involving dishonesty or a breach of trust, (iii) an act or omission that constitutes gross misconduct or moral turpitude, or (iv) a breach of any duty owed to the Company, including but not limited to the duties of loyalty and confidentiality that is injurious to the Company.

(b) Termination Without Cause; Resignation for Good Reason. If during the term of this Agreement, the Executive's employment is terminated by the Company without Cause or the Executive voluntarily terminates his employment for Good Reason, and the Executive executes a Release of any and all claims relating to or arising from his employment that he may have against the Company Group (as defined in Section 7 below) or any officer, director, agent, or employee of any entity that is part of the Company Group based on any act or omission through the date Executive's employment terminates ("Date of Termination"):

(i) The Company shall increase the annual compensation of the Executive to the "adjusted compensation" as defined herein and shall continue to pay such adjusted compensation through the end of the Employment Term; provided, however, if at such time there is less than one year remaining in the Employment Term, the Company shall continue to pay Executive the adjusted compensation for at least one year in such event.

(ii) The Company shall maintain in full force and effect for the continued benefit of the Executive, for a one year period after the Date of Termination, all health insurance benefits provided that his continued participation is possible under the general terms and provisions of such health insurance plans and programs.

For purposes of this Agreement, "Good Reason" shall mean:

(A) Without his express written consent, the assignment of Executive to a position organizationally or functionally inferior to his position with the Company on the date of this Agreement;

(B) A reduction by the Company in the Executive's base salary as in effect on the date hereof, unless such reduction is a proportionate reduction of the compensation of the Executive and all other senior officers of the Company as a part of a Company-wide effort to enhance the financial condition of the Company;

(C) The Company's requiring the Executive to be based anywhere other than the Dallas/Fort Worth Metroplex, except for required travel on the Company's business;

(D) The failure by the Company to continue to allow Executive to be eligible to participate in any stock option plan in which the Executive is participating (or plans providing substantially similar benefits) without the Executive's consent.

For purposes of this Agreement, "adjusted compensation" shall mean the annual base salary of Executive then in effect, plus the bonus paid to Executive for the preceding calendar year, multiplied by 150%.

(c) Death or Disability. The Company may terminate the Executive's employment upon the death or Disability of the Executive. As used herein, "Disability" means an illness or other disability which prevents the Executive from discharging his responsibilities under this Agreement for a period of 180 calendar days during any calendar year during the Employment Term, as determined in good faith by the Board of Directors. If the Company terminates the Executive's employment upon the death or Disability of the Executive, the Company shall continue to pay the Executive the base salary that would have been due through the first anniversary of the Date of Termination.

(d) Notice of Termination. Any termination of this Agreement by the Company for Cause, without Cause or as a result of the Executive's Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specifies the Date of Termination, if such date is other than the date of receipt of such notice.

6. CHANGE IN CONTROL.

(a) For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred at such time as:

(i) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of voting securities of the Company representing 25% or more of the Company's outstanding voting securities or rights to acquire such securities except for any voting securities issued or purchased under any employee benefit plan of the Company or its Subsidiaries; or

(ii) individuals who constitute the Board of Directors on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by a Nominating Committee solely composed of members which are Incumbent Board members, shall be, for purposes of this clause (ii), considered as though he were a member of the Incumbent Board; or

(iii) a plan of reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or similar transaction occurs or is effectuated in which the Company is not the resulting entity; provided, however, that such an event listed above will be deemed to have occurred or to have been

effectuated upon receipt of all required regulatory approvals not including the lapse of any required waiting periods; or

(iv) the Board of Directors determines in its sole discretion that a Change in Control has occurred.

(b) If, during the Employment Term, a Change in Control occurs, then (i) the Executive shall be entitled to the benefits provided in paragraphs (c) and (d) of this Section 6 upon (I) the termination of the Executive's employment by the Company without Cause after the occurrence of such Change of Control, or (II) the termination of the Executive's employment by the Executive for Good Reason after the occurrence of such Change of Control; and (ii) the Executive shall be entitled to the benefits provided in paragraph (e) of this Section 6.

(c) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company shall pay Executive, as liquidated damages in place of any amounts otherwise payable to the Executive under Section 5, a single lump sum equal to (i) the Executive's Annual Compensation during the most recently completed fiscal year multiplied by (ii) 2.67. As used herein, "Annual Compensation" shall include Base Salary and any bonuses paid to the Executive with respect to any such year. Such payment shall be made in a lump sum no later than 30 days after the Date of Termination. Such payments shall not be reduced in the event Executive obtains other employment following termination of employment.

(d) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company will cause to be continued life, medical and dental coverage substantially equivalent to the coverage maintained by the Company for Executive prior to his severance at no premium cost to Executive. Such coverage and payments shall cease upon the earliest of (i) the expiration of 60 months following the Date of Termination, (ii) the date upon which the Executive obtains other employment which provides similar coverage, or (iii) the date upon which Executive qualifies for Medicare benefits under federal law.

(e) Upon the Executive's entitlement to benefits pursuant to Section 6(b)(ii), the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply.

(f) If a Change in Control occurs after the end of the Employment Term and prior to the date the Executive's restricted stock units granted under Section 5(c) have vested, then (i) if the Executive's employment is terminated after such Change of Control for: (I) death or disability, (II) by the Company without Cause, or (III) by the Executive with Good Reason, then the Executive shall be paid a single lump sum equal to (A) the Executive's Annual Compensation during the most recently completed fiscal year multiplied by (B) 2.67; and (ii) the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply. The payment under the preceding sentence shall be made in a single lump sum no later than 30 days after the Date of Termination and shall not be

reduced in the event the Executive obtains other employment following termination of employment.

(g) If a Change of Control occurs prior to the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(c), 6(d) and 6(e) above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement.

(h) If a Change of Control occurs after the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, and prior to the date all of the Executive's restricted stock units granted under Section 5(c) have vested, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(f), above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement..

(i) Notwithstanding the other provisions of this Section 6, in the event that:

(i) the aggregate payments or benefits to be made or afforded to the Executive, which are deemed to be parachute payments as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") or any successor thereof, (the "Termination Benefits") would be deemed to include an "excess parachute payment" under Section 280G of the Code; and

(ii) if such Termination Benefits were reduced to an amount (the "Non-Triggering Amount"), the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount," as determined in accordance with Section 280G and the Non-Triggering Amount less the product of the marginal rate of any applicable state and federal income tax and the Non-Triggering Amount would be greater than the aggregate value of the Termination Benefits (without such reduction) minus (a) the amount of tax required to be paid by the Executive thereon by Section 4999 of the Code and further minus (b) the product of the Termination Benefits and the marginal rate of any applicable state and federal income tax, then the Termination Benefits shall be reduced to the Non-Triggering Amount. The allocation of the reduction required hereby among the Termination Benefits shall be determined by the Executive.

7. CONFIDENTIAL INFORMATION. The Executive recognizes and acknowledges that he will have access to certain information of members of the Company Group (as defined below) and

that such information is confidential and constitutes valuable, special and unique property of such members of the Company Group. The Executive shall not at any time, either during or subsequent to the Employment Term, disclose to others, use, copy or permit to be copied, except in pursuance of his duties for and on behalf of the Company, its successors, assigns or nominees, any Confidential Information of any member of the Company Group (regardless of whether developed by the Executive) without the prior written consent of the Company or as required by law.

As used herein, "Company Group" means the Company and any entity that directly or indirectly controls, is controlled by, or is under the common control with, the Company, and for the purposes of this definition "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities, by contract or otherwise.

The term "Confidential Information" with respect to the Company means any secret or confidential information or know-how and shall include, but shall not be limited to, the plans, customers, costs, prices, uses, and application of products and services, results of investigations, studies or experiments owned or used by the Company, and all apparatus, products, processes, compositions, samples, formulas, computer programs, computer hardware designs, computer firmware designs, and servicing, marketing or manufacturing methods and techniques at any time used, developed, investigated, made or sold by the Company, before or during the Employment Term, that are not readily available to the public or that are maintained as confidential by the Company. The Executive shall maintain in confidence any Confidential Information of third parties received as a result of his employment with the Company in accordance with the Company's obligations to such third parties and the policies established by the Company.

8. DELIVERY OF DOCUMENTS UPON TERMINATION. The Executive shall deliver to the Company or its designee at the termination of his employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, and other documents and all copies thereof, made, composed or received by the Executive, solely or jointly with others, that are in the Executive's possession, custody, or control at termination and that are related in any manner to the past, present, or anticipated business of any member of the Company Group. In this regard, the Executive hereby grants and conveys to the Company all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any reports, records, papers, summaries, photographs, drawings or other documents, and writings, and copies, abstracts or summaries thereof, that may be prepared by the Executive or under his direction or that may come into his possession in any way during the term of his employment with the Company that relate in any manner to the past, present or anticipated business of any member of the Company Group.

9. DISCLOSURE AND RECEIPT OF CONFIDENTIAL INFORMATION. The Executive shall not, at any time during his employment, knowingly receive from persons not employed by the Company, any Confidential Information, as described above, not belonging to the Company, unless a valid agreement is authorized by the Company and is signed by both the Company and by the disclosing party. The Executive shall not use or disclose to other employees of the Company, during his employment with Company, Confidential Information belonging to his former

employers, former business associates, or any other third parties unless written permission has been given by such third parties to the Company and accepted by the Company to allow the Company to use and/or disclose such information. The Executive shall defend and indemnify the Company Group for any breach of the covenant contained in the preceding sentence.

10. INTELLECTUAL PROPERTY. The Executive shall hold in trust for the benefit of the Company, and shall disclose promptly and fully to the Company in writing, and hereby assigns, and binds his heirs, executors, and administrators to assign, to the Company any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, and other developments (the "Developments") conceived, made, discovered or developed by him, solely or jointly with others, during the term of his employment by the Company, whether during or outside of usual working hours and whether on the Company's premises or not, that relate in any manner to the past, present or anticipated business of any member of the Company Group. All works of authorship created by the Executive during the Employment Term and any extension hereof, solely or jointly with others, shall be considered works made for hire under the Copyright Act of 1976, as amended, and shall be owned entirely by the Company. Any and all such Developments shall be the sole and exclusive property of the Company, whether patentable, copyrightable, or neither, and the Executive shall assist and fully cooperate in every way, at the Company's expense, in securing, maintaining, and enforcing, for the benefit of the Company or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries.

11. FURTHER ACTS. At the request of the Company (but without additional compensation from the Company during his employment by the Company) the Executive shall execute any and all papers and perform all lawful acts that the Company may deem necessary or appropriate to further evidence or carry out the transactions contemplated by this Agreement including, without limitation, such acts as may be necessary for the preparation, filing, prosecution, and maintenance of applications for United States letters patent and foreign letters patent, or for United States and foreign copyright, on the Developments.

12. NO COMPETITION. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs, the Executive shall not directly or indirectly engage in the business of operating a state or national bank or company providing similar services, or any other business in which any member of the Company Group directly or indirectly engages during the Employment Term; provided, however, that the restriction in this Section 12 shall apply only to the reasonable and limited geographic area consisting of any state where any member of the Company Group has an office, bank location or place of business, and Texas and any state that has a contiguous border with the State of Texas. For purposes of this Section 12, the Executive shall be deemed to engage in such a business if he directly or indirectly, engages or invests in, owns, manages, operates, controls or participates in the ownership, management, operation or control of, is employed by, associated or in any manner connected with, or renders services or advice to, any business engaged in operating a state or national bank or other company providing similar services to those provided by the any member of the Company Group during the Employment Term; provided, however, that the Executive may invest in the securities of any enterprise (but without otherwise participating in the activities of such enterprise) if (x) such securities are listed on any national or regional securities

exchange or have been registered under Section 12 of the Securities Exchange Act of 1934 and (y) the Executive does not beneficially own (as defined Rule 13d-3 promulgated under the Securities Exchange Act of 1934) in excess of 5% of the outstanding capital of such enterprise.

The Executive agrees that if a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 12 is overly restrictive and unenforceable, the court may reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 12 shall remain in full force and effect. The Executive further agrees that if a court of competent jurisdiction determines that any provision of this Section 12 is invalid or against public policy, the remaining provisions of this Section 12 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

The Executive acknowledges that the business of the Company and its Affiliates is national in scope and that the restrictions imposed by this Agreement are legitimate, reasonable and necessary to protect the Company's and its affiliates' investment in their businesses and the goodwill thereof. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

13. NO TAMPERING. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs (and for any period following the Employment Term during which Executive is receiving base salary pursuant to Section 5(b)(i) hereof) the Executive shall not (a) request, induce or attempt to influence any distributor or supplier of goods or services to any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (b) request, induce or attempt to influence any customer of any member of the Company Group that have done business with or potential customers which have been in contact with any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (c) request, induce or attempt to influence any employee of any member of the Company Group to terminate his or her employment with such member of the Company Group; or (d) hire or employ or attempt to hire or employ any employee of any member of the Company Group.

Should Executive voluntarily terminate his employment with the Company for other than Good Cause prior to August 1, 2004, the Company may at its option, elect to extend the duration of the prohibitions against Executive contained in (c) and (d) of this Section 13 for a period of an additional 12 months following the date of such termination. To exercise such option the Company must provide written notice of such election to Executive within 30 days after such termination and pay to Executive an amount equal to the base pay and bonus, if any, earned by Executive during his last 12 months of employment with the Company (less any required

withholding or other taxes). In such event such amount shall be paid in equal monthly installments over such 12 month period.

14. NON-DISPARAGEMENT. The Executive and the Company agree that neither party shall at any time disparage, make negative comments or express negative opinions regarding the other party, either publicly or privately, in any communications with third-parties, verbal, written or otherwise.

15. PUBLICITY AND ADVERTISING. The Executive agrees that the Company may use his name, picture, or likeness for any advertising, publicity or other business purpose at any time, during the term of this Agreement and may continue to use materials generated during the term of this Agreement for a period of six months thereafter. Such use of the Executive's name, picture, or likeness shall not be deemed to result in any invasion of the Executive's privacy or in violation of any property right the Executive may have; and the Executive shall receive no additional consideration if his name, picture or likeness is so used. The Executive further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his name, picture or likeness by the Company shall be and are the sole property of the Company.

16. REMEDIES. The Executive acknowledges that a remedy at law for any breach or attempted breach of the Executive's obligations under Sections 7 through 15 may be inadequate, agrees that the Company is entitled to specific performance and injunctive and other equitable remedies in case of any such breach or attempted breach. The Company shall have the right to offset against amounts to be paid to the Executive pursuant to the terms hereof any amounts from time to time owing by the Executive to the Company. The termination of Executive's employment shall not be deemed to be a waiver by the Company of any breach by the Executive of this Agreement or any other obligation owed the Company, and notwithstanding such a termination the Executive shall be liable for all damages attributable to such breach. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

17. INDEMNIFICATION.

(a) In the event that the Executive is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the Company, by reason of the fact that the Executive is or was a director, officer, employee, trustee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee trustee or agent of another corporation, partnership, joint venture, trust or other enterprise (including employee benefit plans), expressly including service as a director, officer or in a similar position with any exchange, board of trade, clearing corporation or similar institution on which the Company or any other corporation

a majority of the stock of which is owned directly or indirectly by the Company had membership privileges at the relevant time during which any such position was held, shall be indemnified by the Company against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the Executive in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided, that funds paid or required to be paid to the Executive as a result of the provisions of this Section 17 shall be returned to the Company or reduced, as the case may be, to the extent that the Executive receives funds pursuant to an indemnification from any other corporation or organization. With respect to any employee benefit plan which imposes duties on, or involves services by, the Executive, if the Executive acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, he shall be deemed to have acted in a manner not opposed to the best interests of the corporation. If the Executive could be indemnified pursuant to the first sentence of this Section 17(a) except for the fact that the subject action or suit is or was by or in the right of the Company, he shall be indemnified by the Company against expenses including attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, except that no indemnification shall be made in respect of such action or suit, in respect of any claim, issue or matter as to which the Executive shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Executive is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(b) To the extent that the Executive has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 17(a), or in defense of any claim, issue or matter therein, he shall be indemnified by the Company against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith without the necessity of any action being taken by the Company. In all cases wherein such indemnification is provided by this Section 17, unless ordered by a court, indemnification shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Executive is proper in the circumstances because he has met the applicable standard of conduct specified in this Section 17. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum or (ii) by a committee of such directors designated by majority vote of such directors, even though less than a quorum or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (v) if such quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (vi) by the holders of a majority of the shares of capital stock of the Company entitled to vote thereon.

(c) The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Executive did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Entry of a judgment by consent as part of a settlement shall not be deemed a final adjudication of liability for negligence or misconduct in the performance of duty, nor of any other issue or matter.

(d) Expenses incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by the Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company.

(e) The indemnification hereby provided shall not be deemed exclusive of any other rights to which the Executive may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, and shall continue as to the Executive once he has ceased to provide services to the Company.

18. MISCELLANEOUS PROVISIONS.

(a) Executive's Heirs, etc. The Executive may not assign his rights or delegate his duties or obligations hereunder without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. This Agreement shall be binding on the Company's successors.

(b) Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer of the Company with a copy to the Secretary of the Company, or to such other address as is specified in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) Amendment; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with any condition or provision of this Agreement to be performed by such other party, shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Except as set forth in the Indemnity Agreement, dated as of July 20, 2002, between the Executive and

the Company, (the "Indemnification Agreement"), no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party, which are not set forth expressly in this Agreement. This Agreement, together with the Indemnity Agreement, constitutes the entire agreement between the parties with respect to the subject matter hereto and supersedes all prior agreements and understandings between the parties with respect to the subject matter hereto.

(d) Dispute Resolution. The Executive and the Company agree that any dispute between the Executive and the Company will be finally resolved by binding arbitration in accordance with the Federal Arbitration Act ("FAA"). The Executive and the Company agree to follow the Dispute Resolution Procedures set forth in Attachment C to this Agreement.

(e) Invalid Provisions. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holding shall not have the effect of invalidating or voiding the remainder of this Agreement and the parties hereto agree that the portion so held invalid, unenforceable or void shall, if possible, be deemed amended or reduced in scope, or otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof.

(f) Survival of the Executive's Obligations. The Executive's obligations under this Agreement shall survive regardless of whether the Executive's employment by the Company is terminated, voluntarily or involuntarily, by the Company or the Executive, with or without Cause.

(g) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together with constitute one and the same instrument.

(h) Governing. This Agreement shall be governed by and construed under the laws of the State of Texas.

(i) Captions and Gender. The use of captions and Section headings herein is for purposes of convenience only and shall not affect the interpretation or substance of any provisions contained herein. Similarly, the use of the masculine gender with respect to pronouns in this Agreement is for purposes of convenience and includes either sex who may be a signatory.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of the 8th day of October, 2002.

EXECUTIVE

/s/ Raleigh Hortenstine III

Raleigh Hortenstine III

TEXAS CAPITAL BANCSHARES, INC.

By: /s/ F. B. Hegi, Jr.

Name: F. B. Hegi, Jr.

Title: Director

Hortenstine Executive Employment Agreement 14

[Exhibits Omitted]

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EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into by and between Texas Capital Bancshares, Inc. (the "Company"), having a business address at 2100 McKinney, Suite 900, Dallas, Texas 75201 and George F. Jones, Jr. ("Executive") having a mailing address at 3220 Caruth Boulevard, Dallas, Texas 75225.

RECITALS

The Board of Directors of the Company (the "Board of Directors") has determined that it is in the best interests of the Company to retain the Executive's services and to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in the control of the Company or the assertion of claims and actions against employees.

The Company wishes to assure itself of the services of the Executive for the period provided in this Agreement and the Executive wishes to serve in the employ of the Company on the terms and conditions hereinafter provided.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. EMPLOYMENT. Upon the terms and subject to the conditions contained in this Agreement, the Executive agrees to provide full-time services for the Company during the Employment Term. The Executive agrees to devote his best efforts to the business of the Company, and shall perform his duties in a diligent, trustworthy, and business-like manner, all for the purpose of advancing the business of the Company. The Executive agrees to devote his entire business time, attention, skill and energy exclusively to the business of the Company. The Executive is encouraged to engage in appropriate civic, charitable or religious activities and devote a reasonable amount of time to private investments or boards or other activities provided that such activities do not interfere or conflict with the Executive's responsibilities and are not and are not likely to be contrary to the Company's interests.

2. DUTIES. The duties of the Executive shall be those duties which can reasonably be expected to be performed by a person with the title of President of Texas Capital Bank, N.A. and such other duties as shall be set forth as Attachment A hereto. The Executive will comply with the lawful policies and standards that the Company may establish or modify from time to time.

3. EMPLOYMENT TERM. Subject to the terms and conditions hereof, the Company agrees to employ the Executive for a term commencing on August 1, 2002 (the "Effective Date") and continuing through August 1, 2004 (the "Employment Term"), unless otherwise set forth herein or renewed with the written agreement of both parties hereto before the expiration hereof.

4. SALARY AND BENEFITS.

(a) Base Salary. The Company shall, during the Employment Term, pay the Executive a base salary of at least \$250,000 per year, payable in accordance with the Company's regular payroll practice in effect from time to time, less applicable withholding and payroll deductions. The Company agrees to consider increasing such base salary at least annually during the Employment Term, but shall not be obligated to effectuate such an increase.

(b) Bonus. During the Employment Term, the Executive will be included in the Executive Bonus Plan adopted and revised from time to time by the Board of Directors.

(c) Equity Compensation. Concurrently with the execution of this Agreement, the Executive shall receive a restricted stock award under the Company's 1999 Omnibus Stock Plan upon the terms and conditions set forth in Attachment B to this Agreement, which is hereby incorporated herein by reference. During the Employment Term, the Executive will be eligible to receive, at the discretion of the Board of Directors, grants of stock options under the Plan.

(d) Employee Benefits and Perquisites. The Executive shall be entitled to participate in the employee benefit programs and receive other perquisites generally available to employees of the Company holding positions similar to the Executive.

5. TERMINATION OF EMPLOYMENT. The Board of Directors of the Company or the Executive may terminate the employment of the Executive at any time subject to the provisions of this Section 5.

(a) Voluntary Resignation or Termination for Cause. If the Executive shall voluntarily terminate his employment for other than Good Reason, or if the Company shall terminate the employment of the Executive for Cause, the Employment Term shall terminate immediately and the Company shall have no further obligation to make any payment under this Agreement which has not already become payable, but has not yet been paid. Notwithstanding the foregoing, with respect to any stock options or other plans or programs in which the Executive is participating at the time of termination of his employment, the Executive's rights and benefits under each such plan shall be determined in accordance with the terms, conditions, and limitations of the plan and any separate agreement executed by the Executive which may then be in effect.

For the purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder upon (i) the continued failure by the Executive after notice to perform his duties with the Company (other than any such failure resulting from death or incapacity due to physical or mental illness), (ii) a conviction of, or a plea of "guilty" or "no contest" to, a felony or a crime involving dishonesty or a breach of trust, (iii) an act or omission that constitutes gross misconduct or moral turpitude, or (iv) a breach of any duty owed to the Company, including but not limited to the duties of loyalty and confidentiality that is injurious to the Company.

(b) Termination Without Cause; Resignation for Good Reason. If during the term of this Agreement, the Executive's employment is terminated by the Company without Cause or the Executive voluntarily terminates his employment for Good Reason, and the Executive executes a Release of any and all claims relating to or arising from his employment that he may have against the Company Group (as defined in Section 7 below) or any officer, director, agent, or employee of any entity that is part of the Company Group based on any act or omission through the date Executive's employment terminates ("Date of Termination"):

(i) The Company shall increase the annual compensation of the Executive to the "adjusted compensation" as defined herein and shall continue to pay such adjusted compensation through the end of the Employment Term; provided, however, if at such time there is less than one year remaining in the Employment Term, the Company shall continue to pay Executive the adjusted compensation for at least one year in such event.

(ii) The Company shall maintain in full force and effect for the continued benefit of the Executive, for a one year period after the Date of Termination, all health insurance benefits provided that his continued participation is possible under the general terms and provisions of such health insurance plans and programs.

For purposes of this Agreement, "Good Reason" shall mean:

(A) Without his express written consent, the assignment of Executive to a position organizationally or functionally inferior to his position with the Company on the date of this Agreement;

(B) A reduction by the Company in the Executive's base salary as in effect on the date hereof, unless such reduction is a proportionate reduction of the compensation of the Executive and all other senior officers of the Company as a part of a Company-wide effort to enhance the financial condition of the Company;

(C) The Company's requiring the Executive to be based anywhere other than the Dallas/Fort Worth Metroplex, except for required travel on the Company's business;

(D) The failure by the Company to continue to allow Executive to be eligible to participate in any stock option plan in which the Executive is participating (or plans providing substantially similar benefits) without the Executive's consent.

For purposes of this Agreement, "adjusted compensation" shall mean the annual base salary of Executive then in effect, plus the bonus paid to Executive for the preceding calendar year, multiplied by 150%.

(c) Death or Disability. The Company may terminate the Executive's employment upon the death or Disability of the Executive. As used herein, "Disability" means an illness or other disability which prevents the Executive from discharging his responsibilities under this Agreement for a period of 180 calendar days during any calendar year during the Employment Term, as determined in good faith by the Board of Directors. If the Company terminates the Executive's employment upon the death or Disability of the Executive, the Company shall continue to pay the Executive the base salary that would have been due through the first anniversary of the Date of Termination.

(d) Notice of Termination. Any termination of this Agreement by the Company for Cause, without Cause or as a result of the Executive's Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specifies the Date of Termination, if such date is other than the date of receipt of such notice.

6. CHANGE IN CONTROL.

(a) For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred at such time as:

(i) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of voting securities of the Company representing 25% or more of the Company's outstanding voting securities or rights to acquire such securities except for any voting securities issued or purchased under any employee benefit plan of the Company or its Subsidiaries; or

(ii) individuals who constitute the Board of Directors on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by a Nominating Committee solely composed of members which are Incumbent Board members, shall be, for purposes of this clause (ii), considered as though he were a member of the Incumbent Board; or

(iii) a plan of reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or similar transaction occurs or is effectuated in which the Company is not the resulting entity; provided, however, that such an event listed above will be deemed to have occurred or to have been

effectuated upon receipt of all required regulatory approvals not including the lapse of any required waiting periods; or

(iv) the Board of Directors determines in its sole discretion that a Change in Control has occurred.

(b) If, during the Employment Term, a Change in Control occurs, then (i) the Executive shall be entitled to the benefits provided in paragraphs (c) and (d) of this Section 6 upon (I) the termination of the Executive's employment by the Company without Cause after the occurrence of such Change of Control, or (II) the termination of the Executive's employment by the Executive for Good Reason after the occurrence of such Change of Control; and (ii) the Executive shall be entitled to the benefits provided in paragraph (e) of this Section 6.

(c) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company shall pay Executive, as liquidated damages in place of any amounts otherwise payable to the Executive under Section 5, a single lump sum equal to (i) the Executive's Annual Compensation during the most recently completed fiscal year multiplied by (ii) 2.67. As used herein, "Annual Compensation" shall include Base Salary and any bonuses paid to the Executive with respect to any such year. Such payment shall be made in a lump sum no later than 30 days after the Date of Termination. Such payments shall not be reduced in the event Executive obtains other employment following termination of employment.

(d) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company will cause to be continued life, medical and dental coverage substantially equivalent to the coverage maintained by the Company for Executive prior to his severance at no premium cost to Executive. Such coverage and payments shall cease upon the earliest of (i) the expiration of 60 months following the Date of Termination, (ii) the date upon which the Executive obtains other employment which provides similar coverage, or (iii) the date upon which Executive qualifies for Medicare benefits under federal law.

(e) Upon the Executive's entitlement to benefits pursuant to Section 6(b)(ii), the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply.

(f) If a Change in Control occurs after the end of the Employment Term and prior to the date the Executive's restricted stock units granted under Section 5(c) have vested, then (i) if the Executive's employment is terminated after such Change of Control for: (I) death or disability, (II) by the Company without Cause, or (III) by the Executive with Good Reason, then the Executive shall be paid a single lump sum equal to (A) the Executive's Annual Compensation during the most recently completed fiscal year multiplied by (B) 2.67; and (ii) the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply. The payment under the preceding sentence shall be made in a single lump sum no later than 30 days after the Date of Termination and shall not be

reduced in the event the Executive obtains other employment following termination of employment.

(g) If a Change of Control occurs prior to the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(c), 6(d) and 6(e) above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement.

(h) If a Change of Control occurs after the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, and prior to the date all of the Executive's restricted stock units granted under Section 5(c) have vested, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(f), above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement..

(i) Notwithstanding the other provisions of this Section 6, in the event that:

(i) the aggregate payments or benefits to be made or afforded to the Executive, which are deemed to be parachute payments as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") or any successor thereof, (the "Termination Benefits") would be deemed to include an "excess parachute payment" under Section 280G of the Code; and

(ii) if such Termination Benefits were reduced to an amount (the "Non-Triggering Amount"), the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount," as determined in accordance with Section 280G and the Non-Triggering Amount less the product of the marginal rate of any applicable state and federal income tax and the Non-Triggering Amount would be greater than the aggregate value of the Termination Benefits (without such reduction) minus (a) the amount of tax required to be paid by the Executive thereon by Section 4999 of the Code and further minus (b) the product of the Termination Benefits and the marginal rate of any applicable state and federal income tax, then the Termination Benefits shall be reduced to the Non-Triggering Amount. The allocation of the reduction required hereby among the Termination Benefits shall be determined by the Executive.

7. CONFIDENTIAL INFORMATION. The Executive recognizes and acknowledges that he will have access to certain information of members of the Company Group (as defined below) and

that such information is confidential and constitutes valuable, special and unique property of such members of the Company Group. The Executive shall not at any time, either during or subsequent to the Employment Term, disclose to others, use, copy or permit to be copied, except in pursuance of his duties for and on behalf of the Company, its successors, assigns or nominees, any Confidential Information of any member of the Company Group (regardless of whether developed by the Executive) without the prior written consent of the Company or as required by law.

As used herein, "Company Group" means the Company and any entity that directly or indirectly controls, is controlled by, or is under the common control with, the Company, and for the purposes of this definition "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities, by contract or otherwise.

The term "Confidential Information" with respect to the Company means any secret or confidential information or know-how and shall include, but shall not be limited to, the plans, customers, costs, prices, uses, and application of products and services, results of investigations, studies or experiments owned or used by the Company, and all apparatus, products, processes, compositions, samples, formulas, computer programs, computer hardware designs, computer firmware designs, and servicing, marketing or manufacturing methods and techniques at any time used, developed, investigated, made or sold by the Company, before or during the Employment Term, that are not readily available to the public or that are maintained as confidential by the Company. The Executive shall maintain in confidence any Confidential Information of third parties received as a result of his employment with the Company in accordance with the Company's obligations to such third parties and the policies established by the Company.

8. DELIVERY OF DOCUMENTS UPON TERMINATION. The Executive shall deliver to the Company or its designee at the termination of his employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, and other documents and all copies thereof, made, composed or received by the Executive, solely or jointly with others, that are in the Executive's possession, custody, or control at termination and that are related in any manner to the past, present, or anticipated business of any member of the Company Group. In this regard, the Executive hereby grants and conveys to the Company all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any reports, records, papers, summaries, photographs, drawings or other documents, and writings, and copies, abstracts or summaries thereof, that may be prepared by the Executive or under his direction or that may come into his possession in any way during the term of his employment with the Company that relate in any manner to the past, present or anticipated business of any member of the Company Group.

9. DISCLOSURE AND RECEIPT OF CONFIDENTIAL INFORMATION. The Executive shall not, at any time during his employment, knowingly receive from persons not employed by the Company, any Confidential Information, as described above, not belonging to the Company, unless a valid agreement is authorized by the Company and is signed by both the Company and by the disclosing party. The Executive shall not use or disclose to other employees of the Company, during his employment with Company, Confidential Information belonging to his former

employers, former business associates, or any other third parties unless written permission has been given by such third parties to the Company and accepted by the Company to allow the Company to use and/or disclose such information. The Executive shall defend and indemnify the Company Group for any breach of the covenant contained in the preceding sentence.

10. INTELLECTUAL PROPERTY. The Executive shall hold in trust for the benefit of the Company, and shall disclose promptly and fully to the Company in writing, and hereby assigns, and binds his heirs, executors, and administrators to assign, to the Company any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, and other developments (the "Developments") conceived, made, discovered or developed by him, solely or jointly with others, during the term of his employment by the Company, whether during or outside of usual working hours and whether on the Company's premises or not, that relate in any manner to the past, present or anticipated business of any member of the Company Group. All works of authorship created by the Executive during the Employment Term and any extension hereof, solely or jointly with others, shall be considered works made for hire under the Copyright Act of 1976, as amended, and shall be owned entirely by the Company. Any and all such Developments shall be the sole and exclusive property of the Company, whether patentable, copyrightable, or neither, and the Executive shall assist and fully cooperate in every way, at the Company's expense, in securing, maintaining, and enforcing, for the benefit of the Company or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries.

11. FURTHER ACTS. At the request of the Company (but without additional compensation from the Company during his employment by the Company) the Executive shall execute any and all papers and perform all lawful acts that the Company may deem necessary or appropriate to further evidence or carry out the transactions contemplated by this Agreement including, without limitation, such acts as may be necessary for the preparation, filing, prosecution, and maintenance of applications for United States letters patent and foreign letters patent, or for United States and foreign copyright, on the Developments.

12. NO COMPETITION. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs, the Executive shall not directly or indirectly engage in the business of operating a state or national bank or company providing similar services, or any other business in which any member of the Company Group directly or indirectly engages during the Employment Term; provided, however, that the restriction in this Section 12 shall apply only to the reasonable and limited geographic area consisting of any state where any member of the Company Group has an office, bank location or place of business, and Texas and any state that has a contiguous border with the State of Texas. For purposes of this Section 12, the Executive shall be deemed to engage in such a business if he directly or indirectly, engages or invests in, owns, manages, operates, controls or participates in the ownership, management, operation or control of, is employed by, associated or in any manner connected with, or renders services or advice to, any business engaged in operating a state or national bank or other company providing similar services to those provided by the any member of the Company Group during the Employment Term; provided, however, that the Executive may invest in the securities of any enterprise (but without otherwise participating in the activities of such enterprise) if (x) such securities are listed on any national or regional securities

exchange or have been registered under Section 12 of the Securities Exchange Act of 1934 and (y) the Executive does not beneficially own (as defined Rule 13d-3 promulgated under the Securities Exchange Act of 1934) in excess of 5% of the outstanding capital of such enterprise.

The Executive agrees that if a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 12 is overly restrictive and unenforceable, the court may reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 12 shall remain in full force and effect. The Executive further agrees that if a court of competent jurisdiction determines that any provision of this Section 12 is invalid or against public policy, the remaining provisions of this Section 12 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

The Executive acknowledges that the business of the Company and its Affiliates is national in scope and that the restrictions imposed by this Agreement are legitimate, reasonable and necessary to protect the Company's and its affiliates' investment in their businesses and the goodwill thereof. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

13. NO TAMPERING. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs (and for any period following the Employment Term during which Executive is receiving base salary pursuant to Section 5(b)(i) hereof) the Executive shall not (a) request, induce or attempt to influence any distributor or supplier of goods or services to any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (b) request, induce or attempt to influence any customer of any member of the Company Group that have done business with or potential customers which have been in contact with any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (c) request, induce or attempt to influence any employee of any member of the Company Group to terminate his or her employment with such member of the Company Group; or (d) hire or employ or attempt to hire or employ any employee of any member of the Company Group.

Should Executive voluntarily terminate his employment with the Company for other than Good Cause prior to August 1, 2004, the Company may at its option, elect to extend the duration of the prohibitions against Executive contained in (c) and (d) of this Section 13 for a period of an additional 12 months following the date of such termination. To exercise such option the Company must provide written notice of such election to Executive within 30 days after such termination and pay to Executive an amount equal to the base pay and bonus, if any, earned by Executive during his last 12 months of employment with the Company (less any required

withholding or other taxes). In such event such amount shall be paid in equal monthly installments over such 12 month period.

14. NON-DISPARAGEMENT. The Executive and the Company agree that neither party shall at any time disparage, make negative comments or express negative opinions regarding the other party, either publicly or privately, in any communications with third-parties, verbal, written or otherwise.

15. PUBLICITY AND ADVERTISING. The Executive agrees that the Company may use his name, picture, or likeness for any advertising, publicity or other business purpose at any time, during the term of this Agreement and may continue to use materials generated during the term of this Agreement for a period of six months thereafter. Such use of the Executive's name, picture, or likeness shall not be deemed to result in any invasion of the Executive's privacy or in violation of any property right the Executive may have; and the Executive shall receive no additional consideration if his name, picture or likeness is so used. The Executive further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his name, picture or likeness by the Company shall be and are the sole property of the Company.

16. REMEDIES. The Executive acknowledges that a remedy at law for any breach or attempted breach of the Executive's obligations under Sections 7 through 15 may be inadequate, agrees that the Company is entitled to specific performance and injunctive and other equitable remedies in case of any such breach or attempted breach. The Company shall have the right to offset against amounts to be paid to the Executive pursuant to the terms hereof any amounts from time to time owing by the Executive to the Company. The termination of Executive's employment shall not be deemed to be a waiver by the Company of any breach by the Executive of this Agreement or any other obligation owed the Company, and notwithstanding such a termination the Executive shall be liable for all damages attributable to such breach. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

17. INDEMNIFICATION.

(a) In the event that the Executive is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the Company, by reason of the fact that the Executive is or was a director, officer, employee, trustee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee trustee or agent of another corporation, partnership, joint venture, trust or other enterprise (including employee benefit plans), expressly including service as a director, officer or in a similar position with any exchange, board of trade, clearing corporation or similar institution on which the Company or any other corporation

a majority of the stock of which is owned directly or indirectly by the Company had membership privileges at the relevant time during which any such position was held, shall be indemnified by the Company against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the Executive in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided, that funds paid or required to be paid to the Executive as a result of the provisions of this Section 17 shall be returned to the Company or reduced, as the case may be, to the extent that the Executive receives funds pursuant to an indemnification from any other corporation or organization. With respect to any employee benefit plan which imposes duties on, or involves services by, the Executive, if the Executive acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, he shall be deemed to have acted in a manner not opposed to the best interests of the corporation. If the Executive could be indemnified pursuant to the first sentence of this Section 17(a) except for the fact that the subject action or suit is or was by or in the right of the Company, he shall be indemnified by the Company against expenses including attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, except that no indemnification shall be made in respect of such action or suit, in respect of any claim, issue or matter as to which the Executive shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Executive is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(b) To the extent that the Executive has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 17(a), or in defense of any claim, issue or matter therein, he shall be indemnified by the Company against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith without the necessity of any action being taken by the Company. In all cases wherein such indemnification is provided by this Section 17, unless ordered by a court, indemnification shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Executive is proper in the circumstances because he has met the applicable standard of conduct specified in this Section 17. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum or (ii) by a committee of such directors designated by majority vote of such directors, even though less than a quorum or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (v) if such quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (vi) by the holders of a majority of the shares of capital stock of the Company entitled to vote thereon.

(c) The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Executive did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Entry of a judgment by consent as part of a settlement shall not be deemed a final adjudication of liability for negligence or misconduct in the performance of duty, nor of any other issue or matter.

(d) Expenses incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by the Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company.

(e) The indemnification hereby provided shall not be deemed exclusive of any other rights to which the Executive may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, and shall continue as to the Executive once he has ceased to provide services to the Company.

18. MISCELLANEOUS PROVISIONS.

(a) Executive's Heirs, etc. The Executive may not assign his rights or delegate his duties or obligations hereunder without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. This Agreement shall be binding on the Company's successors.

(b) Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer of the Company with a copy to the Secretary of the Company, or to such other address as is specified in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) Amendment; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with any condition or provision of this Agreement to be performed by such other party, shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Except as set forth in the Indemnity Agreement, dated as of July 20, 2002, between the Executive and

the Company (the "Indemnification Agreement"), no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party, which are not set forth expressly in this Agreement. This Agreement, together with the Indemnity Agreement, constitutes the entire agreement between the parties with respect to the subject matter hereto and supersedes all prior agreements and understandings between the parties with respect to the subject matter hereto.

(d) Dispute Resolution. The Executive and the Company agree that any dispute between the Executive and the Company will be finally resolved by binding arbitration in accordance with the Federal Arbitration Act ("FAA"). The Executive and the Company agree to follow the Dispute Resolution Procedures set forth in Attachment C to this Agreement.

(e) Invalid Provisions. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holding shall not have the effect of invalidating or voiding the remainder of this Agreement and the parties hereto agree that the portion so held invalid, unenforceable or void shall, if possible, be deemed amended or reduced in scope, or otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof.

(f) Survival of the Executive's Obligations. The Executive's obligations under this Agreement shall survive regardless of whether the Executive's employment by the Company is terminated, voluntarily or involuntarily, by the Company or the Executive, with or without Cause.

(g) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together with constitute one and the same instrument.

(h) Governing. This Agreement shall be governed by and construed under the laws of the State of Texas.

(i) Captions and Gender. The use of captions and Section headings herein is for purposes of convenience only and shall not affect the interpretation or substance of any provisions contained herein. Similarly, the use of the masculine gender with respect to pronouns in this Agreement is for purposes of convenience and includes either sex who may be a signatory.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of the 8th day of October, 2002.

EXECUTIVE

/s/ George F. Jones, Jr.

George F. Jones, Jr.

TEXAS CAPITAL BANCSHARES, INC.

By: /s/ F. B. Hegi, Jr.

Name: F. B. Hegi, Jr.

Title: Director

[Exhibits Omitted]

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EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into by and between Texas Capital Bancshares, Inc. (the "Company"), having a business address at 2100 McKinney, Suite 900, Dallas, Texas 75201 and C. Keith Cargill ("Executive") having a mailing address at 1204 Bowie Court, Southlake, Texas 76092.

RECITALS

The Board of Directors of the Company (the "Board of Directors") has determined that it is in the best interests of the Company to retain the Executive's services and to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in the control of the Company or the assertion of claims and actions against employees.

The Company wishes to assure itself of the services of the Executive for the period provided in this Agreement and the Executive wishes to serve in the employ of the Company on the terms and conditions hereinafter provided.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. EMPLOYMENT. Upon the terms and subject to the conditions contained in this Agreement, the Executive agrees to provide full-time services for the Company during the Employment Term. The Executive agrees to devote his best efforts to the business of the Company, and shall perform his duties in a diligent, trustworthy, and business-like manner, all for the purpose of advancing the business of the Company. The Executive agrees to devote his entire business time, attention, skill and energy exclusively to the business of the Company. The Executive is encouraged to engage in appropriate civic, charitable or religious activities and devote a reasonable amount of time to private investments or boards or other activities provided that such activities do not interfere or conflict with the Executive's responsibilities and are not and are not likely to be contrary to the Company's interests.

2. DUTIES. The duties of the Executive shall be those duties which can reasonably be expected to be performed by a person with the title of Executive Vice President and Chief Lending Officer of Texas Capital Bank, N.A. and such other duties as shall be set forth as Attachment A hereto. The Executive will comply with the lawful policies and standards that the Company may establish or modify from time to time.

3. EMPLOYMENT TERM. Subject to the terms and conditions hereof, the Company agrees to employ the Executive for a term commencing on August 1, 2002 (the "Effective Date")

and continuing through August 1, 2004 (the "Employment Term"), unless otherwise set forth herein or renewed with the written agreement of both parties hereto before the expiration hereof.

4. SALARY AND BENEFITS.

(a) Base Salary. The Company shall, during the Employment Term, pay the Executive a base salary of at least \$200,000 per year, payable in accordance with the Company's regular payroll practice in effect from time to time, less applicable withholding and payroll deductions. The Company agrees to consider increasing such base salary at least annually during the Employment Term, but shall not be obligated to effectuate such an increase.

(b) Bonus. During the Employment Term, the Executive will be included in the Executive Bonus Plan adopted and revised from time to time by the Board of Directors.

(c) Equity Compensation. Concurrently with the execution of this Agreement, the Executive shall receive a restricted stock award under the Company's 1999 Omnibus Stock Plan upon the terms and conditions set forth in Attachment B to this Agreement, which is hereby incorporated herein by reference. During the Employment Term, the Executive will be eligible to receive, at the discretion of the Board of Directors, grants of stock options under the Plan.

(d) Employee Benefits and Perquisites. The Executive shall be entitled to participate in the employee benefit programs and receive other perquisites generally available to employees of the Company holding positions similar to the Executive.

5. TERMINATION OF EMPLOYMENT. The Board of Directors of the Company or the Executive may terminate the employment of the Executive at any time subject to the provisions of this Section 5.

(a) Voluntary Resignation or Termination for Cause. If the Executive shall voluntarily terminate his employment for other than Good Reason, or if the Company shall terminate the employment of the Executive for Cause, the Employment Term shall terminate immediately and the Company shall have no further obligation to make any payment under this Agreement which has not already become payable, but has not yet been paid. Notwithstanding the foregoing, with respect to any stock options or other plans or programs in which the Executive is participating at the time of termination of his employment, the Executive's rights and benefits under each such plan shall be determined in accordance with the terms, conditions, and limitations of the plan and any separate agreement executed by the Executive which may then be in effect.

For the purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder upon (i) the continued failure by the Executive after notice to perform his duties with the Company (other than any such failure resulting from death or incapacity due to physical or mental illness), (ii) a conviction of, or a plea of "guilty" or "no contest" to, a felony or a crime involving dishonesty or a breach of trust,

(iii) an act or omission that constitutes gross misconduct or moral turpitude, or (iv) a breach of any duty owed to the Company, including but not limited to the duties of loyalty and confidentiality that is injurious to the Company.

(b) Termination Without Cause; Resignation for Good Reason. If during the term of this Agreement, the Executive's employment is terminated by the Company without Cause or the Executive voluntarily terminates his employment for Good Reason, and the Executive executes a Release of any and all claims relating to or arising from his employment that he may have against the Company Group (as defined in Section 7 below) or any officer, director, agent, or employee of any entity that is part of the Company Group based on any act or omission through the date Executive's employment terminates ("Date of Termination"):

(i) The Company shall increase the annual compensation of the Executive to the "adjusted compensation" as defined herein and shall continue to pay such adjusted compensation through the end of the Employment Term; provided, however, if at such time there is less than one year remaining in the Employment Term, the Company shall continue to pay Executive the adjusted compensation for at least one year in such event.

(ii) The Company shall maintain in full force and effect for the continued benefit of the Executive, for a one year period after the Date of Termination, all health insurance benefits provided that his continued participation is possible under the general terms and provisions of such health insurance plans and programs.

For purposes of this Agreement, "Good Reason" shall mean:

(A) Without his express written consent, the assignment of Executive to a position organizationally or functionally inferior to his position with the Company on the date of this Agreement;

(B) A reduction by the Company in the Executive's base salary as in effect on the date hereof, unless such reduction is a proportionate reduction of the compensation of the Executive and all other senior officers of the Company as a part of a Company-wide effort to enhance the financial condition of the Company;

(C) The Company's requiring the Executive to be based anywhere other than the Dallas/Fort Worth Metroplex, except for required travel on the Company's business;

(D) The failure by the Company to continue to allow Executive to be eligible to participate in any stock option plan in which the Executive is participating (or plans providing substantially similar benefits) without the Executive's consent.

For purposes of this Agreement, "adjusted compensation" shall mean the annual base salary of Executive then in effect, plus the bonus paid to Executive for the preceding calendar year, multiplied by 150%.

(c) Death or Disability. The Company may terminate the Executive's employment upon the death or Disability of the Executive. As used herein, "Disability" means an illness or other disability which prevents the Executive from discharging his responsibilities under this Agreement for a period of 180 calendar days during any calendar year during the Employment Term, as determined in good faith by the Board of Directors. If the Company terminates the Executive's employment upon the death or Disability of the Executive, the Company shall continue to pay the Executive the base salary that would have been due through the first anniversary of the Date of Termination.

(d) Notice of Termination. Any termination of this Agreement by the Company for Cause, without Cause or as a result of the Executive's Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specifies the Date of Termination, if such date is other than the date of receipt of such notice.

6. CHANGE IN CONTROL.

(a) For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred at such time as:

(i) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of voting securities of the Company representing 25% or more of the Company's outstanding voting securities or rights to acquire such securities except for any voting securities issued or purchased under any employee benefit plan of the Company or its Subsidiaries; or

(ii) individuals who constitute the Board of Directors on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by a Nominating Committee solely composed of members which are Incumbent Board members, shall be, for purposes of this clause (ii), considered as though he were a member of the Incumbent Board; or

(iii) a plan of reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or similar transaction occurs or is effectuated in which the Company is not the resulting entity; provided, however, that such an event listed above will be deemed to have occurred or to have been effectuated upon receipt of all required regulatory approvals not including the lapse of any required waiting periods; or

(iv) the Board of Directors determines in its sole discretion that a Change in Control has occurred.

(b) If, during the Employment Term, a Change in Control occurs, then (i) the Executive shall be entitled to the benefits provided in paragraphs (c) and (d) of this Section 6 upon (I) the termination of the Executive's employment by the Company without Cause after the occurrence of such Change of Control, or (II) the termination of the Executive's employment by the Executive for Good Reason after the occurrence of such Change of Control; and (ii) the Executive shall be entitled to the benefits provided in paragraph (e) of this Section 6.

(c) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company shall pay Executive, as liquidated damages in place of any amounts otherwise payable to the Executive under Section 5, a single lump sum equal to (i) the Executive's Annual Compensation during the most recently completed fiscal year multiplied by (ii) 2.67. As used herein, "Annual Compensation" shall include Base Salary and any bonuses paid to the Executive with respect to any such year. Such payment shall be made in a lump sum no later than 30 days after the Date of Termination. Such payments shall not be reduced in the event Executive obtains other employment following termination of employment.

(d) Upon the Executive's entitlement to benefits pursuant to Section 6(b), the Company will cause to be continued life, medical and dental coverage substantially equivalent to the coverage maintained by the Company for Executive prior to his severance at no premium cost to Executive. Such coverage and payments shall cease upon the earliest of (i) the expiration of 60 months following the Date of Termination, (ii) the date upon which the Executive obtains other employment which provides similar coverage, or (iii) the date upon which Executive qualifies for Medicare benefits under federal law.

(e) Upon the Executive's entitlement to benefits pursuant to Section 6(b)(ii), the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply.

(f) If a Change in Control occurs after the end of the Employment Term and prior to the date the Executive's restricted stock units granted under Section 5(c) have vested, then (i) if the Executive's employment is terminated after such Change of Control for: (I) death or disability, (II) by the Company without Cause, or (III) by the Executive with Good Reason, then the Executive shall be paid a single lump sum equal to (A) the Executive's Annual Compensation during the most recently completed fiscal year

multiplied by (B) 2.67; and (ii) the Change of Control vesting provisions of the Executive's restricted stock award, which are described in Attachment B to this Agreement, shall apply. The payment under the preceding sentence shall be made in a single lump sum no later than 30 days after the Date of Termination and shall not be reduced in the event the Executive obtains other employment following termination of employment.

(g) If a Change of Control occurs prior to the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(c), 6(d) and 6(e) above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement.

(h) If a Change of Control occurs after the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock, and prior to the date all of the Executive's restricted stock units granted under Section 5(c) have vested, the No Competition provision of Section 12 and the No Tampering provision of Section 13 shall apply during the 12-month period commencing on the earlier of (i) August 1, 2004, or (ii) 15 months following the consummation of an initial public offering of the Company's common stock. The Executive and the Company hereby agree that the benefits provided pursuant to Sections 6(f), above are compensation for the extension of these No Competition and No Tampering provisions of this Agreement..

(i) Notwithstanding the other provisions of this Section 6, in the event that:

(i) the aggregate payments or benefits to be made or afforded to the Executive, which are deemed to be parachute payments as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") or any successor thereof, (the "Termination Benefits") would be deemed to include an "excess parachute payment" under Section 280G of the Code; and

(ii) if such Termination Benefits were reduced to an amount (the "Non-Triggering Amount"), the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount," as determined in accordance with Section 280G and the Non-Triggering Amount less the product of the marginal rate of any applicable state and federal income tax and the Non-Triggering Amount would be greater than the aggregate value of the Termination Benefits (without such reduction) minus (a) the amount of tax required to be paid by the Executive thereon by Section 4999 of the Code and further minus (b) the product of the Termination Benefits and the marginal rate of any applicable state and federal income tax, then the Termination Benefits shall be reduced to the Non-

Triggering Amount. The allocation of the reduction required hereby among the Termination Benefits shall be determined by the Executive.

7. CONFIDENTIAL INFORMATION. The Executive recognizes and acknowledges that he will have access to certain information of members of the Company Group (as defined below) and that such information is confidential and constitutes valuable, special and unique property of such members of the Company Group. The Executive shall not at any time, either during or subsequent to the Employment Term, disclose to others, use, copy or permit to be copied, except in pursuance of his duties for and on behalf of the Company, its successors, assigns or nominees, any Confidential Information of any member of the Company Group (regardless of whether developed by the Executive) without the prior written consent of the Company or as required by law.

As used herein, "Company Group" means the Company and any entity that directly or indirectly controls, is controlled by, or is under the common control with, the Company, and for the purposes of this definition "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities, by contract or otherwise.

The term "Confidential Information" with respect to the Company means any secret or confidential information or know-how and shall include, but shall not be limited to, the plans, customers, costs, prices, uses, and application of products and services, results of investigations, studies or experiments owned or used by the Company, and all apparatus, products, processes, compositions, samples, formulas, computer programs, computer hardware designs, computer firmware designs, and servicing, marketing or manufacturing methods and techniques at any time used, developed, investigated, made or sold by the Company, before or during the Employment Term, that are not readily available to the public or that are maintained as confidential by the Company. The Executive shall maintain in confidence any Confidential Information of third parties received as a result of his employment with the Company in accordance with the Company's obligations to such third parties and the policies established by the Company.

8. DELIVERY OF DOCUMENTS UPON TERMINATION. The Executive shall deliver to the Company or its designee at the termination of his employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, and other documents and all copies thereof, made, composed or received by the Executive, solely or jointly with others, that are in the Executive's possession, custody, or control at termination and that are related in any manner to the past, present, or anticipated business of any member of the Company Group. In this regard, the Executive hereby grants and conveys to the Company all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any reports, records, papers, summaries, photographs, drawings or other documents, and writings, and copies, abstracts or summaries thereof, that may be prepared by the Executive or under his direction or that may come into his possession in any way during the term of his employment with the Company that relate in any manner to the past, present or anticipated business of any member of the Company Group.

9. DISCLOSURE AND RECEIPT OF CONFIDENTIAL INFORMATION. The Executive shall not, at any time during his employment, knowingly receive from persons not employed by the Company, any Confidential Information, as described above, not belonging to the Company, unless a valid agreement is authorized by the Company and is signed by both the Company and by the disclosing party. The Executive shall not use or disclose to other employees of the Company, during his employment with Company, Confidential Information belonging to his former employers, former business associates, or any other third parties unless written permission has been given by such third parties to the Company and accepted by the Company to allow the Company to use and/or disclose such information. The Executive shall defend and indemnify the Company Group for any breach of the covenant contained in the preceding sentence.

10. INTELLECTUAL PROPERTY. The Executive shall hold in trust for the benefit of the Company, and shall disclose promptly and fully to the Company in writing, and hereby assigns, and binds his heirs, executors, and administrators to assign, to the Company any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, and other developments (the "Developments") conceived, made, discovered or developed by him, solely or jointly with others, during the term of his employment by the Company, whether during or outside of usual working hours and whether on the Company's premises or not, that relate in any manner to the past, present or anticipated business of any member of the Company Group. All works of authorship created by the Executive during the Employment Term and any extension hereof, solely or jointly with others, shall be considered works made for hire under the Copyright Act of 1976, as amended, and shall be owned entirely by the Company. Any and all such Developments shall be the sole and exclusive property of the Company, whether patentable, copyrightable, or neither, and the Executive shall assist and fully cooperate in every way, at the Company's expense, in securing, maintaining, and enforcing, for the benefit of the Company or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries.

11. FURTHER ACTS. At the request of the Company (but without additional compensation from the Company during his employment by the Company) the Executive shall execute any and all papers and perform all lawful acts that the Company may deem necessary or appropriate to further evidence or carry out the transactions contemplated by this Agreement including, without limitation, such acts as may be necessary for the preparation, filing, prosecution, and maintenance of applications for United States letters patent and foreign letters patent, or for United States and foreign copyright, on the Developments.

12. NO COMPETITION. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs, the Executive shall not directly or indirectly engage in the business of operating a state or national bank or company providing similar services, or any other business in which any member of the Company Group directly or indirectly engages during the Employment Term; provided, however, that the restriction in this Section 12 shall apply only to the reasonable and limited geographic area consisting of any state where any member of the Company Group has an office, bank location or place of business, and Texas and any state that has a contiguous border with the State of Texas. For purposes of this Section 12, the Executive shall be deemed to engage in such a business if he directly or indirectly, engages or invests in, owns, manages, operates, controls or

participates in the ownership, management, operation or control of, is employed by, associated or in any manner connected with, or renders services or advice to, any business engaged in operating a state or national bank or other company providing similar services to those provided by the any member of the Company Group during the Employment Term; provided, however, that the Executive may invest in the securities of any enterprise (but without otherwise participating in the activities of such enterprise) if (x) such securities are listed on any national or regional securities exchange or have been registered under Section 12 of the Securities Exchange Act of 1934 and (y) the Executive does not beneficially own (as defined Rule 13d-3 promulgated under the Securities Exchange Act of 1934) in excess of 5% of the outstanding capital of such enterprise.

The Executive agrees that if a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 12 is overly restrictive and unenforceable, the court may reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 12 shall remain in full force and effect. The Executive further agrees that if a court of competent jurisdiction determines that any provision of this Section 12 is invalid or against public policy, the remaining provisions of this Section 12 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

The Executive acknowledges that the business of the Company and its Affiliates is national in scope and that the restrictions imposed by this Agreement are legitimate, reasonable and necessary to protect the Company's and its affiliates' investment in their businesses and the goodwill thereof. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

13. NO TAMPERING. Until August 1, 2004, or until 15 months following the consummation of an initial public offering of the Company's common stock, whichever first occurs (and for any period following the Employment Term during which Executive is receiving base salary pursuant to Section 5(b)(i) hereof) the Executive shall not (a) request, induce or attempt to influence any distributor or supplier of goods or services to any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (b) request, induce or attempt to influence any customer of any member of the Company Group that have done business with or potential customers which have been in contact with any member of the Company Group to curtail or cancel any business they may transact with any member of the Company Group; (c) request, induce or attempt to influence any employee of any member of the Company Group to terminate his or her employment with such member of the Company Group; or (d) hire or employ or attempt to hire or employ any employee of any member of the Company Group.

Should Executive voluntarily terminate his employment with the Company for other than Good Cause prior to August 1, 2004, the Company may at its option, elect to extend the duration of the prohibitions against Executive contained in (c) and (d) of this Section 13 for a period of an additional 12 months following the date of such termination. To exercise such option the Company must provide written notice of such election to Executive within 30 days after such termination and pay to Executive an amount equal to the base pay and bonus, if any, earned by Executive during his last 12 months of employment with the Company (less any required withholding or other taxes). In such event such amount shall be paid in equal monthly installments over such 12 month period.

14. NON-DISPARAGEMENT. The Executive and the Company agree that neither party shall at any time disparage, make negative comments or express negative opinions regarding the other party, either publicly or privately, in any communications with third-parties, verbal, written or otherwise.

15. PUBLICITY AND ADVERTISING. The Executive agrees that the Company may use his name, picture, or likeness for any advertising, publicity or other business purpose at any time, during the term of this Agreement and may continue to use materials generated during the term of this Agreement for a period of six months thereafter. Such use of the Executive's name, picture, or likeness shall not be deemed to result in any invasion of the Executive's privacy or in violation of any property right the Executive may have; and the Executive shall receive no additional consideration if his name, picture or likeness is so used. The Executive further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his name, picture or likeness by the Company shall be and are the sole property of the Company.

16. REMEDIES. The Executive acknowledges that a remedy at law for any breach or attempted breach of the Executive's obligations under Sections 7 through 15 may be inadequate, agrees that the Company is entitled to specific performance and injunctive and other equitable remedies in case of any such breach or attempted breach. The Company shall have the right to offset against amounts to be paid to the Executive pursuant to the terms hereof any amounts from time to time owing by the Executive to the Company. The termination of Executive's employment shall not be deemed to be a waiver by the Company of any breach by the Executive of this Agreement or any other obligation owed the Company, and notwithstanding such a termination the Executive shall be liable for all damages attributable to such breach. The Executive acknowledges that the scope and duration of the restrictions contained herein are reasonable in light of the time that the Executive has been engaged in the business of the Company and its affiliates, the Executive's reputation in the markets for the Company's and its affiliates' businesses and the Executive's relationship with the suppliers, customers and clients of the Company and its affiliates. The Executive further acknowledges that the restrictions contained herein are not burdensome to the Executive in light of the consideration paid therefor.

17. INDEMNIFICATION.

(a) In the event that the Executive is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil,

criminal, administrative or investigative, other than an action by or in the right of the Company, by reason of the fact that the Executive is or was a director, officer, employee, trustee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee trustee or agent of another corporation, partnership, joint venture, trust or other enterprise (including employee benefit plans), expressly including service as a director, officer or in a similar position with any exchange, board of trade, clearing corporation or similar institution on which the Company or any other corporation a majority of the stock of which is owned directly or indirectly by the Company had membership privileges at the relevant time during which any such position was held, shall be indemnified by the Company against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the Executive in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided, that funds paid or required to be paid to the Executive as a result of the provisions of this Section 17 shall be returned to the Company or reduced, as the case may be, to the extent that the Executive receives funds pursuant to an indemnification from any other corporation or organization. With respect to any employee benefit plan which imposes duties on, or involves services by, the Executive, if the Executive acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, he shall be deemed to have acted in a manner not opposed to the best interests of the corporation. If the Executive could be indemnified pursuant to the first sentence of this Section 17(a) except for the fact that the subject action or suit is or was by or in the right of the Company, he shall be indemnified by the Company against expenses including attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, except that no indemnification shall be made in respect of such action or suit, in respect of any claim, issue or matter as to which the Executive shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Executive is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(b) To the extent that the Executive has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 17(a), or in defense of any claim, issue or matter therein, he shall be indemnified by the Company against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith without the necessity of any action being taken by the Company. In all cases wherein such indemnification is provided by this Section 17, unless ordered by a court, indemnification shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Executive is proper in the circumstances because he has met the applicable standard of conduct specified in this Section 17. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum or (ii) by a committee of such directors designated by majority vote of such directors, even

though less than a quorum or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (v) if such quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (vi) by the holders of a majority of the shares of capital stock of the Company entitled to vote thereon.

(c) The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Executive did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Entry of a judgment by consent as part of a settlement shall not be deemed a final adjudication of liability for negligence or misconduct in the performance of duty, nor of any other issue or matter.

(d) Expenses incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by the Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company.

(e) The indemnification hereby provided shall not be deemed exclusive of any other rights to which the Executive may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, and shall continue as to the Executive once he has ceased to provide services to the Company.

18. MISCELLANEOUS PROVISIONS.

(a) Executive's Heirs, etc. The Executive may not assign his rights or delegate his duties or obligations hereunder without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. This Agreement shall be binding on the Company's successors.

(b) Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer of the Company with a copy to the Secretary of the Company, or to such other address as is specified in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(c) Amendment; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with any condition or provision of this Agreement to be performed by such other party, shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party, which are not set forth expressly in this Agreement.

(d) Dispute Resolution. The Executive and the Company agree that any dispute between the Executive and the Company will be finally resolved by binding arbitration in accordance with the Federal Arbitration Act ("FAA"). The Executive and the Company agree to follow the Dispute Resolution Procedures set forth in Attachment C to this Agreement.

(e) Invalid Provisions. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holding shall not have the effect of invalidating or voiding the remainder of this Agreement and the parties hereto agree that the portion so held invalid, unenforceable or void shall, if possible, be deemed amended or reduced in scope, or otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof.

(f) Survival of the Executive's Obligations. The Executive's obligations under this Agreement shall survive regardless of whether the Executive's employment by the Company is terminated, voluntarily or involuntarily, by the Company or the Executive, with or without Cause.

(g) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together with constitute one and the same instrument.

(h) Governing. This Agreement shall be governed by and construed under the laws of the State of Texas.

(i) Captions and Gender. The use of captions and Section headings herein is for purposes of convenience only and shall not affect the interpretation or substance of any provisions contained herein. Similarly, the use of the masculine gender with respect to pronouns in this Agreement is for purposes of convenience and includes either sex who may be a signatory.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of the 8th day of October, 2002.

EXECUTIVE

/s/ C. Keith Cargill

C. Keith Cargill

TEXAS CAPITAL BANCSHARES, INC.

By: /s/ F.B. Hegi, Jr.

Name: F.B. Hegi, Jr.

Title: Director

Cargill Executive Employment Agreement 14

[Exhibits Omitted]

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Subsidiaries of the Registrant

Texas Capital Bank, National Association

Texas Capital Bancshares Statutory Trust I

Texas Capital Bank Wealth Management Services, Inc.

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CERTIFICATION

In connection with the Annual Report of Texas Capital Bancshares, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Joseph M. Grant, Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

/S/ Joseph M. Grant

Joseph M. Grant
Chief Executive Officer
March 26, 2003

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CERTIFICATION

In connection with the Annual Report of Texas Capital Bancshares, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Gregory B. Hultgren, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

/S/ Gregory B. Hultgren

Gregory B. Hultgren
Chief Financial Officer
March 26, 2003

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