TEXAS CAPITAL BANCSHARES INC/TX
Form S-3
August 09, 2002
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As filed with the Securities and Exchange Commission on August 9, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

Texas Capital Bancshares, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	6022	75-2671109
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2100 McKinney Avenue, Suite 900
Dallas, Texas 75201
(214) 932-6600
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Joseph M. Grant, Chief Executive Officer
2100 McKinney Avenue, Suite 900
Dallas, Texas 75201
(214) 932-6600
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies of all communications, including communications sent to agent for service, should be sent to:

Joseph G. Passaic, Jr.	Fred S. Stovall	Lee Meyerson
Patton Boggs LLP	Patton Boggs LLP	Simpson Thacher & Bartlett
2550 M Street, NW	2001 Ross Avenue, Suite 3000	425 Lexington Avenue
Washington, DC 20037	Dallas, Texas 75201	New York, New York 10017
Tel. (202) 457-6104	Tel. (214) 758-1500	Tel. (212) 455-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable on or after the effective date of this Registration Statement.
If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨
If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨
If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨
If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

Calculation of Registration Fee

Title of shares to be registered	Proposed maximum aggregate offering price(1)	Amount of registration fee

Common Stock, par value $0.01 per share	$75,000,000	$6,900

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated August 9, 2002

PROSPECTUS

Shares

[LOGO]

Texas Capital Bancshares, Inc.

Common Stock

This is our initial public offering of our common stock. We are offering shares of our common stock and the selling stockholders named in this prospectus are offering shares of our common stock. No public market for our common stock currently exists. We will not receive any proceeds from the sale of our shares by the selling stockholders.

We anticipate that the initial public offering price will be between $ and $ per share. We have applied to list our common stock on the Nasdaq National Market under the symbol TCBI.

Investing in our common stock involves risks.
See Risk Factors beginning on page 8.

	Per Share	Total
Public offering price		
Underwriting discounts and commissions		
Proceeds to Texas Capital Bancshares		
Proceeds to the selling stockholders		

Certain of the selling stockholders have granted the underwriters a 30-day option to purchase up to additional shares from them to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares to purchasers on or about , 2002.

Lehman Brothers

U.S. Bancorp Piper Jaffray

SunTrust Robinson Humphrey

, 2002

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[PICTURE OF TEXAS CAPITAL BANK BANKING CENTER]

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in this document or any other document to which we refer you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information contained in this document is current only as of its date, regardless of the time of delivery of this prospectus or of any sales of shares of common stock.

Unless otherwise indicated, the information in this prospectus:

- assumes an initial public offering price of $ per share; and
- reflects a one-for-one stock dividend on shares of our common stock which was declared on July 30, 2002 and will be paid prior to the closing of the offering, pursuant to which each stockholder will receive one additional share of common stock for each share of common stock owned as of July 30, 2002;

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PROSPECTUS SUMMARY

This summary highlights selected information about us and the offering that is contained elsewhere in this prospectus. You should read this summary together with the entire prospectus, including the more detailed information in our consolidated financial statements and related notes appearing elsewhere in this prospectus, as well as the other documents to which we refer you. Except as otherwise indicated by the context, references in this prospectus to we, our, the issuer or TCBI are to the combined business of Texas Capital Bancshares, Inc. and its wholly-owned subsidiary, Texas Capital Bank, N.A.

THE COMPANY

Through our bank, Texas Capital Bank, we provide a wide range of banking services, primarily to the middle market business and high net worth individual segments of the Texas economy. Since we commenced operations in December 1998, our bank has demonstrated substantial growth in assets, deposits and profitability. As of June 30, 2002, we had approximately $1.3 billion in assets, $945 million in total loans, $980 million in deposits and $118 million in stockholders equity. We currently operate eight banking centers in our core markets: the greater Dallas/Fort Worth, Austin and San Antonio metropolitan areas. In addition, we also operate BankDirect, an Internet banking division of our bank, to attract consumer deposits for funding purposes and to provide our BankDirect customers with access to banking services on a 24 hours-a-day/7 days-a-week basis.

Background

In March 1998, our founders organized TCBI to serve as a new holding company for an independent bank oriented to the needs of the Texas marketplace. Our founders have extensive Texas banking experience and strong community and business relationships in our core markets. Based on their assessment of the Texas banking environment, our founders determined that middle market businesses (which we generally define as businesses with annual revenues between $5 million and $250 million) and high net worth individuals (which we generally define as individuals with net worth in excess of $1 million) were not being well-served by the banks that emerged from the Texas banking crisis of the late 1980s. They concluded that there was an opportunity to re-establish an independent, Texas-headquartered, -managed and -focused bank with sufficient capital and other resources and expertise to serve these clients.

We commenced banking operations under the Texas Capital Bank name in December 1998. Our predecessor bank, Resource Bank, had commenced limited operations in October 1997. At the time of our acquisition of Resource Bank, we raised approximately $80 million in initial equity capital in a private offering, which we believe is the largest amount of start-up capital ever raised by a national bank. We believed this capital was necessary to service our target markets, particularly by allowing us to originate and retain loans of a size and type that would appeal to our targeted market segment. We also began recruiting a team of senior executives with extensive experience in the Texas banking industry and expanding our operations in our targeted core markets. We also focused on developing a broader range of funding sources, including raising deposits through BankDirect and attracting cost-effective, stable deposits from our commercial banking customers.

We have grown substantially in both asset size and profitability since our formation. Our assets increased at annual rates of 357%, 122% and 28%, in 1999, 2000 and 2001, respectively. Our total loans increased at annual rates of 1,952%, 176% and 44% in 1999, 2000 and 2001, respectively. Over the same period, our operating results have improved from a net loss of $9.3 million and $16.5 million in 1999 and 2000, respectively, reflecting in large part our start-up and expansion costs, to profits of $5.8 million in 2001 and $3.4 million, net of $1.1 million in income tax expense, for the first six months of 2002. The growth in our profitability is based largely on our success in developing a portfolio with an increasing amount of higher yielding commercial loans to local businesses and individuals, while managing our funding costs and non-interest expenses.

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The Texas Market

We believe that a key factor in our ability to achieve our business strategy and financial goals and to create shareholder value is the attractiveness of the Texas market. We believe the Texas market has favorable demographic and economic characteristics. In addition, we believe that the changes in the Texas banking market since the late 1980s have created an underserved market of Texas-based middle market businesses and high net worth individuals that we can successfully target.

Texas is the second most populous state in the country with an estimated population in 2001 of approximately 21.1 million. 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 become substantially less dependent upon energy-related businesses than it was prior to the energy industry crisis of the late 1980s and includes 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 these trends, especially as the Texas market may be subject to unexpected economic downturns.

The Texas banking market is currently characterized by the dominance of large out-of-state banking organizations that entered the state following the economic crisis that affected Texas during the 1980s. Today, Texas four largest banking organizations by deposits are headquartered outside of Texas and approximately 54% of the 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. These customers are attractive to us because we believe that, if we serve them properly, we will be able to establish long-term relationships and provide multiple products to them, enhancing our overall profitability. Our banking centers have been built around experienced bankers with lending expertise in the specific industries found in their market areas, allowing for responsive, personalized service.

Our Management

We have assembled an executive management team with extensive experience in the Texas banking industry.

Joseph M. (Jody) Grant (63) Mr. Grant has been our Chairman of the Board and Chief Executive Officer since we commenced operations in 1998. In addition, he currently serves as the Chairman of the Board of our bank. Prior to co-founding our company, Mr. Grant served as Executive Vice President, Chief Financial Officer and a member of the board of directors of Electronic Data Systems Corporation from 1990 to March 1998. From 1986 to 1989, Mr. Grant had served as the Chairman and Chief Executive Officer of Texas American Bancshares, Inc.

Raleigh Hortenstine III (56) Mr. Hortenstine has served as our President since we commenced operations in 1998. Prior to co-founding our company, Mr. Hortenstine served in numerous positions at NationsBank from 1988 to 1998, including serving as Chairman, and previously Executive Vice President, of NationsBanc Capital Markets, Inc. Prior to his tenure at NationsBank, Mr. Hortenstine

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served as an Executive Vice President for NCNB (the predecessor of NationsBank) following NCNB s acquisition of First Republic Bank. Prior to the acquisition, Mr. Hortenstine had been Executive Vice President of First Republic Bank and its predecessors.

George F. Jones, Jr. (58) Mr. Jones has served as the Chief Executive Officer and President of our bank since its inception in December 1998. Mr. Jones was also a founder of Resource Bank, our predecessor bank. From 1993 until 1995, Mr. Jones served as an Executive Vice President of Comerica Bank, which acquired NorthPark National Bank in 1993. From 1986 until Comerica s acquisition of NorthPark in 1993, Mr. Jones served as either NorthPark s President or President and Chief Executive Officer.

C. Keith Cargill (49) Mr. Cargill has served as an Executive Vice President and the Chief Lending Officer of our bank since its inception in December 1998. Mr. Cargill has more than 20 years of banking experience. He began his banking career at Texas American Bank in 1977, where he was the manager of the national corporate lending division of the flagship bank in Fort Worth. In 1985, Mr. Cargill became President and Chief Executive Officer of Texas American Bank/Riverside, Ft. Worth. In 1989, Mr. Cargill joined NorthPark National Bank as an Executive Vice President and Chief Lending Officer. When NorthPark was acquired by Comerica Bank in 1993, Mr. Cargill joined Comerica as Senior Vice President and middle market banking manager.

In addition to these four executive officers, we have attracted a number of other experienced Texas bankers to help build and grow our company. It is an integral component of our ongoing strategy to attract high quality, experienced bankers with long track records of serving middle market and private banking clientele in our targeted banking markets in Texas.

Strategy

Our main objective is to take advantage of expansion opportunities while operating efficiently, providing individualized customer service and maximizing profitability. To achieve this, we seek to implement the following strategies:

Target the attractive middle market business and high net worth individual market segments;

Focus our business development efforts on the key major metropolitan markets in Texas;

Grow our loan and deposit base in our existing markets by hiring additional experienced Texas bankers and opening select, strategically-located banking centers;

Improve our financial performance through the efficient management of our infrastructure and capital base;

Continue to use BankDirect as a way to diversify our funding sources by attracting retail deposits on a nationwide basis; and

Expand our geographic reach and business mix by hiring qualified local bankers, establishing select banking locations and completing selective acquisitions in new markets.

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THE OFFERING

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Total shares of common stock offered	shares
Common stock outstanding after the offering	shares
Use of proceeds received by us	General corporate purposes, including to finance the growth of our business. A portion of the proceeds may be used for acquisitions or for the opening of select banking locations, although currently we have no understandings, agreements or definitive plans with respect to any acquisitions or openings of banking locations. We will not receive any proceeds from the shares sold by our selling stockholders.
Proposed Nasdaq National Market trading symbol	TCBI

The outstanding share information is based upon 19,147,652 shares of our common stock that were outstanding as of June 30, 2002, as adjusted for the one-for-one stock dividend which was declared on July 30, 2002 and will be paid prior to the closing of the offering. Unless otherwise indicated, information contained in this prospectus regarding the number of outstanding shares of common stock does not include or reflect the following:

- 1,973,748 shares of common stock issuable upon the exercise of outstanding stock options; and

- an aggregate of 784,212 shares of common stock reserved for future issuance as of June 30, 2002 under our 1999 Omnibus Stock Plan and 2000 Employee Stock Purchase Plan.

OUR CORPORATE INFORMATION

We are incorporated under the laws of Delaware. Our corporate headquarters is located at 2100 McKinney Avenue, Suite 900, Dallas, Texas 75201. Our telephone number is (214) 932-6600. Our web site addresses are www.texascapitalbank.com and www.bankdirect.com. The information on our web sites does not constitute part of this prospectus.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table provides our summary consolidated financial data for the periods ended and as of the dates indicated. You should read the summary consolidated financial data set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	At or For Six Months Ended June 30,		At or For Year Ended December 31,		
	2002	2001	2001	2000	1999
	(In thousands, except per share, average share and percentage data)				
Consolidated Statement of Operations Data (1):	(Unaudited)				
Interest income	$ 32,013	$ 35,689	$ 70,594	$ 55,769	$ 14,414
Interest expense	12,405	19,659	35,539	32,930	6,166
Net interest income	19,608	16,030	35,055	22,839	8,248
Provision for loan losses	1,979	2,122	5,762	6,135	2,687
Net interest income after provision for loan losses	17,629	13,908	29,293	16,704	5,561
Non-interest income	3,656	2,715	5,983	1,957	358
Non-interest expense	16,780	14,920	29,432	35,158	15,217
Income (loss) before taxes	4,505	1,703	5,844	(16,497)	(9,298)
Income tax expense	1,128				
Net income (loss)	3,377	1,703	5,844	(16,497)	(9,298)
Other Financial Data (4):					
Income (loss) per share:					
Basic	$ 0.15	$ 0.09	$ 0.31	$ (0.95)	$ (0.61)
Diluted	0.15	0.09	0.30	(0.95)	(0.61)
Tangible book value per share	5.77	4.61	5.27	4.46	4.67
Book value per share	5.84	4.69	5.35	4.54	4.79
Weighted average shares:					
Basic	19,135,782	18,909,656	18,957,652	17,436,628	15,132,496
Diluted	19,338,906	19,081,854	19,177,204	17,436,628	15,132,496
Consolidated Balance Sheet Data (1):					
Total assets	$ 1,260,774	$ 1,016,701	$ 1,164,779	$ 908,428	$ 408,579
Loans	944,731	816,390	903,979	629,109	227,600
Securities available for sale	270,085	167,054	206,365	184,952	164,409
Securities held to maturity				28,366	
Deposits	980,297	822,090	886,077	794,857	287,068
Federal funds purchased	52,087	56,995	76,699	11,525	
Other borrowings	102,442	39,151	86,899	7,061	46,267
Stockholders equity	118,043	89,403	106,359	86,197	72,912
Selected financial ratios:					
Performance ratios (2):					
Return on average assets	0.56%	0.37%	0.58%	(2.42%)	(4.45%)
Return on average equity	6.02%	3.91%	6.44%	(20.02%)	(12.13%)
Net interest margin	3.47%	3.61%	3.62%	3.51%	4.12%
Efficiency ratio (3)	72.13%	79.59%	71.72%	141.79%	176.82%
Non-interest expense to average assets	2.79%	3.20%	2.90%	5.15%	7.28%
Asset quality ratios (2):					
Net charge-offs to average loans	0.56%	0.10%	0.26%		
Allowance for loan losses to total loans	1.28%	1.31%	1.39%	1.42%	1.22%
Allowance for loan losses to non-performing loans	178.88%	105.89%	110.23%		
Non-performing and renegotiated assets to total loans and other real estate owned	0.72%	1.24%	1.26%		
Capital and liquidity ratios:					
Total capital ratio	11.99%	10.28%	11.73%	10.98%	23.84%
Tier 1 capital ratio	10.83%	9.16%	10.48%	9.94%	22.98%
Tier 1 leverage ratio	9.27%	8.98%	9.46%	9.62%	21.32%
Average equity/average assets	9.34%	9.36%	8.93%	12.07%	36.67%
Tangible equity/assets	9.24%	8.60%	9.00%	9.31%	17.42%
Average loans/average deposits	96.08%	89.91%	95.54%	72.92%	81.12%

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(1) The consolidated statement of operations data and consolidated balance sheet data presented above for the six month period ended June 30, 2002 and for the three 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. The operating results for the six month period ended June 30, 2002 are not necessarily indicative of the results to be achieved for the full year. Interim results reflect all adjustments necessary for a fair statement of the results of operations and balances for the interim periods presented. Such adjustments are of a normal recurring nature.

(2) Interim period ratios are annualized.

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

(4) Amounts have been adjusted to reflect a one-for-one stock dividend which was declared on July 30, 2002 and which will be paid prior to the closing of the offering, pursuant to which each stockholder will receive one additional share of common stock for each share of common stock owned as of July 30, 2002.

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RISK FACTORS

Before you invest in our common stock, you should understand the high degree of risk involved. You should consider carefully the following risks and other information in this prospectus, including our financial statements and related notes, before you decide to purchase shares of our common stock. The following risks and uncertainties are not the only ones we face. There may be additional risks that we do not currently know of or that we currently deem immaterial based on the information available to us. If any of these risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our common stock could decline, perhaps significantly and you could lose part or all of your investment.

Risks related to our business

Our business strategy includes significant growth plans, and if we fail to manage our growth effectively as we pursue our expansion strategy, it could negatively affect our operations

We intend to develop our business by pursuing a significant growth strategy. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. In order to execute our growth strategy successfully, we must, among other things:

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

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

We have a history of net operating losses

Although we have generated operating profits for each fiscal quarter since March 2001, we incurred significant losses during our initial years of operations and cannot guarantee that we will be able to sustain profitability. Our losses were attributable in large part to expenses incurred in forming our business, establishing our operations and growing our business, which were funded with equity capital. We cannot assure you that our revenues will continue to be sufficient to cover our expenses or that capital will be available to us on satisfactory terms, or at all, to fund any shortfall between these costs and revenues. Consequently, if we are unable to generate profits on a consistent basis, our ability to compete effectively could be adversely affected.

We have a limited operating history and as a result our financial performance to date may not be a reliable indicator of whether our business strategy will be successful

We did not commence significant operations with our current management and begin implementing our current strategy until December 1998, and our operations prior to that date were very limited. We have a very limited historical basis upon which to rely for gauging our business performance under normalized operations. Our prospects are subject to the risks and uncertainties frequently encountered by companies in their early stages of development, including the risk that we will not be able to implement our business plan or that our business plan will prove to be unprofitable. Accordingly, our financial performance to date may not be representative of our long-term future performance or indicative of whether our business strategy will be successful.

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We may not be able to find suitable acquisition candidates

We intend to make acquisitions that will complement or expand our business. However, we believe that there are a limited number of banks that will meet our acquisition criteria and, consequently, we cannot assure you that we will be able to identify suitable candidates for acquisitions. In addition, even if suitable candidates are identified, we expect to compete with other potential bidders for such businesses, many of which may have greater financial resources than we have. Our failure to find suitable acquisition candidates, or successfully bid against other competitors for acquisitions, could adversely affect our ability to successfully implement our business strategy.

We may be unable to manage our growth due to acquisitions, which could have an adverse effect on our financial condition or results of operations

We believe that a portion of our growth will come from acquisitions of banks and other financial institutions. Such acquisitions involve risks of changes in results of operations or cash flows, unforeseen liabilities relating to the acquired institution or arising out of the acquisition, asset quality problems of the acquired entity and other conditions not within our control, such as adverse personnel relations, loss of customers because of change of identity, deterioration in local economic conditions and other risks affecting the acquired institution. In addition, the process of integrating acquired entities will divert significant management time and resources. We cannot assure you that we will be able to integrate successfully or operate profitably any financial institutions we may acquire. We may experience disruption and incur unexpected expenses in integrating acquisitions. There can be no assurance that any such acquisitions will enhance our business, results of operations, cash flows or financial condition, and such acquisitions may have an adverse effect on our results of operations, particularly during periods in which the acquisitions are being integrated into our operations.

We are dependent upon key personnel

Our success depends to a significant extent upon the performance of certain key employees, the loss of whom could have an adverse effect on our business. Our key employees include Joseph M. Grant, our Chairman of the Board of Directors and Chief Executive Officer, Raleigh Hortenstine III, our President, George F. Jones, Jr., the President and Chief Executive Officer of our bank, and C. Keith Cargill, our bank s Chief Lending Officer. We expect to enter into employment agreements with these employees prior to the closing of the offering. Even if we enter into employment agreements with these employees, we cannot assure you that we will be successful in retaining these key employees.

Our operations are significantly affected by interest rate levels

Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income we earn as a result of interest paid to us on loans and investments and interest we pay to third parties such as our depositors and those from whom we borrow funds. Like most financial institutions, we are affected by changes in general interest rate levels, which are currently at relatively low levels, and by other economic factors beyond our control. Interest rate risk can result from mismatches between the dollar amount of repricing or maturing assets and liabilities and from mismatches in the timing and rate at which our assets and liabilities reprice. Although we have implemented strategies which we believe reduce the potential effects of changes in interest rates on our results of operations, these strategies may not always be successful. In addition, any substantial and prolonged increase in market interest rates could reduce our customers desire to borrow money from us or adversely affect their ability to repay their outstanding loans by increasing their credit costs since most of our loans have adjustable interest rates that reset periodically. Any of these events could adversely affect our results of operations or financial condition.

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We must effectively manage our credit risk

There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. The risk of nonpayment of loans is inherent in commercial banking. Although we attempt to minimize our credit risk by carefully monitoring the concentration of our loans within specific industries and through prudent loan application approval procedures, we cannot assure you that such monitoring and approval procedures will reduce these lending risks. Moreover, as we expand our operations into new geographic markets, our credit administration and loan underwriting policies will need to be adapted to the local lending and economic environments of these new markets. We cannot assure you that our credit administration personnel, policies and procedures will adequately adapt to any new geographic markets.

There are material risks involved in commercial lending that could adversely affect our business

We generally invest a greater proportion of our assets in commercial loans than other banking institutions of our size, which typically invest a greater proportion of their assets in loans secured by single-family residences. Commercial loans generally involve a higher degree of credit risk than residential mortgage loans due, in part, to their larger average size and generally less readily-marketable collateral. Due to their size and the nature of their collateral, losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations. In addition, unlike residential mortgage loans, commercial loans generally depend on the cash flow of the borrower s business to service the debt. Furthermore, a significant portion of our loans is dependent for repayment largely on the liquidation of assets securing the loan, such as inventory and accounts receivable. These loans carry incrementally higher risk, since their repayment is often dependent solely on the financial performance of the borrower s business. Our business plan calls for continued efforts to increase our assets invested in commercial loans. An increase in non-performing loans could cause operating losses, impaired liquidity and the erosion of our capital, and could have a material adverse effect on our business, financial condition or results of operations.

If the value of real estate in our core Texas markets were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which would have a material adverse effect on us

The market value of real estate, particularly real estate held for investment, can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. As of June 30, 2002, approximately 42% of the collateral for the loans in our portfolio consisted of real estate. Of the real estate that collateralizes the loans in our portfolio, approximately one-third of the properties are real estate owned and occupied by businesses to which we have extended loans and the remaining two-thirds is real estate held for investment by the borrower. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could have a material adverse effect on our provision for loan losses and our operating results and financial condition.

We may be responsible for environmental claims and other related costs of property we acquire through foreclosure, which could adversely affect our profitability

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may acquire properties that secure loans as a result of foreclosure. There is a risk that hazardous or toxic waste could be found on such properties. In such event, we could be held responsible for the cost of cleaning up or removing such waste, and such cost could significantly exceed the value of the underlying properties and adversely affect our profitability. To date, we have not been required to perform any investigation or clean up activities with respect to, nor have we been subject to any environmental claims on, any loans held in our loan portfolio or other properties we acquired. Although we have a policy that requires us to perform an environmental review before initiating any foreclosure action on real property, there can be no assurance that this will be sufficient to detect all potential environmental hazards.

Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses

Experience in the banking industry indicates that a portion of our loans will become delinquent, some of which may only be partially repaid or may never be repaid at all. Despite our underwriting criteria, we experience losses for reasons beyond our control, such as general economic conditions. Although we believe that our allowance for loan losses is maintained at a level adequate to absorb any inherent losses in our loan portfolio, these estimates of loan losses are inherently subjective and their accuracy depends on the outcome of future events. We may need to make significant and unanticipated increases in our loss allowances in the future, which would materially affect our results of operations in that period.

Bank regulators may require us to increase our allowance for loan losses, which could have a negative effect on our financial condition and results of operations

Federal regulators, as an integral part of their respective supervisory functions, periodically review our allowance for loan losses. The regulatory agencies may require us to increase our provision for loan losses or to recognize further loan charge-offs based upon their judgments, which may be different from ours. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our financial condition and results of operations.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future

Most of the loans in our loan portfolio were originated within the past three years, and approximately 51% were originated within the past 18 months. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which is likely to be somewhat higher than current levels.

Until our portfolio becomes more seasoned, we must rely in part on the historical loan loss experience of other financial institutions and the experience of our management in determining our allowance for loan losses, and this may not be comparable to our loan portfolio

Because most of our loans in our loan portfolio were originated relatively recently, our loan portfolio does not provide an adequate history of loan losses for our management to rely upon in establishing our allowance for loan losses. We therefore rely to a significant extent upon other financial institutions histories of loan losses and their allowance for loan losses, as well as our management s estimates based on their experience in the banking industry, when determining our allowance for loan losses. There is no assurance that the history of loan losses and the reserving policies of other financial institutions and our management s judgment will result in reserving policies that will be adequate for our business and operations or applicable to our loan portfolio.

Our business faces unpredictable economic conditions

General economic conditions impact the banking industry. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success depends somewhat on factors beyond our control, including:

- national and local economic conditions;
- the supply and demand for investable funds;
- interest rates; and
- federal, state and local laws affecting these matters.

Any substantial deterioration in any of the foregoing conditions could have a material adverse effect on our financial condition and results of operations, which would likely adversely affect the market price of our common stock. Further, with the exception of our BankDirect customers which comprise 22% of our total deposits, our bank s customer base is primarily commercial in nature, and our bank does not have a significant branch network or retail deposit base. In periods of economic downturn, business and commercial deposits may tend to be more volatile than traditional retail consumer deposits and, therefore, during these periods our financial condition and results of operations could be adversely affected to a greater degree than those competitors that have a larger retail customer base.

Our business is concentrated in Texas and a downturn in the economy of Texas may adversely affect our business

Substantially all of our business is located in Texas. As a result, our financial condition and results of operations may be affected by changes in the Texas economy. A prolonged period of economic recession or other adverse economic conditions in Texas may result in an increase in nonpayment of loans and a decrease in collateral value.

We compete with many larger financial institutions which have substantially greater financial resources than we have

Competition among financial institutions in Texas is intense. We compete with other bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage banking companies, money market mutual funds, asset-based non-bank lenders and other financial institutions. Many of these competitors have substantially greater financial resources, lending limits and larger branch networks than we do, and are able to offer a broader range of products and services than we can. Failure to compete effectively for deposit, loan and other banking customers in our markets could cause us to lose market share, slow our growth rate and may have an adverse effect on our financial condition and results of operations.

Our future profitability depends, to a significant extent, upon revenue we receive from our middle market business customers and their ability to meet their loan obligations

At June 30, 2002, a substantial majority of our loan portfolio was comprised of loans to our middle market business customers. For the six month period ending June 30, 2002, a significant portion of our total interest and non-interest income was derived from middle market business customers. We expect that our future profitability will depend, to a significant extent, upon revenue we receive from middle market business customers, and their ability to continue to meet existing loan obligations. As a result, adverse economic conditions or other factors adversely affecting this market segment may have a greater adverse effect on us than on other financial institutions that have a more diversified customer base.

We compete in an industry that continually experiences technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us against damage from physical break-ins, security breaches and other disruptive problems caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and deter potential customers. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to protect customer transaction data. A failure of such security measures could have an adverse effect on our financial condition and results of operations.

Our success in the Internet banking market will largely depend on our ability to implement services competitive with similar services offered by other financial institutions

The success of our Internet banking products and services will depend in large part on our ability to implement and maintain the appropriate technology. This includes our ability to provide services competitive with banks that are already using the Internet. If we are unable to implement and maintain the appropriate technology efficiently, it could affect our results of operations and our ability to compete with financial institutions.

Our success in attracting and retaining retail consumer deposits depends on our ability to offer competitive rates and services

As of June 30, 2002, approximately 22% of our total deposits come from retail consumer customers through BankDirect, our Internet banking facility. The market for Internet banking is extremely competitive and allows retail consumer customers to access financial products and compare interest rates from numerous financial institutions located across the United States. As a result, Internet retail consumers are more sensitive to interest rate levels than retail consumers who bank at a branch office. Our future success in retaining and attracting retail consumer customers depends, in part, on our ability to offer competitive rates and services.

We could be adversely affected by changes in the regulation of the Internet

Our ability to conduct, and the cost of conducting, business may also be adversely affected by a number of legislative and regulatory proposals concerning the Internet, which are currently under consideration by federal, state, local and foreign governmental organizations. These proposals include, but are not limited to, the following matters:

- on-line content;
- user privacy;
- taxation;
- access charges;
- liability for third-party activities; and
- regulatory and supervisory authority.

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Moreover, it is uncertain how existing laws relating to these issues will be applied to the Internet. The adoption of new laws or the application of existing laws could decrease the growth in the use of the Internet, which could in turn decrease the demand for our services, increase our cost of doing business or otherwise have an adverse effect on our business, financial condition and results of operations. Furthermore, government restrictions on Internet content could slow the growth of Internet use and decrease acceptance of the Internet as a communications and commercial medium and thereby have an adverse effect on our financial condition and results of operations.

Risks related to our industry

We are subject to significant government regulation

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve System, or Federal Reserve, the Office of the Comptroller of the Currency, or OCC, and the Federal Deposit Insurance Corporation, or FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of stockholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. In addition, future legislation and government policy, including with respect to bank deregulation and interstate expansion, could adversely affect the banking industry as a whole, including our results of operations. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

Recent legislation will change the way financial institutions conduct their business; we cannot predict the effect it will have upon us

The Gramm-Leach-Bliley Financial Modernization Act was signed into law on November 12, 1999. Among other things, the Modernization Act repeals restrictions on banks affiliating with securities firms and insurance companies. It also permits bank holding companies that become financial holding companies to engage in additional financial activities, including insurance and securities underwriting and agency activities, merchant banking and insurance company portfolio investment activities. The Modernization Act may have the result of increasing the competition we face from larger banks and other companies. It is not possible to predict the full effect that the Modernization Act will have on us.

Risks related to an investment in our common stock

Our offering price may not be indicative of the fair market value of the common stock, and the future trading price of our stock may fluctuate

The public offering price may not indicate the market price for the common stock after this offering. We expect to determine the public offering price based on a variety of factors, including:

- prevailing market conditions;
- our historical performance and capital structure;
- estimates of our business potential and earnings prospects;
- an overall assessment of our management; and
- the consideration of these factors in relation to market valuation of companies in related businesses.

The offering price and aggregate number of shares being offered will be determined through our negotiations with the underwriters. No assurance can be given that you will be able to resell your shares at a price equal to or greater than the offering price or that the offering price will necessarily indicate the fair market value of our common stock.

The market price of our common stock may also be subject to significant fluctuations in response to our future operating results and other factors, including market conditions. In recent years, the stock market has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performances and prospects of individual companies.

If a market for our common stock does not develop, you may not be able to sell your shares at or above the offering price

Prior to this offering, a public market for our common stock did not exist. Although we have filed an application to have our common stock approved for listing on the Nasdaq National Market, there can be no assurance that an active trading market will develop or that purchasers of our common stock will be able to resell their common stock at prices equal to or greater than the initial public offering price. The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends upon the presence of a sufficient number of willing buyers and sellers at any given time, over which neither we nor any market maker has any control. Accordingly, there can be no assurance that an established and liquid market for the common stock will develop or be maintained.

Future sales of our common stock could depress the price of our common stock

Sales of a substantial number of shares of our common stock in the public market by our stockholders after this offering, or the perception that these sales are likely to occur, could cause the market price of our common stock to decline. Upon completion of this offering, we will have outstanding shares of our common stock. Of these shares, shares including the shares sold in this offering may be traded, without restriction, in the public market immediately after this offering is completed, and an additional shares will become freely tradable subject only to the volume restrictions of Rule 144, by , 2002. Upon the expiration of lock-up agreements entered into by our directors, officers and significant stockholders in connection with this offering, which will occur 180 days from the date of this prospectus, an additional shares will be eligible for sale in the public market, subject, in the case of our affiliates, to the volume restrictions of Rule 144.

As a new investor, you will incur substantial book value dilution as a result of this offering and future equity issuances could result in further dilution, which could cause our stock price to decline

The initial public offering price is substantially higher than the current net tangible book value of our outstanding common stock. As a result, investors purchasing common stock in this offering will incur immediate dilution of $ per share. This dilution is due in large part to earlier investors in our company having paid substantially less than the initial public offering price when they purchased their shares. The exercise of outstanding options and future equity issuances, including any additional shares issued in connection with acquisitions, could result in further dilution to investors.

Our existing management will maintain significant control over us following the offering

Immediately following this offering, our current officers and directors will beneficially own approximately % of the outstanding shares of our common stock, or approximately % if the underwriters exercise their over-allotment option in full. These percentages may increase to the extent that the officers and directors elect to purchase shares in connection with this offering. Accordingly, our current officers and directors will be able to influence, to a significant extent, the outcome of all matters required to be submitted to our stockholders for approval (including decisions relating to the election of directors), the determination of day-to-day corporate and management policies and other significant corporate transactions.

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We have not historically paid, and do not presently intend to pay, cash dividends

We have not paid any cash dividends on our common stock to date and do not intend to pay cash dividends on our common stock in the foreseeable future. We intend to retain earnings to finance operations and the expansion of our business. Therefore, any gains from your investment in our common stock must come from an increase in its market price.

We will be restricted in our ability to pay dividends to our stockholders

We are a holding company with no independent sources of revenue and would likely rely upon cash dividends and other payments from our bank to fund the payment of future cash dividends, if any, to our stockholders. Payment of dividends by the bank to us would be subject to the prior approval of the OCC if the total of all dividends declared by the bank in any calendar year exceeds the sum of the bank s net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. In addition, federal law also prohibits a national bank from paying dividends if it is, or such dividend payments would cause it to become, undercapitalized. At June 30, 2002, our bank was prohibited by these laws from paying any dividends to us without the OCC s prior approval. If the bank is restricted from paying cash dividends to us, we would likely not be able to pay cash dividends to our stockholders.

Anti-takeover provisions of our certificate of incorporation, bylaws and Delaware law may make it more difficult for you to receive a change in control premium

Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions include advance notice for nominations of directors and stockholders proposals. In addition, our certificate of incorporation authorizes the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval (unless otherwise required by the rules of any stock exchange on which our common stock is then listed), to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of our common stock. In the event of such issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control. Although we have no present intention to issue any shares of our preferred stock, there can be no assurance that we will not do so in the future. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation s outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

There are substantial regulatory limitations on changes of control

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

We have broad discretion to use the proceeds of this offering

We expect to use the net proceeds from this offering for the broadening of business lines, potential acquisitions in the financial and financial services industries and other general corporate purposes. Accordingly, we will have broad discretion as to the application of such proceeds. You will not have an opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use these net proceeds. Our failure to use these funds effectively could have an adverse effect on our financial condition and results of operations.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements based on our current expectations, assumptions, estimates and projections about our business and our industry. They include, but are not limited to, statements relating to:

- future revenues, expenses and profitability; and
- the future development and expected growth of our business.

You can identify forward-looking statements by the use of words such as may, should, will, could, estimates, predicts, potential, cont anticipates, believes, plans, expects, future and intends and similar expressions. This information does not guarantee future performance a subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. In evaluating forward-looking statements, you should carefully consider the risks and uncertainties described in Risk Factors and elsewhere in this prospectus. The forward-looking statements reflect our view only as of the date of this prospectus, and we do not assume any obligation to update or correct these forward-looking statements except to the extent we are required to do so by applicable law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this prospectus.

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USE OF PROCEEDS

Assuming a public offering price of $ per share, we expect to receive net proceeds of $ million from this offering after deducting the underwriting discount and estimated offering expenses. We will not receive any proceeds from shares of our common stock sold by the selling stockholders in this offering.

We intend to use the net proceeds for general corporate purposes, including to finance the growth of our business. We may also use a portion of the proceeds for acquisitions or for the opening of select banking locations. However, we have no present understanding, agreement or definitive plans relating to any specific acquisitions or openings of any banking locations.

The principal purposes of this offering are to raise capital, create a public market for our common stock, enhance our ability to acquire other businesses, products and technologies and facilitate future access to public securities markets.

We have not yet determined the amount of net proceeds to be used specifically for each of the foregoing purposes. Accordingly, our management will have significant flexibility in applying the net proceeds of the offering. Pending their use as described above, we may invest the net proceeds of this offering in interest-bearing investment-grade instruments or bank deposits.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business.

In addition, we are a holding company and our principal source of funds to pay dividends, if any, in the future and make other payments will be the payment of dividends by our bank to us. As a national bank, our bank is subject to various restrictions under federal law on its ability to pay dividends and make other distributions and payments to us. These are described under Regulation and Supervision.

Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements, federal banking regulations, Delaware law, and other factors that our board of directors deems relevant.

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CAPITALIZATION

The following table presents our capitalization as of June 30, 2002, as adjusted for the one-for-one stock dividend declared on July 30, 2002. Our capitalization is presented:

on an actual basis; and

on a pro forma basis to reflect:

our receipt of the estimated net proceeds of $ from the sale of shares of common stock by us in this offering at an estimated initial public offering price of $ per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses of $; and

the conversion of each outstanding share of Series A-1 Nonvoting Common Stock into shares of voting common stock, which we expect will occur concurrently with the closing of the offering.

You should read this table in conjunction with the consolidated financial statements and related notes that are included in this prospectus.

	As of June 30, 2002	
	Actual	**Pro Forma**
	(In thousands, except share data)	
Liabilities		
Deposits		
Non-interest bearing	$ 159,503	
Interest bearing	820,794	
Total deposits	980,297	
Accrued interest payable	3,042	
Other liabilities	4,863	
Federal funds purchased	52,087	
Other borrowings	102,442	
Total liabilities	1,142,731	
Stockholders equity:		
Preferred stock, $.01 par value		
Authorized shares 10,000,000		
Issued shares 1,057,142 (Convertible preferred stock, non-voting, $.01 par value, 6%)	11	
Common stock, $.01 par value:		
Authorized shares 100,000,000		
Voting common stock:		
Issued shares 18,461,046 (actual)	184	
Series A-1 non-voting common stock:		
Issued shares 697,166 (actual)	7	
Additional paid-in capital	132,195	
Accumulated deficit	(17,313)	
Treasury stock (shares at cost: 94,834 (actual))	(650)	
Deferred compensation	573	
Accumulated other comprehensive income	3,036	
Total stockholders equity	118,043	

Total capitalization	$ 1,260,774	

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the selected consolidated 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 prospectus.

We formed our wholly-owned subsidiary bank through the acquisition of Resource Bank, N.A. 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.

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	March 1, 1998 (Inception) through December 31, 1998
		(Unaudited)				
		(In thousands, except per share, average share and percentage data)				
Selected Operating Data(1):						
Interest income	$ 32,013	$ 35,689	$ 70,594	$ 55,769	$ 14,414	$ 213
Interest expense	12,405	19,659	35,539	32,930	6,166	32
Net interest income	19,608	16,030	35,055	22,839	8,248	181
Provision for loan losses	1,979	2,122	5,762	6,135	2,687	1
Net interest income after provision for loan losses	17,629	13,908	29,293	16,704	5,561	180
Non-interest income	3,656	2,715	5,983	1,957	358	4
Non-interest expense	16,780	14,920	29,432	35,158	15,217	923
Income (loss) before taxes	4,505	1,703	5,844	(16,497)	(9,298)	(739)
Income tax expense	1,128					
Net income (loss)	3,377	1,703	5,844	(16,497)	(9,298)	(739)
Selected Balance Sheet Data(1):						
Total assets	1,260,774	1,016,701	1,164,779	908,428	408,579	89,311
Loans	944,731	816,390	903,979	629,109	227,600	11,092
Securities available for sale	270,085	167,054	206,365	184,952	164,409	3,171
Securities held to maturity				28,366		
Deposits	980,297	822,090	886,077	794,857	287,068	16,018
Federal funds purchased	52,087	56,995	76,699	11,525		
Other borrowings	102,442	39,151	86,899	7,061	46,267	
Stockholders equity	118,043	89,403	106,359	86,197	72,912	73,186
Other financial data(4):						
Income (loss) per share:						
Basic	$ 0.15	$ 0.09	$ 0.31	$ (0.95)	$ (0.61)	*
Diluted	0.15	0.09	0.30	(0.95)	(0.61)	*
Tangible book value per share	5.77	4.61	5.27	4.46	4.67	5.37
Book value per share	5.84	4.69	5.35	4.54	4.79	5.51
Selected Financial Ratios:						
Performance Ratios(2):						
Return on average assets	0.56%	0.37%	0.58%	(2.42%)	(4.45%)	(5.83%)(5)
Return on average equity	6.02%	3.91%	6.44%	(20.02%)	(12.13%)	(12.52%)(5)
Net interest margin	3.47%	3.61%	3.62%	3.51%	4.12%	5.65%(5)
Efficiency ratio (3)	72.13%	79.59%	71.72%	141.79%	176.82%	205.18%(5)
Non-interest expense to average assets	2.79%	3.20%	2.90%	5.15%	7.28%	10.64%(5)
Weighted average shares:						
Basic	19,135,782	18,909,656	18,957,652	17,436,628	15,132,496	*
Diluted	19,338,906	19,081,854	19,177,204	17,436,628	15,132,496	*
Asset Quality Ratios(2):						
Net charge-offs to average loans	0.56%	0.10%	0.26%			
Allowance for loan losses to total loans	1.28%	1.31%	1.39%	1.42%	1.22%	0.90%
Allowance for loan losses to non-performing loans	178.88%	105.89%	110.23%			
Non-performing and renegotiated assets to total loans and other real estate owned	0.72%	1.24%	1.26%			
Capital and Liquidity Ratios:						

Total capital ratio	11.99%	10.28%	11.73%	10.98%	23.84%	267.01%
Tier 1 capital ratio	10.83%	9.16%	10.48%	9.94%	22.98%	266.64%
Tier 1 leverage ratio	9.27%	8.98%	9.46%	9.62%	21.32%	397.86%
Average equity/average assets	9.34%	9.36%	8.93%	12.07%	36.67%	46.58%(5)
Tangible equity/assets	9.24%	8.60%	9.00%	9.31%	17.42%	79.85%
Average loans/average deposits	96.08%	89.91%	95.54%	72.92%	81.12%	68.36%(5)

(1) The consolidated statement of operations data and consolidated balance sheet data presented above for the six month period ended June 30, 2002 and for the three 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. The operating results for the six month period ended June 30, 2002 are not necessarily indicative of the results to be achieved for the full year. Interim results reflect all adjustments necessary for a fair statement of the results of operations and balances for the interim periods presented. Such adjustments are of a normal recurring nature.

(2) Interim period ratios are annualized.

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

(4) Amounts have been adjusted to reflect the one-for-one stock dividend, which was declared on July 30, 2002 and which will be paid prior to the closing of the offering, pursuant to which each stockholder will receive one additional share of common stock for each share of common stock owned as of July 30, 2002.

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

* 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
Income (loss) before taxes	(346)	(222)
Income tax expense		
Net income (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

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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® 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 the first half of 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® 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 June 30, 2002, BankDirect provided a significant, but not primary, source of funding for us, accounting for approximately 22% 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, 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	$ 35,055	53%	$ 22,839	177%	$ 8,248	815%
Net income (loss)	5,844	135%	(16,497)	*	(9,298)	*
Assets	1,164,779	28%	908,428	122%	408,579	357%
Loans	903,979	44%	629,109	176%	227,600	1,952%
Deposits	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:

- we have successfully grown our asset base significantly each year while concurrently shifting the mix toward higher-earning commercial loans;
- we have been able to maintain stable and diverse funding sources, resulting in relatively steady margins from 2000 onward, despite a falling interest rate environment and the fact that most of our loans have floating interest rates;
- the growth in our asset base, coupled with margin stability, has resulted in annual growth of 815%, 177% and 53% in our principal earnings source, net interest income, in 1999, 2000 and 2001, respectively; and
- 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 72.1% during the first six months of 2002.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

We recorded net income of $3.4 million, net of $1.1 million in income tax expense, or $0.15 per diluted common share, for the six months ended June 30, 2002 compared to $1.7 million, or $0.09 per diluted common share, for the same period of 2001. Return on average assets was 0.56% for the six months ended June 30, 2002 compared to 0.37% for the same period of 2001. Return on average equity was 6.02% and 3.91% for the six months ended June 30, 2002 and 2001, respectively.

The increase in net income for the six months ended June 30, 2002 over the same period of 2001 was primarily due to an increase in both net interest income and non-interest income. Net interest income increased by $3.6 million, or 22.3%, from $16.0 million for the six months ended June 30, 2001 to $19.6 million for the six months ended June 30, 2002. The increase in net interest income was due to an increase in average earning assets of $244.8 million, or 27.3%, which offset a 14 basis point decrease in the net interest margin.

Non-interest income increased by $941,000, or 34.7%, from $2.7 million during the six months ended June 30, 2001 to $3.7 million during the same period of 2002. This increase was primarily due to approximately $993,000 of cash processing fees associated with a special cash management project for a client in the first quarter of 2002, which will not be recurring in future quarters in 2002. Our service charge income increased by

$544,000, from $801,000 for the six month period ended June 30, 2001 to $1,345,000 for the same period in 2002, due to an overall increase in deposits, especially non-interest bearing accounts which generate service charge income. We had no gains on sales of securities in the first six months of 2002 compared to $981,000 in the same period of 2001. Other 2002 increases in non-interest income were in trust fee income and other income, which includes mortgage warehousing fees and gain on sale of leases.

Non-interest expense increased by $1.9 million, or 12.5%, from $14.9 million during the six months ended June 30, 2001 to $16.8 million during the same period of 2002. This increase was partially due to an increase in salaries and employee benefits of $338,000, and an increase of $253,000 in occupancy expense related to the relocation of our operations center. Advertising expense increased $384,000, from $178,000 during the six month period ended June 30, 2001 to $562,000 during the six months ended June 30, 2002, which included $289,000 of direct marketing and branding, including print ads for the traditional banking activities of our bank, and $273,000 for the purchase of miles related to the American Airlines AAdvantage® program. In May 2000, BankDirect entered the American Airlines AAdvantage travel benefits program and began offering AAdvantage awards to AAdvantage members who opened and maintained accounts with BankDirect. 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 mile rewards to customers for 2001. Our legal and professional expenses increased $624,000 to $1.5 million for the six months ended June 30, 2002, mainly related to legal expenses incurred in connection with non-performing loans and leases.

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® minimum mile requirements of $1.1 million and co-branded advertising with American Airlines AAdvantage® 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.

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Year ended December 31, 2000 compared to year ended December 31, 1999

We recorded a net loss of $16.5 million for 2000 compared to $9.3 million for 1999. Basic and diluted loss per common share were $0.95 for 2000 and $0.61 for 1999. Returns on average assets and average equity were (2.42)% and (20.02)%, respectively, for 2000 compared to (4.45)% and (12.13)%, respectively, for 1999.

The increase in net loss for 2000 as compared to 1999 was due to an increase of $19.9 million, or 131%, in non-interest expenses, related primarily to the infrastructure that we established to support the traditional banking activities of our bank and BankDirect and an increase in our loan loss provision of $3.4 million. Net interest income increased by $14.6 million to $22.8 million for 2000 compared to $8.2 million for 1999. The increase in net interest income was primarily due to an increase of $451.4 million in average earning assets.

Non-interest income increased by $1.6 million in 2000 to $2.0 million compared to $358,000 in 1999. The increase was, in part, due to an overall increase in deposits for 2000, which resulted in more service charges on deposit accounts. Also, our trust income increased by $416,000, from $158,000 in 1999 to $574,000 for 2000. Other non-interest income increased by $803,000 in 2000, primarily related to letter of credit fees, merchant fee income, investment fees, and rental income.

Non-interest expense increased in 2000 to $35.2 million compared to $15.2 million in 1999. The increase was due primarily to the infrastructure that was established in 2000, which included an increase in total full time employees from 139 at December 31, 1999 to 234 at December 31, 2000. The number of BankDirect employees increased from 14 at December 31, 1999 to 40 at December 31, 2000, which accounted for 27.4% of the total increase in full-time employees from 1999 to 2000. Also, our advertising expenses increased to $4.2 million in 2000 compared to $2.1 million in 1999. 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® minimum mile requirements of $1.1 million and co-branded advertising with American Airlines AAdvantage® of $752,000. The $2.1 million in advertising expenses in 1999 included direct marketing and branding for the traditional banking activities of our bank of approximately $900,000 and for BankDirect of $1.2 million. Also, the accrual of the $1.8 million contingent liability related to the merchant card processing arrangement discussed above increased our non-interest expense in 2000.

Net Interest Income

Net interest income was $19.6 million for the six months ended June 30, 2002 compared to $16.0 million for the same period of 2001. The increase was primarily due to an increase in average earning assets of $244.8 million for the first six months of 2002 as compared to the same period of 2001. The increase in average earning assets from the first six months of 2001 included a $174.0 million increase in average net loans, which represented 77.0% of average earning assets for the six months ended June 30, 2002 compared to 78.6% for the same period of 2001. The decrease reflected management s decision to tighten lending standards during the second half of 2001 pending clearer signs of improvement in the U.S. economy. Average interest bearing liabilities increased $200.2 million in the first six months of 2002 compared to the same period of 2001, due, in part, to an $83.2 million increase in interest bearing deposits and a $117.0 million increase in borrowings. Average borrowings were 14.6% of average total assets for the first six months of 2002 compared to 6.4% in the same period 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 5.25% for the six months ended June 30, 2001 to 2.62% for the same period of 2002, reflecting the continuing decline in market interest rates.

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.

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Average interest bearing liabilities also increased by $269.9 million during 2001 compared to 2000. In addition, 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.

Net interest income totaled $22.8 million for 2000 compared to $8.2 million for 1999. The increase in net interest income was primarily due to a significant increase in average earning assets. Average earning assets increased by $451.4 million during 2000, primarily due to growth related to our focus on middle market commercial customers and an investment of additional funds in securities. Additionally, the mix of earning assets improved during 2000. Average loans, which generally have higher yields than other types of earning assets, increased to 64.5% of average earning assets in 2000 compared to 48.7% of average earning assets in 1999.

Average interest bearing liabilities increased by $428.2 million during 2000 compared to 1999. In addition, interest bearing deposits increased by $419.9 million, and borrowings increased by $8.3 million. Average borrowings were 2.9% of average total assets for 2000 compared to 5.4% for 1999. The average cost of interest bearing liabilities increased in 2000 to 6.02% from 5.18% in 1999. The increase was mainly due to the significant growth in higher cost BankDirect deposits during 2000. Growth in BankDirect deposits accounted for approximately $237.1 million, or 55.4%, of the $428.2 million increase in average interest bearing liabilities in 2000.

Volume/Rate Analysis

	Six Months Ended June 30,			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
	(In Thousands)								
Interest income:									
Securities	$ 965	$ 2,145	$ (1,180)	$ (2,848)	$ (1,811)	$ (1,037)	$ 8,048	$ 6,820	$ 1,228
Loans	(4,368)	7,369	(11,737)	18,954	34,432	(15,478)	31,989	27,516	4,473
Federal funds sold	(267)	99	(366)	(1,198)	(846)	(352)	1,227	820	407
Deposits in other banks	(6)	(6)		(83)	1	(84)	91	8	83
	(3,676)	9,607	(13,283)	14,825	31,776	(16,951)	41,355	35,164	6,191
Interest expense:									
Transaction deposits	(223)	154	(377)	383	584	(201)	456	305	151
Savings deposits	(5,622)	(801)	(4,821)	(2,621)	4,497	(7,118)	13,787	11,461	2,326
Time deposits	(2,346)	3,257	(5,603)	2,295	5,734	(3,439)	11,897	9,706	2,191
Borrowed funds	937	2,818	(1,881)	2,553	5,218	(2,665)	624	448	176
	(7,254)	5,428	(12,682)	2,610	16,033	(13,423)	26,764	21,920	4,844
Net interest income	$ 3,578	$ 4,179	$ (601)	$ 12,215	$ 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, the ratio of net interest income to average earning assets, was 3.47% for the six months ended June 30, 2002 compared to 3.61% for the same period of 2001. The decrease in the net interest margin during the six months ended June 30, 2002 was due to the overall decline in market interest rates.

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 27.7% 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.

Net interest margin decreased from 4.12% in 1999 to 3.51% in 2000. This decrease was due primarily to the effect of competitive pricing on loans in our primary markets, as well as a focus toward middle market lending, which are more aggressively priced. In addition, the cost of interest bearing liabilities increased by 84 basis points in 2000 compared to 1999, primarily due to higher interest rates offered.

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Consolidated Daily Average Balances, Average Yields and Rates

	Six Months Ended June 30,					
	2002			2001		
	Average Balance	Revenue/ Expense(1)	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate
	(In Thousands, except percentage data)					
Assets						
Taxable securities	$ 241,165	$ 6,505	5.44%	$ 173,843	$ 5,540	6.43%
Federal funds sold	20,850	179	1.73%	17,062	446	5.27%
Deposits in other banks	161	3	3.76%	450	9	4.03%
Loans	891,126	25,326	5.73%	713,958	29,694	8.39%
Less reserve for loan losses	12,919			9,728		
Loans, net	878,207	25,326	5.82%	704,230	29,694	8.50%
Total earning assets	1,140,383	32,013	5.66%	895,585	35,689	8.04%
Cash and other assets	70,312			43,200		
Total assets	$ 1,210,695			$ 938,785		
Liabilities and stockholders equity						
Transaction deposits	$ 49,007	$ 243	1.00%	$ 36,826	$ 466	2.55%
Savings deposits	334,780	3,101	1.87%	368,613	8,723	4.77%
Time deposits	395,618	6,689	3.41%	290,798	9,035	6.27%
Total interest bearing deposits	779,405	10,033	2.60%	696,237	18,224	5.28%
Other borrowings	176,578	2,372	2.71%	59,573	1,435	4.86%
Total interest bearing liabilities	955,983	12,405	2.62%	755,810	19,659	5.25%
Demand deposits	134,597			87,001		
Other liabilities	7,012			8,102		
Stockholders equity	113,103			87,872		
Total liabilities and stockholders equity	$ 1,210,695			$ 938,785		
Net interest income		$ 19,608			$ 16,030	
Net interest income to average earning assets (net interest margin)			3.47%			3.61%
Net interest spread			3.04%			2.79%

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

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	Year ended December 31,								
	2001			2000			1999		
	Average Balance	Revenue/ Expense (1)	Yield/ Rate	Average Balance	Revenue/ Expense(2)	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate
	(In Thousands, except percentage data)								
Assets									
Taxable securities	$ 175,945	$ 10,760	6.12%	$ 202,955	$ 13,608	6.70%	$ 91,092	$ 5,560	6.10%
Federal funds sold	14,688	580	3.95%	28,025	1,778	6.34%	11,260	551	4.89%
Deposits in other banks	351	18	5.13%	348	101	29.02%	193	10	5.18%
Loans	787,879	59,236	7.52%	424,782	40,282	9.48%	98,408	8,293	8.43%
Less reserve for loan losses	10,335			4,619			874		
Loans, net	777,544	59,236	7.62%	420,163	40,282	9.59%	97,534	8,293	8.50%
Total earning assets	968,528	70,594	7.29%	651,491	55,769	8.56%	200,079	14,414	7.20%
Cash and other assets	47,789			31,023			8,951		
Total assets	$ 1,016,317			$ 682,514			$ 209,030		
Liabilities and stockholders equity									
Transaction deposits	$ 40,673	$ 905	2.23%	$ 19,198	$ 522	2.72%	$ 3,417	$ 66	1.93%
Savings deposits	360,865	13,885	3.85%	283,594	16,506	5.82%	54,423	2,719	5.00%
Time deposits	312,826	16,969	5.42%	224,933	14,675	6.52%	50,020	2,778	5.55%
Total interest bearing deposits	714,364	31,759	4.45%	527,725	31,703	6.01%	107,860	5,563	5.16%
Other borrowings	102,840	3,780	3.68%	19,579	1,227	6.27%	11,251	603	5.37%
Total interest bearing liabilities	817,204	35,539	4.35%	547,304	32,930	6.02%	119,111	6,166	5.18%
Demand deposits	99,471			48,483			12,371		
Other liabilities	8,878			4,326			899		
Stockholders equity	90,764			82,401			76,649		
Total liabilities and stockholders equity	$ 1,016,317			$ 682,514			$ 209,030		
Net interest income		$ 35,055			$ 22,839			$ 8,248	
Net interest income to average earning assets (net interest margin)			3.62%			3.51%			4.12%
Net interest spread			2.94%			2.54%			2.02%

(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

	Six Months Ended June 30,		Year Ended December 31,		
	2002	2001	2001	2000	1999
	(Unaudited)				
	(In Thousands)				

Service charges on deposit accounts	$ 1,345	$ 801	$ 1,857	$ 487	$ 127
Trust fee income	492	404	826	574	158
Gain (loss) on sale of securities		981	1,902	19	(1)
Cash processing fees	993				
Other	826	529	1,398	877	74
Total non-interest income	$ 3,656	$ 2,715	$ 5,983	$ 1,957	$ 358

Non-interest income increased $941,000, or 35%, in the first six months of 2002 as compared to the first six months of 2001. Service charges on deposit accounts increased $544,000 for the six month period ended June 30,

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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 $88,000 due to continued growth of trust assets during 2002. Cash processing fees totaled $993,000 for the six month period ended June 30, 2002. These fees were related to a special project that occurred during the first quarter of 2002 and will not be recurring in future quarters in 2002. Other non-interest income increased by $297,000 due to mortgage warehousing fees and gains on sales of leases.

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, which are included in non-interest income, 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.

Non-interest income for the year ended December 31, 2000 increased $1.6 million, or 447%, to $2.0 million compared with $358,000 in 1999. Service charges on deposit accounts increased $360,000, or 283%, due to the large increase in total deposits, which resulted in a higher volume of transactions. Service charges on deposit accounts contributed 24.9% of our non-interest income for 2000 compared to 35.5% in 1999. Trust fee income contributed 29.3% of non-interest income for 2000 compared to 44.1% for 1999. Our trust department was formed during 1999. Other non-interest income increased by $803,000, or 1085%, as compared to 1999, due to letter of credit fees, merchant fee income, investment fees, and rental income.

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

	Six Months Ended June 30,		Year Ended December 31,		
	2002	**2001**	**2001**	**2000**	**1999**
		(Unaudited)			
			(In Thousands)		
Salaries and employee benefits	$ 8,329	$ 7,991	$ 15,033	$ 15,330	$ 7,761
Net occupancy expense	2,553	2,300	4,795	4,122	1,825
Advertising and affinity payments	562	178	278	4,182	2,112
Legal and professional	1,451	827	1,898	2,823	1,067
Communications and data processing	1,400	1,445	2,930	1,804	496
Franchise taxes	47	66	120	145	181
Other expense(1)	2,438	2,113	4,378	6,752	1,775
Total non-interest expense	$ 16,780	$ 14,920	$ 29,432	$ 35,158	$ 15,217

(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 six months ended June 30, 2002 increased $1.9 million, or 12.5%, compared to the same period of 2001. Salaries and employee benefits increased by $338,000 or 4.23% which accounts for 18.2% of the increase in non-interest expense.

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Net occupancy expense for the six months ended June 30, 2002 increased by $253,000, or 11.0%, mainly related to the relocation of our operations center in the last quarter of 2001.

Advertising expense for the six months ended June 30, 2002 increased $384,000, or 215.7%, compared to the same period of 2001. Advertising expense for the six months ended June 30, 2002 included $289,000 of direct marketing and branding, including print ads for the traditional bank, and $273,000 for the purchase of miles related to the American Airlines AAdvantage® program. 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 $624,000 or 75.5%, mainly related to legal expenses incurred with our non-performing loans and leases. Communications and data processing expense for the six months ended June 30, 2002 decreased $45,000, or 3.1%, due to some increased efficiencies in our communications costs.

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® 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.

Non-interest expense totaled $35.2 million for 2000 compared to $15.2 million in 1999, an increase of 131.0%. Approximately $7.6 million, or 38.0%, of this increase was related to salary and employee benefits. Total full time employees increased from 139 at December 31, 1999 to 234 at December 31, 2000. The number of BankDirect employees increased from 14 to 40 from 1999 to 2000, accounting for 27.4% of the total increase in full-time employees. This increase was due to the continued creation of infrastructure for the traditional bank and BankDirect.

Net occupancy expense for 2000 increased $2.3 million or 126%. The increase was primarily due to our use of our Dallas and Fort Worth locations for the entire year and the establishment of our Austin and San Antonio locations during the year.

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Advertising expense for 2000 totaled $4.2 million compared to $2.1 million in 1999. Advertising expense includes direct marketing with print and online ads, branding for the traditional bank and BankDirect, and co- branding and minimum mileage purchases related to the American Airlines AAdvantage® program. Legal and professional expense for 2000 totaled $2.8 million compared to $1.1 million in 1999. This increase was partially due to costs related to obtaining final regulatory approval for the formation of a state chartered savings bank mentioned above, an investment banking fee related to BankDirect, and normal legal and professional expenses related to operations. The amount also includes a $150,000 accrual related to legal expenses associated with the $1.8 million contingent liability described above. Communications and data processing expenses increased to $1.8 million in 2000, as compared to $496,000 in 1999. This increase was due to the strong growth in our loans and deposits, which created significantly more transactions to be processed. Included in other expenses in 2000 is a $1.8 million contingent liability related to the agreement to provide merchant card processing described above.

Income Taxes

We are utilizing net operating loss carryforwards for the first six months of 2002, but have expensed $1.1 million of current tax expense based on the expected effective rate for 2002.

As we incurred net operating losses for 2000 and 1999, 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 June 30, 2002, we had a net deferred tax asset of $3.3 million, with a reserve of $5.2 million. At December 31, 2001 and 2000, we had a net deferred tax asset of $7.0 million and $9.1 million, respectively, with a reserve equal to those amounts. Net operating loss carryforwards at June 30, 2002, December 31, 2001 and 2000 were $1.3 million, $6.3 million and $13.3 million, respectively.

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 miles and co-branded advertising with American Airlines AAdvantage. 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.

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THE TRADITIONAL BANK

	Six Months Ended June 30,		Year Ended December 31,		
	2002	2001	2001	2000	1999
		(Unaudited)			
		(In Thousands, except percentage data)			
Net interest income	$ 18,798	$ 15,944	$ 34,344	$ 20,860	$ 8,132
Provision for loan losses	1,979	2,122	5,762	6,135	2,687
Non-interest income	3,583	2,512	5,671	1,927	356
Non-interest expense	15,068	12,576	25,431	24,288	12,149
Net income (loss)	$ 5,334	$ 3,758	$ 8,822	$ (7,636)	$ (6,348)
Average assets	$ 1,210,787	$ 938,770	$ 1,016,301	$ 682,497	$ 196,825
Total assets	1,260,258	1,016,685	1,164,763	908,412	357,072
Return on average assets	0.89%	0.81%	0.87%	(1.12)%	(3.22)%

BANKDIRECT

	Six Months Ended June 30,		Year Ended December 31,		
	2002	2001	2001	2000	1999
		(Unaudited)			
			(In Thousands)		
Net interest income	$ 810	$ 86	$ 711	$ 1,901	$ 100
Non-interest income	73	203	312	30	2
Non-interest expense	1,289	1,795	2,985	8,692	1,878
Net loss	$ (406)	$ (1,506)	$ (1,962)	$ (6,761)	$ (1,776)

Analysis of Financial Condition

Loan Portfolio. Our loan portfolio has grown at an annual rate of 1,952%, 176% and 44% in 1999, 2000 and 2001, 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 73.1% of total loans at June 30, 2002. Construction loans have decreased from 41.1% of the portfolio at December 31, 1998 to 18.0% of the portfolio at June 30, 2002. Consumer loans have decreased from 10.5% of the portfolio at December 31, 1998 to 2.3% of the portfolio at June 30, 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 customer interest in the product.

We originate substantially all of the loans 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:

Texas Capital Bancshares						Resource Bank
At June 30,		At December 31,				At December 31,
2002	2001	2001	2000	1999	1998	1997

	(Unaudited)						
				(In Thousands)			
Commercial	$ 452,133	$ 399,083	$ 402,302	$ 325,774	$ 152,749	$ 2,227	$ 1,119
Construction	170,271	133,647	180,115	83,931	11,565	4,554	
Real estate	238,901	187,916	218,192	164,873	51,779	3,142	352
Consumer	21,436	50,486	25,054	36,092	10,865	1,169	61
Leases receivable	24,164	45,258	34,552	17,093	642		
Loans held for sale	37,826		43,764	1,346			
Total	$ 944,731	$ 816,390	$ 903,979	$ 629,109	$ 227,600	$ 11,092	$ 1,532

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We continue to lend primarily in Texas. As of June 30, 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 within this area. Within the loan portfolio, loans to the services industry were $395.6 million, or 41.9%, of total loans at June 30, 2002. Other notable concentrations include $103.1 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 $124.5 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 June 30, 2002.

Loan Maturity and Interest Rate Sensitivity at June 30, 2002

		Remaining Maturities of Selected Loans		
	Total	**Within 1 Year**	**1-5 Years**	**After 5 Years**
		(In Thousands)		
Loan maturity:				
Commercial	$ 452,133	$ 220,380	$ 219,698	$ 12,055
Construction	170,271	111,214	50,001	9,056
Total	$ 622,404	$ 331,594	$ 269,699	$ 21,111
Interest rate sensitivity for selected loans with:				
Predetermined interest rates	$ 30,969	$ 8,312	$ 20,083	$ 2,574
Floating or adjustable interest rates	591,435	323,282	249,616	18,537
Total	$ 622,404	$ 331,594	$ 269,699	$ 21,111

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 $2.0 million for the six months ended June 30, 2002, $5.8 million for 2001, $6.1 million for 2000, and $2.7 million for 1999. 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 continuously 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 June 30, 2002, there were $18.8 million in loans rated substandard or worse that are not included as non-accrual or 90 days past due and still accruing. As of December 31, 2001, there were $16.6 million in loans rated substandard or worse that are not included as non-accrual or 90 days past due and still accruing or renegotiated. 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

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losses to differ from past experience. The unallocated portion of the general reserve serves to compensate for additional areas of uncertainty and consider industry comparable reserve ratios. 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 continuously 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 $12.1 million at June 30, 2002, $12.6 million at December 31, 2001, $8.9 million at December 31, 2000 and $2.8 million at December 31, 1999. This represents 1.28%, 1.39%, 1.42% and 1.22% of total loans at June 30, 2002 and at December 31, 2001, 2000 and 1999, 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						Resource Bank	
	Six Months Ended June 30,		Year Ended December 31,			Inception (March 1, 1998) through December 31, 1998	January 1, 1998 through December 18, 1998	Inception through December 31, 1997
	2002	2001	2001	2000	1999			
		(Unaudited)						
	(In Thousands, except percentage and multiple data)							
Beginning balance	$ 12,598	$ 8,910	$ 8,910	$ 2,775	$ 100	$	$ 30	$
Loans charged-off:								
Commercial	2,000		1,418					
Consumer	6				12			
Leases	485	353	656					
Total	2,491	353	2,074		12			
Recoveries:								
Consumer	10							
Net charge-offs	2,481	353	2,074		12			
Provision for loan losses	1,979	2,122	5,762	6,135	2,687	1	69	30
Additions due to acquisition of Resource Bank						99		
Ending balance	$ 12,096	$ 10,679	$ 12,598	$ 8,910	$ 2,775	$ 100	$ 99	$ 30
Reserve for loan losses to loans outstanding at period-end	1.28%	1.31%	1.39%	1.42%	1.22%	0.90%	0.89%	1.96%
Net chargeoffs to average loans(1)	0.56%	0.10%	0.26%		0.01%			
Provision for loan losses to average loans(1)	0.45%	0.60%	0.73%	1.44%	2.73%	1.03%(3)	1.03%(3)	22.72%
Recoveries to gross charge-offs	0.40%							
Reserve as a multiple of net charge- offs	4.9x	30.3x	6.1x		231.3x			

Non-performing and renegotiated loans:								
Loans past due (90 days)	$	$ 1,661	$ 384	$	$	$ 15	$	$
Non-accrual(2)	6,762	8,424	6,032					
Renegotiated			5,013					
Total	$ 6,762	$ 10,085	$ 11,429	$	$	$ 15	$	$
Reserve as a percent of non-performing and renegotiated loans	178.88%	105.89%	110.23%			666.67%		

(1) Interim period ratios are annualized.

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(2) The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately $202,000 for the six months ended June 30, 2002 and $0 for 2001.

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

Loan Loss Reserve Allocation

Texas Capital Bancshares