Prosperity Bancshares, Inc. & Prosperity Bank - Dodd-Frank Act Stress Test Disclosure

Prosperity Bancshares, Inc. ® ("Prosperity"), with $22.1 billion in assets as of September 30, 2017 is a Houston, Texas based regional financial holding company, formed in 1983. Operating under a community banking philosophy and seeking to develop broad customer relationships based on service and convenience, Prosperity offers a variety of traditional loan and deposit products to its customers, which consist primarily of small and medium sized businesses and consumers. Prosperity has 243 full-service banking centers throughout Texas and Oklahoma.

This summary disclosure of stress test results is required by regulations adopted by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") implementing the requirements of Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The following results reflect *pro forma* capital ratios, select income statement line items, and other related information for Prosperity and Prosperity Bank (the "Bank") as a result of the impact of the Federal Reserve Board's supervisory severely adverse economic scenario as estimated by Prosperity. As prescribed by regulatory guidance, the effective period of the Dodd-Frank Act Stress Test is from December 31, 2016 through March 31, 2019, which is referred to herein as the forecast horizon. For materiality purposes, Prosperity only owns a single asset, Prosperity Bank.

Regulatory Provided Dodd-Frank Act Stress Test Assumptions for Severely Adverse Scenario

It is important to note that the supervisory severely adverse scenario is a hypothetical scenario that involves economic conditions that are more adverse than actually expected by the Federal Reserve Board or Prosperity. Accordingly, this scenario is not a forecast of anticipated economic conditions, nor are the estimates produced under the company-run stress test forecasts of expected losses, revenues, net income before taxes, or capital ratios. Rather, this scenario is a hypothetical scenario designed by regulators to impose specific stresses on banks to help assess the strength and resilience of financial institutions and their ability to continue to meet the credit needs of households and businesses in the event severe economic and financial environments were to develop.

The supervisory severely adverse scenario includes an increase in the unemployment rate of over 5 percentage points, GDP contraction in five of the nine quarters, and significant declines in housing and equity prices. Short-term interest rates in the supervisory severely adverse scenario fall to nearly zero throughout the forecast horizon, with yields on 10-year U.S. Treasury notes starting at a low of 0.8 percent in Q1 2017, and then rising gradually over the remainder of the forecast horizon. During the forecast horizon, mortgage rates gradually rise, peak at 4.6%, and then fall near original levels. A full description of the supervisory severely adverse scenario can be found on the Federal Reserve Board's website.

Prosperity Dodd-Frank Act Stress Test Assumptions

Under the Federal Reserve Board's regulations implementing the stress testing requirements established by the Dodd-Frank Act, bank holding companies, such as Prosperity, must assume a standard set of capital actions over the forecast horizon. The use of a standard set of capital actions is intended to assist the public in assessing stress test results disclosed by the various institutions subject to the stress test requirements.

More specifically, the capital action assumptions for Prosperity consist of:

1) quarterly common stock dividends of approximately $0.34 per share for each quarter beginning with the first quarter of 2017 through the first quarter of 2019, consistent with the most recent approved quarterly dividend rate prior to December 31, 2016;

2) no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio since December 31, 2016; and

3) no issuances of capital securities since December 31, 2016.

It is important to note that these assumed capital actions may not represent the actual capital actions that would be taken should severely adverse economic conditions develop.

While the regulations imposed a standard set of capital actions, each financial institution made its own assumptions to apply during the severely adverse scenario. As an example, Prosperity determined that the West Texas Intermediate ("WTI") oil price was a key variable, especially considering Prosperity's geographic footprint. In the severely adverse scenario, it is assumed that oil prices would fall dramatically to a low of just under $30/barrel at Q4 2017 before a steady recovery to $35.24/barrel at Q1 2019. Additionally, regional variables (i.e. Texas unemployment rate) were adjusted accordingly as a result of the assumptions regarding the impact of the price of WTI.

Description of the Types of Risks Included in the Stress Test

Prosperity considers all identified risks in its stress testing activities. These risks range from idiosyncratic risks that are institution specific, such as its geographic footprint and concentrations in its credit portfolios, to broad economic, political, regulatory and compliance risks, which Prosperity believes would impact it as well as its peers. Specifically, Prosperity includes the following key risks in its stress testing activities and, to the best of its ability, believes these fully capture the potential impacts of each risk as it relates to the defined scenarios.

Credit Risk

Credit risk is the risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise perform as agreed. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer, or borrower performance. It exists any time the Bank's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Model Risk

Model risk arises from the potential for adverse consequences resulting from decisions made based on incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business and/or strategic decision making, or damage to Prosperity's reputation.

Model risk occurs primarily for two reasons:

- The model may have fundamental errors and may produce inaccurate outputs when viewed against the design objective and intended business uses; and

- The model may be used incorrectly or inappropriately. Even a fundamentally sound model producing accurate outputs consistent with the design objective of the model may exhibit high model risk if it is misapplied or misused.

Asset-Liability Risk

Prosperity's primary asset-liability risk is interest rate risk. Interest rate risk is the risk to current or anticipated earnings or capital arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in the Bank's products (options risk).

Operational Risk

Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. Operational losses result from technology and disaster risks; internal fraud; external fraud; inadequate or inappropriate employment practices and workplace safety; failure to meet professional obligations involving customers, products, and business practices; and damage to physical assets.

Description of Stress Test Methodologies Employed by Prosperity

To address credit risk, Prosperity's primary design consideration for loss forecasting in the severely adverse scenario is to project credible losses that are appropriately sensitive to macroeconomic shocks. Loss forecasting relies on a set of economic assumptions that, in the supervisory severely adverse scenario, are meant to produce significant loss estimates with a corresponding stress on Prosperity's capital levels. The loss forecasting process was accomplished using numerous regression-based models, with each subject to validation, oversight and governance. Historical performance is relied upon as the basis of the model inputs and thereby informs future forecasts. Prosperity understands that historical performance is not always indicative of performance in future periods of stress and accounts for this uncertainty through conservative assumptions and management overlays.

To address model risk, the entire DFAST process was analyzed because the ability to translate macroeconomic factors and key risk measurements into pro forma financial projections requires the utilization of models. Therefore, robust model development, documentation, validation and overall model governance practices are critical to the process.

To address asset-liability risk, the pre-provision net revenue ("PPNR") modeling process was used. PPNR consists of net interest income on a fully-tax equivalent basis plus non-interest income less non-interest expenses. Net interest income was calculated using the same model Prosperity uses

for budgeting and planning purposes. For the remaining components of PPNR, non-interest income and non-interest expense, Prosperity used a regression based approach to derive and aggregate enterprise-level results under each macroeconomic scenario. Historical performance is relied upon as the basis of the model inputs and thereby informs future forecasts. Prosperity understands that historical performance is not always indicative of performance in future periods of stress and accounts for this uncertainty through conservative assumptions and management overlays. The models require a comprehensive risk measurement and management infrastructure that elicits the identification, measurement, assessment and control of all material risks arising from Prosperity's exposures.

To address operational risk, Prosperity applied a hypothetical operational risk event within the stress scenarios. This event includes thoroughly analyzed management assumptions that have reviewed by applicable individuals.

Forecasting Projected Capital Ratios

In order to forecast regulatory capital ratios for the forecast horizon under the supervisory severely adverse scenario, a projected balance sheet must be created in order to estimate future risk-weighted assets. The process for projecting the balance sheet is consistent with, and in certain instances directly linked to, the processes used to forecast certain PPNR line items. As with PPNR, macroeconomic-dependent models are utilized to develop necessary balance forecasts. In creating these forecasts, Prosperity makes several key assumptions in addition to those enumerated previously. These key assumptions are discussed and challenged throughout the review process for reasonableness and effectiveness.

Once a consolidated balance sheet is created, risk-weighted assets are forecasted based upon the final balance sheet including off-balance sheet exposures such as unfunded commitments. Prosperity's risk-weighted asset projection process applies risk weights directly to scenario specific balance sheet forecasts. Prosperity's loan balances account for the majority of Prosperity's total assets, and therefore, are the primary driver of the change in the forecast of risk-weighted assets.

These previously described methodologies translate identified risks into potential revenue and loss projections over the nine-quarter forecast horizon. These revenue and loss projections are then aggregated to produce a net income or loss estimate for the forecast horizon. These income or loss estimates are then inputted into Prosperity's contingent capital model, which, when coupled with the forecasted risk-weighted assets, produces key regulatory capital ratio estimates for Prosperity and the Bank. In addition to forecasting capital accretion or depletion from net income or loss over the nine-quarter forecast horizon, Prosperity also estimates impacts to regulatory capital based on planned capital actions or prescribed actions (as is the case with the Dodd-Frank Act stress test scenarios). The resulting regulatory capital ratios are then viewed against management's targeted levels, and are a key factor in Prosperity's assessment of its capital adequacy.

Summary of Results for Prosperity Bancshares, Inc.

The results shown below reflect the methodologies and assumptions described previously for the supervisory severely adverse scenario for Prosperity Bancshares (on a consolidated basis) from Q1 2017 through Q1 2019:

Projected capital ratios through Q1 2019 under the Supervisory Severely Adverse Scenario			
		Stressed capital ratios [1]	
	Actual Q4 2016	Ending	Lowest
Common equity tier 1 capital ratio (%)	14.48%	16.54%	14.48%
Tier 1 risk-based capital ratio (%)	14.48%	16.54%	14.48%
Total risk-based capital ratio (%)	15.20%	17.57%	15.20%
Tier 1 leverage ratio (%)	8.68%	9.13%	8.50%

1. The stressed capital ratios are calculated using capital assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, revenues, net income before taxes, or capital ratios. The minimum ratio shown is the lowest capital ratio projected during the period Q1 2017 to Q1 2019.

Projected losses, revenue, and net income before taxes through Q1 2019 under the Supervisory Severely Adverse Scenario		
	Dollars in millions ($)	Percent of average assets [1]
Pre-provision net revenue [2]	$ 764.7	3.4%
Other Revenue	-	0.0%
less		
Provisions	181.5	0.8%
Realized losses/gains on securities (AFS/HTM)	-	0.0%
Trading and counterparty losses	-	0.0%
Other losses/(gains) [3]	20.0	0.1%
equals		
Net income before taxes	563.2	2.5%
Memo Item		
AOCI included in capital (millions of dollars) [4]	-	0.0%

1. Average assets is the nine-quarter average of total assets.
2. Pre-provision net revenue includes losses from operational risk events and other real estate owned (OREO) costs.
3. Operational risk event.
4. Because Prosperity is not an advanced approaches BHC and has opted out of including accumulated other comprehensive income (AOCI) in regulatory capital calculations, AOCI balances are not applicable for the purposes of this disclosure.

Projected loan losses by type of loan, Q1 2017-Q1 2019 under the Supervisory Severely Adverse Scenario		
	Dollars in millions ($)	Portfolio loss rates (%) [1]
Commercial and Industrial (C&I) Loans	58.6	3.2%
Commercial Real Estate Owner-Occupied (CREOO) Loans	6.0	0.4%
Commercial Real Estate Non-Owner-Occupied (NOOCRE) Loans	12.2	0.8%
Land Acquisition, Development and Construction (ADC) Loans	39.2	3.4%
Residential Mortgage Credit (RMC) Loans	20.5	0.7%
Other Consumer (OCL) Loans	12.9	10.1%
Loan Losses	149.3	1.6%

1. Based upon average loan balances calculated over nine quarters.

These projected loan losses were calculated by linking the supervisory severely adverse scenario's macroeconomic factors to stressed probability of default and loss given default proxy models to calculate stressed losses.

Summary of Results for Prosperity Bank

The results shown below reflect the utilization of the methodologies and assumptions described previously for the supervisory severely adverse scenario for Prosperity Bank from Q1 2017 through Q1 2019:

Projected capital ratios through Q1 2019 under the Supervisory Severely Adverse Scenario			
		Stressed capital ratios [1]	
	Actual Q4 2016	Ending	Lowest
Common equity tier 1 capital ratio (%)	14.35%	16.40%	14.35%
Tier 1 risk-based capital ratio (%)	14.35%	16.40%	14.35%
Total risk-based capital ratio (%)	15.07%	17.44%	15.07%
Tier 1 leverage ratio (%)	8.60%	9.06%	8.42%

1. The stressed capital ratios are calculated using capital actions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, revenues, net income before taxes, or capital ratios. The minimum ratio shown is the lowest capital ratio projected during the period Q1 2017 to Q1 2019.

Projected losses, revenue, and net income before taxes through Q1 2019 under the Supervisory Severely Adverse Scenario		
	Dollars in millions ($)	Percent of average assets [1]
Pre-provision net revenue [2]	$ 765.0	3.4%
Other Revenue	-	0.0%
less		
Provisions	181.5	0.8%
Realized losses (gains) on securities (AFS/HTM)	-	0.0%
Trading and counterparty losses [3]	-	0.0%
Other losses (gains)	20.0	0.1%
equals		
Net income before taxes	563.5	2.5%
Memo Item		
AOCI included in capital (millions of dollars) [4]	-	0.0%

1. Average assets is the nine-quarter average of total assets.
2. Pre-provision net revenue includes losses from operational risk events and other real estate owned (OREO) costs.
3. Operational risk event.
4. Because Prosperity Bank is not an advanced approaches bank and has opted out of including accumulated other comprehensive income (AOCI) in regulatory capital calculations, AOCI balances are not applicable for the purposes of this disclosure.

Projected loan losses by type of loan, Q1 2017-Q1 2019 under the Supervisory Severely Adverse Scenario		
	Dollars in millions ($)	Portfolio loss rates (%) [1]
Commercial and Industrial (C&I) Loans	58.6	3.2%
Commercial Real Estate Owner-Occupied (CREOO) Loans	6.0	0.4%
Commercial Real Estate Non-Owner-Occupied (NOOCRE) Loans	12.2	0.8%
Land Acquisition, Development and Construction (ADC) Loans	39.2	3.4%
Residential Mortgage Credit (RMC) Loans	20.5	0.7%
Other Consumer (OCL) Loans	12.9	10.1%
Loan Losses	149.3	1.6%

1. Based upon average loan balances calculated over nine quarters.

These projected loan losses were calculated by linking the supervisory severely adverse scenario's macroeconomic factors to stressed probability of default and loss given default proxy models to calculate stressed losses. Loan loss provisions were driven by the stressed loan losses, realized in the quarter in which they were projected to occur, and an increase in general provisions associated with the increased risk in the loan portfolio.

Explanation of the most significant causes for the changes in regulatory capital ratios

The Federal Reserve Board's supervisory severely adverse scenario as applied internally through Prosperity's capital planning process generally results in projected steady increases in regulatory capital ratios at both Prosperity and the Bank. These increases are primarily driven by an expectation of PPNR exceeding loan losses and other gains/losses over the nine-quarter forecast horizon. As detailed in the summary of results tables, this leads to pre-tax net income of approximately $563.2 million over the forecast horizon for Prosperity.

For inquiries, please contact Prosperity at investor.relations@prosperitybankusa.com or 281-269-7199