

# **Bank of America Merrill Lynch Future of Financials Conference**




November 5 – 6, 2018

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 **TEXAS CAPITAL BANCSHARES, INC.**



Certain matters discussed within or in connection with these materials may contain “forward-looking statements” as defined in federal securities laws, which are subject to risks and uncertainties and are based on Texas Capital’s current estimates or expectations of future events or future results. These statements are not historical in nature and can generally be identified by such words as “believe,” “expect,” “estimate,” “anticipate,” “plan,” “may,” “will,” “intend” and similar expressions. A number of factors, many of which are beyond our control, could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the credit quality of our loan portfolio, general economic conditions in the United States and in our markets, including the continued impact on our customers from declines and volatility in oil and gas prices, the financial impact of the Tax Cuts and Jobs Act on our results of operations, rates of default or loan losses, volatility in the mortgage industry, the success or failure of our business strategies, future financial performance, future growth and earnings, the appropriateness of our allowance for loan losses and provision for credit losses, the impact of increased regulatory requirements and legislative changes on our business, increased competition, interest rate risk, the success or failure of new lines of business and new product or service offerings and the impact of new technologies. These and other factors that could cause results to differ materially from those described in the forward-looking statements, as well as a discussion of the risks and uncertainties that may affect our business, can be found in our Annual Report on Form 10-K and in other filings we make with the Securities and Exchange Commission. Forward-looking statements speak only as of the date of this presentation. Texas Capital is under no obligation, and expressly disclaims any obligation, to update, alter or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

# Opening Remarks & Financial Highlights

## Balanced Growth

- Modest traditional LHI growth linked quarter; up 12% from Q3-2017
- Continued seasonally strong mortgage finance average balances
- Expected increase in total deposits concentrated in interest-bearing

## Core Earnings Power

- 3% growth in net revenue from Q2-2018; 15% from Q3-2017
- Operating leverage improvement evidenced in YTD comparison
- ROE of 14.68% for Q3-2018, up from Q2-2018 as a result of more normalized loan loss provision

## Credit Quality

- NCOs of \$2.0 million for Q3-2018, none related to energy
- Overall asset quality continues to be good
- Q3-2018 total credit costs \$11.0 million (\$13.0 million provision, net \$2.0 million reversal of OREO valuation allowance) compared to \$27.0 million in Q2-2018

## Operating Results

| <i>Net Income</i>     | <i>EPS</i>    | <i>ROE</i>    | <i>Total LHI</i>      | <i>Total Deposits</i> |
|-----------------------|---------------|---------------|-----------------------|-----------------------|
| <b>\$85.6 million</b> | <b>\$1.65</b> | <b>14.68%</b> | <b>\$22.0 billion</b> | <b>\$20.4 billion</b> |

# Overview and Strategy

## Texas Capital is a commercially-focused bank operating in the five largest MSAs in Texas and throughout the U.S.

- All five Texas markets highly ranked in U.S. in terms of job and economic growth, now with major business relocations to Texas
- Substantial commercial businesses with national footprint
- Focus on middle market businesses and entrepreneurs
- Clients with borrowing needs of \$2 to \$20MM

## Growth Strategy

- Organic growth model – no bank acquisitions
- Growth in loans and deposits driven by recruiting, developing and retaining highly experienced bankers with established relationships and industry expertise
- Exceptional growth opportunities with small market share in Texas and leading position in businesses outside of Texas

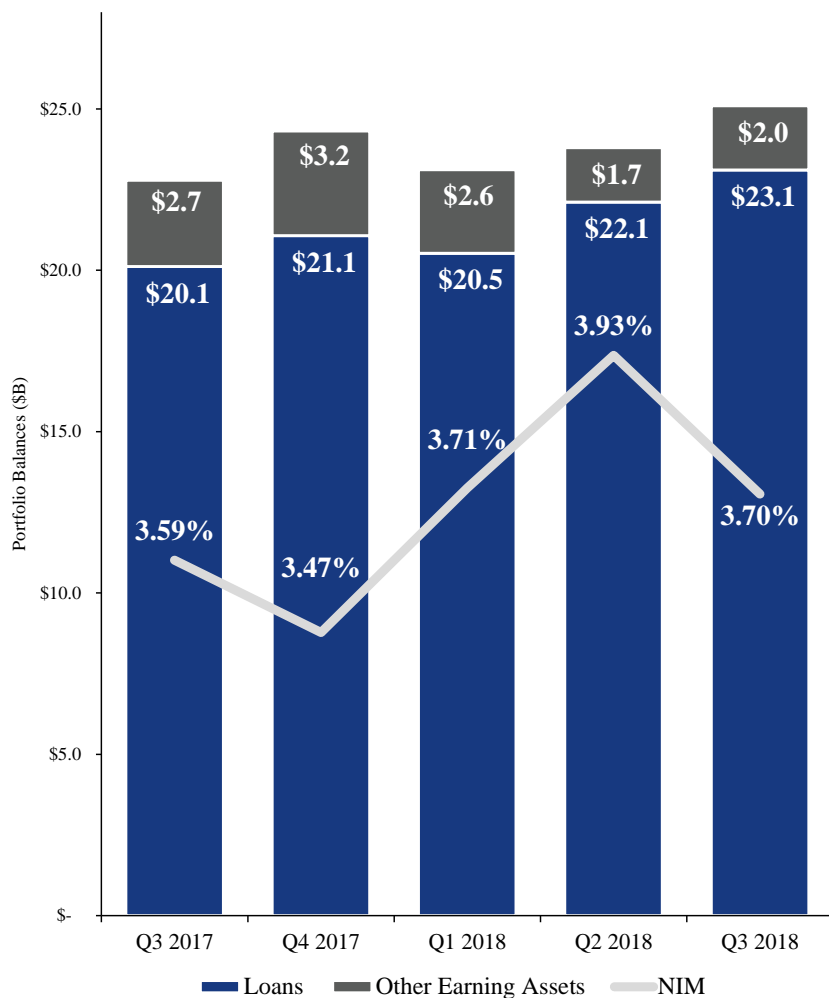
## Strong Credit Culture

- Critical focus on credit quality and risk management
- Business model predicted and demonstrated success of focus



# Net Interest Income & Margin

## Earning Asset & Margin Trends



## Quarterly Change

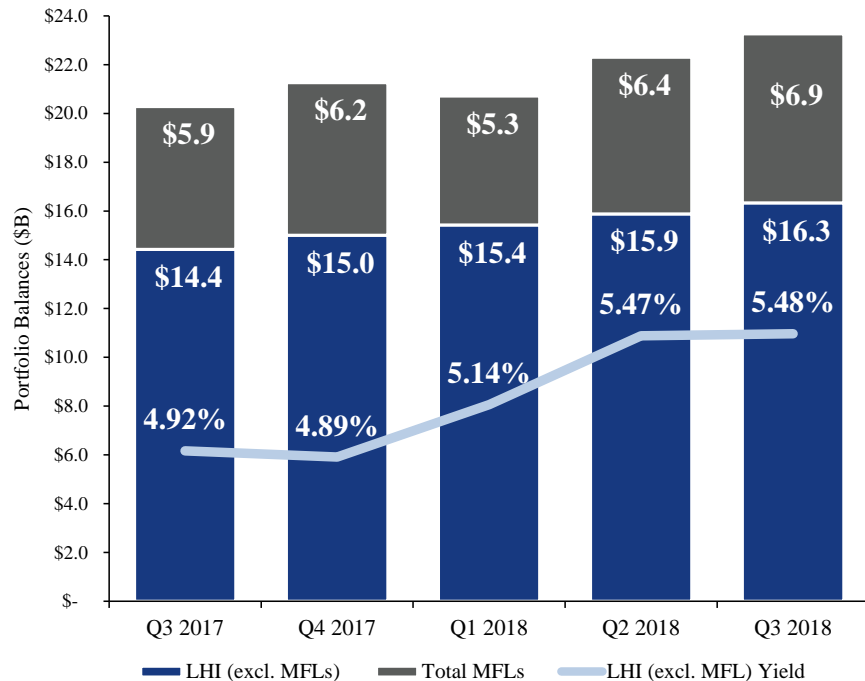
| NII (\$MM) |                                    | NIM (%) |
|------------|------------------------------------|---------|
| \$231.7    | Q2 2018                            | 3.93%   |
| .4         | Increase in LHI yields             | .01     |
| .4         | Increase in LHS yields             | .01     |
| (1.6)      | Mix shift from LHI to MF           | (.03)   |
| (3.2)      | Decrease in MF loan yields         | (.05)   |
| (.1)       | Increase in liquidity              | (.03)   |
| (8.6)      | Increase in funding costs          | (.14)   |
| 2.5        | Impact of increase in day count    | -       |
| 10.8       | Increase in MF & LHI loan balances | -       |
| (.1)       | Other                              | -       |
| \$232.2    | Q3 2018                            | 3.70%   |

## NIM Highlights

- LIBOR slower to move prior to September Fed funds increase as compared to June and March increases; negative impact on NIM in Q3-2018
- Loan fees on traditional LHI yields more normalized in Q3-2018 from strong Q2-2018; 9 bps decline from Q2-2018
- Rate of increase in total funding costs grew 1 bp from Q2-2018; increase of 17 bps during Q3-2018 compared to 16 bps during Q2-2018
- Earning asset mix shift negatively impacting NIM in Q3-2018

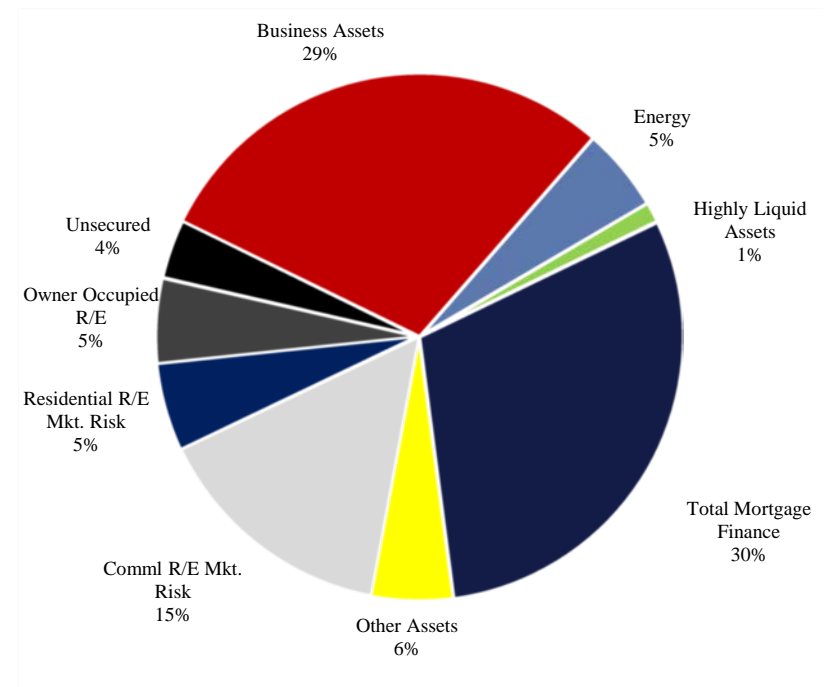
# Loan Growth

## Average Balance Trends (\$B)



## Total Loan Composition

(\$23.7Billion at 9/30/18)

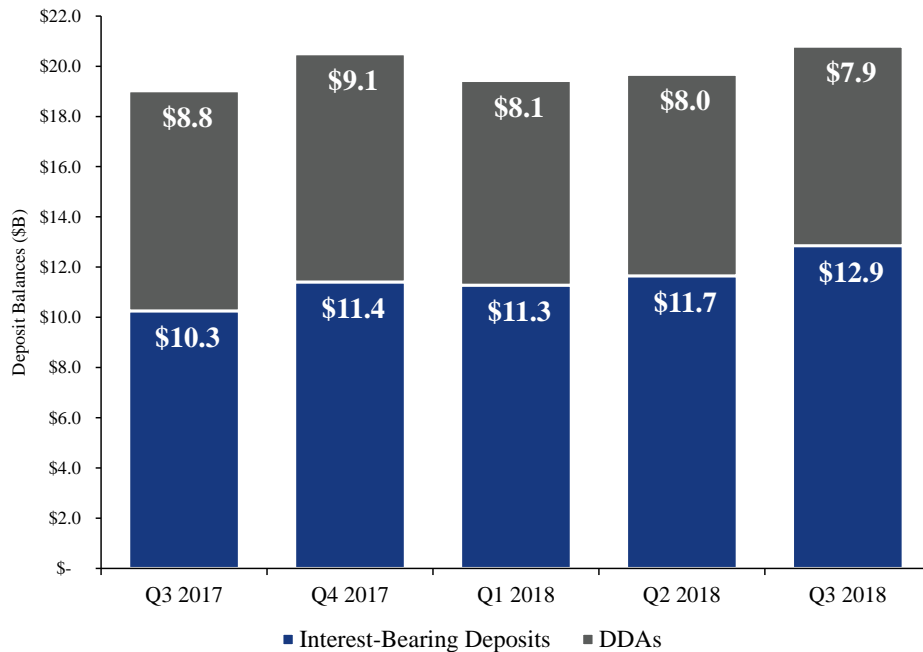


## Growth Highlights

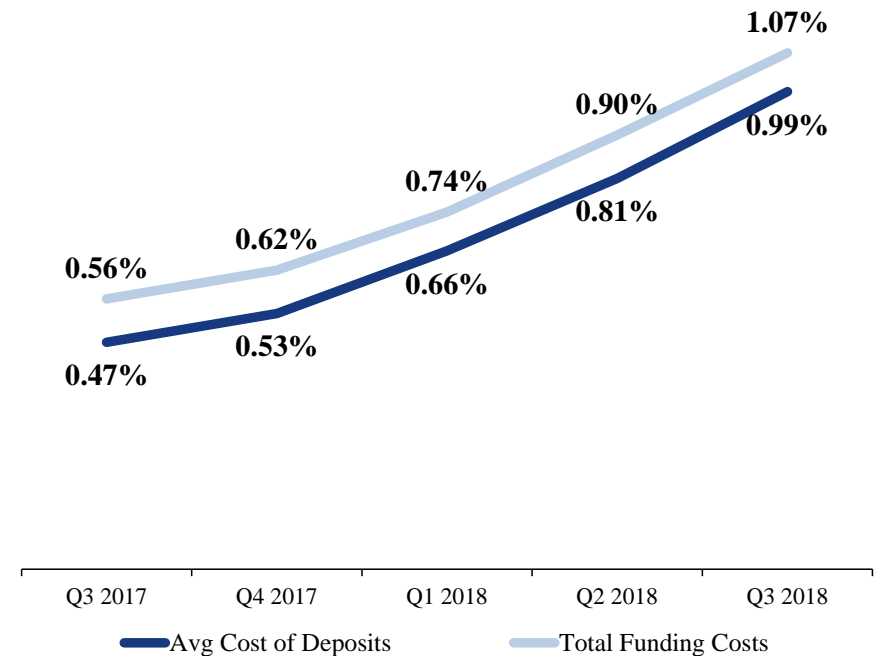
- Broad-based growth in average traditional LHI – Growth of \$448.3 million (3%) from Q2-2018 and \$1.9 billion (13%) from Q3-2017
- Moderate growth in traditional LHI at end of the quarter; period-end balance \$237.9 million higher than Q3-2018 average balance
- Increase in average total MFL balances of \$513.8 million from Q2-2018, continued seasonal strength
- Average total MFLs represent 30% of average total loans at Q3-2018 compared to 29% in Q2-2018 and 30% based on period-end balances at Q3-2018

# Deposit Growth

## Average Balance Trends (\$B)



## Funding Costs



## Growth Highlights

- Deposit costs increased 18 bps during Q3-2018 and total funding costs increased 17 bps; compared to increases of 15 bps and 16 bps, respectively, in Q2-2018
- Increase in linked quarter deposits with growth in interest-bearing
- Continued focus on cost-effective deposit growth

# Non-interest Expense

## Quarterly Change

| Non-interest expense (\$MM)   | Increase/<br>(Decrease) |
|---|-------------------------|
| <b>Q2 2018</b>  | <b>\$132.1</b>          |
| Salaries and employee benefits – FAS 123R<br>(includes stock price changes)                             | (1.2)                   |
| Salaries and employee benefits – non-LTI<br>incentives and annual incentive pool                        | 2.2                     |
| Salaries and employee benefits – FICA and<br>seasonal payroll related items                             | .2                      |
| Salaries and employee benefits – severance  | 2.8                     |
| Salaries and employee benefits – salaries only  | .9                      |
| Net occupancy expense   | 1.0                     |
| Legal and professional  | (.9)                    |
| OREO related costs  | (2.0)                   |
| All other – includes marketing, technology,<br>FDIC insurance assessment, servicing related<br>expenses | 1.0                     |
| <b>Q3 2018</b>  | <b>\$136.1</b>          |

## NIE - Efficiency

- Changes in Salaries & Benefits components of change
  - Decrease in 123R expense mainly due to stock price
  - Annual incentive accrual ramps generally higher in Q3 than Q2
  - \$2.8 million in severance payments related to organizational changes
- Efficiency ratio (excluding release of OREO valuation allowance) 53.6% for Q3-2018 compared to 53.1% for Q2-2018
- Decrease in OREO related costs related to OREO sale in Q3-2018; resulted in release of \$2.0 million valuation allowance recorded in Q1-2018

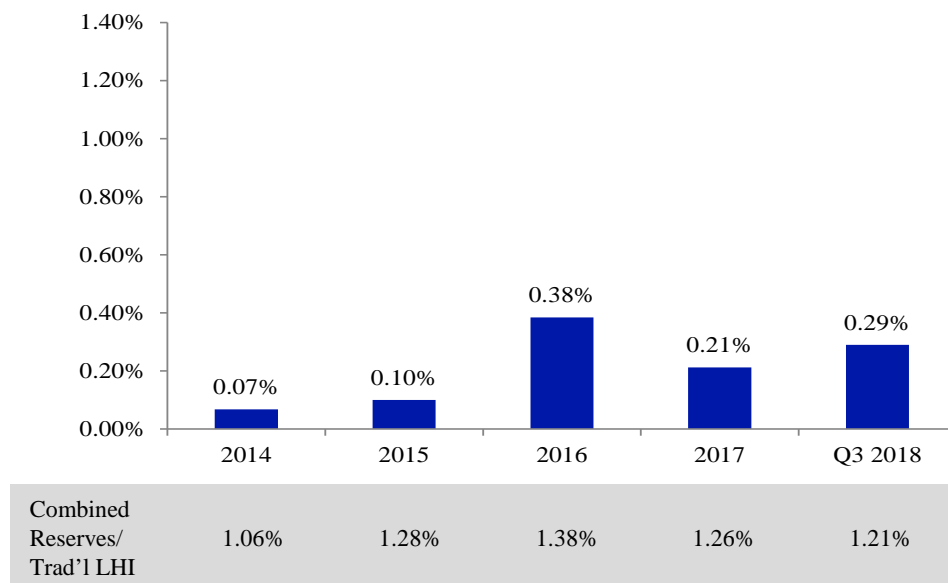


# Asset Quality

## Non-accrual loans

|   | Q3 2018           |
|---|-------------------|
| Commercial  | \$ 104,957        |
| Construction  | –                 |
| Real estate   | 2,515             |
| Consumer  | 60                |
| Equipment leases  | –                 |
| <b>Total non-accrual loans</b>                                  | <b>\$ 107,532</b> |
| <b>Non-accrual loans as % of LHI excluding MF</b>               | <b>.65%</b>       |
| <b>Non-accrual loans as % of total LHI</b>                      | <b>.49%</b>       |
| <b>OREO</b>   | <b>79</b>         |
| <b>Total Non-accruals + OREO</b>                                | <b>\$ 107,611</b> |
| <b>Non-accrual loans + OREO as % of LHI excluding MF + OREO</b> | <b>.65%</b>       |
| <b>Reserve to non-accrual loans</b>                             | <b>1.8x</b>       |

## NCO / Average Traditional LHI



## Asset Quality Highlights

- Total credit cost of \$11 million (\$13.0 million provision, net \$2.0 million reversal of OREO valuation allowance) for Q3-2018, compared to \$27.0 million in Q2-2018 and \$20.0 million in Q3-2017
- NCOs \$2.0 million, or 5 bps of average LHI excluding MF loans, in Q3-2018 compared to \$38.0 million, or 96 bps, in Q2-2018 and 30 bps in Q3-2017
- NPL ratio increased to .49% of total LHI
- Criticized loans to total capital decreased from 16.4% at Q3-2017 to 13.8% at Q3-2018

# Performance Summary - Quarterly

| <i>(in thousands)</i>                              | Q3 2018    | Q2 2018    | Q1 2018    | Q4 2017    | Q3 2017    |
|--|------------|------------|------------|------------|------------|
| <b>Net interest income</b>                         | \$ 232,175 | \$ 231,712 | \$ 210,300 | \$ 210,649 | \$ 204,361 |
| <b>Non-interest income</b>                         | 25,518     | 17,279     | 19,947     | 19,374     | 19,003     |
| <b>Net revenue</b>                                 | 257,693    | 248,991    | 230,247    | 230,023    | 223,364    |
| <b>Provision for credit losses</b>                 | 13,000     | 27,000     | 12,000     | 2,000      | 20,000     |
| <b>OREO write-down</b>                             | (2,000)    | -          | 2,000      | 6,111      | -          |
| <b>Non-interest expense</b>                        | 138,143    | 132,131    | 124,960    | 127,027    | 114,830    |
| <b>Income before income taxes</b>                  | 108,550    | 89,860     | 91,287     | 94,885     | 88,534     |
| <b>Income tax expense</b>                          | 22,998     | 18,424     | 19,342     | 50,143     | 29,850     |
| <b>Net income</b>                                  | 85,552     | 71,436     | 71,945     | 44,742     | 58,684     |
| <b>Preferred stock dividends</b>                   | 2,438      | 2,437      | 2,438      | 2,437      | 2,438      |
| <b>Net income available to common shareholders</b> | \$ 83,114  | \$ 68,999  | \$ 69,507  | \$ 42,305  | \$ 56,246  |
| <b>Diluted EPS</b>                                 | \$ 1.65    | \$ 1.38    | \$ 1.38    | \$ .84     | \$ 1.12    |
| <b>Net interest margin</b>                         | 3.70%      | 3.93%      | 3.71%      | 3.47%      | 3.59%      |
| <b>ROA</b>   | 1.31%      | 1.16%      | 1.22%      | .71%       | .99%       |
| <b>ROE</b>   | 14.68%     | 12.72%     | 13.39%     | 8.18%      | 11.20%     |
| <b>ROE, excl. DTA write-off</b>                    | 14.68%     | 12.72%     | 13.39%     | 11.58%     | 11.20%     |
| <b>Efficiency</b>                                  | 52.8%      | 53.1%      | 55.1%      | 57.9%      | 51.4%      |
| <b>Efficiency, excl. OREO write-down</b>           | 53.6%      | 53.1%      | 54.3%      | 55.2%      | 51.4%      |

# 2018 Outlook

| Business Driver                | 2018 Outlook v. 2017 Results     | Comments & Changes since July 18, 2018                |
|--------------------------------|----------------------------------|---|
| Average LHI                    | Low to mid-teens percent growth  | -   |
| Average LHI – Mortgage Finance | Low to mid-teens percent growth  | <b>Increased</b> from mid-single digit percent growth |
| Loans held for sale (MCA)      | \$1.4 billion average            | <b>Increased</b> from \$1.2 billion average           |
| Average Deposits               | High single digit percent growth | <b>Decreased</b> from low-teens percent growth        |
| Net Revenue                    | Mid to high-teens percent growth | -   |
| Net Interest Margin            | 3.70% to 3.75%                   | <b>Increased</b> from 3.60% to 3.70%                  |
| Provision Expense              | Low to mid-\$60 million level    | -   |
| NIE                            | Low-teens percent growth         | -   |
| Efficiency Ratio               | Low-50s                          | -   |

# Closing Comments

- Continued strong earnings for 2018 with improvements in year to date operating leverage
- Solid traditional LHI growth year to date, with slower level in Q3-2018 as we are selective about growth areas in positioning our portfolio for through-the-cycle credit quality
- Continued benefit from seasonal strength in Mortgage Finance asset balances in Q3-2018; Q4-2018 will reflect the normal seasonal weakness
- Deposit levels increased, with growth concentrated in interest-bearing, and expected increase in deposit costs
- More normalized provision for loan losses in Q3-2018 and in line with full year guidance
- Focus on ROE
  - Continued strong focus on credit quality
  - Targeted approach in slowing pace of NIE growth
  - Leveraging treasury capabilities to improve funding mix over time
  - Positive impact from new corporate tax rate



# Q&A



# Appendix

# Average Balances, Yields & Rates - Quarterly

| <i>(in thousands)</i>                       | Q3 2018             |              | Q2 2018             |              | Q3 2017             |              |
|---|---------------------|--------------|---------------------|--------------|---------------------|--------------|
|   | Avg. Bal.           | Yield Rate   | Avg. Bal.           | Yield Rate   | Avg. Bal.           | Yield Rate   |
| <b>Assets</b>                               |                     |              |                     |              |                     |              |
| Securities                                  | \$ 115,519          | 4.87%        | \$ 24,514           | 3.15%        | \$ 86,087           | 1.57%        |
| Liquidity assets                            | 1,901,759           | 1.96%        | 1,665,087           | 1.74%        | 2,588,998           | 1.25%        |
| Loans held for sale                         | 1,484,459           | 4.62%        | 1,516,047           | 4.50%        | 1,009,703           | 3.88%        |
| LHI, mortgage finance                       | 5,443,829           | 3.62%        | 4,898,411           | 3.85%        | 4,847,530           | 3.46%        |
| LHI   | 16,331,622          | 5.48%        | 15,883,317          | 5.47%        | 14,427,980          | 4.92%        |
| Total LHI, net of reserve                   | 21,596,224          | 5.06%        | 20,592,490          | 5.14%        | 19,102,736          | 4.59%        |
| Total earning assets                        | 25,097,961          | 4.80%        | 23,798,138          | 4.86%        | 22,787,524          | 4.17%        |
| Total assets                                | \$25,975,915        |              | \$24,606,237        |              | \$23,501,302        |              |
| <b>Liabilities and Stockholders' Equity</b> |                     |              |                     |              |                     |              |
| Total interest bearing deposits             | \$12,852,883        | 1.61%        | \$11,654,506        | 1.36%        | \$10,260,243        | .87%         |
| Other borrowings                            | 2,275,640           | 2.11%        | 2,113,391           | 1.93%        | 1,821,837           | 1.25%        |
| Total long-term debt                        | 395,025             | 5.45%        | 394,933             | 5.47%        | 394,662             | 5.15%        |
| Total interest bearing liabilities          | 15,523,548          | 1.78%        | 14,162,830          | 1.56%        | 12,476,742          | 1.06%        |
| Demand deposits                             | 7,940,503           |              | 8,017,578           |              | 8,764,263           |              |
| Total deposits                              | 20,793,386          | .99%         | 19,672,084          | .81%         | 19,024,506          | .47%         |
| Stockholders' equity                        | 2,395,562           |              | 2,325,755           |              | 2,143,299           |              |
| Total liabilities and stockholders' equity  | \$25,975,915        | 1.07%        | \$24,606,237        | .90%         | \$23,501,302        | .56%         |
| <b>Net interest margin</b>                  |                     | <b>3.70%</b> |                     | <b>3.93%</b> |                     | <b>3.59%</b> |
| <b>Total deposits and borrowed funds</b>    | <b>\$23,069,026</b> | <b>1.10%</b> | <b>\$21,785,475</b> | <b>.92%</b>  | <b>\$20,846,343</b> | <b>.54%</b>  |

# Average Balance Sheet - Quarterly

| <i>(in thousands)</i>                              | QTD Average  |              |              | Q3/Q2 %<br>Change | YOY %<br>Change |
|--|--------------|--------------|--------------|-------------------|-----------------|
|  | Q3 2018      | Q2 2018      | Q3 2017      |                   |                 |
| <b>Total assets</b>                                | \$25,975,915 | \$24,606,237 | \$23,501,302 | 6%                | 11%             |
| <b>Loans held for sale</b>                         | 1,484,459    | 1,516,047    | 1,009,703    | (2)%              | 47%             |
| <b>Loans held for investment</b>                   | 16,331,622   | 15,883,317   | 14,427,980   | 3%                | 13%             |
| <b>Loans held for investment, mortgage finance</b> | 5,443,829    | 4,898,411    | 4,847,530    | 11%               | 12%             |
| <b>Total loans held for investment</b>             | 21,775,451   | 20,781,728   | 19,275,510   | 5%                | 13%             |
| <b>Total loans</b>                                 | 23,259,910   | 22,297,775   | 20,285,213   | 4%                | 15%             |
| <b>Liquidity assets</b>                            | 1,901,759    | 1,665,087    | 2,588,998    | 14%               | (27)%           |
| <b>Demand deposits</b>                             | 7,940,503    | 8,017,578    | 8,764,263    | (1)%              | (9)%            |
| <b>Total deposits</b>                              | 20,793,386   | 19,672,084   | 19,024,506   | 6%                | 9%              |
| <b>Stockholders' equity</b>                        | 2,395,562    | 2,325,755    | 2,143,299    | 3%                | 12%             |



# Period End Balance Sheet

| <i>(in thousands)</i>                              | Period End   |              |              | Q3/Q2 %<br>Change | YOY %<br>Change |
|--|--------------|--------------|--------------|-------------------|-----------------|
|  | Q3 2018      | Q2 2018      | Q3 2017      |                   |                 |
| <b>Total assets</b>                                | \$27,127,107 | \$27,781,910 | \$24,400,998 | (2)%              | 11%             |
| <b>Loans held for sale</b>                         | 1,651,930    | 1,276,768    | 955,983      | 29%               | 73%             |
| <b>Loans held for investment</b>                   | 16,569,538   | 16,536,721   | 14,828,406   | 0%                | 12%             |
| <b>Loans held for investment, mortgage finance</b> | 5,477,787    | 5,923,058    | 5,642,285    | (8)%              | (3)%            |
| <b>Total loans held for investment</b>             | 22,047,325   | 22,459,779   | 20,470,691   | (2)%              | 8%              |
| <b>Total loans</b>                                 | 23,699,255   | 23,736,547   | 21,426,674   | (0)%              | 11%             |
| <b>Liquidity assets</b>                            | 2,615,570    | 3,288,107    | 2,357,537    | (20)%             | 11%             |
| <b>Demand deposits</b>                             | 7,031,460    | 7,648,125    | 8,263,202    | (8)%              | (15)%           |
| <b>Total deposits</b>                              | 20,385,637   | 20,334,871   | 19,081,257   | 0%                | 7%              |
| <b>Stockholders' equity</b>                        | 2,426,442    | 2,343,530    | 2,158,363    | 4%                | 12%             |