


# TCBI Q3 2018 Earnings

October 17, 2018



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# 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

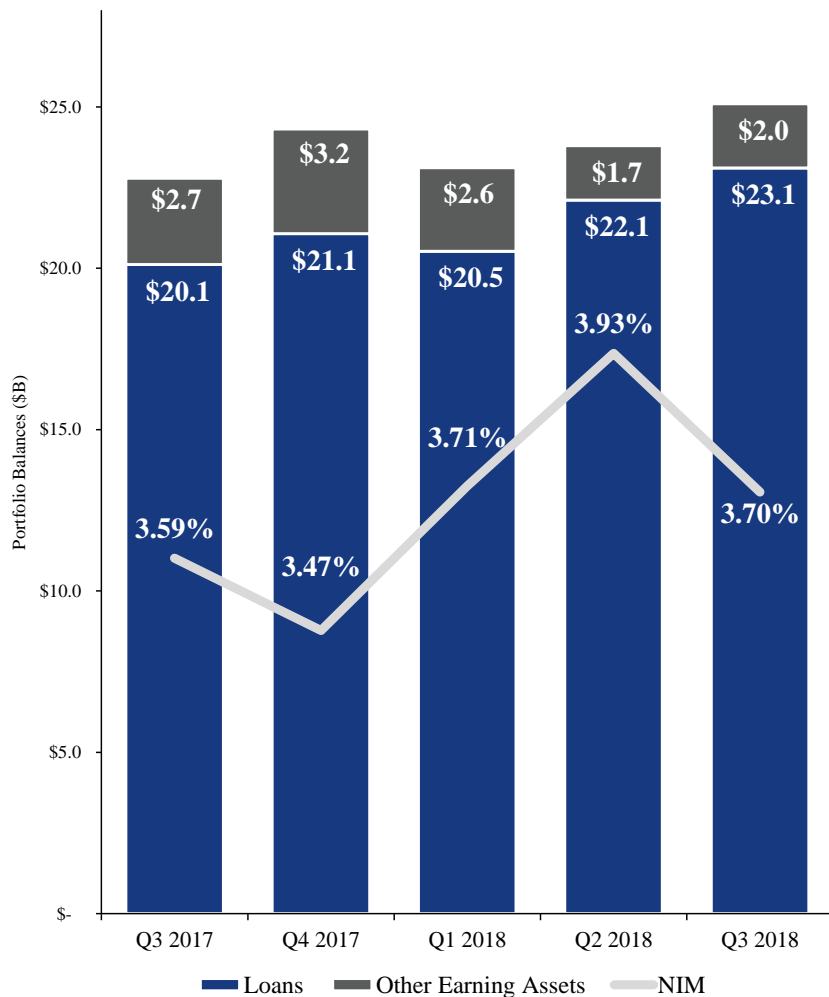
- NCOs of \$2.0 million for Q3-2018, none related to energy
- Overall asset quality continues to be good
- Q3-2018 total credit costs \$11.0 million (\$13.0 million provision, net \$2.0 million reversal of OREO valuation allowance) compared to \$27.0 million in Q2-2018

## 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>

# Net Interest Income & Margin

## Earning Asset & Margin Trends



## Quarterly Change

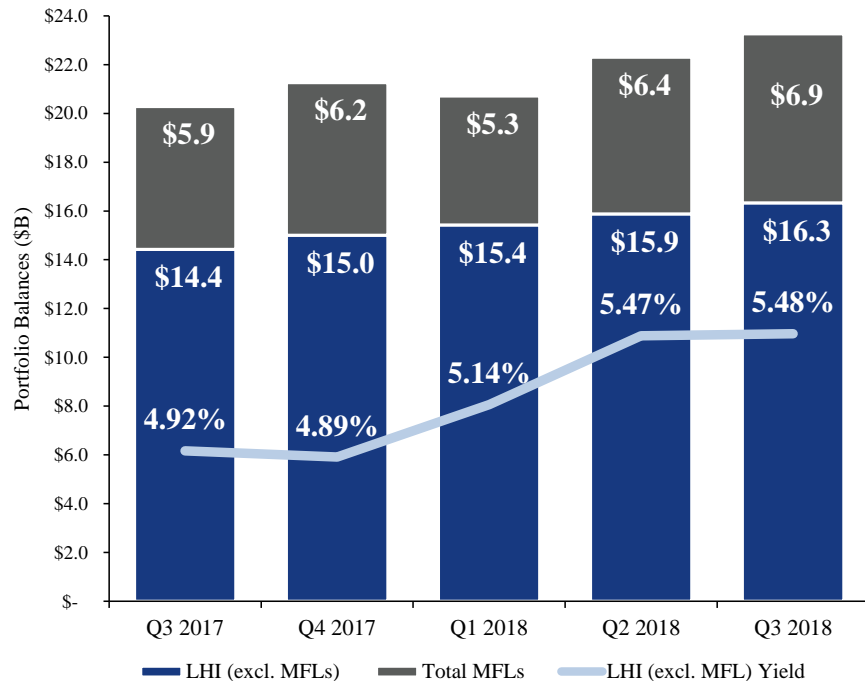
NII (\$MM)		NIM (%)
\$231.7	Q2 2018	3.93%
.4	Increase in LHI yields	.01
.4	Increase in LHS yields	.01
(1.6)	Mix shift from LHI to MF	(.03)
(3.2)	Decrease in MF loan yields	(.05)
(.1)	Increase in liquidity	(.03)
(8.6)	Increase in funding costs	(.14)
2.5	Impact of increase in day count	-
10.8	Increase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

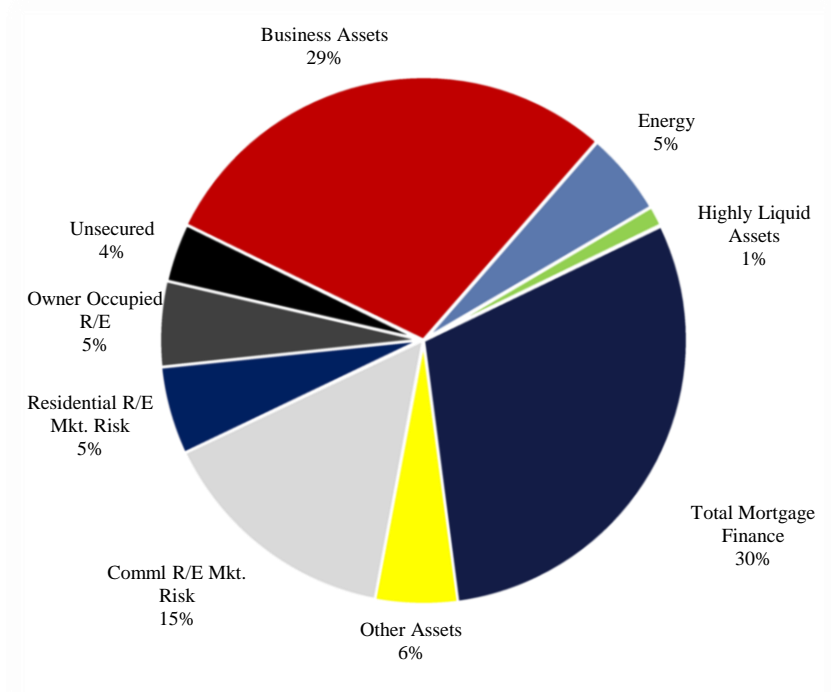
# Loan Growth

## Average Balance Trends (\$B)



## Total Loan Composition

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

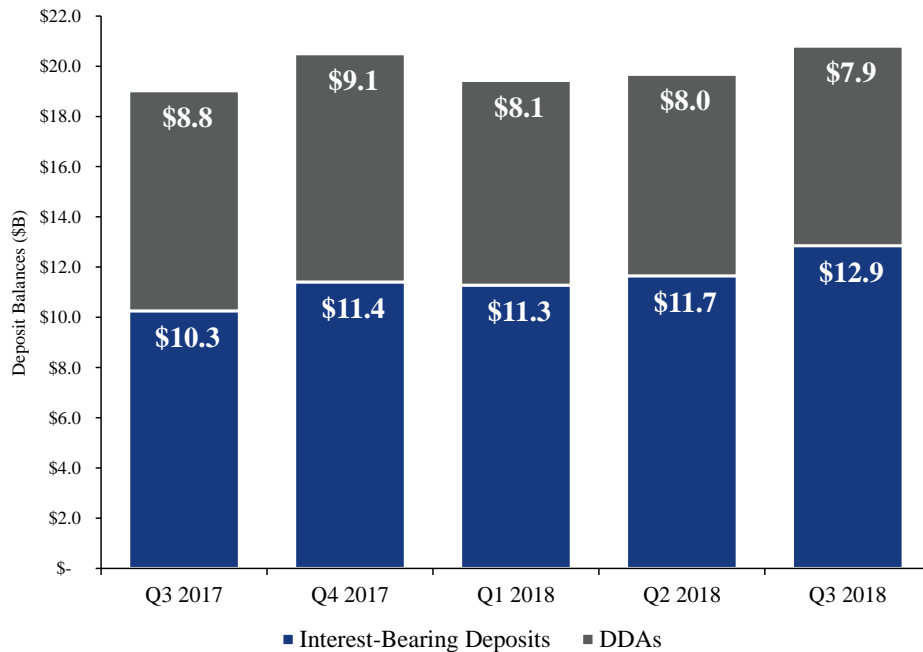


## Growth Highlights

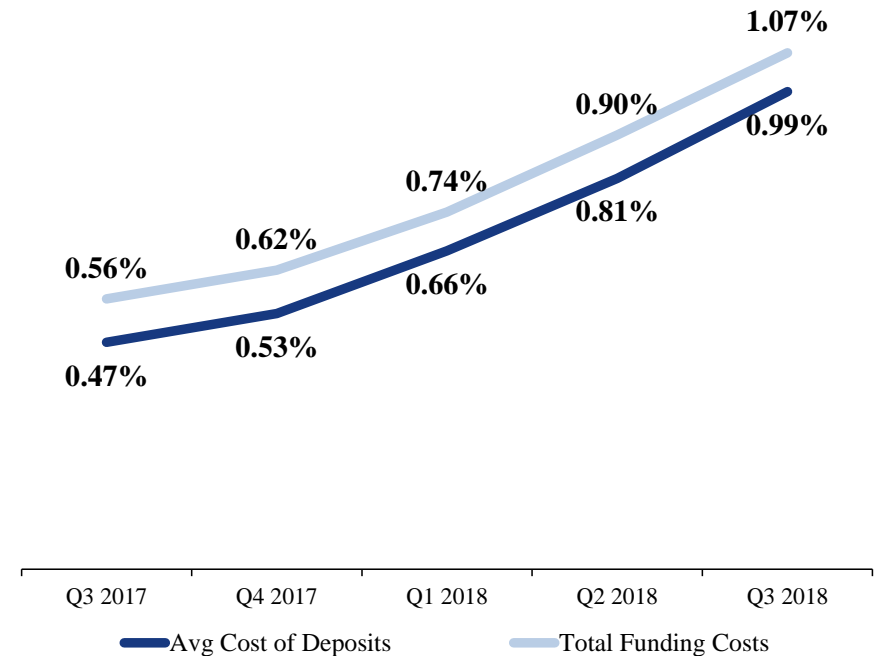
- Broad-based growth in average traditional LHI – Growth of \$448.3 million (3%) from Q2-2018 and \$1.9 billion (13%) from Q3-2017
- Moderate growth in traditional LHI at end of the quarter; period-end balance \$237.9 million higher than Q3-2018 average balance
- Increase in average total MFL balances 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/ (Decrease)
<b>Q2 2018</b>	<b>\$132.1</b>
Salaries and employee benefits – FAS 123R (includes stock price changes)	(1.2)
Salaries and employee benefits – non-LTI incentives and annual incentive pool	2.2
Salaries and employee benefits – FICA and 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, FDIC insurance assessment, servicing related expenses	1.0
<b>Q3 2018</b>	<b>\$136.1</b>

## NIE - Efficiency

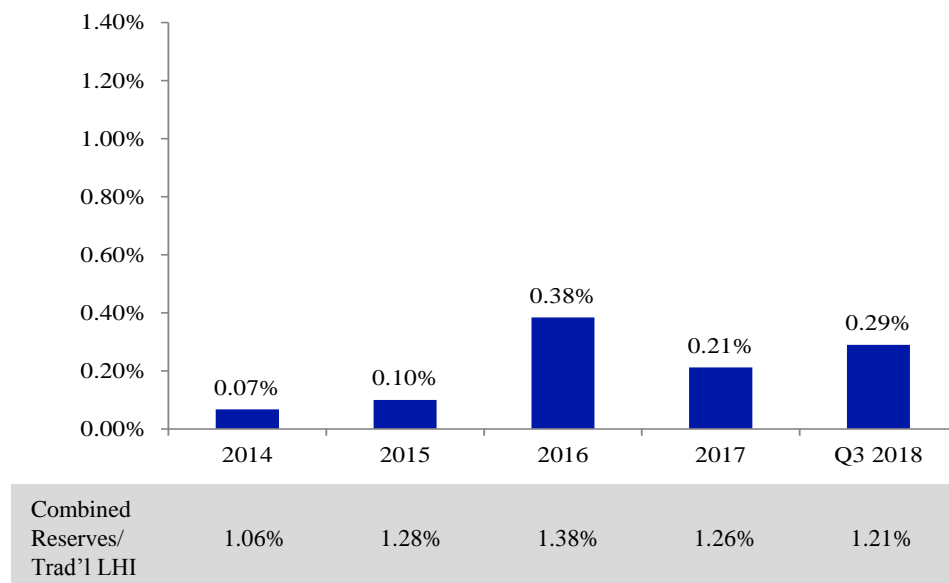
- Changes in Salaries & Benefits components of change
  - Decrease in 123R expense mainly due to stock price
  - Annual incentive accrual ramps generally higher in Q3 than Q2
  - \$2.8 million in severance payments related to organizational changes
- Efficiency ratio (excluding release of OREO valuation 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 % Change	YOY % 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 % Change	YOY % 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%