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Texas Capital Bancshares, Inc.

Q4 2025 Earnings Conference Call

Thursday, January 22, 2026, 9:00 AM Eastern

**CORPORATE PARTICIPANTS**

**Rob Holmes** – *Chairman, President & Chief Executive Officer*

**Matt Scurlock** - *Chief Financial Officer*

**Jocelyn Kukulka** - *Head of Investor Relations & Corporate Development*

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**Operator**

Hello everyone and thank you for joining the Texas Capital Bancshares Inc. Full Year and Q4 2025 Earnings Call. (Operator Instructions)

I will now hand over to Jocelyn Kukulka from Texas Capital Bancshares to begin. Please go ahead.

**Jocelyn Kukulka**

Good morning, and thank you for joining us for TCBI's Fourth Quarter 2025 Earnings Conference Call. I'm Jocelyn Kukulka, Head of Investor Relations.

Before we begin, please be aware this call will include forward-looking statements that are based on our current expectations of future results or events. Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from these statements. Our forward-looking statements are as of the date of this call, and we do not assume any obligation to update or revise them. Today's presentation will include certain non-GAAP measures, including, but not limited to, adjusted operating metrics, adjusted earnings per share, and return on capital. For a reconciliation of these and other non-GAAP measures to the corresponding GAAP measures, please refer to our earnings press release and our website.

Statements made on this call should be considered together with the cautionary statements and other information contained in today's earnings release, our most recent annual report on Form 10-K and subsequent filings with the SEC. We will refer to slides during today's presentation, which can be found along with the press release in the Investor Relations section of our website at [texascapital.com](http://texascapital.com). Our speakers for the call today are Rob Holmes, Chairman, President and CEO; and Matt Scurlock, CFO. At the conclusion of our prepared remarks, the operator will open up the call for Q&A.

And now I'll turn the call over to Rob for opening remarks.

**Rob Holmes**

Thank you for joining us today.

2025 was a defining year in this Firm's history. In the third quarter, we achieved our stated financial targets, marking completion of our transformation and delivering the largest organic profitability improvement of any commercial bank exceeding \$20 billion in assets over the past two decades. We reinforced this achievement in the fourth quarter with a 1.2% ROAA, demonstrating that our third quarter performance was not an anomaly, but instead reflects firm-wide client obsession, unwavering commitment to operational excellence, and a balance sheet and business model increasingly centered on the high-value client segments we are uniquely positioned to serve. Full-year adjusted ROAA of 1.04% represents a 30 basis point improvement versus 2024 and signals a fundamental improvement of our earnings power — the result of disciplined execution, strategic investments, conservative portfolio management, and sustained operational leverage.

Our comprehensive 2025 results validate this trajectory:

- Record adjusted total revenue of \$1.3 billion
- Record adjusted net income to common stockholders of \$314 million
- Record adjusted earnings per share of \$6.80
- Record adjusted pre-provision net revenue of \$489 million
- Record fee income from strategic focus areas of \$192 million

Equally important, we achieved record Tangible Common Equity to Tangible Assets of 10.56% and record tangible book value per share of \$75.25 — metrics that underscore both the quality of our earnings and the prudence of our capital allocation strategy.

Our disciplined capital allocation process remains focused solely on driving long-term shareholder value. We continue to bias capital toward franchise-accretive client segments, evidenced by commercial loan growth of \$1.1 billion, or 10%, and interest-bearing deposits, excluding brokered and indexed, that increased \$1.7 billion, or 10%, year-over-year. During periods of market dislocation in 2025, we opportunistically repurchased 2.2 million shares, or 4.9% of prior year shares outstanding, at approximately 114% of prior month tangible book value per share. Since 2020, we repurchased 14.6% of our starting shares outstanding at a weighted average price of \$64.33 per share, while adding 340 basis points to our peer-leading Tangible Common Equity to Tangible Assets ratio.

These achievements demonstrate a fundamentally stronger business model — one positioned to deliver consistent, industry-leading returns and sustainable value creation for shareholders.

Having established this strong foundation, our strategic focus now shifts to consistent execution and realizing the full potential of our investments. Our infrastructure, talent, and platforms are designed for scale, enabling us to handle significantly higher volumes and revenue while maintaining disciplined expense management.

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A defining driver of our improved profitability is the diversification and growth of our fee income streams. Fee income areas of focus generated \$192 million in 2025, with substantial growth opportunity ahead. These businesses are differentiated in the market, capital-efficient, and provide revenue stability across economic cycles. Focused investment in product capabilities, technology platforms, and talent will drive fee income as a percentage of total revenue higher, further enhancing our return profile and reducing earnings volatility.

The transformation over the past several years has fundamentally repositioned Texas Capital as a scalable, high-performing franchise. This positions us in a new phase: consistent execution and compounding returns. The combination of balance sheet growth, operating leverage, and fee income expansion creates multiple paths to enhanced profitability and sustainable shareholder value creation.

Our focus is clear: execute with discipline, scale with intention, and deliver consistent, superior returns. Our strategy, platform, talent, and momentum position us to achieve these objectives.

Thank you for your continued interest in and support of Texas Capital. I'll turn it over to Matt for details on the financial results.

**Matt Scurlock**

Thanks, Rob, and good morning.

Starting on slide 5 – Fourth quarter results cap a record year with broad-based improvements across all key metrics. Our increasingly durable business model — uniquely positioned to deliver high-quality client outcomes — is translating into sustainably strong financial performance that we knew was possible when this transformation began. For the second consecutive quarter, adjusted return on average assets exceeded our legacy 1.10% target, reaching 1.20% in Q4. The second half of 2025 delivered 1.25% ROAA, while full-year adjusted ROAA of 1.04% represents a 30 basis point improvement versus 2024 — a testament to the strategic repositioning we've executed since September 2021.

Year-over-year quarterly revenue increased 15% to \$327.5 million, as a resilient net interest margin, strong fee generation, and improved expense productivity supported the second consecutive quarter of pre-provision net revenue at or near all-time highs.

Full-year adjusted total revenue reached \$1.26 billion — the highest in Firm history, up 13% year-over-year. This reflects 14% growth in net interest income to \$1.03 billion and 9% growth in adjusted fee-based revenue to \$229 million, marking the third consecutive year of record fee income and underscoring the durability, diversification, and scale potential embedded in our current platform.

Full year adjusted non-interest expense increased modestly by 4% to \$768.9 million, consistent with our full-year guidance, demonstrating our proven ability to effectively support investment in growth capabilities while delivering continued operating model improvements. Quarterly adjusted non-interest expense decreased 2%, or \$4.2 million, to \$186.4 million, benefiting from continued expense realignment and regular accrual adjustments that resulted in outperformance relative to guidance.

Taken together, full year adjusted PPNR increased \$119 million or 32% to \$489 million, a record high for the firm.

This quarter's provision expense of \$11 million resulted from \$10.7 million of net charge offs on relatively flat linked quarter total loan balances, and our continued view of the uncertain macroeconomic environment, which remains decidedly more conservative than consensus expectations. Full year provision expense as a percentage of average LHI excluding mortgage finance came in at 31 bps, the low end of our prior 2025 full year guidance, supported by year-over-year improvements in portfolio quality metrics.

Adjusted net income to common of \$94.6 million for the quarter or \$2.08 per share, increased 45% year over year, while full year adjusted net income to common of \$313.8 million or \$6.80 per share, improved 53% over adjusted 2024 levels. This financial progress continues to be supported by a disciplined capital management program, which contributed to 13.4% year-over-year growth in tangible book value per share to \$75.25, an all-time high for the firm.

Our balance sheet metrics continue to reflect both operational strength and financial resilience with ending period cash balances of 7% of total assets and cash and securities of 22%, in line with year-end targeted ratios.

Focused routines on target client acquisition are delivering risk-appropriate, and return accretive, loan portfolio expansion, with commercial loan balances expanding \$254 million or 8% annualized during the quarter. Total gross LHI increased \$1.6 billion or 7% year over year to \$24.1 billion, with growth driven predominantly by commercial loan balances which increased \$1.1 billion or 10% year over year to \$12.3 billion.

As expected, real estate loans declined \$301 million quarter over quarter as payoffs and paydowns outpaced construction fundings and new term originations in the fourth quarter though full year average commercial real estate loan balances increased modestly year over year. Our expectation is for commercial real estate payoffs to continue into 2026, with full-year average balances down approximately 10% year-over-year. Our portfolio composition remains weighted to conservatively leveraged multifamily further characterized by strong sponsorship, and high-quality markets.

Average mortgage finance loans increased 8% linked quarter to \$5.9 billion driven by strong industry demand, our clients' preference for our offerings in what are increasingly holistic relationships, and modestly increased dwell times. Average mortgage finance loans grew 12% for the full year, slightly outpacing guidance.

Given unpredictability in rate expectations, we remain cautious on our outlook for average mortgage finance balances going into 2026. Estimates from professional forecasters suggest total market originations to increase by 16%, to \$2.3 trillion in 2026, compared to our internal estimates of approximately 15% full-year average balance growth should the rate outlook remain intact.

As we contemplate potentially higher volumes in the mortgage finance business, it is important to note the material changes in this offering over the previous few years. In addition to the significant credit risk and capital benefits of the approximately 59% of existing balances now in the well-discussed enhanced credit structures, over 75% of current mortgage warehouse clients are now open with our broker-dealer, and nearly all maintain treasury relationships with the firm, which collectively drives significantly improved risk-adjusted returns should the industry realize anticipated 2026 growth.

Full year deposit growth of \$1.2 billion or 5% was driven predominantly by our continued ability to effectively leverage growth in core relationships to serve the entirety of our clients' cash management needs, partially offset by our continued programmatic reduction of mortgage finance deposits. These trends are evidenced in part by our sustained ability to effectively grow client interest bearing deposits which when excluding multi-year contraction in indexed deposits are up \$1.7 billion, or 10% YoY, while also effectively managing deposit betas, which are 67% cycle to date inclusive of the mid-December cut. During the quarter, ending non-interest bearing deposits, excluding mortgage finance, increased 8% or \$233 million, with average non-interest bearing deposits excluding mortgage finance remaining flat at 13% of total deposits linked quarter.

Period end mortgage finance non-interest bearing deposit balances decreased \$963 million quarter-over quarter as escrow balances related to tax payments begin remittance in late November and run through January, before beginning to predictability rebuild over the course of the year. For the quarter, average mortgage finance deposits were 85% of average mortgage finance loans, down from 90% the prior quarter, and 107% in Q4 of last year. We expect the mortgage self-funding ratio to remain near these levels in the first quarter with potential for further improvement expected during the seasonally strong spring and summer months.

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The cost of interest-bearing deposits declined 29 basis points linked quarter to 3.47%, and 85 basis points from Q4 of 2024. Accounting for a realized beta on the December rate cut, we expect cumulative beta to be low 70s by the end of the first quarter, assuming no Fed actions during Q1.

Our modeled earnings at risk increased modestly this quarter, with current and prospective balance sheet positioning continuing to reflect a business model that is intentionally more resilient to changes in market rates. Despite short-term rates declining approximately 100 basis points during 2025, we delivered 14% full-year net interest income growth, 13% total revenue growth, and a 45 basis point year-over-year increase in net interest margin. This resilience is in part the result of disciplined duration management and acknowledgement of our improved ability to deliver returns through cycle.

During Q4, \$250 million in swaps matured at a 3.4% receive rate. We replaced this with \$1.0 billion in receive-fixed SOFR swaps executed at 3.41%, becoming effective in Q4. An additional \$400 million in swaps at a 3.32% receive rate became effective in early Q1.

Looking ahead, we will continue disciplined use of our securities and swap books to appropriately augment rate-fall earnings generation embedded in our current business model.

Quarterly net interest margin declined 9 basis points and net interest income decreased \$4.3 million, reflecting timing differences related to lower interest rates on our SOFR-weighted loan portfolio relative to fed funds driven deposit cost reductions realized in the quarter. The benefit of reduced deposit costs will be more fully reflected in January financials.

Year-over-year, quarterly net interest margin expanded 45 basis points, driven primarily by favorable deposit betas and structural improvements in portfolio efficiency, including a reduction in our mortgage finance self-funding ratio from 107% to 85%.

Fourth quarter adjusted non-interest expense increased 8% relative to the same quarter last year, primarily driven by higher salaries and benefits expense aligned with investment in our areas of focus. As a reminder, first quarter non-interest expense is expected to be elevated due to annual accrual resets, and seasonal payroll and compensation expenses.

Full year adjusted non-interest income grew 8% to \$229 million, a record for the Firm. Fee income from our areas of focus continues to differentiate our client positioning and strengthen our revenue profile.

Treasury Product fees again delivered industry-leading growth, increasing 24% for the full year. This growth reflects robust client acquisition and 12% gross PxV expansion, both significantly outpacing industry benchmarks and demonstrating our competitive advantage in gaining the primary operating relationship with our target clients.

Investment Banking achieved substantial scale expansion, with transaction volume across capital markets, capital solutions, and syndications climbing nearly 40% year-over-year. While average capital markets deal sizes contracted relative to 2024, this material increase in volume underscores our deepening market penetration and the expanding nature of our relationships across the target client universe.

Total notional bank capital arranged increased 20% this year, positioning us as the #2 ranked arranger for traditional middle-market loan syndications nationwide. This ranking reflects our market leadership in a core client segment, while highlighting our ability to provide client financing solutions that best fit both their balance sheet, and ours.

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Texas Capital Securities delivered noteworthy traction as well, with 2025 volume increasing 45% year-over-year.

Together, these results validate our focus on building diversified, scalable revenue streams while deepening our primary operating relationship with middle-market and corporate clients.

The total allowance for credit loss including off balance sheet reserves of \$333 million remains near our all-time high, which when excluding the impact of Mortgage Finance allowance and related loan balances was relatively flat linked quarter at 1.82% of total LHI, in the top decile among the peer group.

Net charge offs for the quarter were \$10.7 million or 18 basis points of LHI, related to several previously identified credits in the commercial portfolio.

Positive grade migration trends over the first three quarters of the year resulted in an 11% reduction year over year in criticized loans. During the fourth quarter select commercial real estate multifamily credits migrated from pass to special mention as projects in lease up continue to require ongoing rental concessions to gain or maintain occupancy, impacting net operating income in spite of material project specific equity and sponsor support.

Capital levels remain at or near the top of the industry. CET1 finished the quarter at 12.1%, with full-year improvements of 75 basis points reflecting strong earnings generation and disciplined capital management. Tangible Common Equity to Tangible Assets increased 58 basis points for the full year.

A significant driver of capital strength is our mortgage finance enhanced credit structures. By quarter end, approximately 59% of the mortgage finance loan portfolio had migrated in to these structures, bringing the blended risk weighting to 57%. This improvement is equivalent to generating over \$275 million of regulatory capital, with client dialogue suggesting an additional 5-10% of funded balances could migrate over the next two quarters, further enhancing both credit positioning and return on allocated capital.

During the quarter, we repurchased approximately 1.4 million shares for \$125 million at a weighted average price of \$86.76 per share, representing 117% of prior month tangible book value. Full-year share repurchases totaled 2.25 million shares, or \$184 million — equivalent to 4.9% of prior year shares outstanding.

Finally, Tangible Common Equity to Tangible Assets finished at 10.6% — ranked first among the largest banks in the country, while tangible book value per share increased 13.44% year-over-year to \$75.25, the fifth consecutive record quarter for the Firm.

Looking ahead to 2026, our outlook reflects continued realized scale from multi-year platform investments. We anticipate total revenue growth in the mid to high single digit range, driven by industry-leading client adoption and continued growth in our fee income areas of focus with full-year non-interest revenue expected to reach \$265 to \$290 million.

Anticipated non-interest expense growth in the mid-single digits reflects increased compensation expenses tied to improved performance, targeted expansion in defined client coverage areas, and platform investments meant to expand upon best-in-class client execution, further enhancing our operating resilience, and supporting future enhancements to structural profitability.

Given continued economic uncertainty and our commitment to operating from a position of financial resilience, we are moderating our full-year provision outlook to 35 to 40 basis points of average LHI, excluding Mortgage Finance.

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Taken together, this outlook reflects another year of positive operating leverage and meaningful earnings growth.

Operator – we'd now like to open the call up for questions. Thank you.

**Operator**

(Operator Instructions) Our first question comes from Woody Lay from KBW.

**Wood Lay**

Wanted to start on the investment banking and trading outlook and specifically the investment banking pipeline. I believe, in 2025, deals kind of got pushed to year-end just given some of the tariff volatility over the first half of the year. So how does the pipeline look entering 2026? And how do you think about pacing of investment banking fees relative to the back half of the year?

**Rob Holmes**

Woody, let me just give you little facts on the investment bank's performance in '25. We arranged about \$30 billion of debt across Term Loan B, high yield and private placement. Then on top of that, about \$19 billion and lead left syndications in the bank market. So we ranged about \$49 billion of debt for our clients which is very impressive, broad new client penetration and leadership in the segment. IB transaction volume was up about 40%. The fees were much more granular. So people like you and others would suggest that's healthy, better earnings stream.

Equities, we participated in more transactions than we had forecasted even though some got pushed and Sales & Trading has passed \$330 billion of notional trades since the opening of the business. That's up about 45% since last year. So there's broad growth. We're starting to see repeat refinancings.

Remember, we just really got into this business in earnest like three years ago. So now you're starting to see the repeat of a client that came onto the platform three years ago which will add to the earnings going forward. I would say that what you're really focused on in terms of things that got pushed was more in the M&A space and equity space. We are seeing and we do expect to see that pull through and pipelines remain very healthy which is very broad now. Public finance, best we can tell our public finance desk is -- has grown for a de novo public finance desk faster than any public finance desk that we can find and the synergies in the investment bank across commercial banking and corporate banking has proved to be very, very strong.

Like just an example, stay on public finance we have a government not-for-profit segment in corporate. Well before we have public finance, all we can really do is lend to them short term and do the treasury. And now we can lend to them short term, we can do the treasury. We can do financings for them as well in the public markets. So it's working as anticipated, and we remain very, very optimistic and part of the business.

**Matt Scurlock**

Woody the fee income from treasury, wealth, and investment banking topped \$50 million for the second consecutive quarter which when you compare that to the \$47.4 million of total fees for the full year 2020 from those three categories. Shows how much progress we've made since announcing the transformation. Full year guide for noninterest income is to increase 15% to 25% to \$265 million to \$290 million which is underpinned by investment banking fees of \$160 million to \$175 million.

If you just think about Q1 outlook is for stable linked quarter performance. So total noninterest income, \$60 million to \$65 million investment banking, \$35 million to \$40 million which to Rob's comment, expectation of continued platform maturity and then the integration of all the hires and capabilities that we've built over the last 12 to 18 months, driving positive trajectory, both in fee income and investment banking as we move through the year.

**Rob Holmes**

And I would just add one more first. It didn't happen in the fourth quarter. It happened this quarter, Woody, but we did lead our first sole-managed lead left equity deal which we think is a first for a Texas-based firm for any period that we went back and found. So really, really excited about the business.

**Wood Lay**

That's great to hear. That's really great color. I appreciate that all. Next, I just wanted to hit on capital and a little bit of a two-part question. First, just you were pretty active on the buyback front in the fourth quarter. Was that a reflection of the elevated CRE paydowns freed up some capital? Then the second question is, you reiterated the CET1 guide of over 11%. You've been price sensitive on the buyback historically, stock's now trading well above where you bought in the fourth quarter. How do you think about additional buybacks from here?

**Matt Scurlock**

Yes, pushing CET1 up 75 basis points to 12.13%, while growing loans, \$1.6 billion or 7%, buying back 5% of the company for 114% of prior month tangible and building tangible book value per share by 13.44%. We're obviously pretty pleased with how we utilize shareholders' capital for their benefit in 2025. We're highly focused on doing it again in '26.

To your point, I think we have a lot of options at our disposal. The published strategic objective of being financial resilient to market and rate cycles for us is a core paramount. And while we think we have significant capital in excess of internally observed risk profile, Rob said repeatedly that carrying sector-leading tangible common intangible assets is a real material contributor to our ability to attract the right type of clients. That's going to benefit the shareholder over time and is an advantage that we're currently unwilling to give up. Would say as the profitability continues to improve the resources available to support items on the capital menu also expands.

So if you're trading at 1.3x tangible take the 2026 and 2027 consensus estimates for ROE, buying back today suggests that you're purchasing at book value in 2.5 years which could certainly make sense for us given our internal view of forward earnings trajectory and then an ability to generate both book equity and regulatory capital.

**Rob Holmes**

I think also Woody, we continue to really focus -- well I think humbly, we proved we're pretty good allocators of capital over the past several years, Matt just outlined. But we also continue to drive structural improvements in the platform. So if you remember, we talked about the SPE structure and mortgage finance. We have the majority of our mortgage finance sector clients in that structure now 77% or over 70% of those clients are open with the dealer. We do treasury with basically 100% of those clients. But when you move those clients, the sophisticated best-in-class clients to the SPE structure, you go from the risk weighting of 100%, down to sub-30% now on average which clearly is a better model and releases capital. We're not going to -- we'll forever try to drive efficiencies both in cost but also capital in the businesses that we have at the firm.

**Operator**

Our next question comes from Michael Rose from Raymond James.

**Michael Rose**

Maybe just on the expense outlook. I think you mentioned obviously some wage inflation, clearly, in some hiring efforts. Can you just talk about some of the areas where you're looking to kind of incrementally add? Is it -- is it on the lender front, is it continued to build out the capital markets platform to -- is it all of the above? Just trying to get a better breakdown of how we should think about that mid-single-digit expense guide as we move forward.

**Matt Scurlock**

You bet, Michael, we are highly focused on leveraging the previous material investments that we've made by expanding capabilities and adding targeted coverage with the 2026 expense guide, continue to heavily feature growth in salaries and benefits with select increase in technology. We now have a, we think a multiyear pattern of effectively improving the productivity of the expense base through the deployment of technology solutions which we anticipate is only going to accelerate as we more fully adopt AI across the franchise. I would call out this expected seasonality in the expense base which will increase at a higher percentage this year just given the larger portion of total salaries and benefits that's currently tied to the stock.

So the current guide does anticipate Q1 noninterest expense between \$210 million and \$215 million, with about \$18 million of seasonal comp and benefits expense and then another \$10 million from the combination of incentive comp reset late quarter merit increases and full quarter impact of late year hires.

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As you exit Q1, we think about salaries and benefits around \$125 million a quarter and then other noninterest expense in that \$75 million or so a quarter range. Then importantly, the mid-single-digit expense guide is sufficient to cover the current revenue expectations and the composition inclusive of the fee growth. Anything you want to add on that?

**Rob Holmes**

I guess the only thing -- the last thing I would say is as we change the mix of investment to a higher mix front office in terms of expense mix with salaries and benefits that's been a long journey. We continue to do that. But the revenue synergy today that we get from an incremental front office hire is dramatically more. So remember, Matt talked about this a lot, Michael, we talked about it with you a lot when we're building these businesses, we had to build the back, middle and front office. So the back and the middle are substantially complete as we discussed a lot. So we add somebody to the front line, the return on that hire is much greater which is reflected in everything that Matt said.

**Michael Rose**

Great. I appreciate the color. Maybe just as my follow-up. Can you just talk about the opportunities? I know you're not going to want to talk about loan growth figures per se, but high single-digit commercial loan growth, CRE down a little bit. There's obviously been some market -- some mergers in and around your markets. Can you just talk about -- and then you obviously have hired a lot of lenders, right, as you've kind of upgraded the staff. Is there any reason to think that the loan growth LHI momentum, again I'm not asking for a target, but that wouldn't continue against kind of a more, in theory, favorable backdrop, some of the momentum that you have just on the hiring front that you've made already? Then just a more conducive loan market.

**Matt Scurlock**

Michael, I think a lot of the trends that you've seen in the second half of 2025 should really continue into '26 with strong C&I and mortgage finance growth offsetting contracting commercial real estate balances. So that we noted in the prepared remarks, the guide contemplates the \$2.3 trillion mortgage origination market which sits on top of a 6.3% 30-year fixed rate mortgage which for us would drive about a 15% increase in full year average mortgage finance balances.

As Rob just noted, it's obviously a completely different mortgage finance offering in the legacy warehouse we've had at TCBI. 59% of these loans are in the enhanced credit structure which had the average risk of 28%, ~80% of these clients are both the dealer and then nearly all of them take advantage of our treasury products suite which suggests any realized pickup in one to four family originations is going to generate significantly higher and more diversified per unit risk-adjusted return for us this year.

We also think we'll have another record year of client acquisition in the C&I-focused offerings which should be enough to offset continued balance reductions in CRE which in our view, should be pretty expected given multiyear pullback in originations really across all property types. I think all those things together, Michael, would support another year mid-to high single-digit growth in gross LHI.

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**Rob Holmes**

Yes. And Michael, the reason I said -- when we first started, and I said loan growth doesn't matter was because we knew loan growth would come if we had the right client selection. We also knew that -- I mean like we just talked about, we raised \$30 billion of Term Loan B high-yield private placement debt for clients that wasn't bank debt which helped the client and was a great risk management tool for us.

Then also, as we mentioned, we're number two in the country in middle market lead left bank syndication leads. Well there's a lot of banks out there that would just kept that exposure which we don't think is the right decision for the client, but it's certainly not the right decision for us from a risk management perspective. So we're not trying to maximize loan growth. We're trying to provide the clients with the right solutions and keep really good credit discipline and have a great client outcome. So that's why we said what we said before loan growth does matter. But it's going to come in spite of our prudent risk management because of our client acquisition and client selection.

**Matt Scurlock**

Another way just to think about that client acquisition, Michael, is I mean commitments for us in the C&I space linked quarter were up over 25%. So we continue to drive low double-digit growth in C&I balances. Our last quarter, I think we grew commitment 18%, but we grew a commitment 18% year-over-year and again the 25% linked quarter. So a lot of client activity showing up on the platform.

**Michael Rose**

Okay. So a lot of momentum to continue.

**Operator**

Our next question is from Casey Haire from Autonomous Research.

**Jackson Singleton**

I was wondering if you could just provide some more color into recent credit trends and maybe help us kind of understand what factors drove the increase in the provision guide year-over-year?

**Matt Scurlock**

Yes. We did experience modest linked quarter increase in special mention loans which, as we noted in the comments, was tied exclusively to a handful of multifamily properties that are experiencing net income -- net operating income pressure, just given required rental concessions to maintain target occupancy levels. These are extremely high-quality sponsors that are in historically strong Texas markets which we think over time are going to benefit from the limited new supply and increased level of absorption.

I would say importantly, the ratio of criticized loans to LHI as we exited the year marked the best level since 2021 with really strong credit metrics generally across all categories. We've had a 35 to 40 basis point guide two years ago, moved it to 30 to 35 basis points this year, came in obviously at the low end of the guide and we're certainly a group that wants to operate from a position of financial resilience, so felt it prudent to move to 35 to 40 basis points again consistent with things we've done in the recent past.

**Jackson Singleton**

Got it. Okay. Then just for my follow-up, just a NIM question. Can you help us think about the drivers for 1Q? Then maybe any sort of range you could help for our modeling?

**Matt Scurlock**

Yes. I think \$250 to \$255 million for 1Q on NII, flattish margins, so somewhere in the mid-3s. That's with one month average SOFR down about 27 basis points. If you think about the mortgage finance business in Q1, stay at the 85% self-funding ratio on \$4.8 billion average balance again with 27 basis point reduction in average one month SOFR for quarter-over-quarter, that should push the yield on the mortgage finance business down to 385 or 390 basis points or so. So those are probably the factors that I would incorporate.

The other comment that I'd make is we're 67% through cycle beta inclusive of the December cut once all those pricing actions are passed through the deposit base you're somewhere in the low 70s, probably by the end of January. For the full year outlook, we've been pretty consistent in noting our expectation that interest deposit betas were going to moderate. So any incremental cuts in '26 the guide would incorporate a 60% interest-bearing deposit beta which is obviously also what we now have in our earnings at risk down 100 scenarios.

**Operator**

Our next question is from Anthony Elian from JPMorgan.

**Anthony Elian**

Matt, on mortgage finance, I'm curious what specifically drove the sequential increase in 4Q average balances. Was there any pickup in refi activity in that business?

**Matt Scurlock**

Rates were lower than we had incorporated in the outlook which did drive a pickup in aggregate originations inclusive of refi. You had slightly longer dwell times as well Tony which supported those average balances.

**Anthony Elian**

Okay. Then my follow-up on credit. Can you give us more color on what drove the increase in special mention? I know you called out the multifamily credits. But why did this surface now? And when do you expect some sort of resolution on those credits?

**Matt Scurlock**

Yes. You bet. So it's \$100 million, we have \$250 million, excuse me, special mission and commercial real estate on a \$5.5 billion portfolio that we've experienced, I want to say \$5 million of charge-offs on in the last 36 months. So we'd like to be proactive in communicating with you guys any potential downgrades or realized downgrades. And as I noted in the previous question, simply a handful of Central Texas-based multifamily properties where you had significant new product come online that the market is working to absorb many of these properties offer rental concessions to bring folks into the apartment complex, and they had to sustain those for another year longer than they originally anticipated.

We grade based on cash flow, Tony, not appraised value. which is why we sometimes have more sensitivity and downgrades than peers. So that rental concession is pressuring the net operating income and resulted in us moving into a special mention. So we feel very well reserved against these properties clients that we do a lot of business with, well structured with significant equity. There's no, in our view, pending wave. So if you look further upstream in the credit scale or the credit grades, watch list was essentially flat. So there's nothing sitting behind this other than these properties that we've identified.

**Rob Holmes**

I would say just to say I think Matt three years ago was ahead of all the bank peers pointing out that we are going to have a small wave of provision increase in commercial real estate for a number of factors, but we did not anticipate any real credit problems, and we had worked through them, and that's exactly what happened. I think this is very akin to that, just to add to what Matt said, I mean we're in the top decile of firms since we started in reserves added, and we're at an all-time high of reserves in the history of the firm at 1.82%, excluding mortgage finance. So it's just -- I think the percentages are high because the numbers are so small.

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**Operator**

Our next question comes from Janet Lee from TD Cowen.

**Janet Lee**

Good morning. To clarify on NIM, so mid-3.30% range for first quarter of '26. If I were to think about the direction of travel for NIM beyond that point, can you sustain flattish NIM from there given -- I mean despite rates coming down given a potential improvement in self mortgage self-funding ratio. I guess that would -- looks like considering your \$265 million to \$290 million fee income range for '26, your NII could be very low single-digit growth to almost mid-single-digit growth there, depending on where that lands. So I wanted to get some color.

**Matt Scurlock**

Yes. I think given pretty good detail on expectations for deposit repricing, self-funding. The only component of the liability base we haven't described as expectations for commercial noninterest-bearing which we continue to experience and anticipate record new client acquisition with a lot of those economics showing up in treasury product fees which we've grown over 20% for multiple quarters now and deliver north of 10% growth in PxV four of the last five years.

We think about their contribution to overall deposit balance portfolio mix to stay around that 13% level Janet. Obviously deposits are going to grow. Commercial NIB will grow, but their percentage stay relatively static, given some good -- hopefully, some good insights into how we think about the loan portfolio.

We'll continue to invest cash flows from the securities book. We added about \$1.1 billion of securities last year at 5.5%, sold almost \$300 million at 3%. It's a nice sequential pickup of 80 basis points of improvement in the securities portfolio yields, a nice sequential impact to margin there. The hedge book today should cost us about \$10 million pretax NII in 2026, we are a little higher than we traditionally wanted to operate on earnings at risk in a down 100.

So you will see us selectively add to the swap book moving through 2026 we are much more active. The spread obviously changes depending on the curve, but we're much more active today and we see the negative spread between 2-year and one month SOFR inside of 30 basis points which, as of yesterday we were sitting there. So you'll see us add some swaps. I think all that together should give you a pretty good sense for how we're thinking about margin moving into 2026.

Then just to reiterate, perhaps counterintuitively, all the work that we've done as a firm to reduce our reliance on margin NII as a sole contributor to earnings is perhaps again counterintuitively, actually really supporting NII and margin because we're relevant to these clients across a wide range of products and services, so they generally less price sensitive.

Then just the final comment there, Janet. I mean we've shown an ability to deliver increasing net interest income, revenue and PPNR in a wide range of interest rate environments including delivering 14% increase in NII, 13% increase in revenue and 32% increase in PPNR with rates on average down 100 basis points this year relative to last year.

**Rob Holmes**

The only thing I'd like to reiterate is what Matt said the end because I think it's -- I just want to make sure everybody got it. I think it's a key component to the strategy. The clients are less price sensitive on rate when you're adding value in a lot of different ways and you're relevant to your client with quality client coverage and proactive ideas and execution on other fronts. We become much less price oriented on deposits. So I just want to make sure, like I think all the lines of business are contributing to that improvement in NIM.

**Janet Lee**

Got it. And just one follow-up for me. I appreciate the comments around commercial real estate payoff and balances coming down 10% year-over-year. That commentary seems somewhat different from most of the banks that are beginning to see CRE balances inflecting or stabilizing? Is it just a function of your appetite to not grow CRE or originate CRE loans as much? Or your CRE is more tilted towards construction? How -- what is the underlying factor there?

**Matt Scurlock**

Honestly, Janet, we're somewhat perplexed by that industry trend. I mean volumes have been at historic lows for multiple years. There's a lot of capital in the space. And by the space being financial services, where folks are looking to deploy into loan growth as a primary way to drive earnings that obviously is going to push down spread on high-quality transactions which as a shop that's really focused on through cycle return on equity with override clients we have no desire to go chase lower spread.

So our view is that it's just going to take a couple of years for the market to chew through the supply that's coming online and ultimately to correct and see new originations maybe in '27, '28. We do not anticipate growth in commercial real estate this year, again not a byproduct of us devoting less focused, intensity, or resource into the space, but mostly just because of the market dynamic where there's just not product coming online.

**Rob Holmes**

Also think it's indicative of a very healthy commercial real estate portfolio with regularly scheduled payoffs.

**Operator**

Our next question comes from Matt Olney from Stephens.

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**Matt Olney**

Question for Rob. Since you achieved and exceeded those legacy ROAA targets the back half of 2025 I heard you mention the focus now becomes recognizing the full potential of the recent investments. So I would love to appreciate what this full potential at full scale looks like as far as the operating metrics at the bank longer term?

**Rob Holmes**

Matt, great question. Obviously we're not going to give multiyear guidance. I'll tell you that the platform is - the synergy of the platform, the talent we've been able to recruit, the talent we've been able to maintain, the pipelines, the platforms even working in a better coordinated synergistic way than even I could have hoped for, supported by a really good investment in historical technology, improved operating efficiency, improved operating risk and controls which I -- and we talked about the credit portfolio and the discernment there, I feel really, really good about the future, and we're very optimistic.

Look, we've got a lot to do. What I would say is the theme of this year is execute and scale. We just got to execute. We've got all the products and services we need. We've got the majority of the banker roles filled that we need. We just need to execute. There is so much investment that hasn't reached scale in the platform. But if we could bid these profitability levels with that investment already in the platform which is proven will work with record client acquisition every year. We're -- we just got to execute and scale. That's it which really derisks, totally derisk the investment thesis.

**Matt Olney**

Okay. Appreciate the color, Rob. Then as a follow-up, going back to the capital discussion, we've already talked about the buyback and the enhanced credit structure. It does look like on capital, you have a few instruments that either mature or becomes callable here pretty quickly. So I would love to get your preliminary thoughts around these instruments and any plans you may have as far as some of these debt instruments?

**Matt Scurlock**

Thanks, Matt. We've got a ton of optionality in the capital base, and we'll look to behave accordingly in Q1 when some of these instruments become callable.

**Operator**

Our next question comes from Jon Arfstrom from RBC.

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**Jon Arfstrom**

Rob, just to follow-up on Olney's question. You used the term subscale in some of your businesses. What are the top few areas where you feel like you're the most subscale where you've already made the investments, where are the opportunities?

**Rob Holmes**

Sales & Trading, Equity, Public Finance, Treasury, I don't think any of our businesses are at scale yet, like not one. I mean business banking is not at scale. So this is just the preface of what this firm can do. Matt is going to get mad at me when we hang up because he is going to say that was too optimistic. But there's literally not a business approaching scale. We've done our first lead left equity deal.

We have one of the best equity teams on this platform if you look at their historical body of work. Our public finance team, I'm super proud of. Our Sales & Trading. Like I can keep -- I'm going to get in trouble also because I didn't name everybody. I don't I don't know the sub business on the platform that's at scale which I think is great. Then we've proven to be -- we're really improving our operating risk, and we're really improving our ability to syndicate risk being number two in the country. We're not -- we don't need to we're in the risk business, but we don't need to take risk to hit returns like a lot of peer banks need to do.

**Jon Arfstrom**

Okay. To turn the heat up on that a little bit, that's okay. The other thing I wanted to ask about, it's kind of related, but you guys had this relationship management return hurdle exercise. I know it's been around for a while. But as the business has evolved and we just said things were immature, but as the business has matured, how has that evolved? And how has that allowed you to maybe keep clients around with less of an ask than maybe you did 2 or 3 years ago?

**Rob Holmes**

Yes. Thank you, Jon. It's I think it's evolved to be from an exercise to being part of our culture. So when we commit capital for a client, it's the relationship management exercise you talked about is balance sheet committee. The Head of the LOBs are on that, the Head of Risk on that, Matt attends it a lot.

Remember, every LOB is fighting for the same amount of finite capital. So if they're going to vote to deploy that capital, it's then it's good for the firm and we have the right current ROE for loan only, but also for the relationship as a whole, both in a downgrade scenario of the credit. And when you do that, you have other lines of business signing up to support that client.

So over 90% of the loans we've done since we started have other lines of other business tied to it when we onboard it, treasury is probably the most about 90%, but you have private wealth signing up new business with them or private banking.

Then when you have a -- if you have a bank or leave or something which every bank does, people retire or what have you, you have like four or five touch points with that client. So the client has been institutionalized, it's not a banker relationship. It's an institutional relationship which I think is -- makes the client much more valuable in the current state and a go-forward state to the firm and we're bringing more value to the clients. So it's a win-win.

**Operator**

Thank you. We currently have no further questions. I would like to hand back to Rob Holmes for any closing remarks.

**Rob Holmes**

I just want to thank all the employees at Texas Capital for another very solid quarter. I look forward to a great '26. Thanks, everyone.

**Operator**

Thank you. This now concludes today's call. Thank you all for joining. You may now disconnect your lines.