TCBI Q4 2018 Earnings

January 23, 2019

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.

Leveraging Our Success

"Providing a premier and differentiated client experience to companies in high-value business segments that desire a broad relationship with the Bank"

1998-2000

- **Formed the Bank** on December 18, 1998
- Establishes offices in three of the five major Texas metros (Dallas, Ft Worth, Austin)

2003

- Houston office opened
- Reached $2B in assets
- **Successful IPO** completed

2007-2013

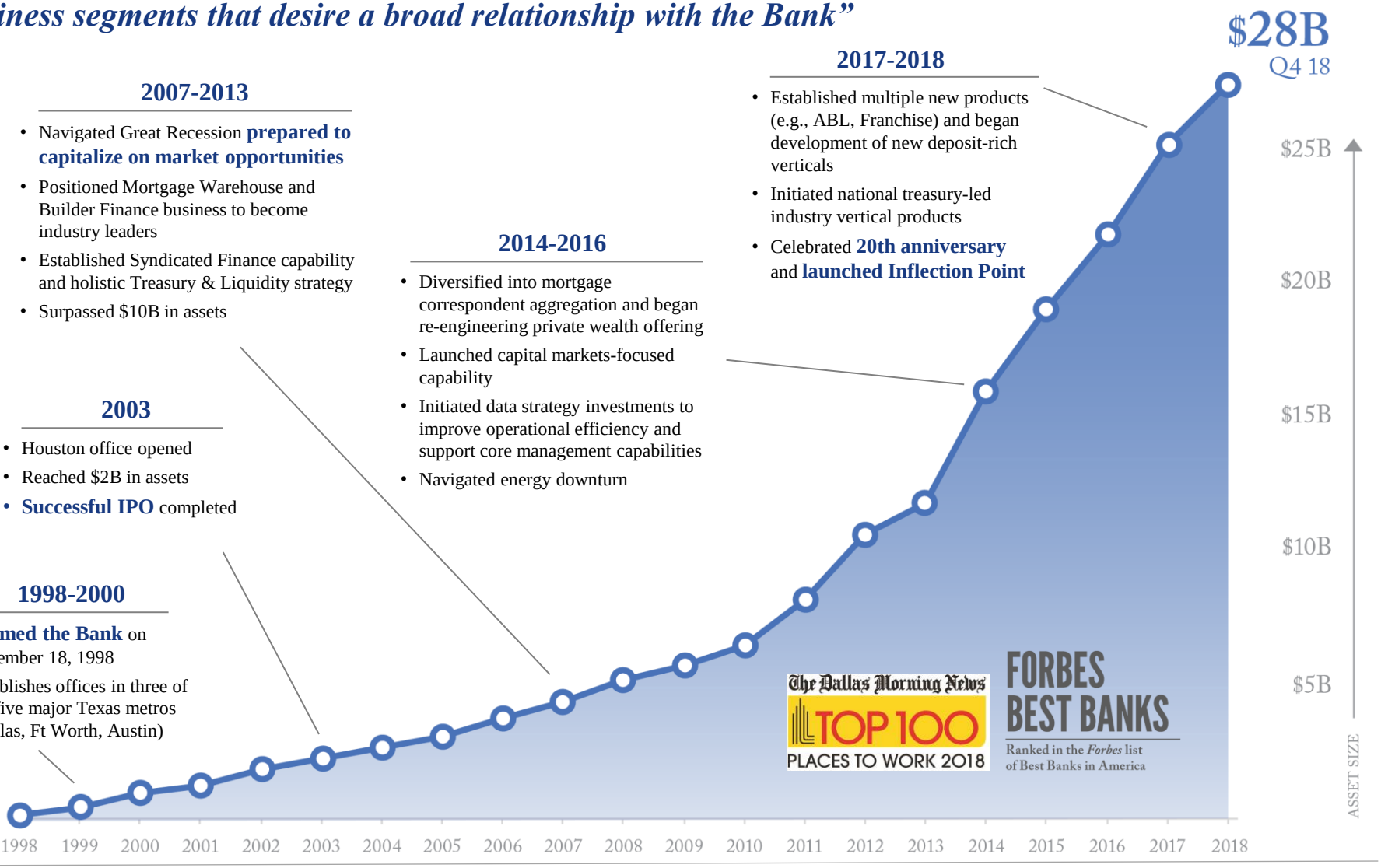
- Navigated Great Recession **prepared to capitalize on market opportunities**
- Positioned Mortgage Warehouse and Builder Finance business to become industry leaders
- Established Syndicated Finance capability and holistic Treasury & Liquidity strategy
- Surpassed $10B in assets

2014-2016

- Diversified into mortgage correspondent aggregation and began re-engineering private wealth offering
- Launched capital markets-focused capability
- Initiated data strategy investments to improve operational efficiency and support core management capabilities
- Navigated energy downturn

2017-2018

- Established multiple new products (e.g., ABL, Franchise) and began development of new deposit-rich verticals
- Initiated national treasury-led industry vertical products
- Celebrated **20th anniversary** and **launched Inflection Point**



The Dallas Morning News TOP 100 PLACES TO WORK 2018

FORBES BEST BANKS
Ranked in the *Forbes* list of Best Banks in America

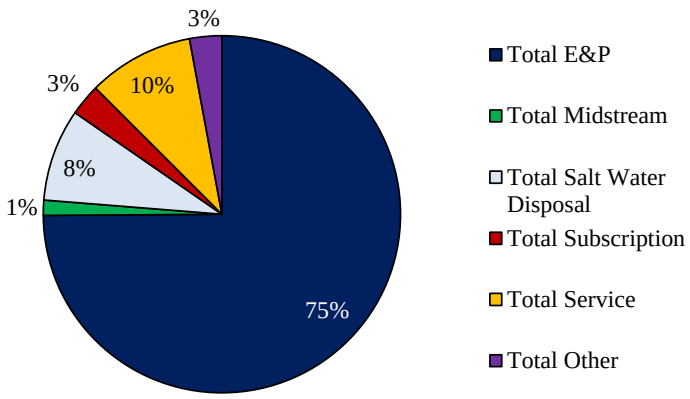
Opening Remarks & Financial Highlights

Operating Results	*Total Loans HFI*	*Total Deposits*	*Net Income*	*EPS*	*ROE*	*ROA*
	$22.6 billion	**$20.6 billion**	**$71.9 million**	**$1.38**	**11.82%**	**1.09%**

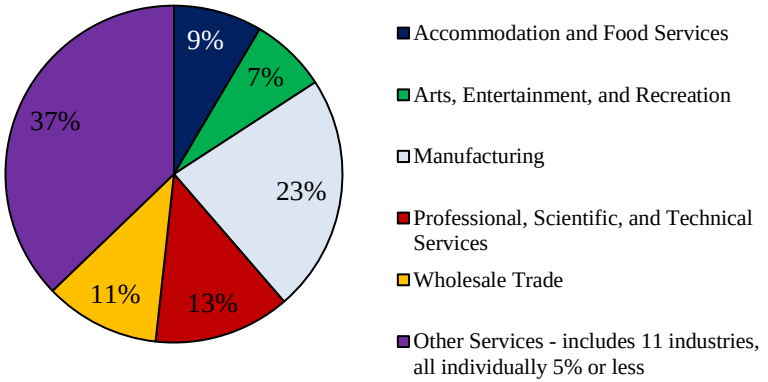
Net Interest Income and Margin	• Net interest income grew 4% from Q3-2018 and 14% from Q4-2017 • Net interest margin increased 8 bps from 3.70% at Q3-2018 to 3.78% due to increase in yield on earning assets • LIBOR movement reflected in core LHI yields; stabilized mortgage finance yields
Balance Sheet Growth	• Average LHI, excluding MFLs, growth of 2% from Q3-2018 ($311.9 million); 11% from Q4-2017 ($1.6 billion) • Average MFLs increased 2% from Q3-2018 ($167.6 million); 14% from Q4-2017 ($849.7 million) • Average total deposits increased 1% from Q3-2018 ($143.3 million); 2% from Q4-2017 ($444.1 million)
Operating Leverage	• Net revenue decreased 1% from Q3-2018 and increased 11% from Q4-2017 • Non-interest expense decreased 5% from Q3-2018 and decreased 2% from Q4-2017 • Improvement in full year operating leverage as compared to 2017; net revenue up 19% and non-interest expense up 13%
Credit Quality	• NCOs / average total LHI of .37% for full year 2018 compared to .16% for full year 2017 • Small number of deals that were previously identified, primarily leveraged • Non-accrual loans / total LHI of .36%, compared to .49% in both Q3-2018 and Q4-2017

Energy and Leveraged Lending Update

Energy Outstandings 12/31/18



C&I Leveraged Outstandings 12/31/18



Energy

- Outstanding energy loans represented 8% of total loans, or $1.8 billion, at Q4-2018 compared to 6%, or $1.3 billion, at Q4-2017
- Non-accruals totaled $37.5 million at Q4-2018 compared to $65.2 million at Q4-2017
- Criticized energy loans totaled $83.4 million (5% of outstanding energy loans) at Q4-2018 compared to $93.3 million (7%) at Q4-2017
- Allocated reserves of $36.7 million represents 2% of outstanding energy loans
- By continuing to move up market, and thereby working with larger, well capitalized borrowers, we experienced significant loan growth in 2018 with an emphasis on oil concentrations primarily in the Permian Basin.

C&I Leveraged

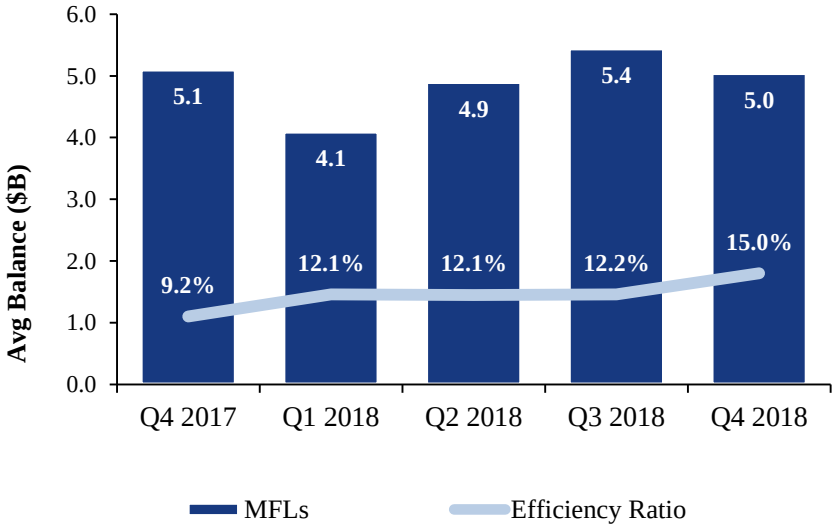
- Outstanding C&I leveraged loans represented 4% of total loans, or $1.2 billion, at Q4-2018 compared to 6%, or $1.1 billion, at Q4-2017
- Non-accruals totaled $28.8 million (2% of outstanding C&I leveraged loans) at Q4-2018, compared to $30.1 million (3%) at Q4-2017
- Criticized loans totaled $151.0 million (12% of outstanding C&I leveraged loans) at Q4-2018, compared to $104.0 million (9%) at Q4-2017; increase primarily in special mention
- Allocated reserves of $62.6 million represents 5% of outstanding C&I leveraged loans
- No significant concentration in any industry; NCOs in 2018 were in the health care and quick serve restaurant (QSR) industries
- Senior leverage greater than 3.0x and total leverage greater than 4.0x, slightly over 50% of the portfolio at Q4-2018

Mortgage Finance

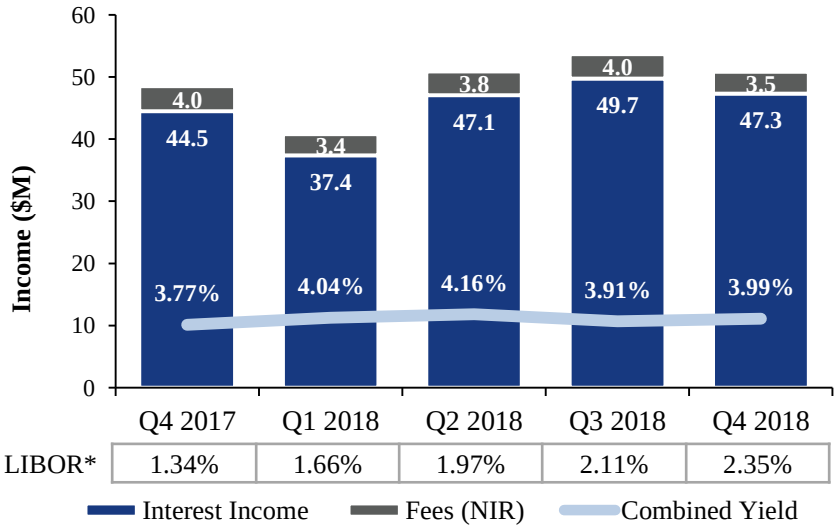
Core Strengths

- Technology investments have allowed for scalability
- Historically low credit risk
- Strong funding opportunities
- Other product offerings developed to serve the industry
- Commitment to clients in the industry allow for increased market share

Efficiency



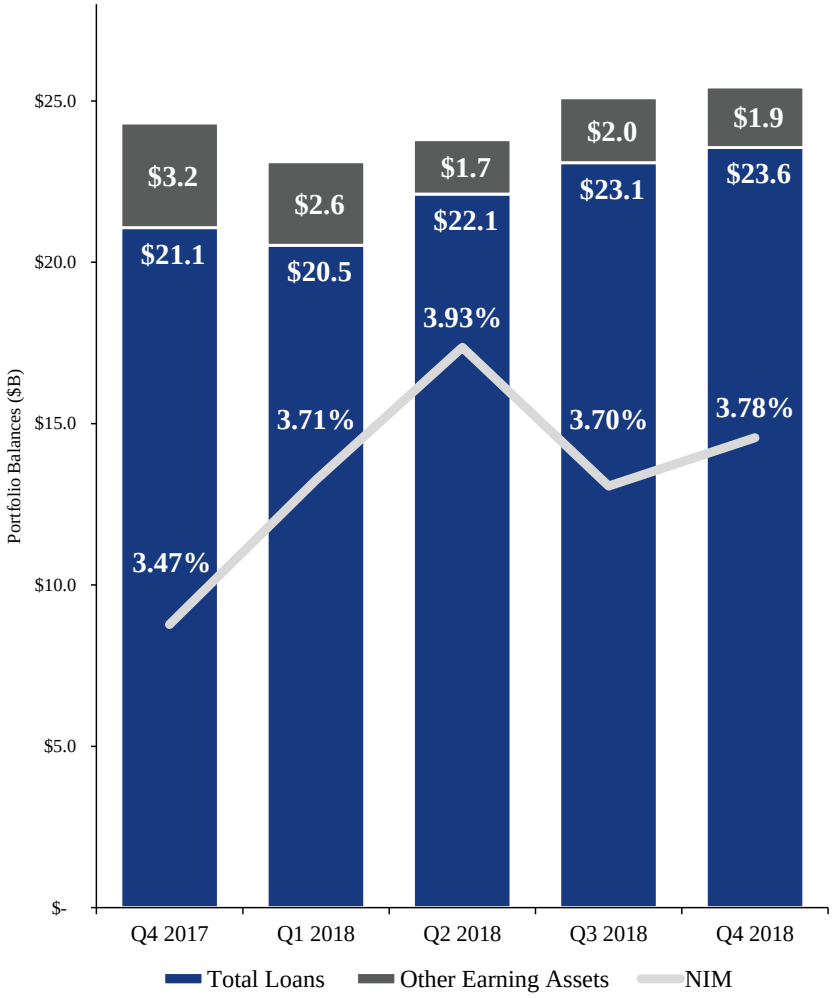
Earnings & Combined Yield



*Average of quarter's daily 1M LIBOR rates

Net Interest Income & Margin

Earning Asset & Margin Trends



Quarterly Change

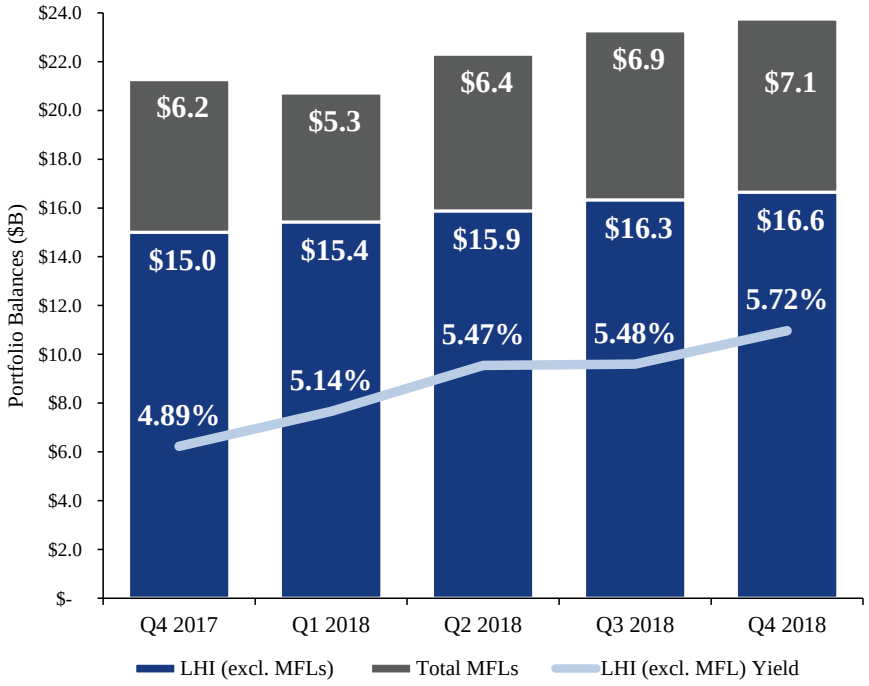
NII ($MM)		NIM (%)
$232.2	Q3 2018	3.70%
10.1	Increase in LHI yields	.16
1.3	Increase in MF loan yields	.02
.6	Increase in LHS yields	.01
.1	Decrease in liquidity	.01
(8.6)	Increase in funding costs	(.13)
5.0	Increase in MF & LHI loan balances	-
-	Other	.01
240.7	Q4 2018	3.78%

NIM Highlights

- LIBOR moves reflected in traditional LHI yields
- Mortgage finance yields stabilized in Q4-2018
- Rate of increase in total funding costs declined 1 bp from Q3-2018; increase of 16 bps during Q4-2018 compared to 17 bps during Q3-2018
- No significant impact from earning asset shifts

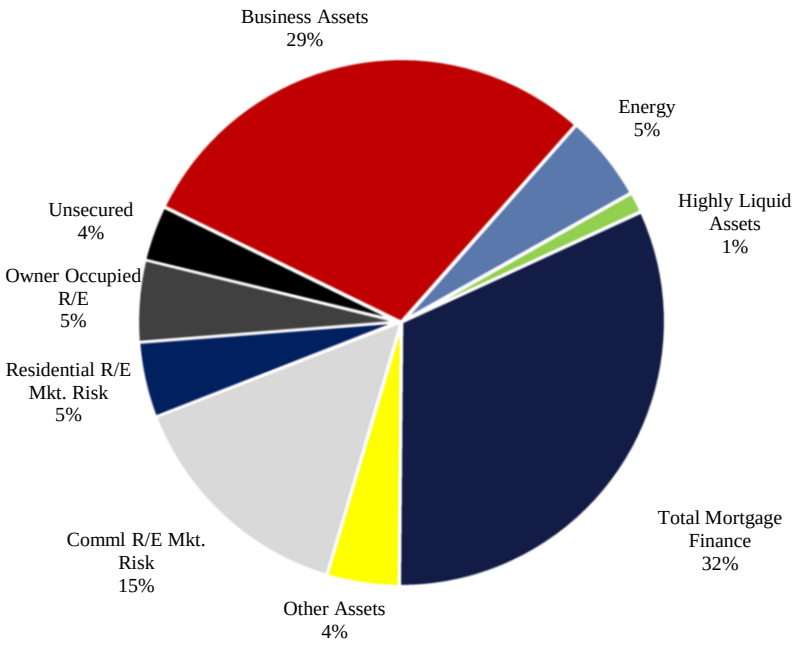
Loan Growth

Average Balance Trends ($B)



Total Loan Composition

($24.5Billion at 12/31/18)

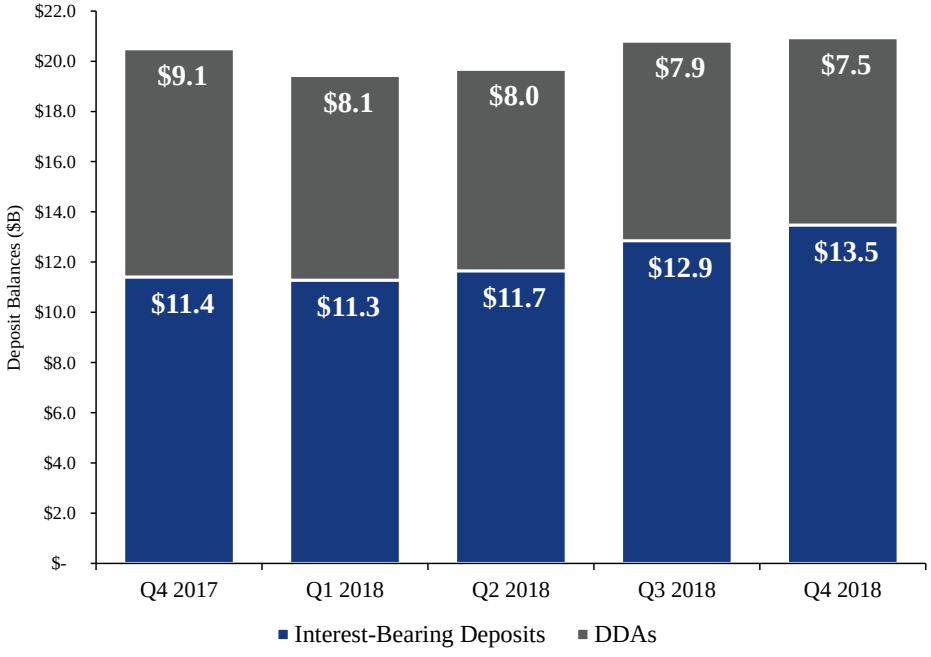


Growth Highlights

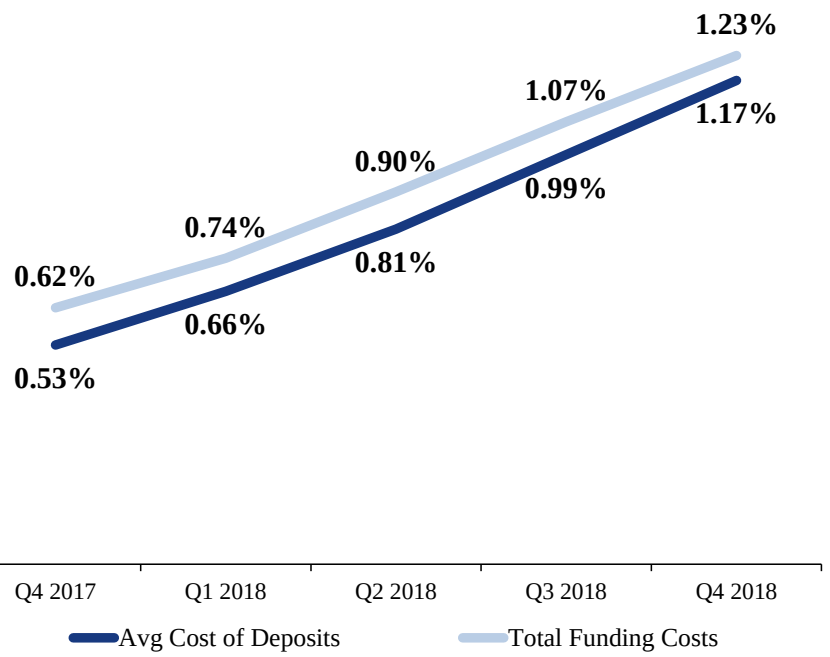
- Growth in average traditional LHI; up $311.9 million (2%) from Q3-2018 and $1.6 billion (11%) from Q4-2017
- Modest growth in traditional LHI at end of the quarter; period-end balance $47.0 million higher than Q4-2018 average balance
- Increase in average total MFL balances of $167.6 million (2%) from Q3-2018 and $849.7 million (14%) from Q4-2017
- Average total MFLs represent 30% of average total loans at Q4-2018 compared to 30% in Q3-2018 and 32% at period end

Deposit Growth

Average Balance Trends ($B)



Funding Costs



Growth Highlights

- Deposit costs increased 18 bps during Q4-2018 and total funding costs increased 16 bps; compared to increases of 18 bps and 17 bps, respectively, in Q3-2018
- Slight increase in linked quarter average deposits with growth in interest-bearing
- Continued focus on cost-effective deposit growth with new verticals and core client relationships
- No meaningful change in deposit betas observed during Q4-2018

Non-interest Expense

Quarterly Change

Non-interest expense ($MM)	Increase/ (Decrease)
Q3 2018	**$136.1**
Salaries and employee benefits – FAS 123R (includes stock price changes)	(3.1)
Salaries and employee benefits – non-LTI incentives and annual incentive pool	(1.2)
Salaries and employee benefits – FICA and seasonal payroll related items	(1.9)
Salaries and employee benefits – severance	(2.0)
Salaries and employee benefits – salaries only	.4
Legal and professional	2.3
OREO related costs	1.9
All other – includes occupancy, marketing, technology, FDIC insurance assessment and servicing related expenses	(2.6)
Q4 2018	**$129.9**

Annual Change

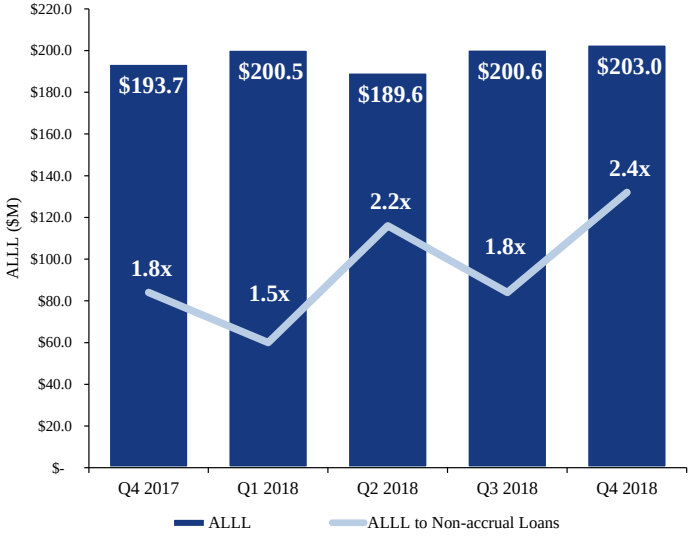
Non-interest expense ($MM)	Increase/ (Decrease)
YTD 2017	**$465.9**
Salaries and employee benefits – FAS 123R (includes stock price changes)	(5.1)
Salaries and employee benefits – non-LTI incentives and annual incentive pool	5.8
Salaries and employee benefits – severance	4.1
Salaries and employee benefits – continued build out	22.7
Legal and professional	13.3
Marketing	12.5
OREO related costs	(6.0)
All other – includes occupancy, technology, FDIC assessment and servicing related expenses	11.9
YTD 2018	**$525.1**

NIE - Efficiency

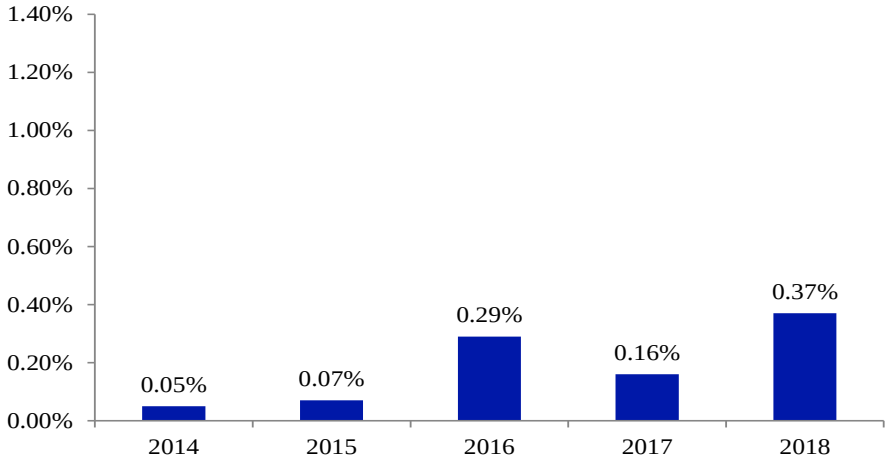
- Full year 2018 efficiency ratio (excluding OREO expenses) of 52.9% compared to prior year of 55.0%; 50.7% for Q4-2018 compared to 53.6% for Q3-2018
- Slowing of core operating expense growth in 2018 establishing a lower baseline for further moderation of growth in 2019

Asset Quality

Allowance for Credit Losses

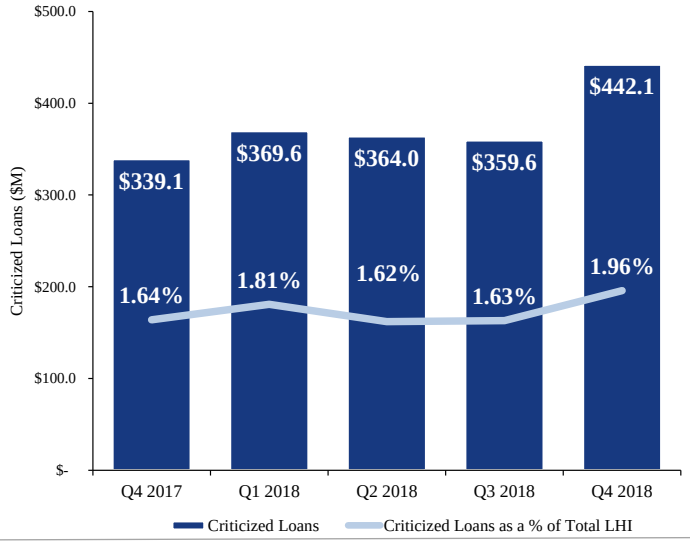


NCO/Average Total LHI



Combined Reserves/ Total LHI	.76%	.90%	1.03%	.94%	.90%

Criticized Loans as % of Total LHI



Asset Quality Highlights

- Credit cost of $35.0 million for Q4-2018, compared to $11.0 million ($13.0 million provision, net $2.0 million reversal of OREO valuation allowance) in Q3-2018 and $8.1 million ($2.0 million provision, $6.1 million OREO write-down) in Q4-2017
- NCOs $32.6 million, or 60 bps of average total LHI, in Q4-2018 compared to $2.0 million, or 4 bps, in Q3-2018 and 2 bps in Q4-2017
- Q4-2018 NCOs related to small number of deals; previously identified
- NPL ratio decreased to .36% of total LHI compared to Q3-2018
- Criticized levels remain low and favorable to industry levels

Performance Summary - Quarterly

(in thousands)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net interest income	$ 240,673	$ 232,175	$ 231,712	$ 210,300	$ 210,649
Non-interest income	15,280	25,518	17,279	19,947	19,374
Net revenue	255,953	257,693	248,991	230,247	230,023
Provision for credit losses	35,000	13,000	27,000	12,000	2,000
OREO write-down	-	(2,000)	-	2,000	6,111
Non-interest expense	129,862	138,143	132,131	124,960	127,027
Income before income taxes	91,091	108,550	89,860	91,287	94,885
Income tax expense	19,200	22,998	18,424	19,342	50,143
Net income	71,891	85,552	71,436	71,945	44,742
Preferred stock dividends	2,437	2,438	2,437	2,438	2,437
Net income available to common shareholders	$ 69,454	$ 83,114	$ 68,999	$ 69,507	$ 42,305
Diluted EPS	$ 1.38	$ 1.65	$ 1.38	$ 1.38	$ .84
Net interest margin	3.78%	3.70%	3.93%	3.71%	3.47%
ROA	1.09%	1.31%	1.16%	1.22%	.71%
ROE	11.82%	14.68%	12.72%	13.39%	8.18%
ROE, excl. DTA write-off	11.82%	14.68%	12.72%	13.39%	11.58%
Efficiency	50.7%	52.8%	53.1%	55.1%	57.9%
Efficiency, excl. OREO write-down	50.7%	53.6%	53.1%	54.3%	55.2%

Performance Summary - Annual

(in thousands)	2018	2017	2016	2015	2014
Net interest income	$ 914,860	$ 761,328	$ 639,814	$ 556,530	$ 476,965
Non-interest income	78,024	74,256	60,780	47,738	42,511
Net revenue	992,884	835,584	700,594	604,268	519,476
Provision for credit losses	87,000	44,000	77,000	53,250	22,000
OREO write-down	-	6,111	-	-	-
Non-interest expense	525,096	459,765	382,397	326,523	285,114
Income before income taxes	380,788	325,708	241,197	224,495	212,362
Income tax expense	79,964	128,645	86,078	79,641	76,010
Net income	300,824	197,063	155,119	144,854	136,352
Preferred stock dividends	9,750	9,750	9,750	9,750	9,750
Net income available to common shareholders	$ 291,074	$ 187,313	$ 145,369	$ 135,104	$ 126,602
Diluted EPS	$ 5.79	$ 3.73	$ 3.11	$ 2.91	$ 2.88
Net interest margin	3.78%	3.49%	3.14%	3.14%	3.78%
ROA	1.19%	.87%	.74%	.79%	1.05%
ROE	13.14%	9.51%	9.27%	9.65%	11.31%
ROE, excl. DTA write-off	13.14%	10.41%	9.27%	9.65%	11.31%
Efficiency	52.9%	55.8%	54.6%	54.0%	54.9%
Efficiency, excl. OREO write-down	52.9%	55.0%	54.6%	54.0%	54.9%

2019 Outlook

Business Driver	2019 Outlook v. 2018 Results
Average LHI	High single digit percent growth
Average LHI – Mortgage Finance	Low single digit percent growth
Loans held for sale (MCA)	$1.9 billion average
Average Deposits	Mid to high single digit percent growth
Net Revenue	High single digit percent growth
Net Interest Margin	3.75% to 3.85%
Provision Expense	Mid to high $80 million level
NIE	Mid single digit percent growth
Efficiency Ratio	Low-50s

Long-term Outlook

	Financial Goals	Rising-Rate Benefit
ROA	> 1.3%	~ 10 bps
ROCE	> 15%	~1.5%
Efficiency Ratio	< 50%	(~1.5%)

Fed Fund Target Max Reaches 3.50%

Key Assumptions

- Continuation of current economic conditions, allowing the Bank to capitalize on Inflection Point initiatives of growing higher return businesses and limiting investments in lower return or non-strategic portfolios
- Despite more potential volatility in provision, NCOs remain 20-25 bps of average total LHI
- Mortgage Finance brand strengthens and relationships expand, despite additional growth headwinds generated by point in rate cycle
- Lower-cost, lower-beta deposit verticals achieve growth and ROI targets
- Product enhancements and expanded offerings maintain non-interest income contribution to total revenue, even amidst ex-liquidity NIM expansion
- Internal investments yield efficiency benefits and allow Bank to maintain moderate overhead growth over the horizon
- Bank remains committed to efficient use of shareholder capital and maintaining liquidity at appropriate levels

Closing Comments

- Inflection Point focuses on further differentiating our reputation for premium client service in the market
- Solid traditional LHI growth in 2018, with further risk appropriate growth levels in 2019
- Deposit initiatives launched in 2018 and continued roll-out in 2019 to improve funding mix and cost of funding
- Level of loan loss provisioning provided in guidance to ensure we're strengthening our balance sheet late cycle
- Targeted approach in slowing pace of NIE growth, as we continue improving efficiencies through technology and better processes
- Record earnings in 2018 with fundamentals in place for continued earnings growth in 2019

Q&A

Appendix

Average Balances, Yields & Rates - Quarterly

(in thousands)	Q4 2018		Q3 2018		Q4 2017	
	Avg. Bal.	Yield Rate	Avg. Bal.	Yield Rate	Avg. Bal.	Yield Rate
Assets						
Securities	$ 117,371	5.22%	$ 115,519	4.87%	$ 23,678	3.57%
Liquidity assets	1,759,417	2.25%	1,901,759	1.96%	3,217,486	1.28%
Loans held for sale	2,049,395	4.72%	1,484,459	4.62%	1,144,124	3.99%
LHI, mortgage finance	5,046,540	3.72%	5,443,829	3.62%	5,102,107	3.46%
LHI	16,643,559	5.72%	16,331,622	5.48%	15,010,041	4.89%
Total LHI, net of reserve	21,507,285	5.30%	21,596,224	5.06%	19,928,915	4.57%
Total earning assets	25,433,468	5.04%	25,097,961	4.80%	24,314,203	4.11%
Total assets	$26,261,624		$25,975,915		$25,080,825	
Liabilities and Stockholders' Equity						
Total interest bearing deposits	$13,474,308	1.82%	$12,852,883	1.61%	$11,406,769	.96%
Other borrowings	2,290,520	2.39%	2,275,640	2.11%	1,852,750	1.31%
Total long-term debt	395,114	5.47%	395,025	5.45%	394,754	5.17%
Total interest bearing liabilities	16,159,942	1.99%	15,523,548	1.78%	13,654,273	1.13%
Demand deposits	7,462,392		7,940,503		9,085,819	
Total deposits	20,936,700	1.17%	20,793,386	.99%	20,492,588	.53%
Stockholders' equity	2,482,012		2,395,562		2,202,683	
Total liabilities and stockholders' equity	$26,261,624	1.23%	$25,975,915	1.07%	$25,080,825	.62%
Net interest margin		**3.78%**		**3.70%**		**3.47%**
Total deposits and borrowed funds	**$23,227,220**	**1.29%**	**$23,069,026**	**1.10%**	**$22,345,338**	**.60%**

Average Balances, Yields & Rates - Annual

(in thousands)	2018		2017	
	Avg. Bal.	Yield Rate	Avg. Bal.	Yield Rate
Assets				
Securities	$ 70,695	4.75%	$ 51,806	2.06%
Liquidity assets	1,970,310	1.85%	2,953,040	1.08%
Loans held for sale	1,561,530	4.56%	1,016,144	3.85%
LHI, mortgage finance	4,875,860	3.72%	4,136,653	3.46%
LHI	16,705,007	5.46%	14,040,965	4.77%
Total LHI, net of reserve	20,767,004	5.10%	18,003,513	4.52%
Total earning assets	24,369,539	4.80%	22,024,503	4.02%
Total assets	$25,197,689		$22,704,848	
Liabilities and Stockholders' Equity				
Total interest bearing deposits	$12,323,299	1.50%	$10,133,206	.79%
Other borrowings	2,102,404	2.03%	1,618,238	1.10%
Total long-term debt	394,980	5.44%	394,619	5.16%
Total interest bearing liabilities	14,820,683	1.68%	12,146,063	.97%
Demand deposits	7,890,304		8,320,650	
Total deposits	20,213,603		18,453,856	
Stockholders' equity	2,365,449		2,119,191	
Total liabilities and stockholders' equity	$25,197,689	.99%	$22,704,848	.52%
Net interest margin		**3.78%**		**3.49%**
Total deposits and borrowed funds	**$22,316,007**	**1.02%**	**$20,072,094**	**.49%**

Average Balance Sheet - Quarterly

(in thousands)	QTD Average			Q4/Q3 % Change	YOY % Change
	Q4 2018	Q3 2018	Q4 2017		
Total assets	$26,261,624	$25,975,915	$25,080,825	1%	5%
Loans held for sale	2,049,395	1,484,459	1,144,124	38%	79%
Loans held for investment	16,643,559	16,331,622	15,010,041	2%	11%
Loans held for investment, mortgage finance	5,046,540	5,443,829	5,102,107	(7)%	(1)%
Total loans held for investment	21,690,099	21,775,451	20,112,148	0%	8%
Total loans	23,739,494	23,259,910	21,256,272	2%	12%
Liquidity assets	1,759,417	1,901,759	3,217,486	(7)%	(45)%
Demand deposits	7,462,392	7,940,503	9,085,819	(6)%	(18)%
Total deposits	20,936,700	20,793,386	20,492,588	1%	2%
Stockholders' equity	2,482,012	2,395,562	2,202,683	4%	13%

Period End Balance Sheet

(in thousands)	Period End			Q4/Q3 % Change	YOY % Change
	Q4 2018	Q3 2018	Q4 2017		
Total assets	$28,257,767	$27,127,107	$25,075,645	4%	13%
Loans held for sale	1,969,474	1,651,930	1,011,004	19%	95%
Loans held for investment	16,690,550	16,569,538	15,366,252	1%	9%
Loans held for investment, mortgage finance	5,877,524	5,477,787	5,308,160	7%	11%
Total loans held for investment	22,568,074	22,047,325	20,674,412	2%	9%
Total loans	24,537,548	23,699,255	21,685,416	4%	13%
Liquidity assets	2,865,874	2,615,570	2,727,581	10%	5%
Demand deposits	7,317,161	7,031,460	7,812,660	4%	(6)%
Total deposits	20,606,113	20,385,637	19,123,180	1%	8%
Stockholders' equity	2,500,394	2,426,442	2,202,721	3%	14%