Texas Capital Bancshares, Inc.

Q2-2022 Earnings

July 21, 2022

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Forward-looking Statements

This communication contains “forward-looking statements” within the meaning of and pursuant to the Private Securities Litigation Reform Act of 1995 regarding, among other things, our financial condition, results of operations, business plans and future performance. These statements are not historical in nature and may often be identified by the use of words such as “expect,” “estimate,” “anticipate,” “plan,” “may,” “will,” “forecast,” “could,” “should,” “projects,” “targeted,” “continue,” “become,” “intend” and similar expressions.

Because forward-looking statements relate to future results and occurrences, they are subject to inherent and various uncertainties, risks, and changes in circumstances that are difficult to predict, may change over time, are based on management’s expectations and assumptions at the time the statements are made and are not guarantees of future results. 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 factors include, but are not limited to, credit quality and risk, the COVID-19 pandemic, industry and technological changes, cyber incidents or other failures, disruptions or security breaches, interest rates, commercial and residential real estate values, economic conditions, including inflation and the threat of recession, as well as market conditions in Texas, the United States or internationally, as well as governmental and consumer responses to those economic and market conditions, fund availability, accounting estimates and risk management processes, the transition away from the London Interbank Offered Rate (LIBOR), legislative and regulatory changes, business strategy execution, key personnel, competition, mortgage markets, fraud, environmental liability and severe weather, natural disasters, acts of war or terrorism or other external events.

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, our Quarterly Reports on Form 10-Q and in other filings we make with the Securities and Exchange Commission. The information contained in this communication speaks only as of its date. Except to the extent required by applicable law or regulation, we disclaim any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments.

Our Distinct Opportunity

Serving strong core Texas markets with expanded coverage and a complete set of capabilities

Improving client relevance and diversifying our revenue base

Attracting high-quality talent with significant experience

Operating from a de-risked position of financial strength

Strategic Performance Drivers Announced September 1st

	Where We Started			Where We Are Going
Income Statement	**2020**	**2021**	**YTD 2022**	**2025**
Investment Banking and Trading Income (% of Total Revenue)[1]	2.5%	2.8%	3.5%	~10%
Treasury Product Fees[2] (% of Total Revenue)[1]	1.6%	2.6%	3.4%	~5%
Non-interest Income[3] (% of Total Revenue)[1]	11.2%	13.4%	10.7%	15%–20%

	Where We Started			Where We Are Going
Balance Sheet	**2020**	**2021**	**YTD 2022**	**2025**
FY Average Liquidity Assets[4] (% of Total Average Assets)	28%	37%	29%	>20%
FY Average Indexed Deposits (% of Total Deposits)	36%	27%	22%	<15%

Talent				
Frontline Talent Growth	1.0x	1.4x	1.6x	2.3x

Performance Metrics				
Return on Average Assets	0.18%	0.67%	0.45%	>1.10%
Return on Average Tangible Common Equity[5]	2.1%	8.4%	4.7%	>12.5%
CET1	9.4%	11.1%	10.5%	9%–10%

Our Path Forward

Operating Model Aligned to our Vision, Grounded in our Values

Organized Around Client Delivery

- Product & Industry Specialization
- Frontline Growth
- Technology

New Products and Services

- Treasury Solutions
- Private Wealth
- Investment Banking

Clear Strategic Direction and Fortitude to Deliver

Expanding Coverage

- Business Banking
- Middle Market Banking
- Corporate Banking

Evaluating Opportunities for Growth

- Disciplined Capital Management
- Structured Criteria Guiding Programmatic Investment
- Optimizing Capital Allocation Across the Portfolio

Committed to Financial Resilience

Risk Management

- Granular Risk Rating System
- Values Driven Culture
- Improved Portfolio Positioning

Capital and Liquidity

- 2Q22 CET1: 10.5%
- 2Q22 Avg. Liquidity Assets[4]: 23% of Avg. Assets
- YoY TBV[6] per Share Growth: -2.5%

Resulting business model poised to generate structurally higher, more sustainable earnings through enhanced fee income and decreased thru-cycle asset sensitivity

Our ability to serve our clients, access markets, and support our community through cycles is a strategic multiplier

Expanding Coverage and Enhanced Product and Services

Business Banking

- Defined risk appetite, efficient underwriting, and focused client selection process
- Leadership in place across each market; 80% of targeted front-line positions filled

Middle Market Banking

- Majority of growth coming from new client acquisition; loans are up 10% QoQ
- Partnership with the Texas Capital Securities resulting in additional mandates across capabilities

Corporate Banking

- Industry vertical segmentation established and beginning to produce pipelines consistent with strategy
- Non-credit fee income is ramping; gross PxV is up 37% YoY

Financial Performance (Period End)	Q2' 21	Q3' 21	Q4' 21	Q1' 22	Q2' 22	YoY
Business, Middle Market, and Corporate Banking Talent	1.2x	1.4x	1.7x	2.1x	2.3x	
Business, Middle Market, and Corporate Banking Deposits ($B)	$7.0	$7.0	$7.7	$7.1	$7.3	5%
C&I Loans[7] ($B)	$9.3	$9.9	$10.5	$11.0	$12.5	34%
Real Estate Loans ($B)	$5.6	$5.2	$4.8	$4.9	$5.1	(8%)

Treasury Solutions

- Strong growth trends in core operating deposits; Treasury Product Fees up 33%, YoY
- Gross PxV trending upwards driven by increased balances and new products gaining traction with clients

Private Wealth

- AUM increased 19% YoY; continue to experience $35 to $50M in net organic flows monthly
- Focused investment across the platform in products, client experience, and talent

Investment Banking

- Platform expanding on schedule; Mortgage Sales & Trading activities began in early May
- Strong Q2 performance in Capital Solutions and Syndicated Finance

Financial Performance	Q2' 21	Q3' 21	Q4' 21	Q1' 22	Q2' 22	YoY
Assets Under Management ($B)	$2.2	$2.5	$2.7	$2.7	$2.6	19%
Treasury Product Fees[2] ($M)	$5.7	$5.8	$6.0	$7.4	$7.6	33%
Wealth Management & Trust Fee Income ($M)	$3.1	$3.4	$3.8	$3.9	$4.1	29%
Investment Banking and Trading Income ($M)	$8.1	$4.1	$6.5	$4.2	$11.1	38%
Income From Areas of Focus ($M)	**$16.9**	**$13.4**	**$16.3**	**$15.5**	**$22.8**	**35%**

Focused on the Future

Current Financial Priorities

Investment // Re-aligning the expense base to directly support the business and investing aggressively to take advantage of market opportunities that we are uniquely positioned to serve

Revenue Growth // Growing top-line revenue as a result of expanded banking capabilities for best-in-class clients in our Texas and national markets

Building Tangible Book Value // Reinvesting organically generated capital to improve client relevance and create a more valuable franchise

Flagship Results

Proactive, disciplined engagement with the best clients in our markets to provide the talent, products, and offerings they need through their entire life-cycles

Structurally higher, more sustainable earnings driving greater performance and lower annual variability

Commitment to financial resilience allowing us to serve clients, access markets, and support communities through all cycles

Consistent communication, enhanced accountability, and a bias for action ensure execution and delivery

Higher quality earnings and a lower cost of capital drive a significant expansion in incremental shareholder returns

Financial Performance

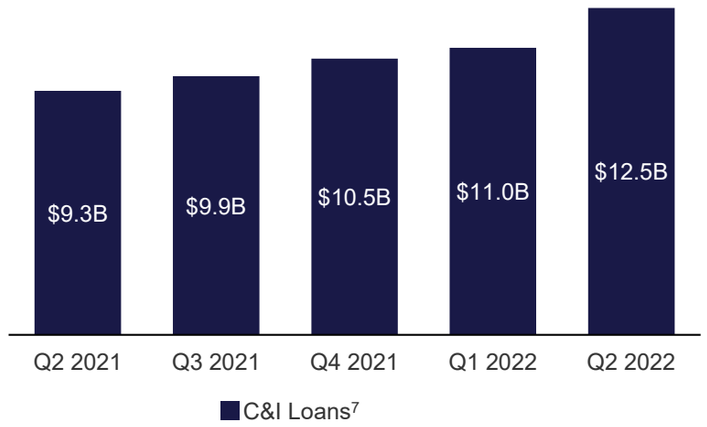
Financial Highlights ($M)	Q2 2021	Q1 2022	Q2 2022
Net Interest Income	$189.5	$183.5	$205.5
Non-Interest Revenue	37.6	20.3	26.2
Total Revenue	227.1	203.8	231.8
Non-Interest Expense	149.1	153.1	164.3
PPNR[8]	78.0	50.7	67.5
Provision for Credit Losses	(19.0)	(2.0)	22.0
Income Tax Expense	23.6	13.1	11.3
Net Income	73.5	39.7	34.2
Preferred Stock Dividends	6.3	4.3	4.3
Net Income to Common	67.2	35.3	29.8

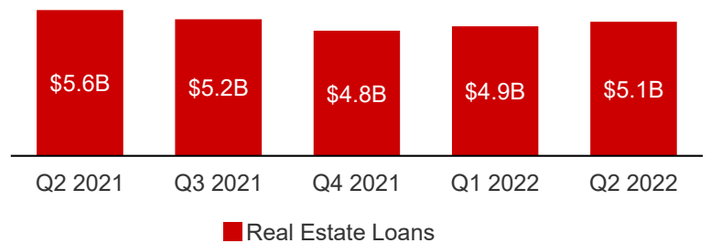
Key Performance Metrics			
Return on Average Assets	0.76%	0.47%	0.44%
PPNR[8] / Average Assets	0.81%	0.60%	0.86%
Efficiency Ratio[9]	65.6%	75.1%	70.9%
Return on Average Common Equity	9.74%	4.97%	4.35%
Earnings per Share	$1.31	$0.69	$0.59
Tangible Book Value per Share	$55.29	$54.68	$53.93

- Continued execution on defined growth initiatives coupled with rising market rates drove an increase in total revenue of 14% QoQ
- Strategic focus on expanding products and services producing growth in several fee categories
  - Wealth management fees and investment banking fees are higher both QoQ and YoY (29% and 38% YoY, respectively)
  - Service charges on deposits flat QoQ but up 30% YoY as growth in operating accounts comes from both new and existing clients
- Non-interest expense continues to grow as anticipated, with a larger-portion increasingly allocated to higher-value activities directly supporting our defined strategy including compensation and technology supporting both infrastructure and new product development
  - Total NIE up $15.2 million, or 10% YoY, with salaries and benefits up $17.1 million, or 20%, as front-line C&I banking talent up 2.3x
  - Marketing expense increased $3.5 million attributable to business development and digitally-focused deposit initiatives
- Provision expense of $22.0 million was predominantly related to QoQ LHI growth of $2.4 billion
- Exclusive of one $144.6 million downgraded Mortgage Finance relationship, criticized loan balances and non-performing assets remain stable near cyclical lows
  - Overall, criticized loans increased $127.5 million QoQ to 2.51% of LHI; excluding the $144.6 million downgraded credit, criticized loans decreased $17.1 million QoQ to 1.91% of LHI
  - Non-performing assets declined $8.8 million QoQ to 0.21% of LHI as legacy problem credits slowly work through the system
- Book value impacted both by a QoQ decline in AOCI of $66.8 million due primarily to the accelerated rise in the mid-range of the treasury yield curve and share repurchases totaling $50.0 million during the quarter

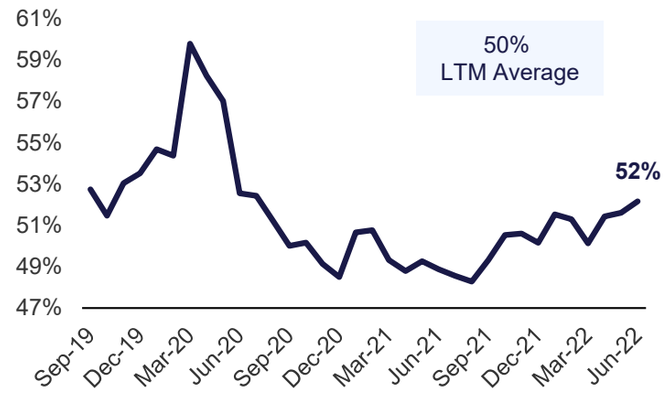
Loan Portfolio

Period End Loan Trends (excl. PPP)

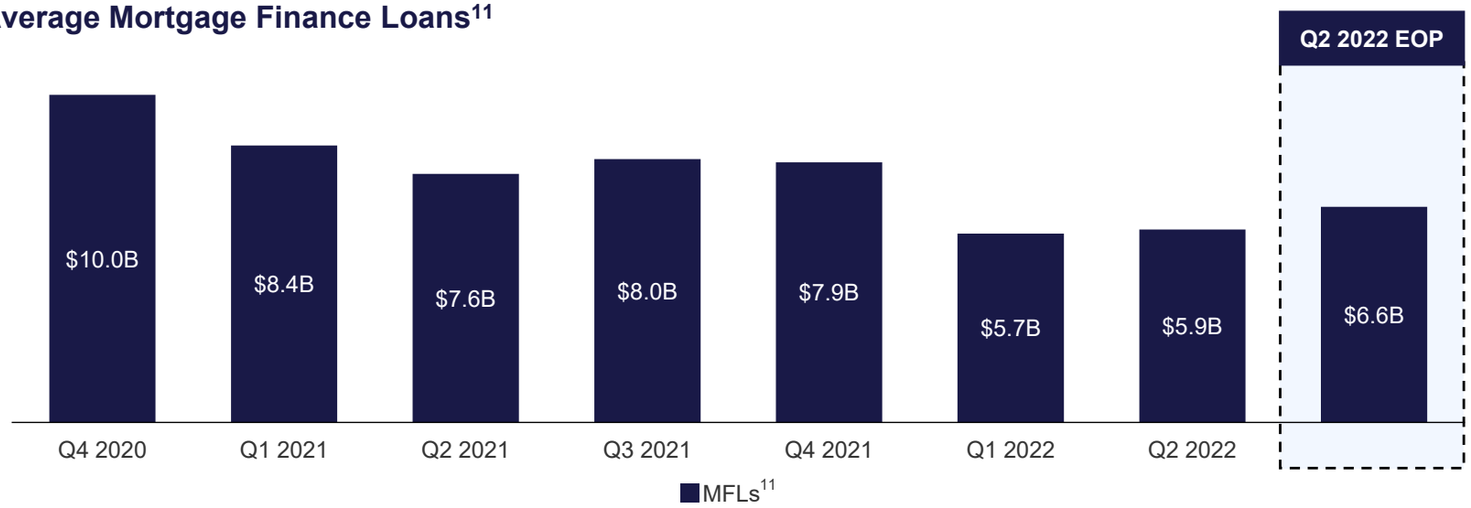




Utilization Rates[10]



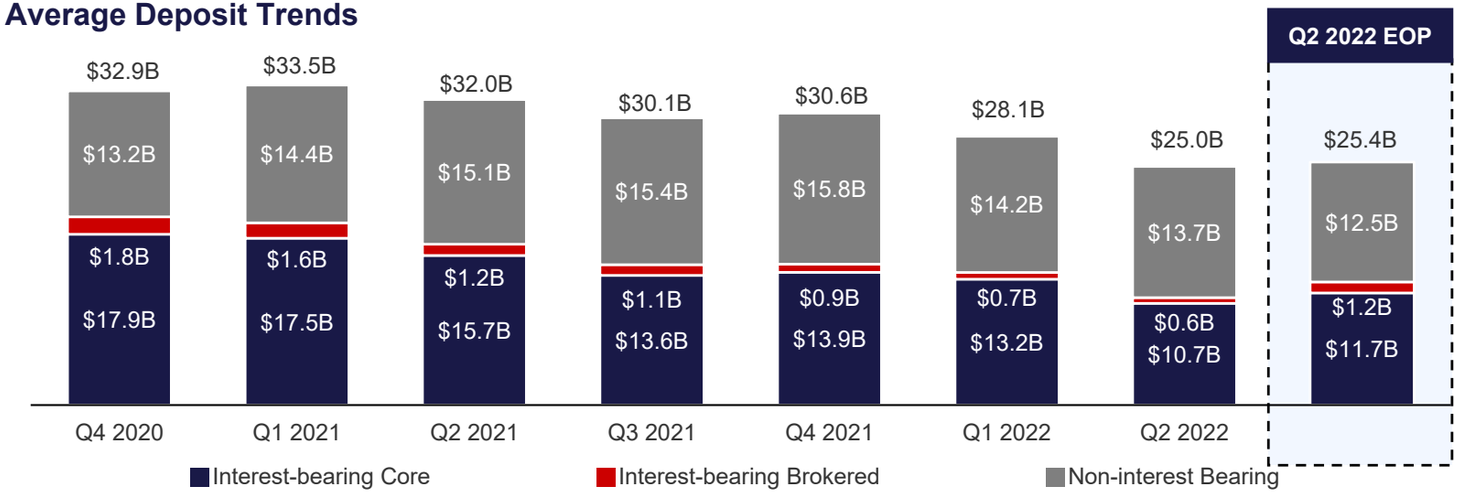
Average Mortgage Finance Loans[11]



- C&I[7] Loans grew 14% QoQ reflecting continued realization of client-focused coverage buildout; pipelines remain strong, however, quarterly growth should moderate over the remainder of the year
- Real Estate Loans grew modestly at 4% QoQ and were tempered by increasing paydowns QoQ which are expected to be elevated for the remainder of the year
- In the contracting market, average MFLs[11] rose 2% QoQ through market share gains and modestly higher dwell times

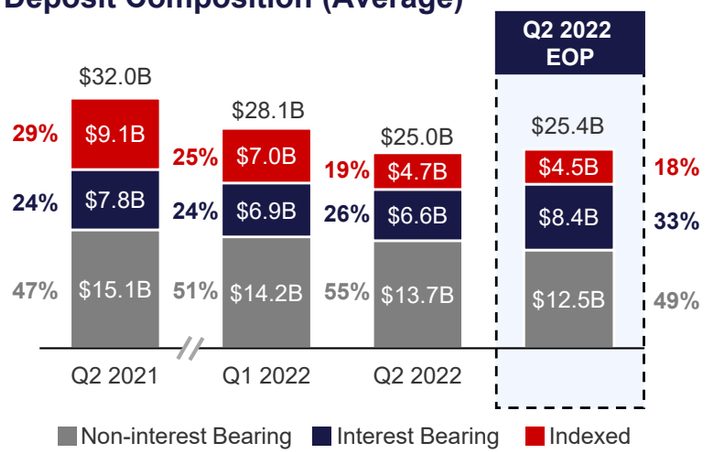
Deposits and Fundings

Average Deposit Trends

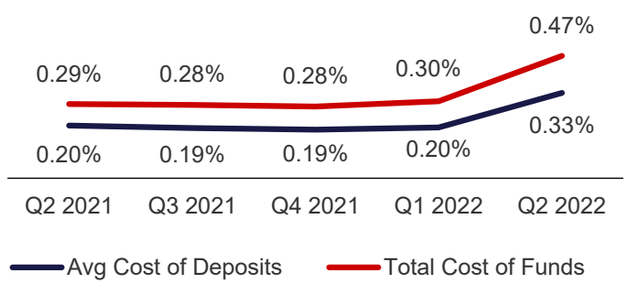


- Funding base continuing multi-year transition to target state composition
  - NIB balances began gradual repositioning into interest-bearing accounts
  - Mortgage Finance deposits remain depressed with lower refinance rates
  - High-beta indexed deposits were further reduced during the quarter by $1.5B
- Average Cost of deposits increased 13 bps QoQ; a beta of 18% since the 1st rate increase
  - 57% cumulative beta in the last tightening cycle (Sep-15 to Jun-19)

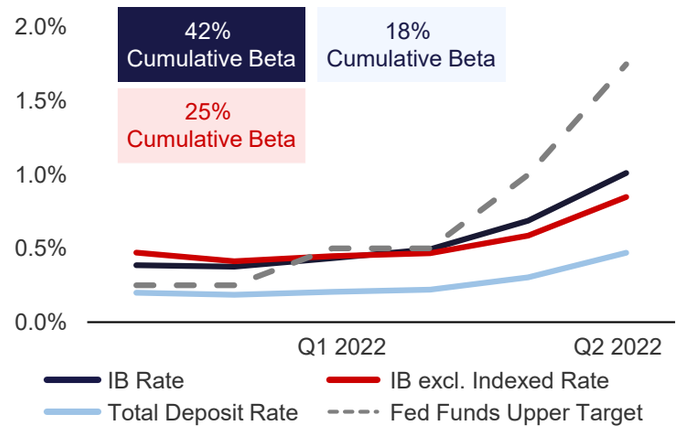
Deposit Composition (Average)



Funding Costs



Current Cycle Rates Paid Betas[12]

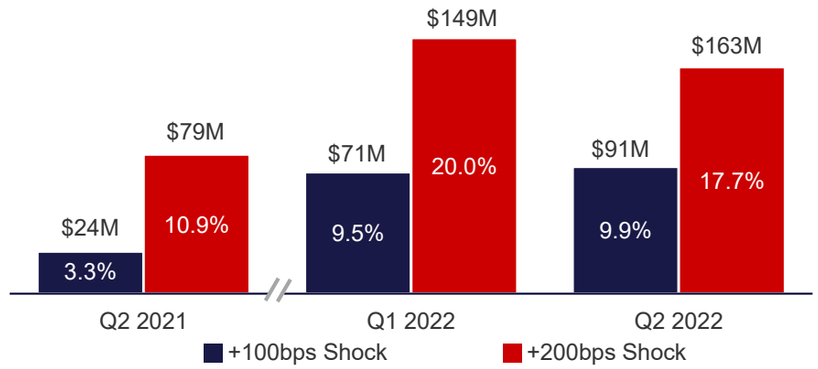


Net Interest Income Sensitivity

Standard Model Assumptions
100bp & 200bp Parallel Shocks

- **Loan Balances:** Static
- **Deposit Balances:** Static
  - **Indexed Deposits:** Ratio held constant at 18%
- **Loan Spreads:** Current Levels
- **Total Deposit Beta:** ~50%
- **Investment Portfolio:** Ratio held constant

TCBI NII Sensitivity



Base NII[13]	$729M	$745M	$920M

Loan Repricing Detail // Gross LHI Excl. MFLs[11]

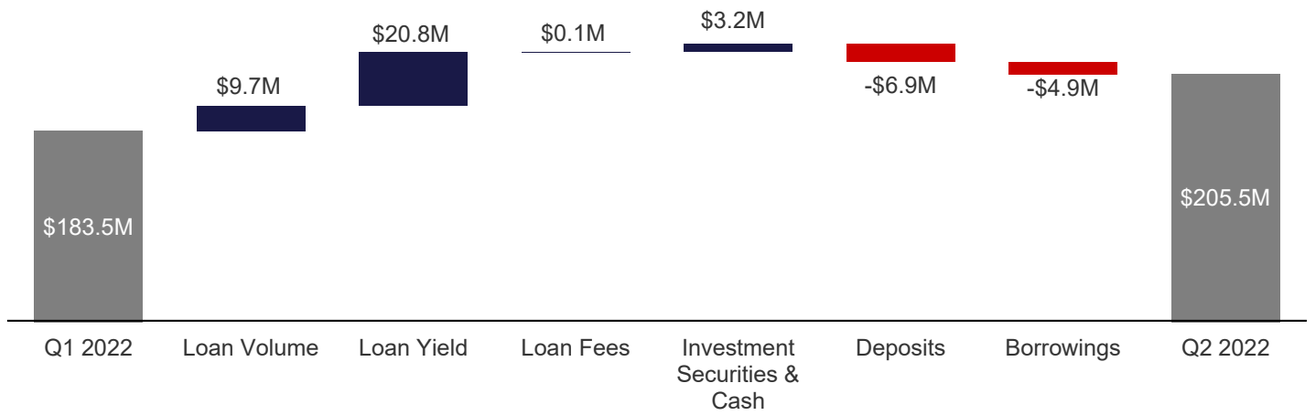
($17.6B)	Q2 2022
Fixed	**18%**
Prime	18%
1 Month	52%
3 Month	3%
6 Month	1%
12+ Month	8%
Variable	**82%**
Total	**100%**

- The asset sensitivity profile of the bank has increased QoQ as a majority of loans rose off their floors during the quarter
  - $750 million in fixed rate swaps added during the quarter reduced asset sensitivity by approximately 1%
- LHI excl. MFLs[11]: 18% fixed / 82% variable
- $5.0 billion (28%) of LHI excl. MFLs[11] have contractual floors
  - Approximately $600 million of these loans remain at their floors

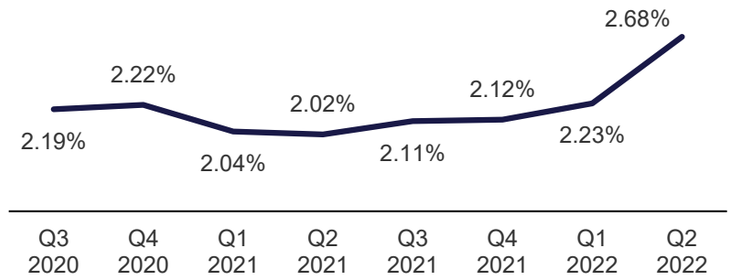
- MFLs[11] represent 27% of the total loan portfolio with the majority tied to 1 month LIBOR which rose 133 bps in Q2 2022
- Overall Mortgage Finance NII will not be as sensitive to changes in index rates as the rest of the portfolio
- Bank's overall NII sensitivity (9.9%, $91M and 17.7%, $163M for Q2 2022) inclusive of Mortgage Finance NII impact

Q2-2022 Earnings Overview

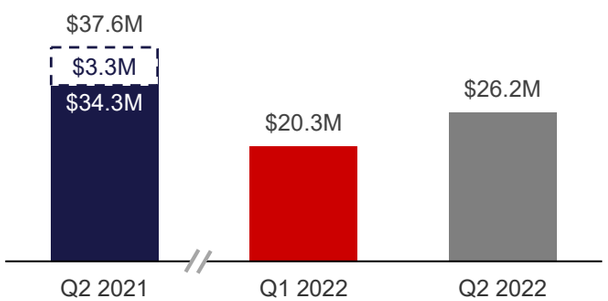
Net Interest Income



Net Interest Margin



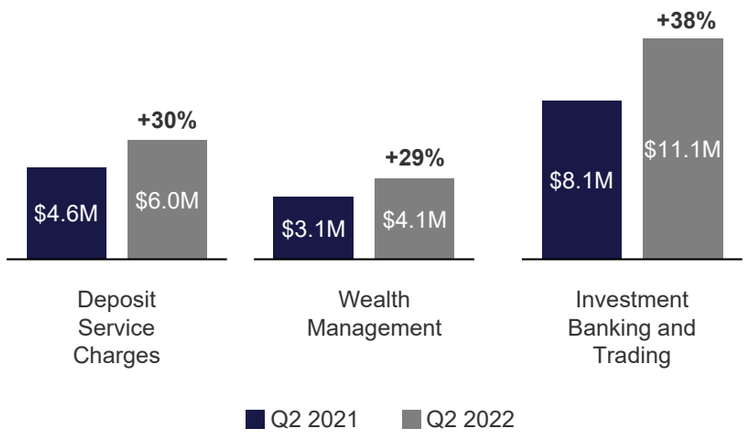
Non-Interest Income



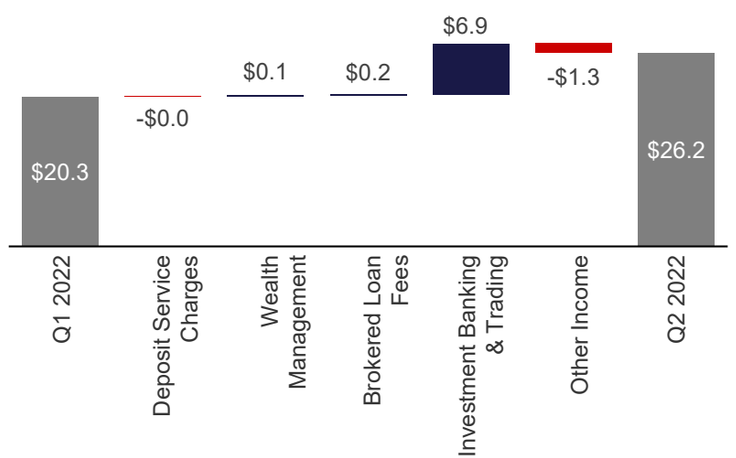
	Q2 2021	Q1 2022	Q2 2022
% of Total Revenue	17%	10%	11%

Correspondent Lending[14]

Fee Income Detail

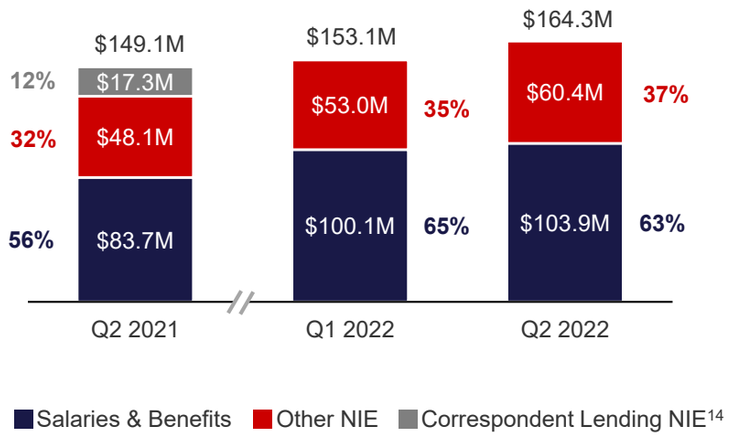


Non-Interest Income Walk ($M)

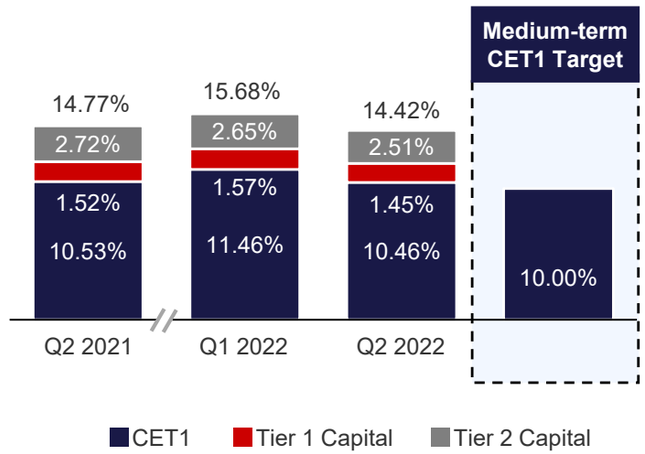


Q2-2022 Earnings Overview

Non-interest Expense

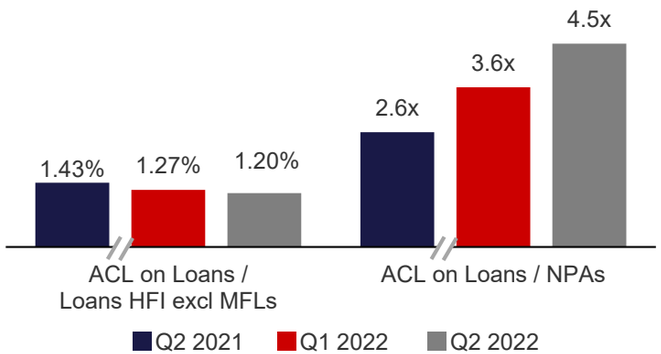


Regulatory Capital Levels

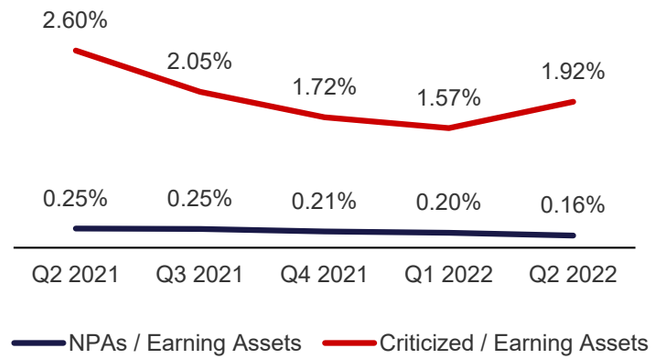


- Expense base continues to be repositioned into front, middle, and back-office structure consistent with future scale
- Capital remains above historical averages with Total Capital Ratio and TCE[6]/total assets in excess of peer[15] medians
  - Repurchased 942K shares (2% of common stock) at a weighted average price of $53.11
- Organization realignment and new enterprise disciplines supporting a values-driven credit culture, driving criticized loans down 32% YoY despite the $144.6 million mortgage finance downgrade

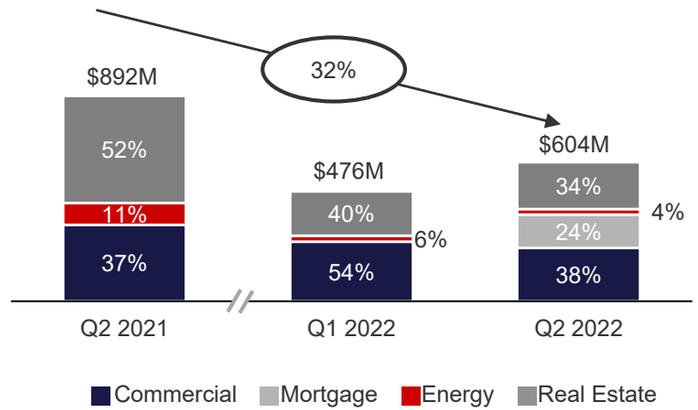
Credit Quality



Asset Quality Ratios



Criticized Composition | YoY



Full Year Guidance

Full Year 2022 Guidance	
Average MFLs[11] Decline	Low 30s Decline
Revenue Growth	Mid to High Single Digit
Non-interest Expense Growth	Low to Mid Double Digit
Achieve Quarterly Operating Leverage (YoY Growth in Quarterly PPNR[8])	Q4 2022

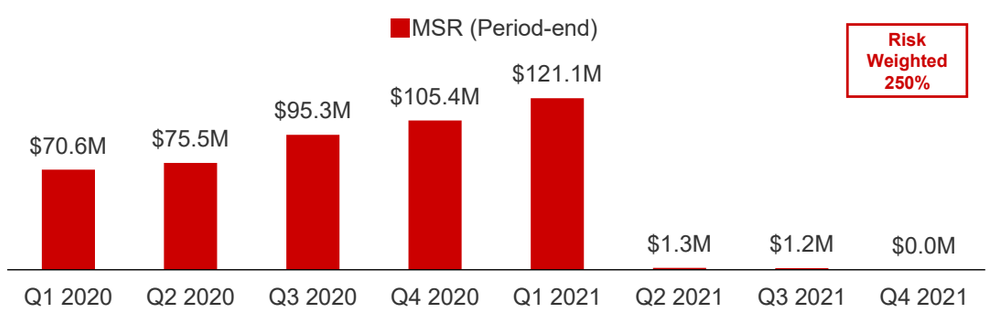
- Forward curve assuming 2022 terminal rate of 3.75% Fed Funds
- The expected realization of financial targets ahead of prior guidance is due to:
  - The balance sheet transformation weighted toward C&I clients
  - The rising rate environment benefiting net interest margin
  - Offset by the industry-wide adverse results the tightening actions had on the mortgage industry
- We will continue to reposition and accelerate the required investments in support of our Strategic Plan

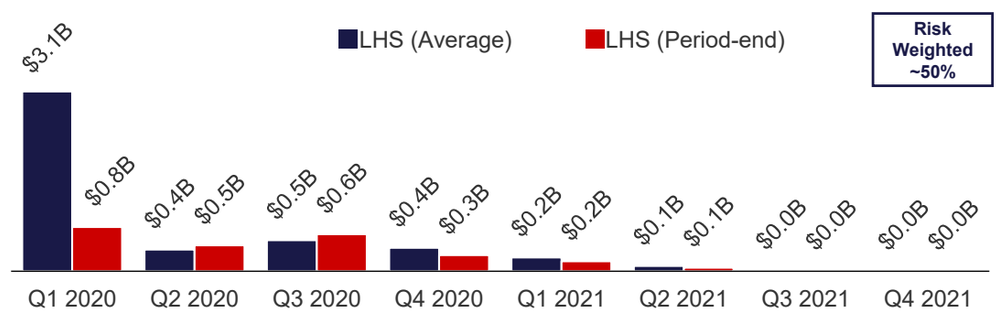
Appendix // Footnotes

1. Total Revenue in 2020 and 2021 excludes Correspondent Lending; See slide: Appendix // Correspondent Lending Historical Contribution
2. Includes service charges on deposit accounts, as well as fees related to our commercial card program, merchant transactions, wire fees, and FX transactions, all of which are included in other non-interest income and totaled $3.1M for FY 2020, $4.4M for 2021, $2.9M for Q2-YTD 2022 and $1.1M, $1.2M, $1.3M, $1.3M, and $1.6M for Q2 2021, Q3 2021, Q4 2021, Q1 2022, and Q2 2022 respectively
3. Non-interest Income for 2020 and 2021 excludes Correspondent Lending; See slide: Appendix // Correspondent Lending Historical Contribution
4. Includes interest-bearing cash and cash equivalents, available-for-sale debt securities, and equity securities
5. See slide: Appendix // Return on Average Tangible Common Equity (ROTCE)
6. Stockholders' equity excluding preferred stock, less goodwill and intangibles
7. C&I Loans includes Commercial and Energy loans and excludes PPP loans
8. Net interest income and non-interest income, less non-interest expense
9. Non-interest expense divided by the sum of net interest income and non-interest income
10. Outstanding loans divided by total commitments excluding Mortgage Finance Loans and leases
11. Total Mortgage Finance Loans (MFLs) include Mortgage Warehouse loans and Correspondent Lending LHS
12. Beta taken as the difference of June 2022 and January 2022 cost of total deposits, cost of interest-bearing deposits, and cost of indexed deposits divided by the change in fed funds upper target over the same period
13. Baseline scenarios hold constant balances, market rates, and assumptions as of period end reporting
14. See slide: Appendix // Correspondent Lending Historical Contribution
15. Compared to peer banks with $20-100B in assets for Q1 2022 results Source: S&P Capital IQ Pro

Appendix // Correspondent Lending Historical Contribution

($M)	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021
Net Interest Income	24.5	1.5	2.8	1.4	30.2	0.9	0.3	0.0	0.0	1.2
Non-interest Income										
Brokered Loan Fees	2.6	2.8	5.8	3.9	15.1	2.2	0.7	0.0	0.0	2.9
Servicing Income	4.6	5.9	7.1	8.6	26.2	8.8	5.7	0.0	0.0	14.5
Gain/(Loss) on Sale of LHS	(13.0)	39.0	25.2	6.8	58.0	5.6	(3.1)	(1.2)	0.0	1.3
Non-Interest Expense										
Salaries & Benefits	3.6	3.5	4.5	3.4	15.0	3.0	3.1	0.4	0.3	6.8
Marketing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Legal & Professional	0.8	0.6	0.8	0.9	3.1	1.0	0.8	0.3	0.2	2.3
Communications & Tech	0.7	1.4	1.0	1.0	4.1	0.4	0.3	1.3	0.5	2.5
Servicing-Related Expenses	16.4	20.1	12.3	15.9	64.7	13.0	12.4	2.4	0.0	27.8
Other Expense	0.5	0.5	0.4	0.7	2.1	0.7	0.6	0.6	0.2	2.1





Appendix // Return on Average Tangible Common Equity (ROTCE)

ROTCE is a non-GAAP financial measure. ROTCE represents the measure of net income available to common shareholders as a percentage of average tangible common equity. ROTCE is used by management in assessing financial performance and use of equity. A reconcilement of ROTCE to the most directly comparable U.S. GAAP measure, ROCE, for all periods presented below.

	2020 ($000s)	2021 ($000s)	YTD 2022[1] ($000s)
Net Income Available to Common Stockholders	$56,539	$235,218	$65,184
Average Common Equity	$2,686,747	$2,815,656	$2,816,785
Less: Average Goodwill and Intangibles	17,857	17,447	17,143
Average Tangible Common Equity	$2,668,890	$2,798,209	$2,799,642
ROCE	2.1%	8.4%	4.7%
ROTCE	2.1%	8.4%	4.7%

(1) Ratios are annualized