

# **Umpqua Holdings Corporation**

## **1<sup>st</sup> Quarter 2019 Earnings Conference Call Presentation**

**April 18, 2019**



Umpqua Holdings Corporation

# Forward-looking Statements

*This presentation includes forward-looking statements within the meaning of the “Safe-Harbor” provisions of the Private Securities Litigation Reform Act of 1995, which management believes are a benefit to shareholders. These statements are necessarily subject to risk and uncertainty and actual results could differ materially due to various risk factors, including those set forth from time to time in our filings with the SEC. You should not place undue reliance on forward-looking statements and we undertake no obligation to update any such statements. In this presentation we make forward-looking statements about fee income initiatives and MSR fair value volatility. Risks that could cause results to differ from forward-looking statements we make are set forth in our filings with the SEC and include, without limitation, prolonged low interest rate environment; the effect of interest rate increases on the cost of deposits; unanticipated weakness in loan demand or loan pricing; deterioration in the economy; lack of strategic growth opportunities or our failure to execute on those opportunities; our ability to effectively manage problem credits; our ability to successfully implement efficiency and operational excellence initiatives on time and in amounts projected; our ability to successfully develop and market new products and technology; and changes in laws or regulations.*

# Umpqua Next Gen: Executing On Our Strategy

## Balanced Growth

- C&I balances increased \$60mm, or 5% annualized, during the quarter.
- Continued to add experienced bankers to core metro markets focused on growing middle market relationships.
- Exploring ways to reduce future income statement fair value volatility of the MSR asset.

## Human Digital

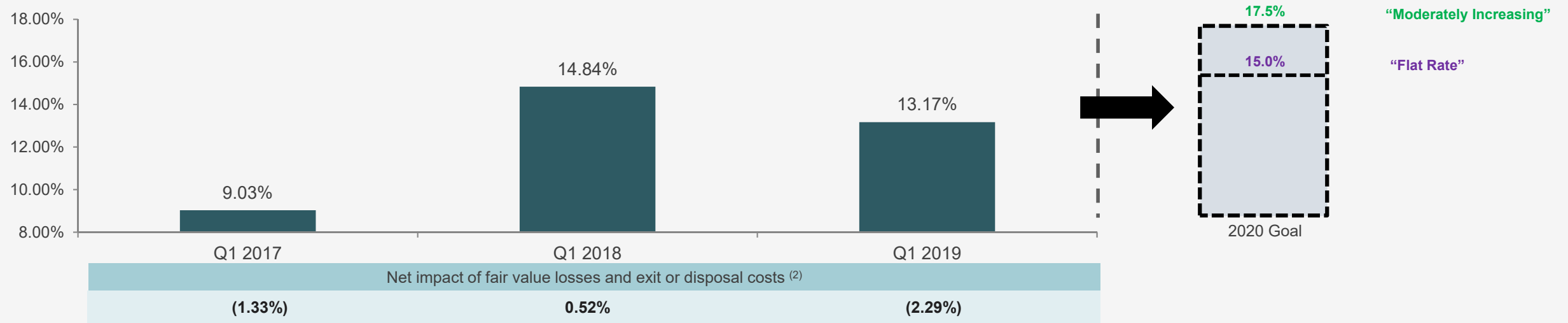
- Launched *Go To*, the industry's first human digital banking platform.
- Invested and implemented digital solutions to assist Commercial & Corporate customers.
  - Analytical tool to support treasury management product identification
  - Analytical pricing and benchmarking technology
  - Integrated & automated payments solution

## Operational Excellence

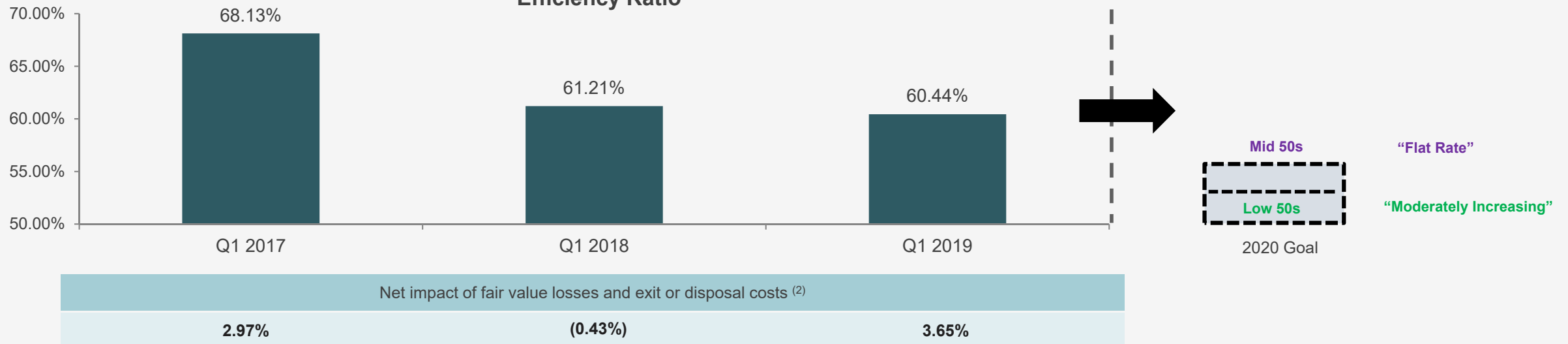
- Rationalized 15 stores in Q1 2019
  - 11 consolidated & 4 sold
  - 5 additional stores to be consolidated in Q2
- Completed Phase I of Operational Excellence
  - \$22mm of annualized savings in Q1 2019 run rate
- Continued with Phase II of Operational Excellence
  - Commercial End to End Journey
  - Deposit Origination End to End Journey

# Umpqua Next Gen: Measurable Achievements

Return on Average Tangible Common Equity



Efficiency Ratio



> (1) Financial goals as presented under two different rate scenarios laid out in the 2Q 2018 earnings call slide presentation on July 19, 2018.  
> (2) Impact from fair value gains or losses and exit or disposal goals were excluded from the calculation of financial goals presented in mid-2017, and subsequently updated in April 2018. See appendix of this presentation for further information.

# Q1 2019 Highlights (compared to Q4 2018)

- Net income of \$74.0 million, or \$0.34 per diluted common share
- Net interest income decreased by \$9.7 million on a quarter over quarter basis primarily driven by bond premium amortization as compared to the bond premium recapture recorded in the in the prior quarter.
- Provision for loan and lease losses decreased by \$3.5 million, driven primarily as net charge-offs decreased by five basis points to 0.27% of average loans and leases (annualized).
- Non-interest income decreased by \$11.1 million, driven primary by the nonrecurring \$5.8 million gain of Pivotus assets in the fourth quarter of 2018 and lower residential mortgage banking revenue in the current quarter.
- Non-interest expense decreased by \$6.9 million, driven primarily by operational excellence initiatives, lower restructuring charges, lower mortgage banking-related expense, lower group insurance charges, and lower loss on OREO, partially offset by a seasonal increase in payroll taxes.
- Non-performing assets to total assets improved to 0.32%
- Estimated total risk-based capital ratio of 13.5% and estimated Tier 1 common to risk weighted assets ratio of 10.7%
- Declared a quarterly cash dividend of \$0.21 per common share.

# Selected Ratios

|                       |   | For the quarter ended |         |         |         |         |
|-----------------------|---|-----------------------|---------|---------|---------|---------|
|                       |   | Q1 2019               | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
| <b>Performance</b>    | Return on average assets                                  | 1.12%                 | 1.19%   | 1.36%   | 1.02%   | 1.25%   |
|                       | Return on average tangible assets                         | 1.20%                 | 1.28%   | 1.46%   | 1.09%   | 1.35%   |
|                       | Return on average common equity                           | 7.34%                 | 7.90%   | 9.00%   | 6.64%   | 8.06%   |
|                       | Return on average tangible common equity                  | 13.17%                | 14.34%  | 16.42%  | 12.18%  | 14.84%  |
|                       | Efficiency ratio - consolidated                           | 60.44%                | 58.58%  | 57.06%  | 65.84%  | 61.21%  |
|                       | Net interest margin - consolidated                        | 4.03%                 | 4.15%   | 4.09%   | 3.89%   | 4.00%   |
| <b>Credit Quality</b> | Non-performing loans and leases to loans and leases       | 0.37%                 | 0.43%   | 0.44%   | 0.40%   | 0.37%   |
|                       | Non-performing assets to total assets                     | 0.32%                 | 0.36%   | 0.37%   | 0.34%   | 0.33%   |
|                       | Net charge-offs to average loans and leases (annualized)  | 0.27%                 | 0.32%   | 0.25%   | 0.22%   | 0.26%   |
| <b>Capital</b>        | Tangible common equity to tangible assets <sup>(1)</sup>  | 9.01%                 | 8.93%   | 8.83%   | 8.78%   | 8.97%   |
|                       | Tier 1 common to risk-weighted asset ratio <sup>(2)</sup> | 10.7%                 | 10.7%   | 10.8%   | 10.7%   | 11.0%   |
|                       | Total risk-based capital ratio <sup>(2)</sup>             | 13.5%                 | 13.5%   | 13.6%   | 13.5%   | 13.9%   |

<sup>(1)</sup> Non-GAAP financial measure. A reconciliation to the comparable GAAP measurement is provided at the end of this slide presentation.

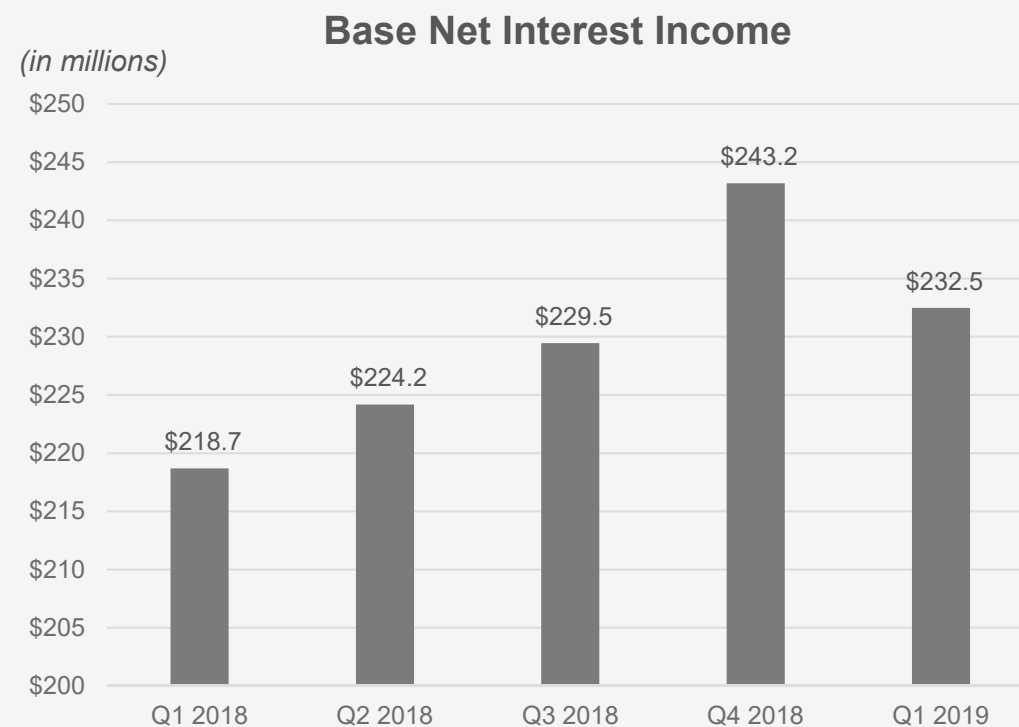
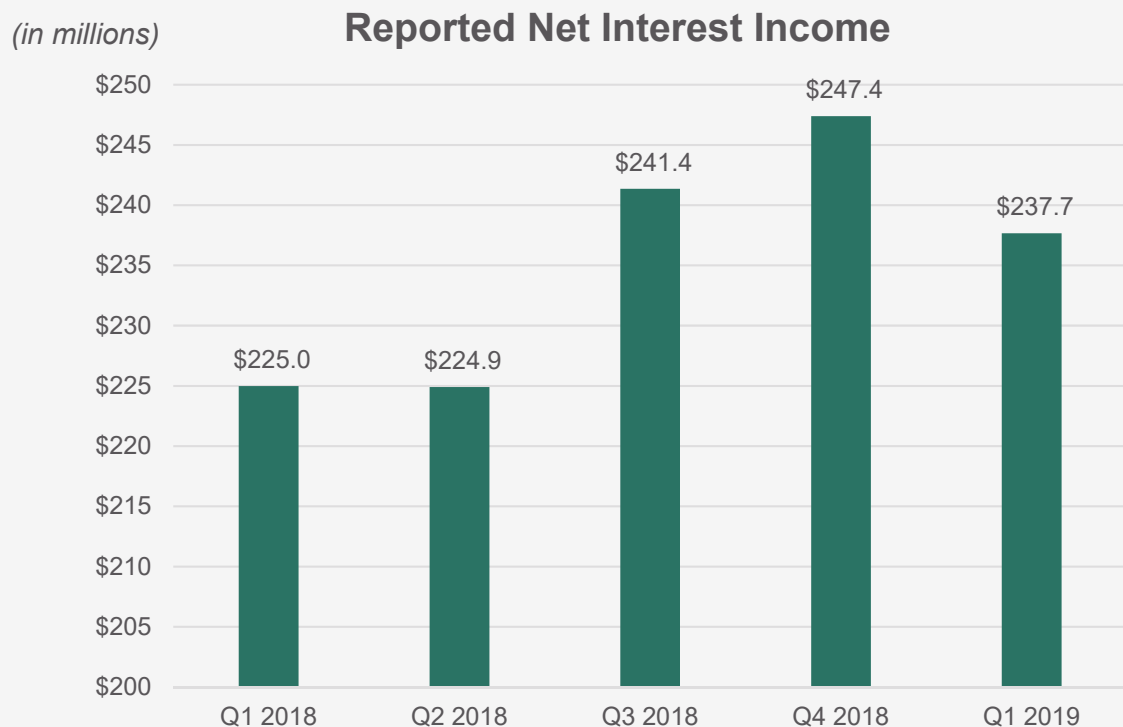
<sup>(2)</sup> Capital ratio estimated for current quarter, pending completion and filing of regulatory reports.

# Summary Income Statement

(in millions)

|  | Q1 2019       | Q4 2018       | Q3 2018       | Q2 2018       | Q1 2018       |
|--|---------------|---------------|---------------|---------------|---------------|
| Net interest income before provision     | \$237.7       | \$247.4       | \$241.4       | \$224.9       | \$225.0       |
| Provision for loan and lease losses      | 13.7          | 17.2          | 11.7          | 13.3          | 13.7          |
| Net interest income after provision      | <b>224.0</b>  | <b>230.2</b>  | <b>229.7</b>  | <b>211.6</b>  | <b>211.3</b>  |
| Non-interest income                      | 45.7          | 56.8          | 72.4          | 71.7          | 78.6          |
| Non-interest expense                     | 171.6         | 178.5         | 179.3         | 195.6         | 186.1         |
| Income before provision for income taxes | <b>98.1</b>   | <b>108.5</b>  | <b>122.8</b>  | <b>87.7</b>   | <b>103.8</b>  |
| Provision for income taxes               | 24.1          | 28.2          | 31.8          | 21.7          | 24.8          |
| <b>Net income</b>                        | <b>\$74.0</b> | <b>\$80.3</b> | <b>\$91.0</b> | <b>\$66.0</b> | <b>\$79.0</b> |
| Earnings per share - diluted             | \$0.34        | \$0.36        | \$0.41        | \$0.30        | \$0.36        |

# Net Interest Income



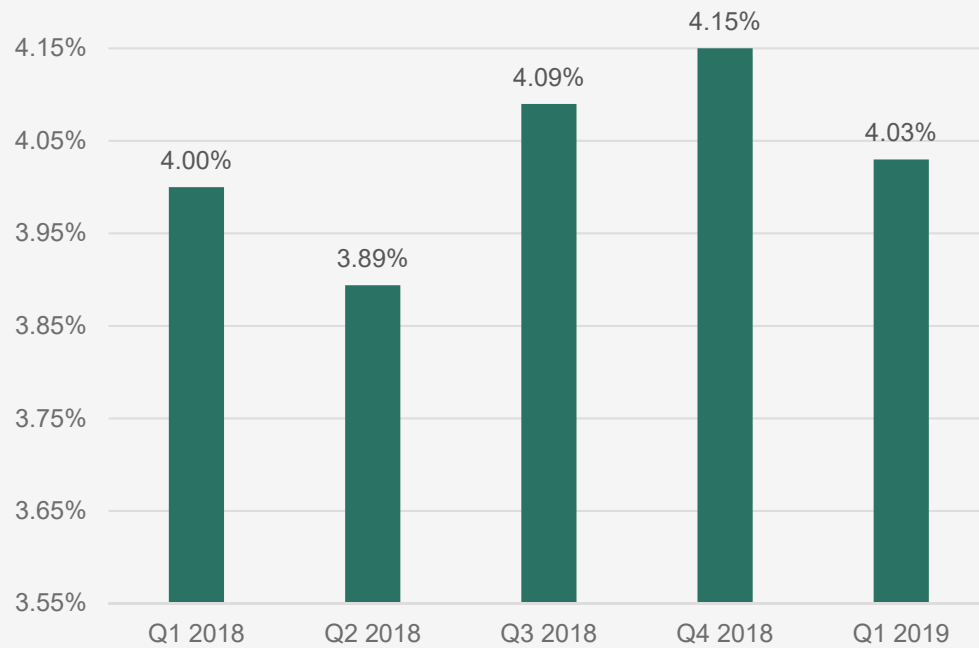
|   | Q1 2018         | Q2 2018         | Q3 2018         | Q4 2018         | Q1 2019         |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Reported Net Interest Income</b>                         | <b>\$ 225.0</b> | <b>\$ 224.9</b> | <b>\$ 241.4</b> | <b>\$ 247.4</b> | <b>\$ 237.7</b> |
| Impact from Change in Accounting Methodology <sup>(1)</sup> | -               | (7.2)           | 7.0             | -               | -               |
| Accretion Related to Acquired Loans                         | 6.3             | 7.9             | 4.9             | 4.2             | 5.2             |
| <b>Base Net Interest Income</b>                             | <b>\$ 218.7</b> | <b>\$ 224.2</b> | <b>\$ 229.5</b> | <b>\$ 243.2</b> | <b>\$ 232.5</b> |

(1) Impact from change in accounting methodology on the interest income method for residential mortgage-backed securities and collateralized mortgage obligations. Refer to notable items in prior earning releases for more information.  
Note: tables may not foot due to rounding.

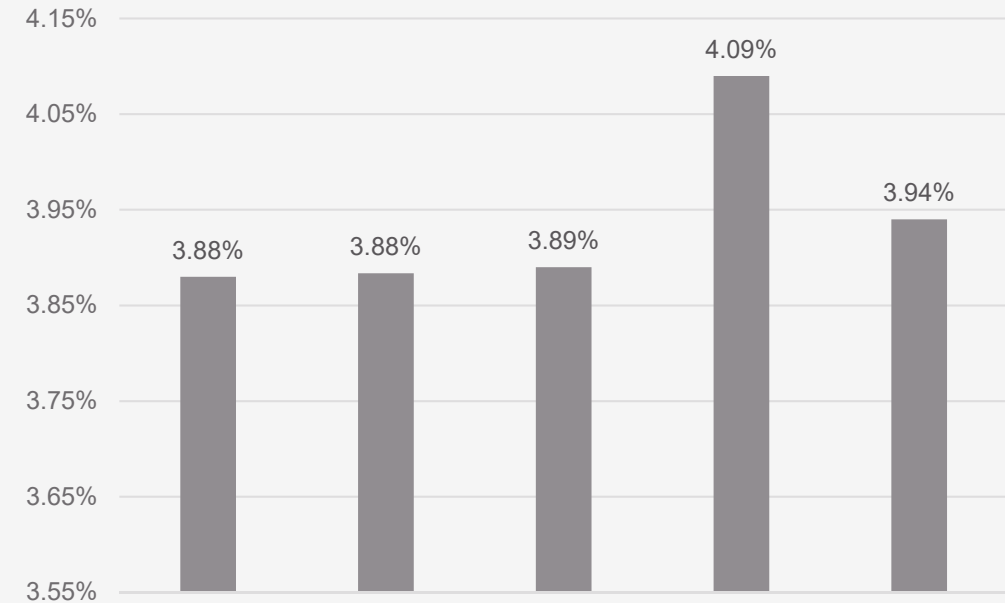


# Net Interest Margin

## Reported Net Interest Margin



## Base Net Interest Margin



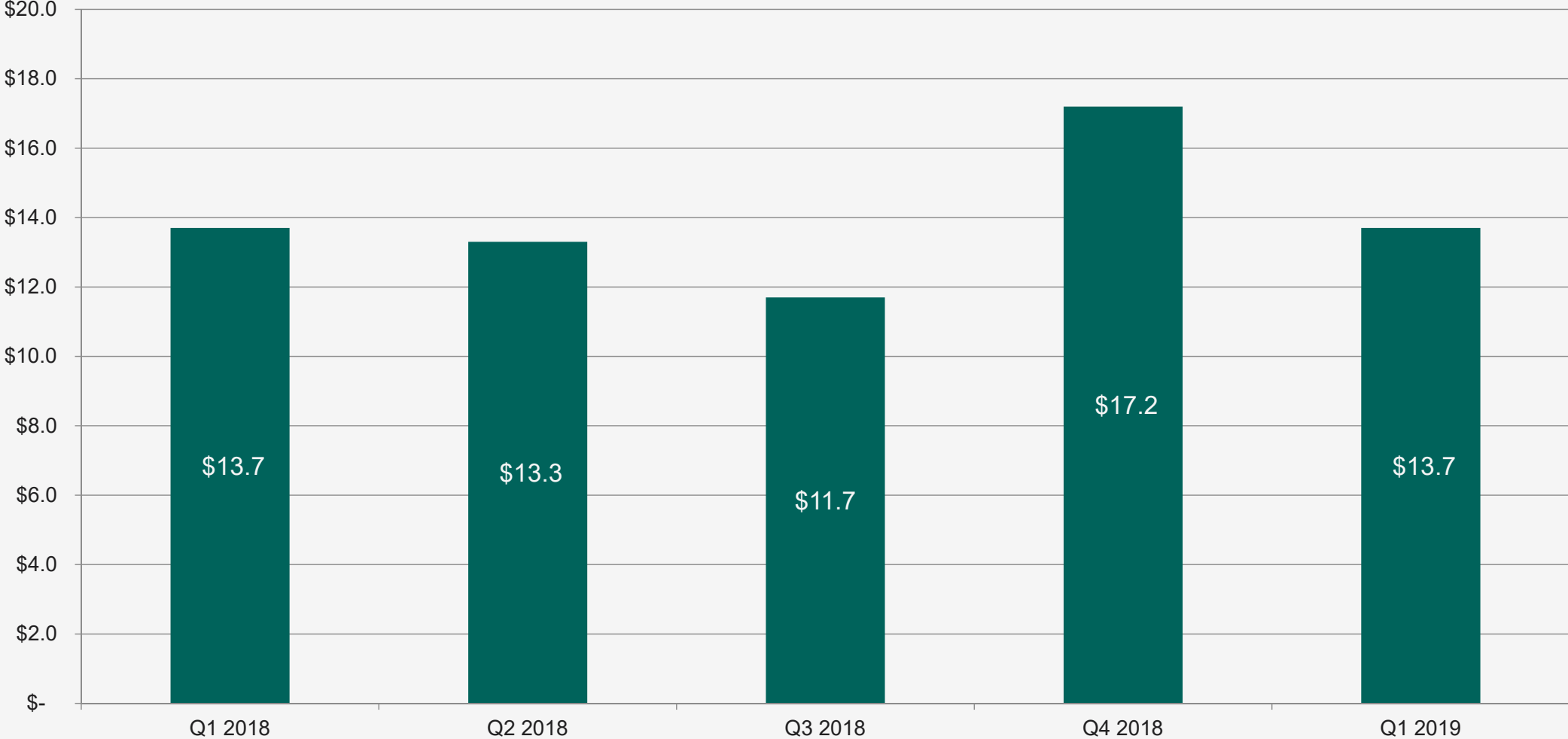
|   | Q1 2018      | Q2 2018      | Q3 2018      | Q4 2018      | Q1 2019      |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Reported Net Interest Margin</b>                         | <b>4.00%</b> | <b>3.89%</b> | <b>4.09%</b> | <b>4.15%</b> | <b>4.03%</b> |
| Impact from Change in Accounting Methodology <sup>(1)</sup> | -            | -0.13%       | 0.12%        | -            | -            |
| Accretion Related to Acquired Loans                         | 0.12%        | 0.14%        | 0.08%        | 0.06%        | 0.09%        |
| <b>Base Net Interest Margin</b>                             | <b>3.88%</b> | <b>3.88%</b> | <b>3.89%</b> | <b>4.09%</b> | <b>3.94%</b> |

(1) Impact from change in accounting methodology on the interest income method for residential mortgage-backed securities and collateralized mortgage obligations. Refer to notable items in prior earning releases for more information.  
 Note: tables may not foot due to rounding.

# Provision For Loan and Lease Losses

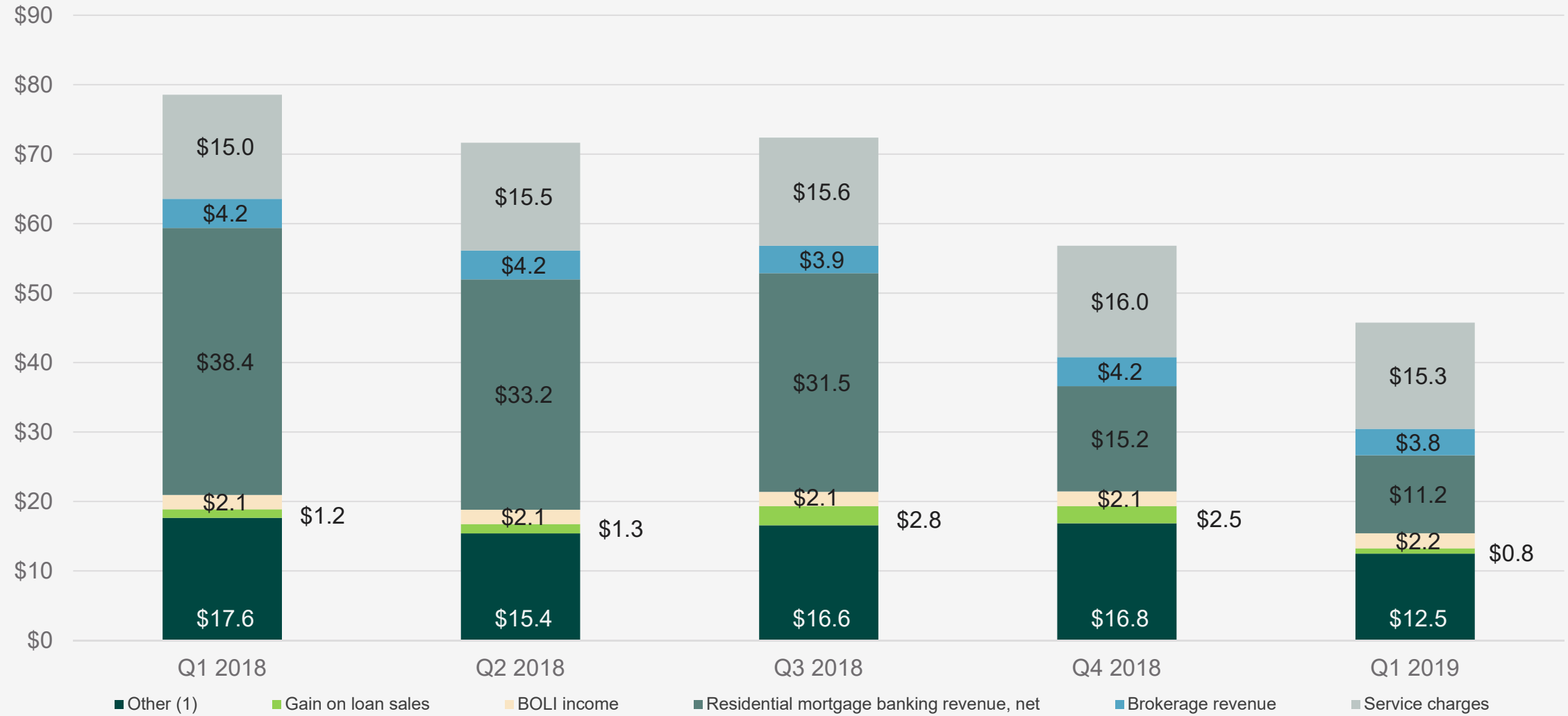
(in millions)

## Provision for Loan and Lease Losses



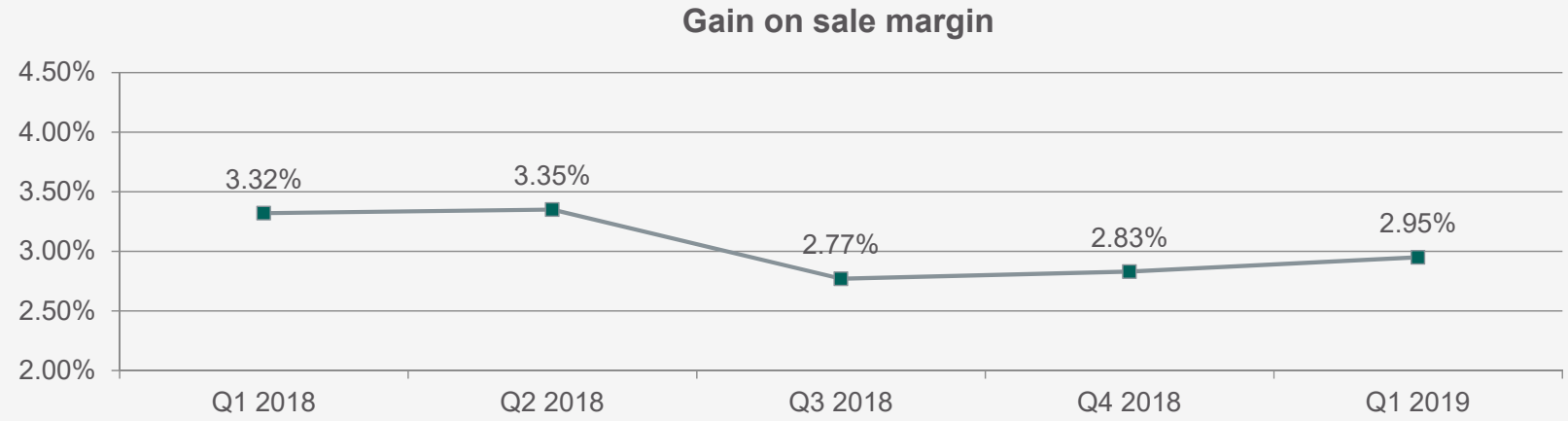
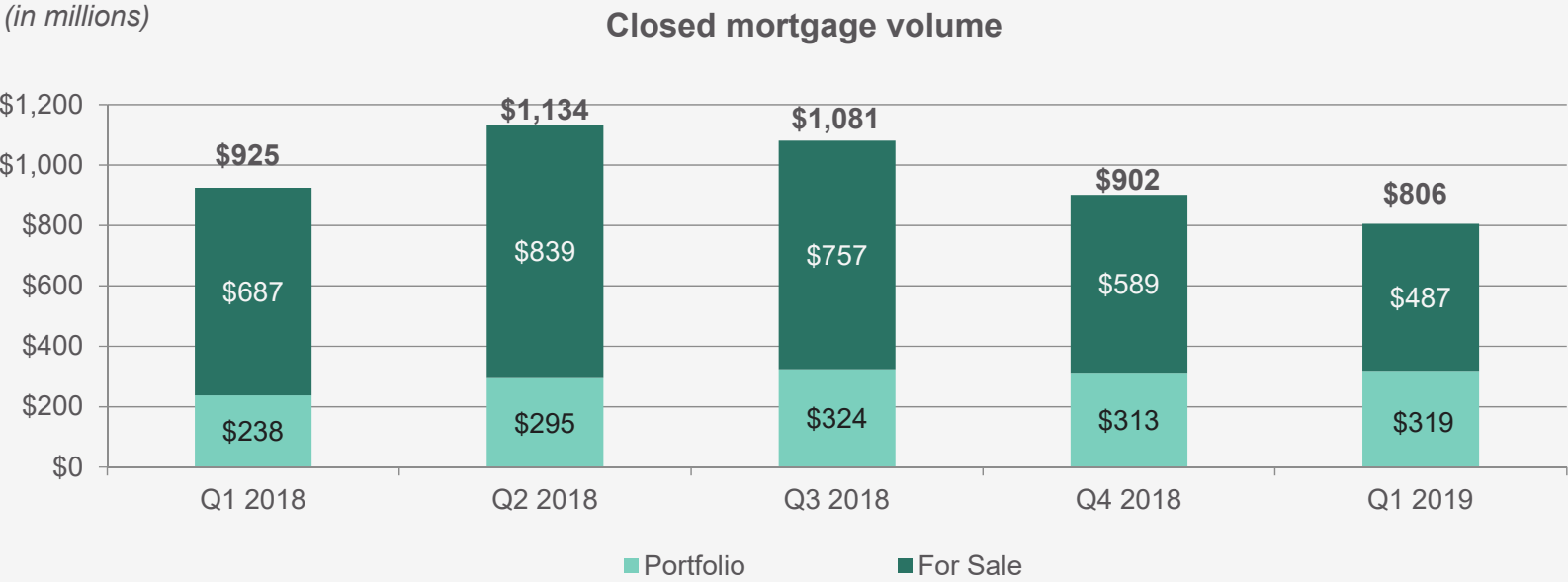
# Non-Interest Income

(in millions)



(1) Includes other income, gains or losses on investment securities.  
 Note: tables may not foot due to rounding.

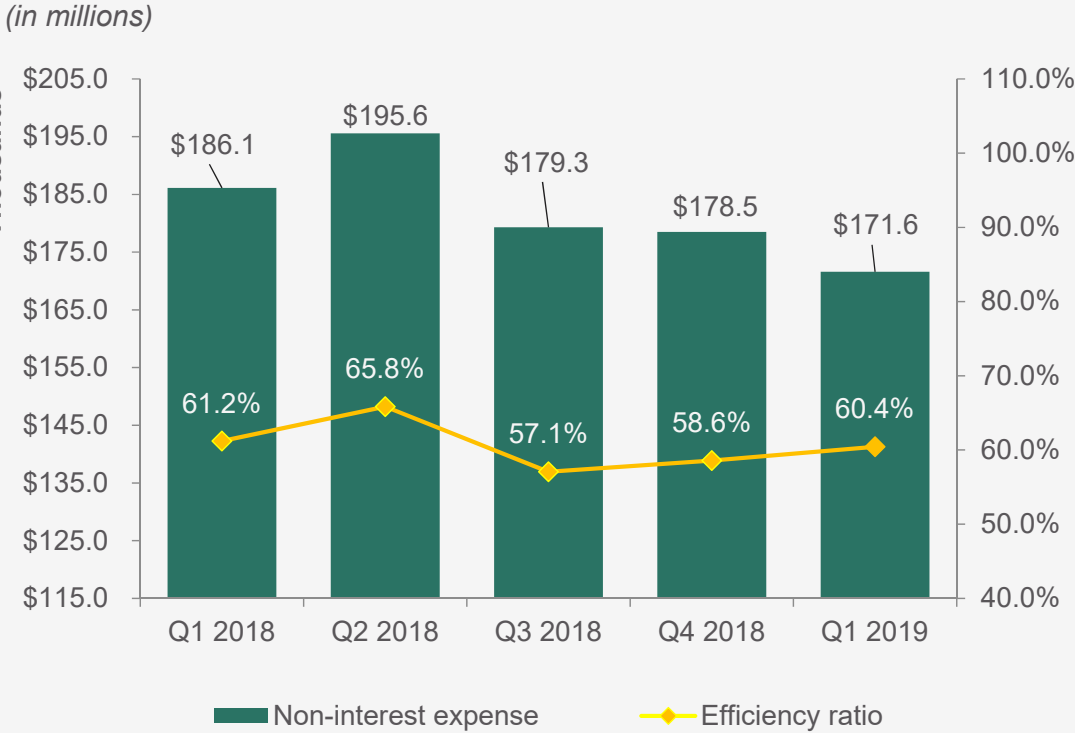
# Mortgage Banking



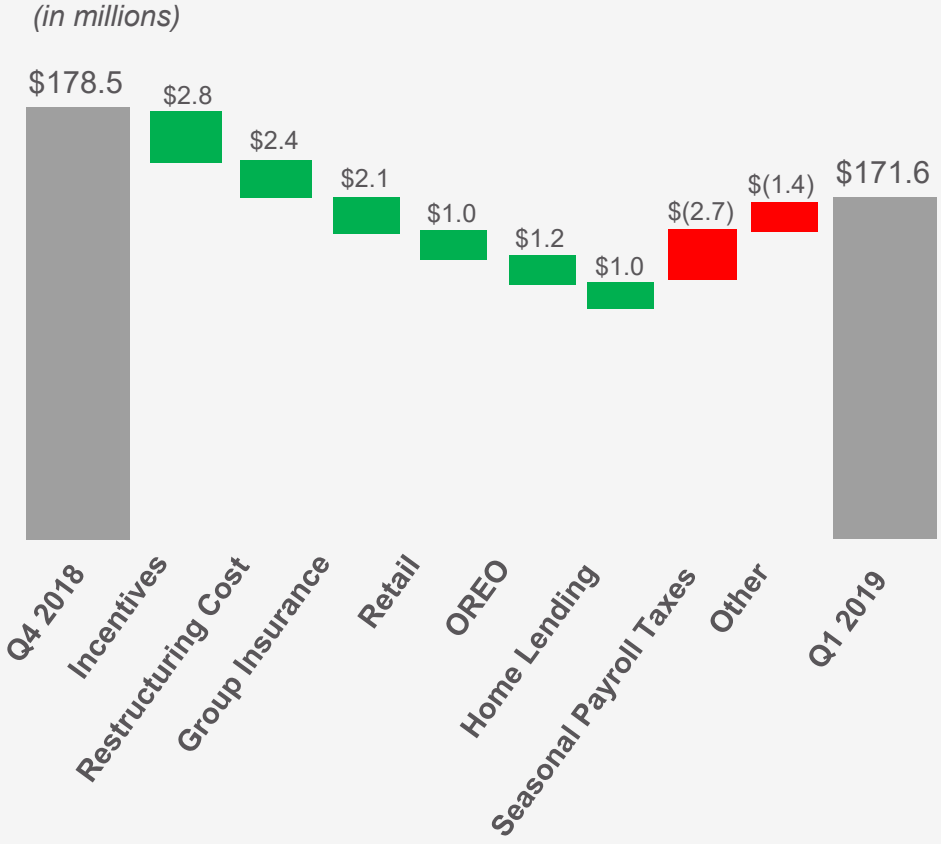
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# Non Interest Expense

Non-interest Expense and Efficiency Ratio



Non-interest Expense Bridge



# Selected Balance Sheet

(in millions)

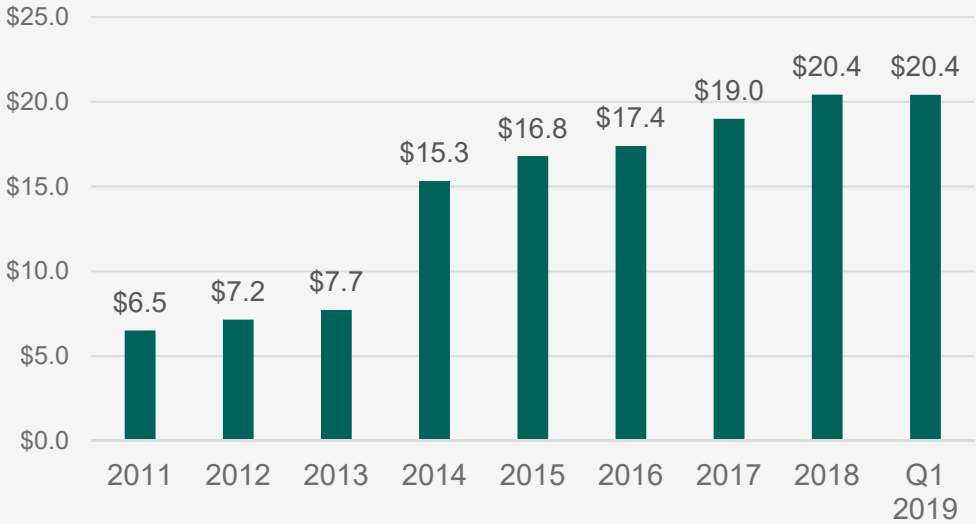
|  | Q1 2019    | Q4 2018    | Q3 2018    | Q2 2018    | Q1 2018    |
|--|------------|------------|------------|------------|------------|
| Total assets   | \$27,355.6 | \$26,939.8 | \$26,615.1 | \$26,480.6 | \$25,816.4 |
| Interest bearing cash and temporary investments      | 605.8      | 287.2      | 570.3      | 488.5      | 264.5      |
| Investment securities available for sale, fair value | 2,894.8    | 2,977.1    | 2,864.4    | 2,854.4    | 2,947.4    |
| Loans and leases, gross                              | 20,406.0   | 20,422.7   | 19,854.0   | 19,639.5   | 19,255.3   |
| Allowance for loan and lease losses                  | (144.9)    | (144.9)    | (144.0)    | (144.6)    | (141.9)    |
| Goodwill and other intangibles, net                  | 1,810.2    | 1,811.6    | 1,813.2    | 1,814.7    | 1,816.2    |
| Deposits   | 21,243.9   | 21,137.5   | 20,892.8   | 20,744.5   | 20,106.9   |
| Securities sold under agreements to repurchase       | 288.9      | 297.2      | 287.0      | 273.7      | 292.0      |
| Term debt  | 932.4      | 751.8      | 751.8      | 801.7      | 801.9      |
| Total shareholders' equity                           | 4,112.3    | 4,056.4    | 4,003.9    | 3,981.1    | 3,969.8    |
| <b>Ratios:</b>                                       |            |            |            |            |            |
| Loan to deposit ratio                                | 96.1%      | 96.6%      | 95.0%      | 94.7%      | 95.8%      |
| Book value per common share                          | \$ 18.65   | \$ 18.42   | \$ 18.18   | \$ 18.08   | \$ 18.01   |
| Tangible book value per common share (1)             | \$ 10.44   | \$ 10.19   | \$ 9.95    | \$ 9.84    | \$ 9.77    |
| Tangible common equity to tangible assets (1)        | 9.0%       | 8.9%       | 8.8%       | 8.8%       | 9.0%       |

(1) Non-GAAP financial measure. A reconciliation to the comparable GAAP measurement is provided in the appendix of this slide presentation.

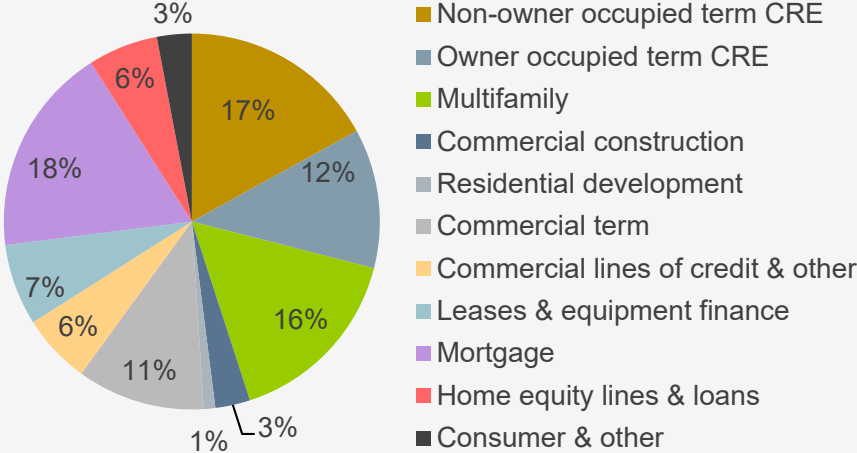
# Loan and Deposit Growth

(in billions)

## Loans and Leases (Gross)

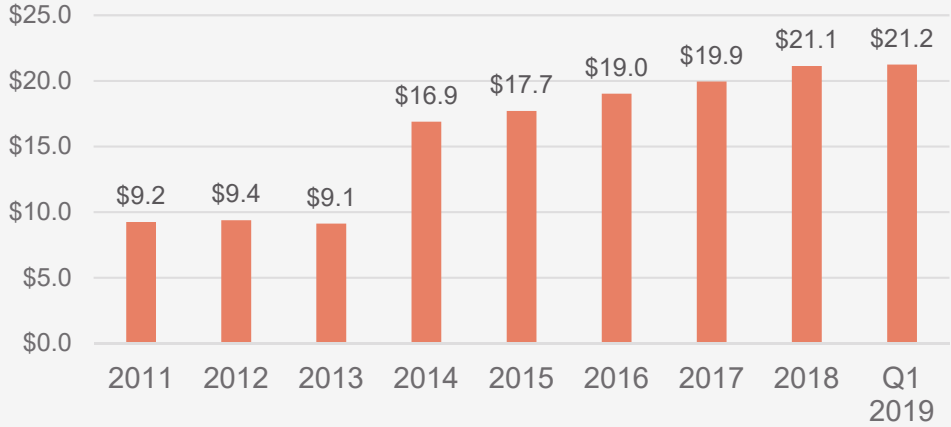


As of March 31, 2019

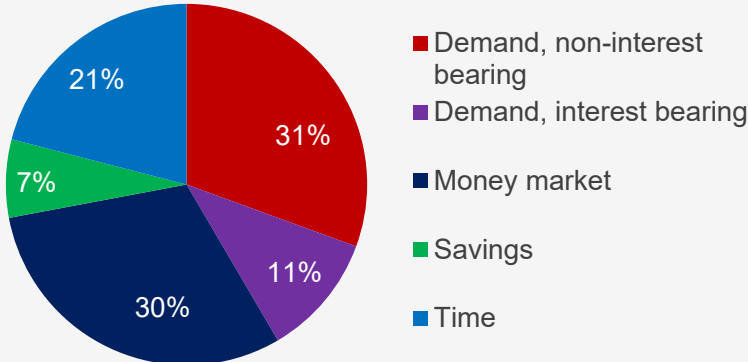


(in billions)

## Total Deposits

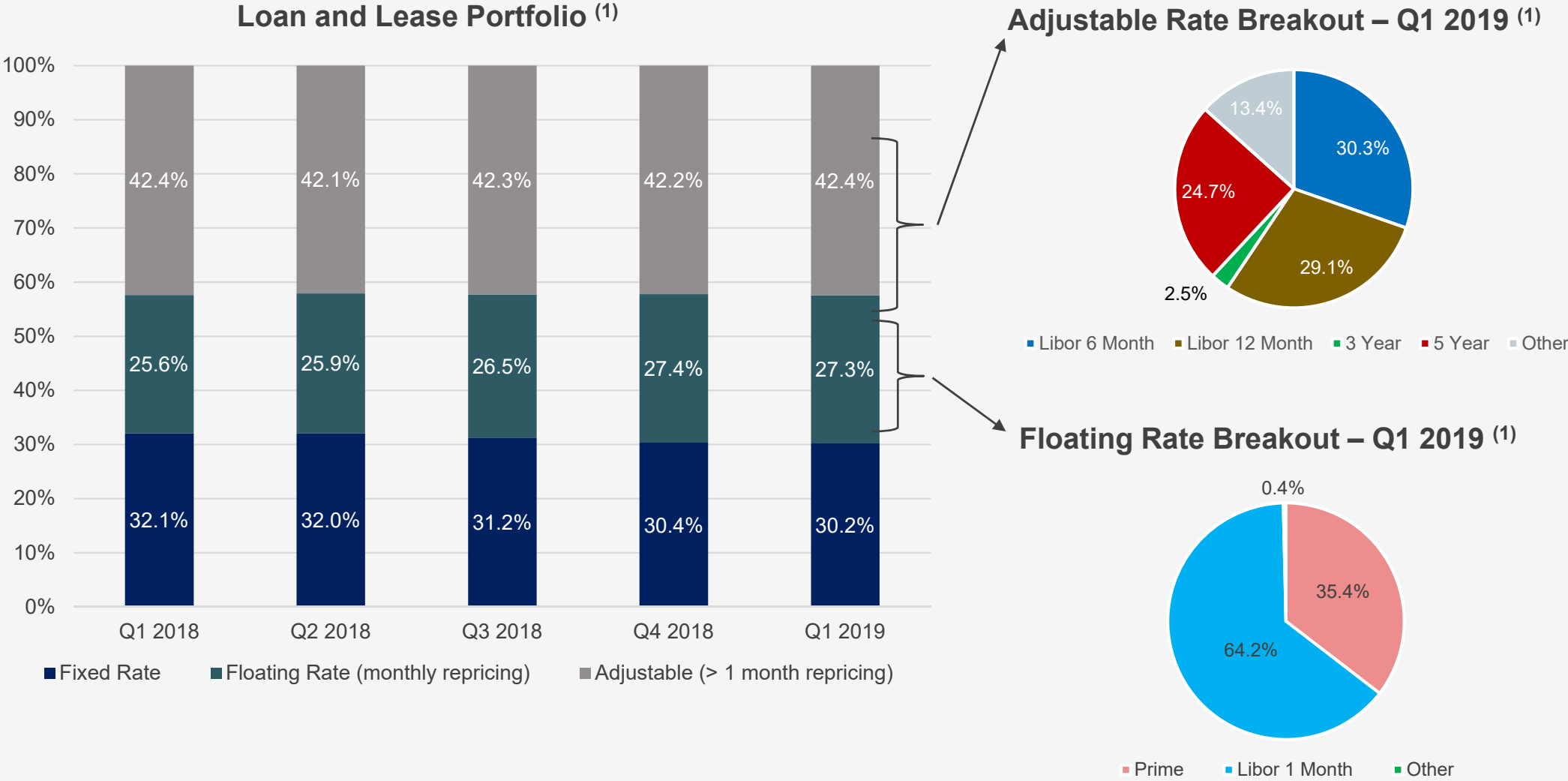


As of March 31, 2019



(1) Non-GAAP financial measure. A reconciliation to the comparable GAAP measurement is provided in the appendix of this slide presentation.

# Loan and Lease Portfolio Repricing Schedule



- > (1) Includes loans available for sale.
- > Note: totals may not foot due to rounding.



# Loan and Lease Portfolio Characteristics

## Mortgage

- Represents 18% of overall portfolio
- Total delinquencies of 1.02%
- De minimis (0.01%) annualized net charge-off rate
- Average loan size of \$440,000
- Average FICO of 760 and LTV of 65%

## Non-owner Occupied CRE

- Represents 17% of overall portfolio
- Total delinquencies of 0.42%
- Annualized net charge-off rate of 0.18%
- Average loan size of \$1.4 million
- Average LTV of 53% and DSC of 1.8

## Commercial & Industrial

- Represents 17% of overall portfolio
- Total delinquencies of 0.46%
- Annualized net charge-off rate of 0.02%
- Average loan size of \$414,000

## Owner Occupied CRE

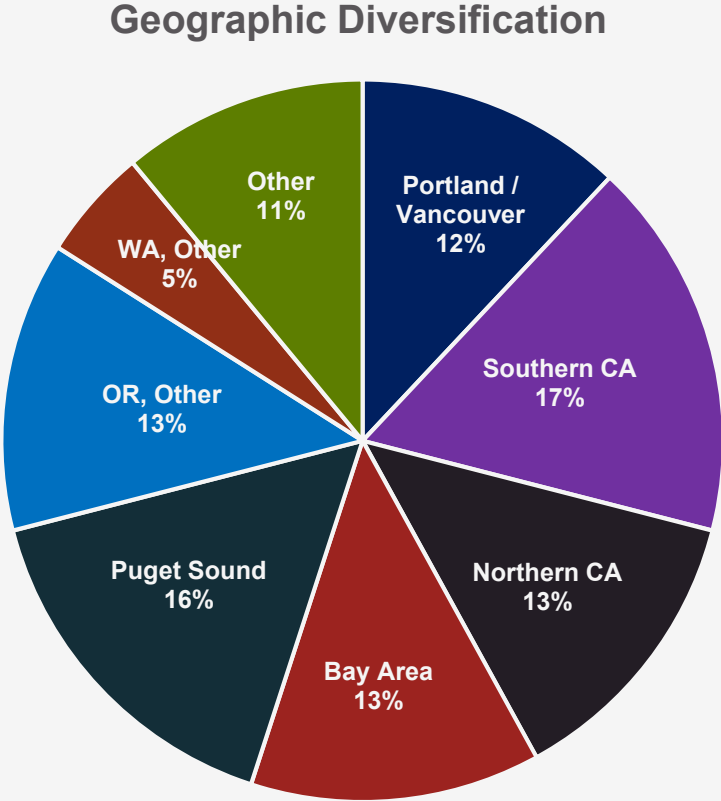
- Represents 12% of overall portfolio
- Total delinquencies of 0.46%
- Annualized net charge-off rate of 4 bps
- Average loan size of \$772,000
- Average LTV of 54%

## Multifamily

- Represents 16% of overall portfolio
- Total delinquencies of 0.09%
- Annualized net charge-off rate of 0 bps
- Average loan size of \$1.6 million
- Average LTV of 54% and DSC of 1.6

## Lease & Equipment Finance

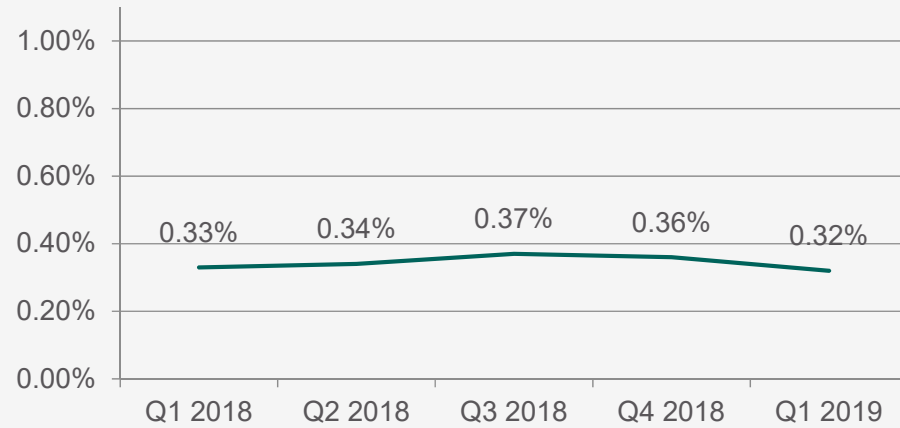
- Represents 7% of overall portfolio
- Total delinquencies of 2.7%
- Annualized net charge-off rate of 3.10%
- ~10% average yield
- Average loan size of \$34,000



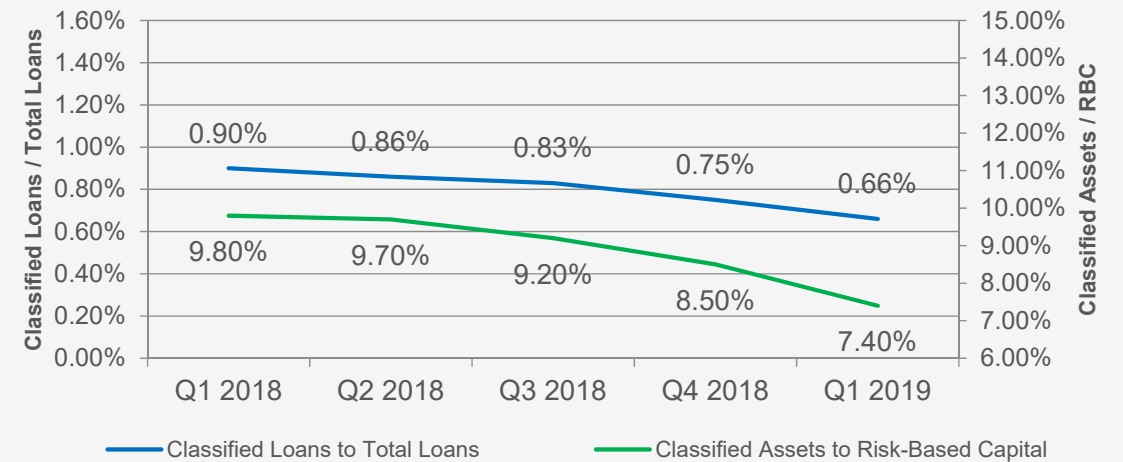
Note: Balances and delinquencies as of March 31, 2019. Annualized net charge-off rate for Q1 2019. LTV, FICO and Debt Service Coverage (DSC) are based on weighted average for portfolio. LTV for the Mortgage portfolio represents average LTV based on most recent appraisal against updated loan balance.

# Credit Quality

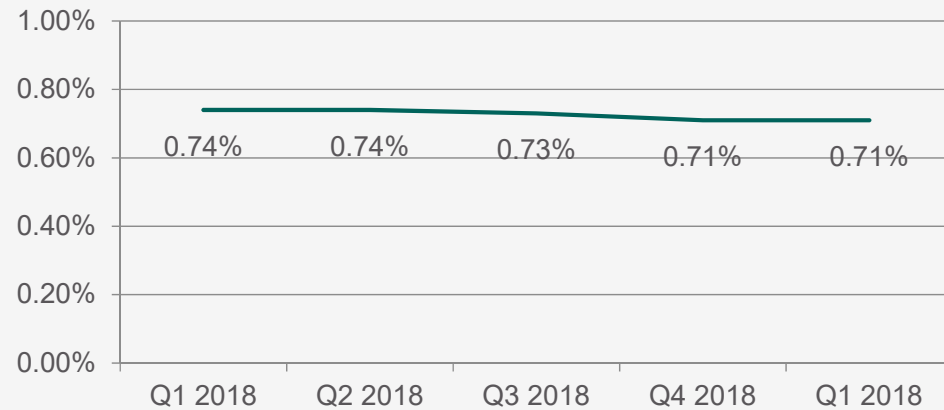
### Non-performing assets to total assets



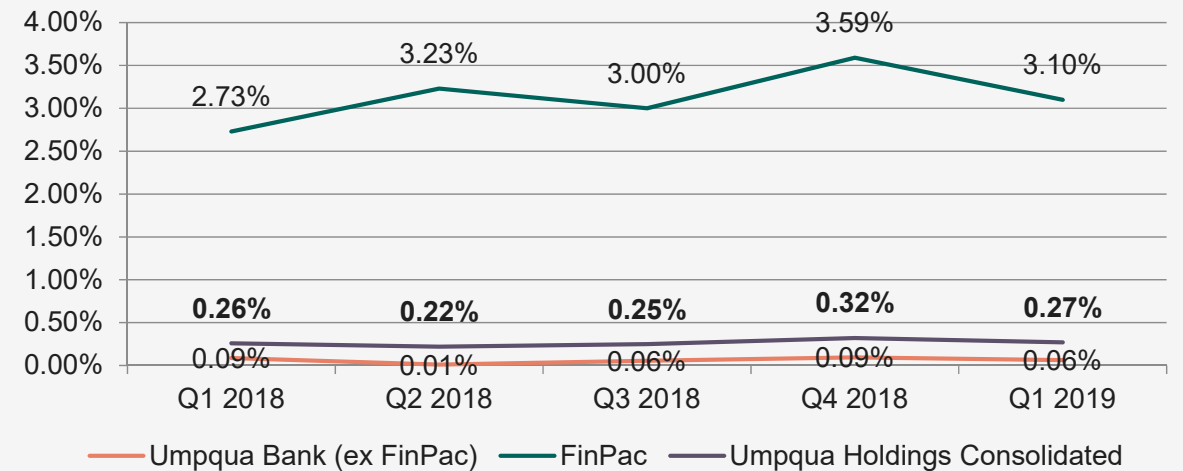
### Classified Assets



### Allowance for loan and lease losses to loans and leases



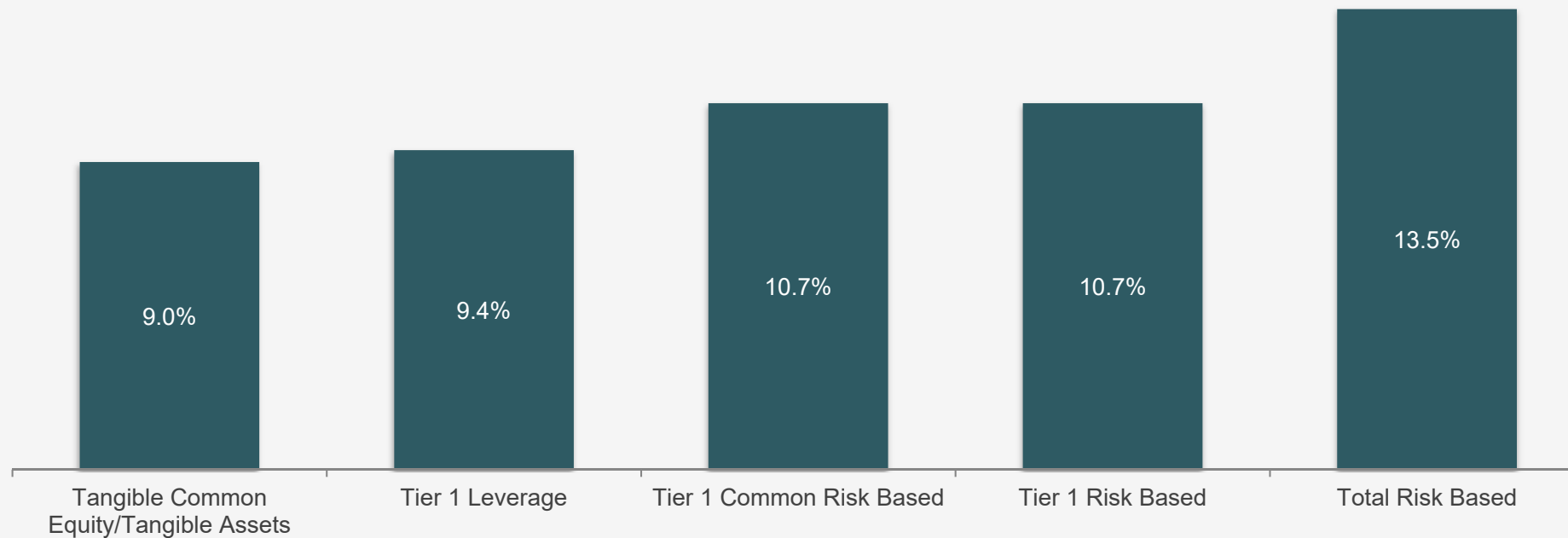
### Net charge-offs to average loans and leases (annualized)



# Capital Management

- All regulatory capital ratios remained in excess of well-capitalized and internal policy limits
- Focused on prudently managing capital
  - Declared quarterly dividend of \$0.21 per share, ~5.09% current dividend yield <sup>2</sup>
  - Q1 total payout ratio of 63%

Q1 2019 Capital Ratios <sup>(1)</sup>



# Appendix – Non GAAP Reconciliation

# Non-GAAP Reconciliation – Tangible Book Value

| (In thousands, except per share data)            | <b>Mar 31, 2019</b> | <b>Dec 31, 2018</b> | <b>Sep 30, 2018</b> | <b>June 30, 2018</b> | <b>Mar 31, 2018</b> |
|--|---------------------|---------------------|---------------------|----------------------|---------------------|
| Total shareholders' equity                       | 4,112,326           | 4,056,442           | 4,003,893           | 3,981,087            | 3,969,766           |
| Subtract:  |                     |                     |                     |                      |                     |
| Goodwill   | 1,787,651           | 1,787,651           | 1,787,651           | 1,787,651            | 1,787,651           |
| Other intangible assets, net                     | 22,560              | 23,964              | 25,506              | 27,047               | 28,589              |
| Tangible equity - common                         | <u>\$2,302,115</u>  | <u>\$2,244,827</u>  | <u>\$2,190,736</u>  | <u>\$2,166,389</u>   | <u>\$2,153,526</u>  |
| Total assets                                     | \$27,355,625        | \$26,939,781        | \$26,615,067        | \$26,480,601         | \$25,816,401        |
| Subtract:  |                     |                     |                     |                      |                     |
| Goodwill   | 1,787,651           | 1,787,651           | 1,787,651           | 1,787,651            | 1,787,651           |
| Other intangible assets, net                     | 22,560              | 23,964              | 25,506              | 27,047               | 28,589              |
| Tangible assets                                  | <u>\$25,545,414</u> | <u>\$25,128,166</u> | <u>\$24,801,910</u> | <u>\$24,665,903</u>  | <u>\$24,000,161</u> |
| Common shares outstanding at period end          | 220,457             | 220,255             | 220,238             | 220,205              | 220,461             |
| Total shareholders' equity to total assets ratio | 15.03%              | 15.06%              | 15.04%              | 15.03%               | 15.38%              |
| Tangible common equity ratio                     | 9.01%               | 8.93%               | 8.83%               | 8.78%                | 8.97%               |
| Book value per common share                      | \$18.65             | \$18.42             | \$18.18             | \$18.08              | \$18.01             |
| Tangible book value per common share             | \$10.44             | \$10.19             | \$9.95              | \$9.84               | \$9.77              |

**Thank You**