

# **Umpqua Holdings Corporation**

## **2<sup>nd</sup> Quarter 2019 Earnings Conference Call Presentation**

**July 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 press release we make forward-looking statements about strategic investments, fee income initiatives, sale of MSR 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

## Balanced Growth

### Q2 Balanced Growth:

- \$575 million, 10.8% annualized, in deposit growth
  - Growth in non-interest bearing deposits of over 3,000 accounts during quarter
- \$547 million, 10.7% annualized in loan & lease growth
  - Full customer relationship focused growth in C&I of \$208 million and residential real estate of \$272 million
- Added over 20 experienced, customer facing associates year to date in Commercial & Corporate banking and Global Payments and Deposits

## Human Digital

- *Go To*, the industry's first human digital banking platform, launched in April now has over 27,000 customers enrolled
- Implemented predictive analytics tool in Commercial & Corporate banking to assist bankers with serving their customers
  - Using algorithms to predict future products and services based on current activity

## Operational Excellence

- 2019 YTD Non-Interest Expense down 8% from the same period a year ago
  - NIE YTD 2019 = \$352 million
  - NIE YTD 2018 = \$382 million
- Rationalized 20 stores YTD 2019
  - 8 additional stores identified to be consolidated by end of the year
- Achieved \$24 million of annualized savings with Phase I of Operational Excellence

# Q2 2019 Highlights (compared to Q1 2019)

- Net income of \$111.8 million, or \$0.51 per diluted common share
- Net interest income decreased by \$10.5 million on a quarter to quarter basis primarily driven by higher levels of bond premium amortization as the decrease in long-term rates during the second quarter resulted in higher prepayment speeds compared to the prior quarter;
- Provision for loan and lease losses increased by \$5.7 million, due to growth in the overall loan portfolio;
- Net charge-offs decreased by one basis point to 0.26% of average loans and leases (annualized);
- Non-interest income increased by \$76.1 million, driven primary by the \$81.9 million gain resulting from the sale of the Visa Class B stock and partially offset by a \$7.2 million loss on debt securities;
- Non-interest expense increased by \$8.8 million, driven primarily by higher mortgage banking-related expenses, higher loss on OREO, higher marketing expenses, partially offset by a seasonal decrease in payroll taxes and lower group insurance charges;
- Non-performing assets to total assets improved to 0.28% from 0.32%;
- Estimated total risk-based capital ratio of 13.7% and estimated Tier 1 common to risk weighted assets ratio of 10.9%;
- Declared a quarterly cash dividend of \$0.21 per common share.

# Selected Ratios

		For the quarter ended				
		Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
<b>Performance</b>	Return on average assets	1.62%	1.12%	1.19%	1.36%	1.02%
	Return on average tangible assets	1.73%	1.20%	1.28%	1.46%	1.09%
	Return on average common equity	10.80%	7.34%	7.90%	9.00%	6.64%
	Return on average tangible common equity	19.14%	13.17%	14.34%	16.42%	12.18%
	Efficiency ratio - consolidated	51.64%	60.44%	58.58%	57.06%	65.84%
	Net interest margin - consolidated	3.70%	4.03%	4.15%	4.09%	3.89%
<b>Credit Quality</b>	Non-performing loans and leases to loans and leases	0.34%	0.37%	0.43%	0.44%	0.40%
	Non-performing assets to total assets	0.28%	0.32%	0.36%	0.37%	0.34%
	Net charge-offs to average loans and leases (annualized)	0.26%	0.27%	0.32%	0.25%	0.22%
<b>Capital</b>	Tangible common equity to tangible assets <sup>(1)</sup>	9.24%	9.01%	8.93%	8.83%	8.78%
	Tier 1 common to risk-weighted asset ratio <sup>(2)</sup>	10.9%	10.8%	10.7%	10.8%	10.7%
	Total risk-based capital ratio <sup>(2)</sup>	13.7%	13.6%	13.5%	13.6%	13.5%

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

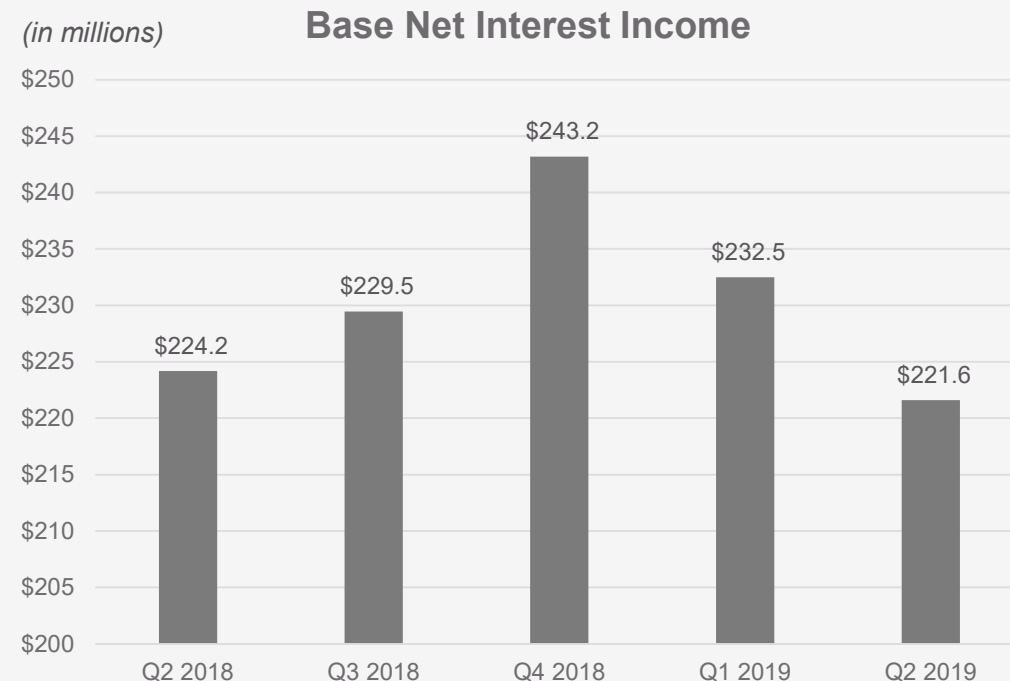
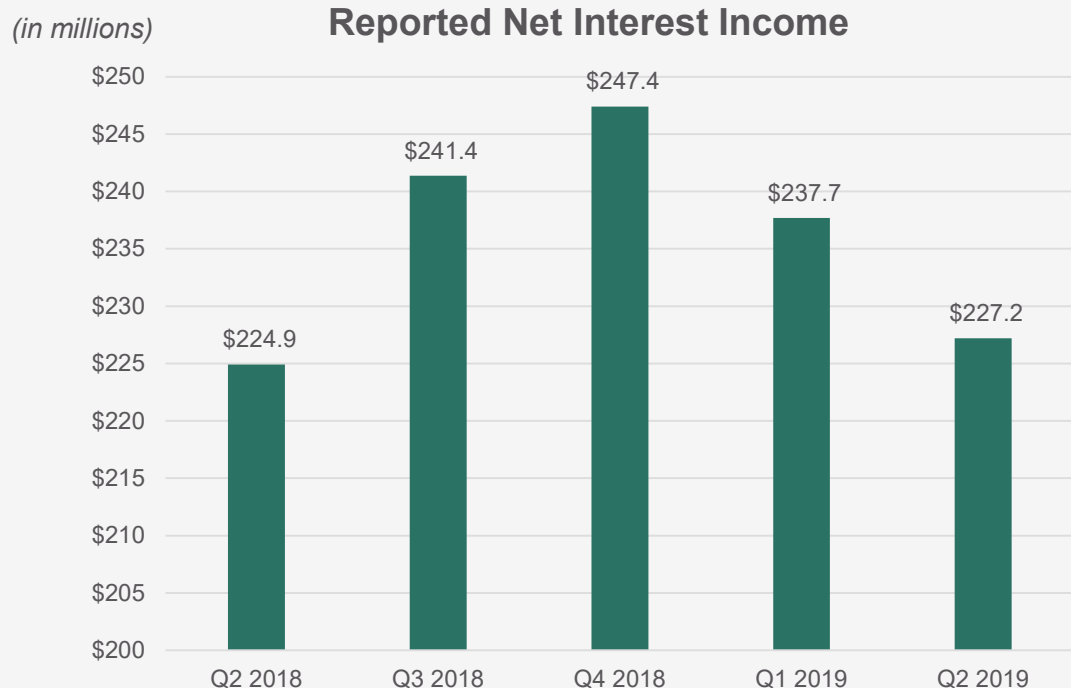
<sup>(2)</sup> Capital ratio estimated for current quarter, pending completion and filing of regulatory reports.

# Summary Income Statement

(in millions)

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income before provision	\$227.2	\$237.7	\$247.4	\$241.4	\$224.9
Provision for loan and lease losses	19.4	13.7	17.2	11.7	13.3
Net interest income after provision	<b>207.8</b>	<b>224.0</b>	<b>230.2</b>	<b>229.7</b>	<b>211.6</b>
Non-interest income	121.8	45.7	56.8	72.4	71.7
Non-interest expense	180.4	171.6	178.5	179.3	195.6
Income before provision for income taxes	<b>149.2</b>	<b>98.1</b>	<b>108.5</b>	<b>122.8</b>	<b>87.7</b>
Provision for income taxes	37.4	24.1	28.2	31.8	21.7
<b>Net income</b>	<b>\$111.8</b>	<b>\$74.0</b>	<b>\$80.3</b>	<b>\$91.0</b>	<b>\$66.0</b>

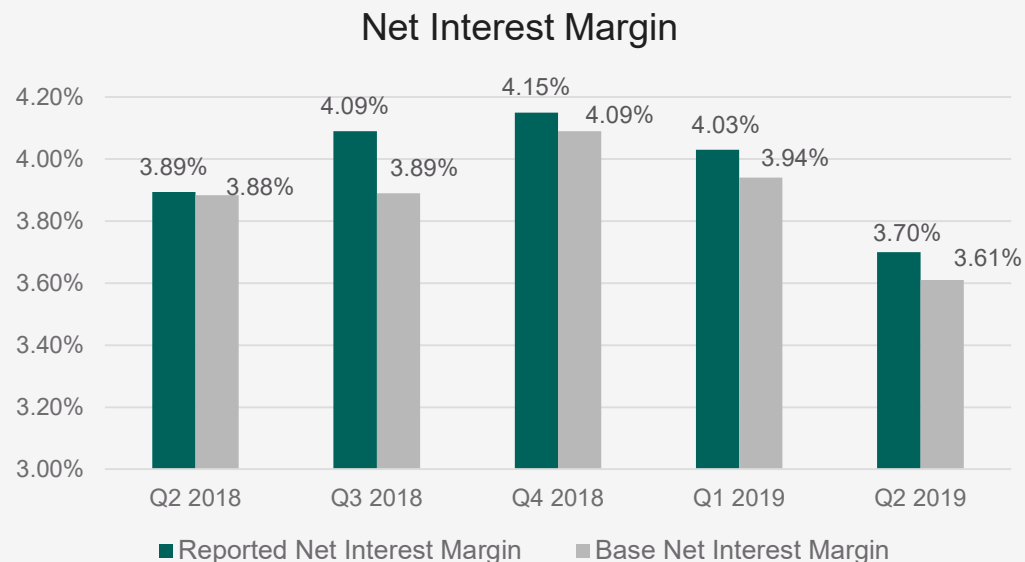
# Net Interest Income



	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Reported Net Interest Income</b>	<b>\$ 224.9</b>	<b>\$ 241.4</b>	<b>\$ 247.4</b>	<b>\$ 237.7</b>	<b>\$ 227.2</b>
Impact from Change in Accounting Methodology <sup>(1)</sup>	(7.2)	7.0	-	-	-
Accretion Related to Acquired Loans	7.9	4.9	4.2	5.2	5.6
<b>Base Net Interest Income</b>	<b>\$ 224.2</b>	<b>\$ 229.5</b>	<b>\$ 243.2</b>	<b>\$ 232.5</b>	<b>\$ 221.6</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



	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Reported Net Interest Margin</b>	<b>3.89%</b>	<b>4.09%</b>	<b>4.15%</b>	<b>4.03%</b>	<b>3.70%</b>
Impact from Change in Accounting Methodology <sup>1</sup>	(0.13)%	(0.12)%			
Accretion Related to Acquired Loans	(0.14)%	(0.08)%	(0.06)%	(0.09)%	(0.09)%
<b>Base Net Interest Margin</b>	<b>3.88%</b>	<b>3.89%</b>	<b>4.09%</b>	<b>3.94%</b>	<b>3.61%</b>

## NIM – Taxable Bond Premium Amortization & Recapture Details

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Bond Premium in \$ millions (Amortization)/Recapture	(\$12.5mm)	\$3.3mm	\$6.1mm	(\$1.6mm)	(\$10.4mm)
Net NIM Impact in basis points Accretive/(Dilutive)	(0.22)%	0.06%	0.10%	(0.03)%	(0.17)%

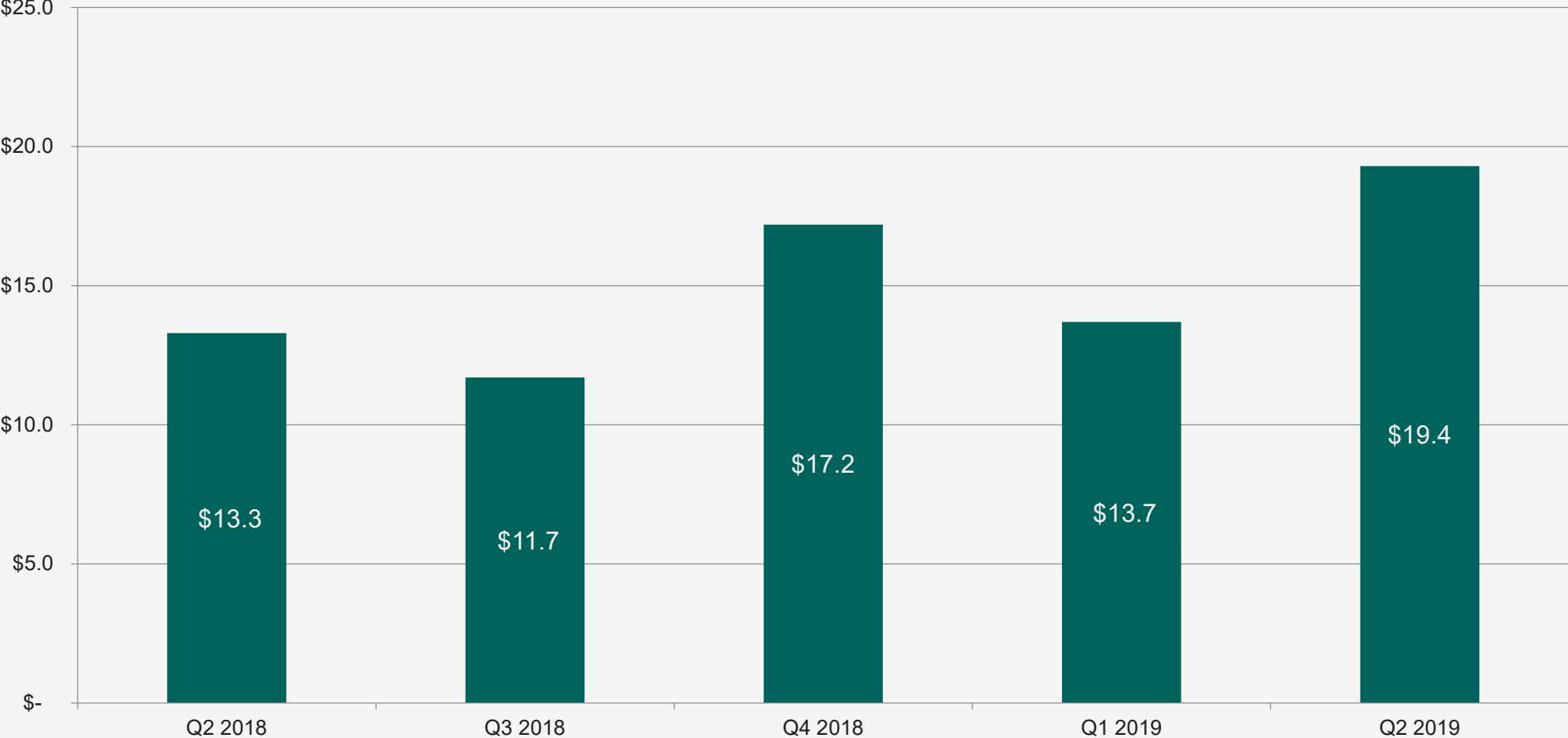
(1) Impact from change in accounting methodology on the interest income method for residential mortgage-backed securities and collateralized mortgage obligations. Refer to notable items in prior earning releases for more information. Note: tables may not foot due to rounding.



# Provision For Loan and Lease Losses

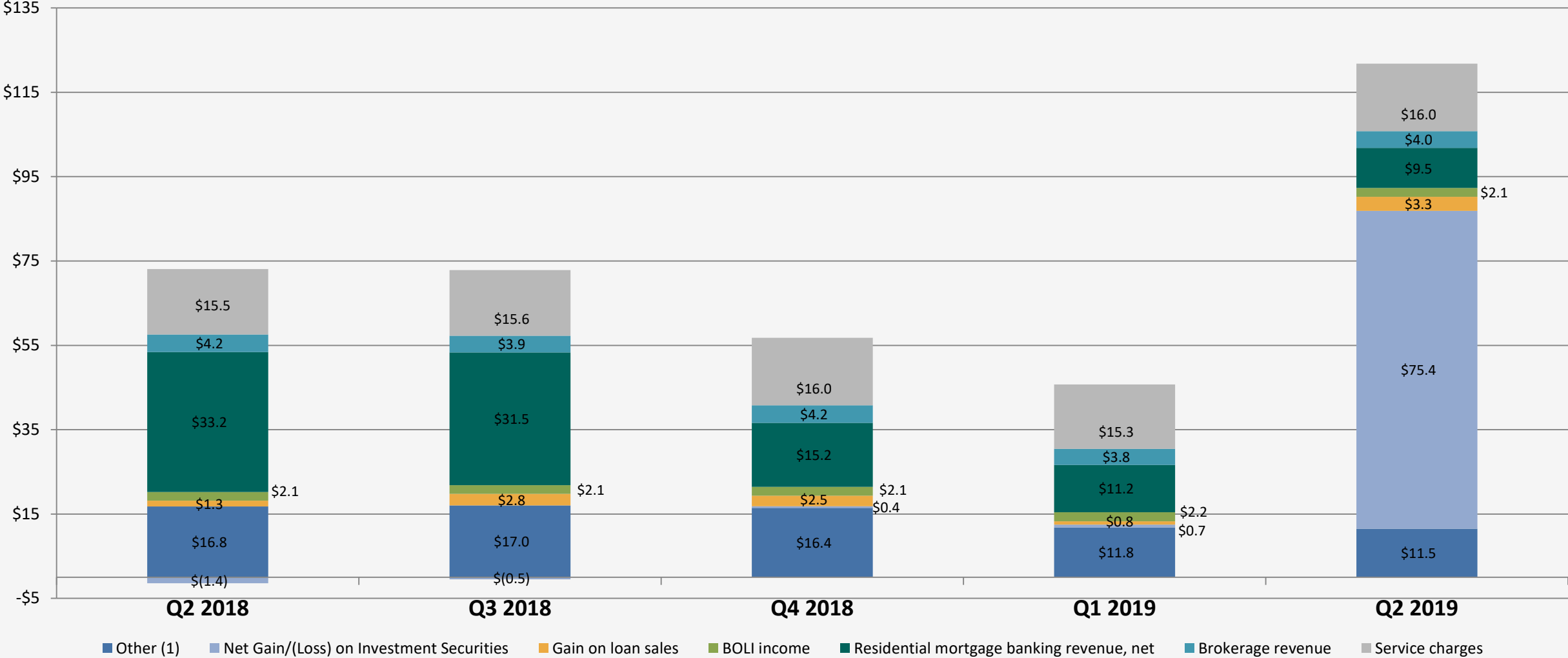
(in millions)

## Provision for Loan and Lease Losses



# Non-Interest Income

(in millions)

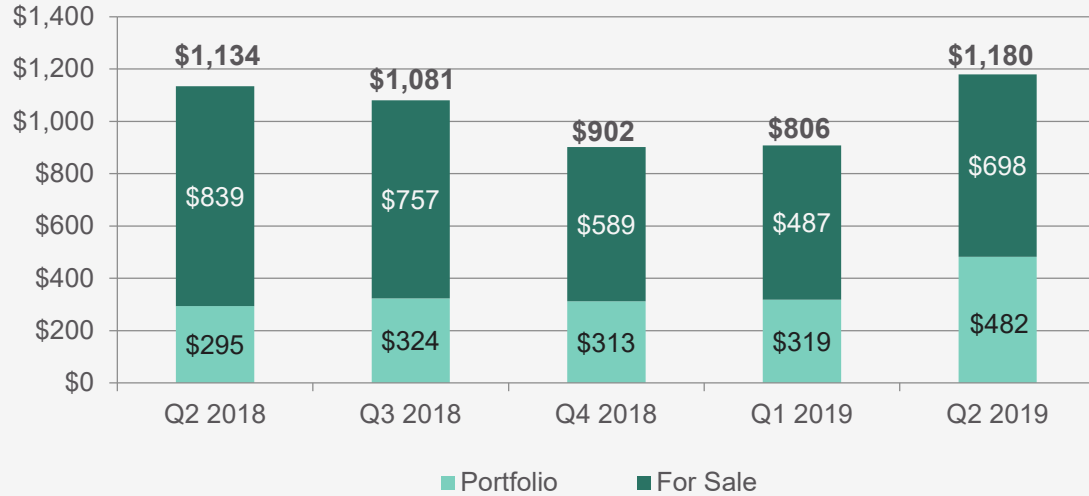


Note: tables may not foot due to rounding.

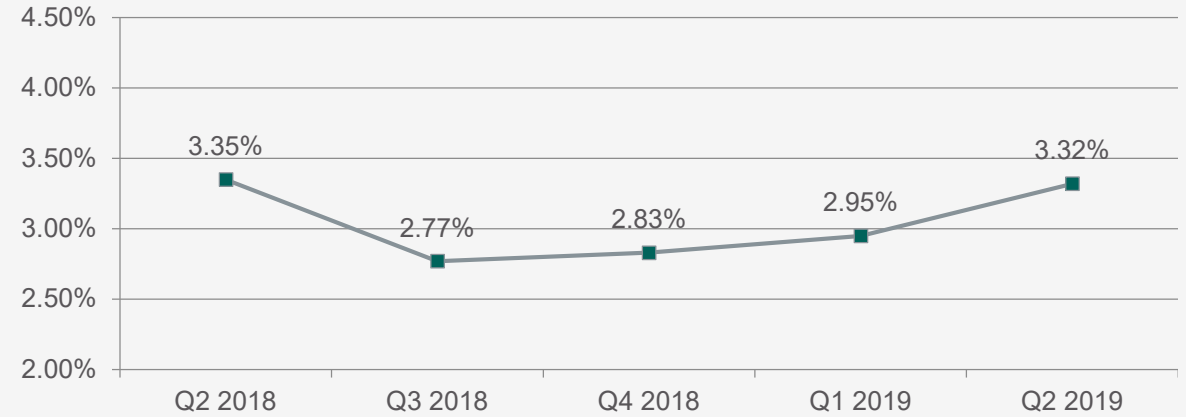
# Mortgage Banking

(in millions)

Closed mortgage volume



Gain on sale margin

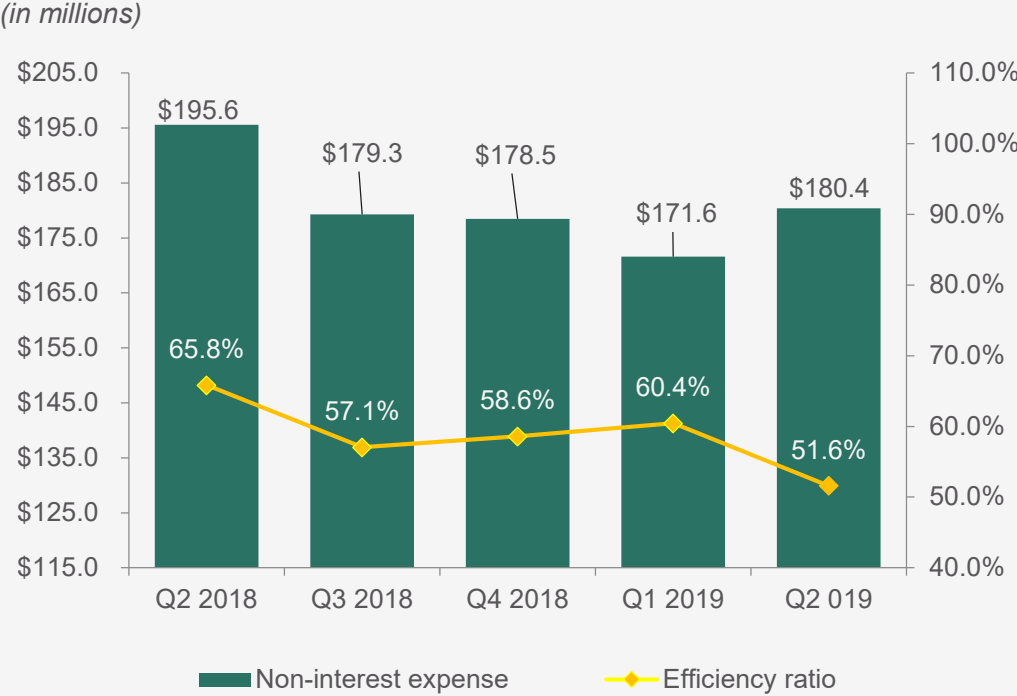


Residential mortgage banking revenue summary (in millions)

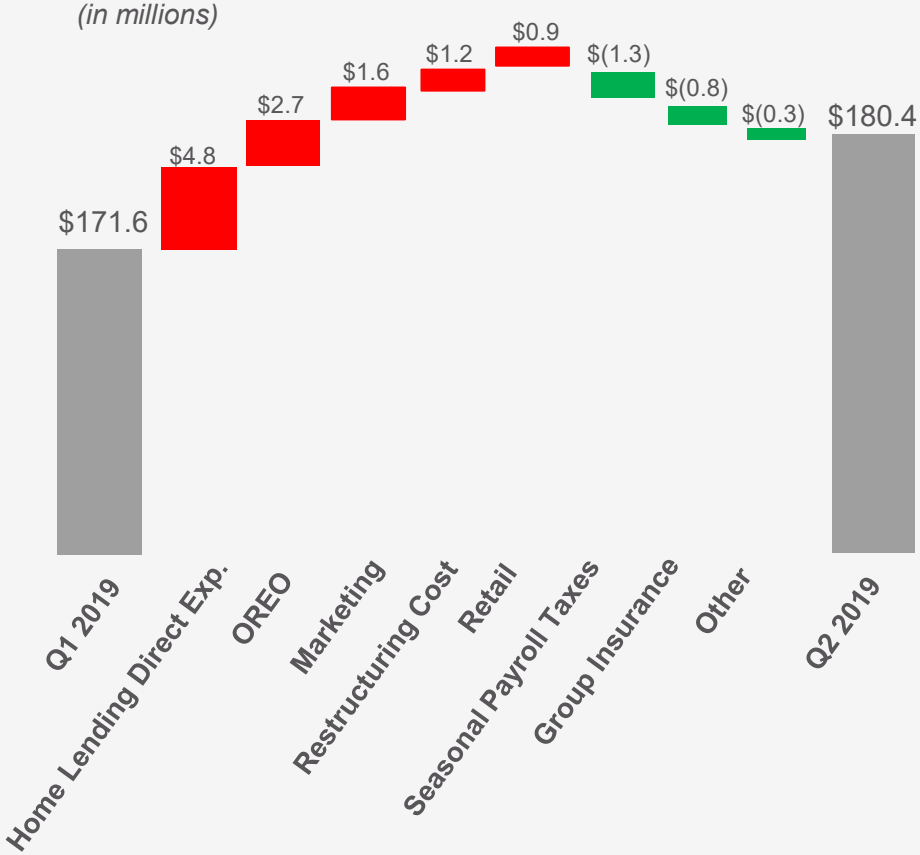
	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Origination and Sale	\$28.2	\$21.0	\$16.7	\$14.4	\$23.2
Servicing	10.4	10.3	11.6	10.8	\$11.0
Change in fair value of MSR asset:					
Changes due to collection/realization of expected cash flows over time	(5.9)	(6.0)	(6.4)	(6.4)	(6.9)
Changes due to valuation inputs or assumptions	0.5	6.2	(6.6)	(7.5)	(17.8)
Total	\$33.2	\$31.5	\$15.2	\$11.2	\$9.5

# Non Interest Expense

Non-interest Expense and Efficiency Ratio



Non-interest Expense Bridge



# Selected Balance Sheet

(in millions)

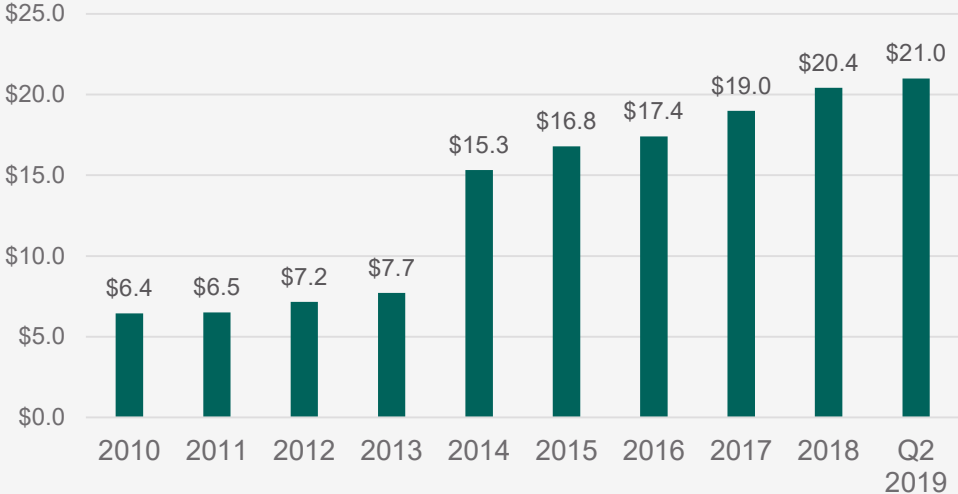
	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Total assets	\$27,986.1	\$27,355.6	\$26,939.8	\$26,615.1	\$26,480.6
Interest bearing cash and temporary investments	691.3	605.8	287.2	570.3	488.5
Investment securities available for sale, fair value	2,698.4	2,894.8	2,977.1	2,864.4	2,854.4
Loans and leases, gross	20,953.4	20,406.0	20,422.7	19,854.0	19,639.5
Allowance for loan and lease losses	(151.1)	(144.9)	(144.9)	(144.0)	(144.6)
Goodwill and other intangibles, net	1,808.8	1,810.2	1,811.6	1,813.2	1,814.7
Deposits	21,819.0	21,243.9	21,137.5	20,892.8	20,744.5
Securities sold under agreements to repurchase	308.1	288.9	297.2	287.0	273.7
Term debt	821.7	932.4	751.8	751.8	801.7
Total shareholders' equity	4,228.5	4,112.3	4,056.4	4,003.9	3,981.1
<b>Ratios:</b>					
Loan to deposit ratio	96.0%	96.1%	96.6%	95.0%	94.7%
Book value per common share	\$19.18	\$18.65	\$18.42	\$18.18	\$18.08
Tangible book value per common share (1)	\$10.97	\$10.44	\$10.19	\$9.95	\$9.84
Tangible common equity to tangible assets (1)	9.2%	9.0%	8.9%	8.8%	8.8%

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

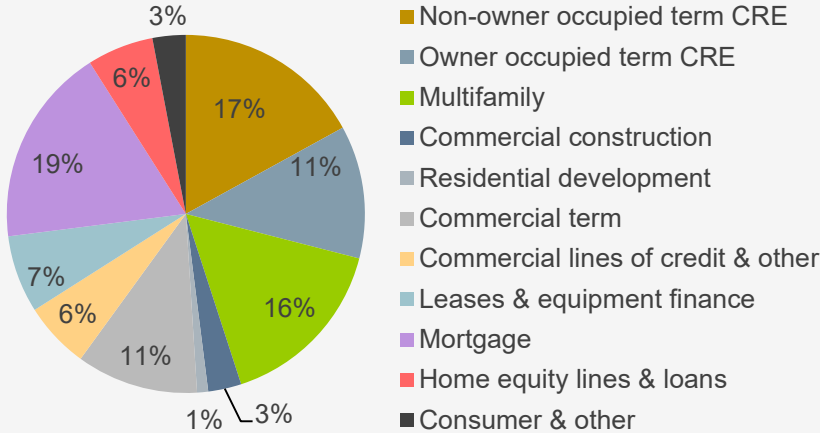
# Loan and Deposit Growth

(in billions)

## Loans and Leases (Gross)

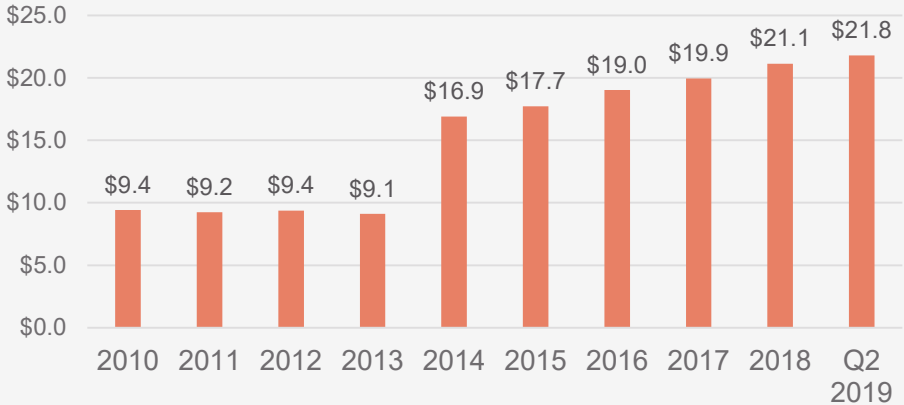


As of June 30, 2019

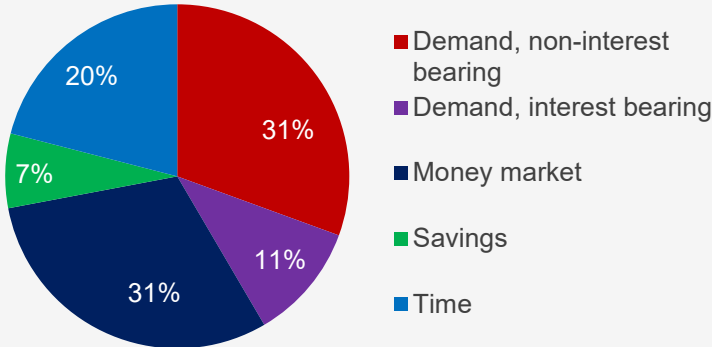


(in billions)

## Total Deposits

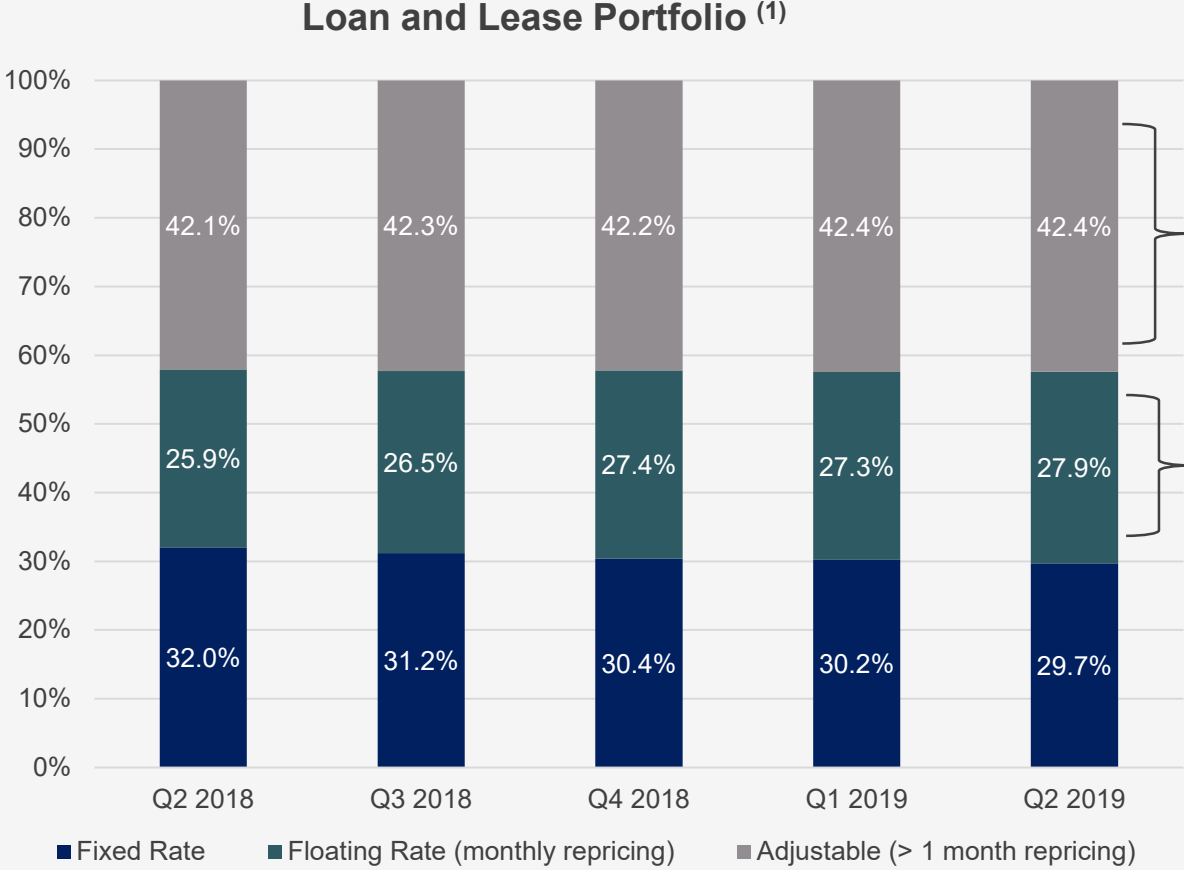


As of June 30, 2019

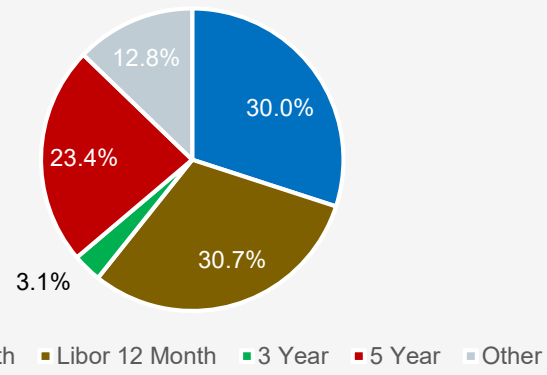


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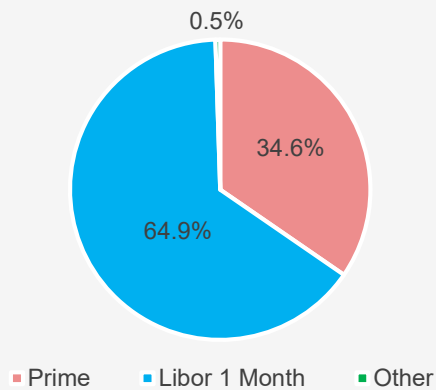
# Loan and Lease Portfolio Repricing Schedule



**Adjustable Rate Breakout – Q2 2019 (1)**



**Floating Rate Breakout – Q2 2019 (1)**



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

# Loan and Lease Portfolio Characteristics

## Mortgage

- Represents 19% of overall portfolio
- Total delinquencies of 0.94%
- De minimis < 0.01% annualized net charge-off rate
- Average loan size of \$448,000
- Average FICO of 760 and LTV of 65%

## Non-owner Occupied CRE

- Represents 17% of overall portfolio
- Total delinquencies of 0.26%
- Annualized net charge-off rate of 0.10%
- Average loan size of \$1.5 million
- Average LTV of 53% and DSC of 1.8

## Commercial & Industrial

- Represents 17% of overall portfolio
- Total delinquencies of 0.41%
- De minimis annualized net charge-off rate of < 0.01%
- Average loan size of \$585,000

## Owner Occupied CRE

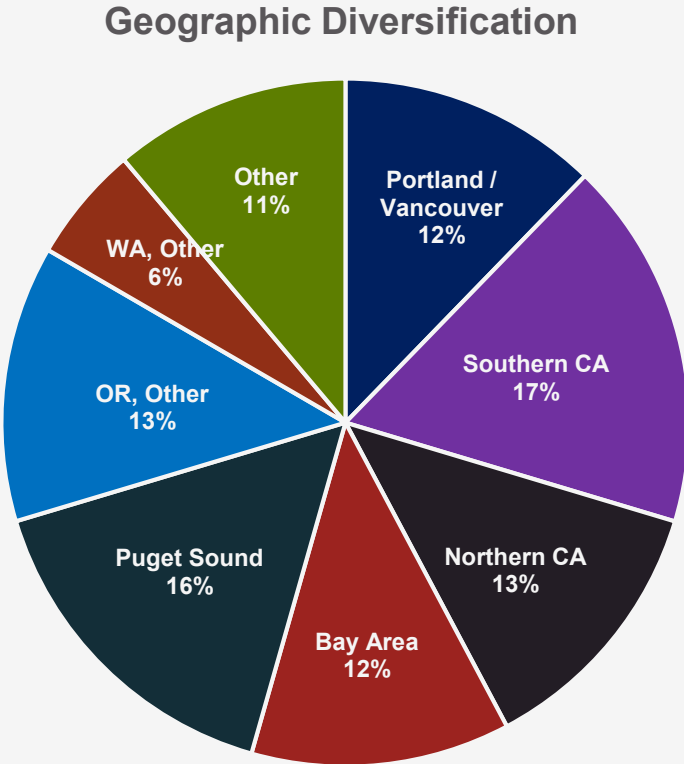
- Represents 11% of overall portfolio
- Total delinquencies of 0.37%
- Annualized net charge-off rate of 0.02%
- Average loan size of \$780,000
- Average LTV of 54%

## Multifamily

- Represents 16% of overall portfolio
- Total delinquencies of 0.00%
- Annualized net charge-off rate of 0.00%
- Average loan size of \$1.6 million
- Average LTV of 54% and DSC of 1.6

## Lease & Equipment Finance (FinPac)

- Represents 7% of overall portfolio
- Total delinquencies of 2.21%
- Annualized net charge-off rate of 3.49%
- ~10% average yield
- Average loan size of \$36,000

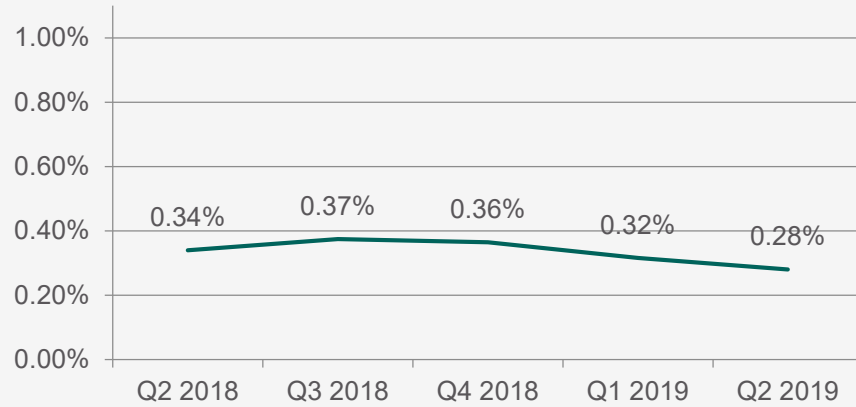


Note: Balances and delinquencies as of June 30, 2019. Annualized net charge-off rate for Q2 2019. LTV, FICO and Debt Service Coverage (DSC) are based on weighted average for portfolio. LTV for the Mortgage portfolio represents average LTV based on most recent appraisal against updated loan balance.

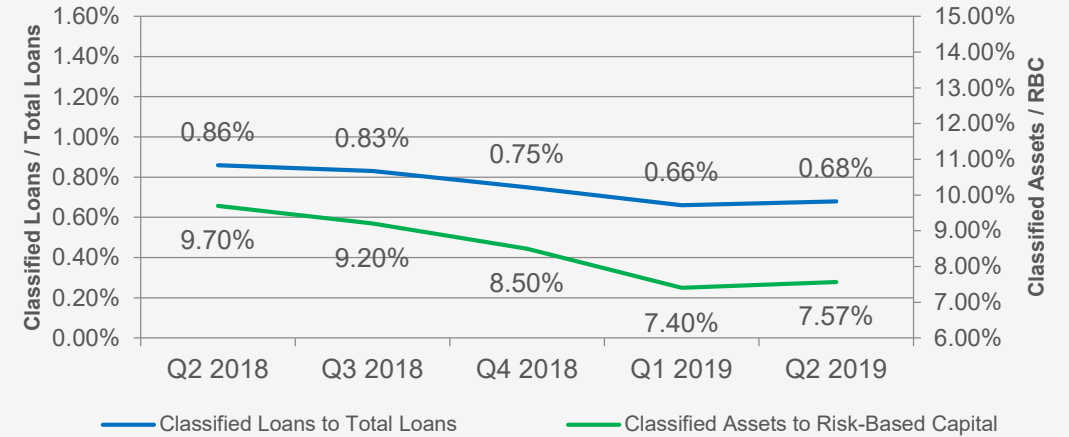


# Credit Quality

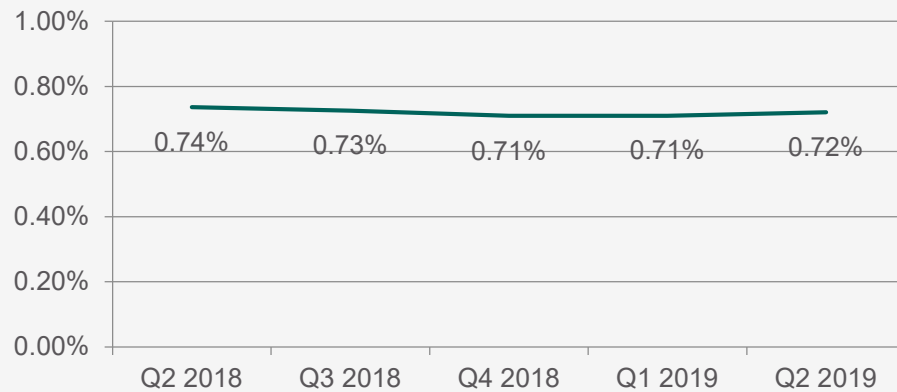
### Non-performing assets to total assets



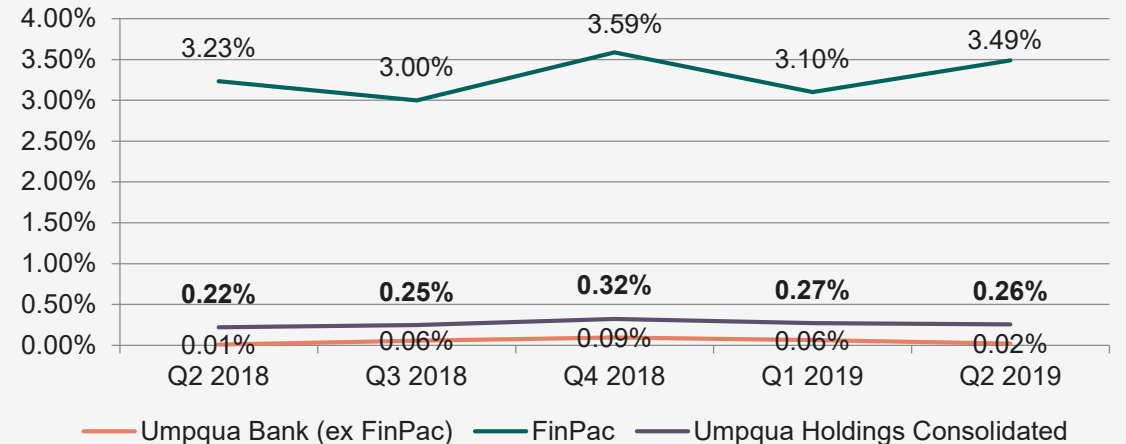
### Classified Assets



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



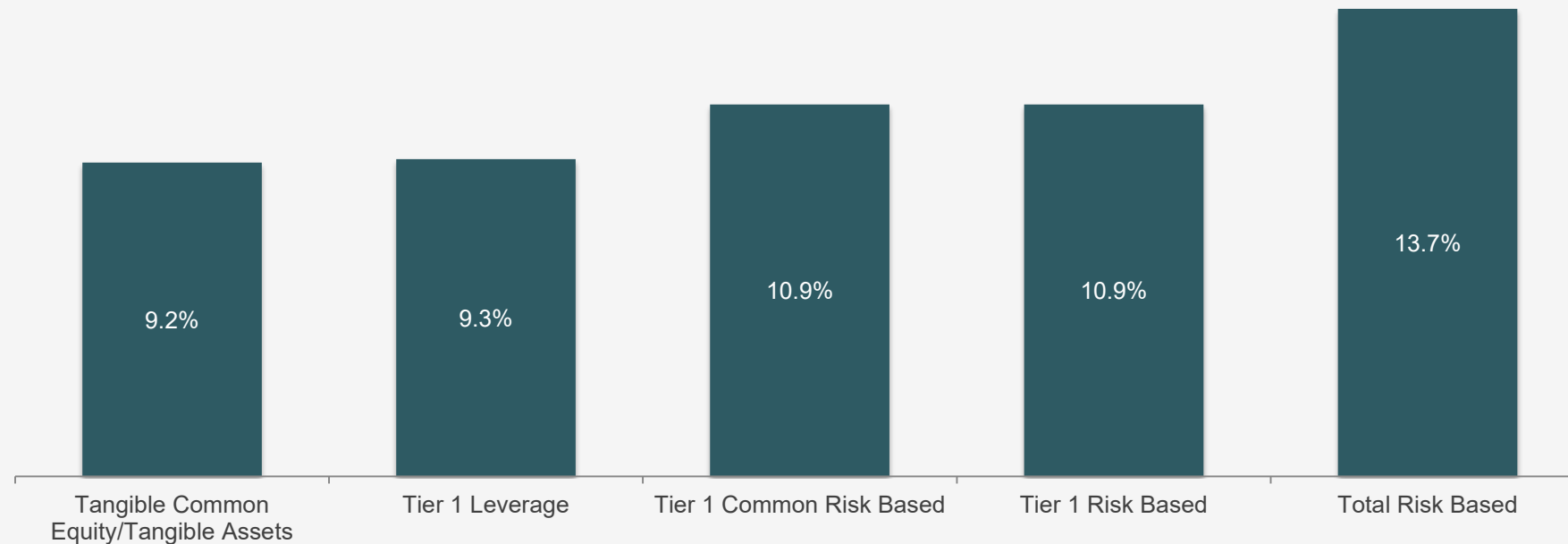
### Net charge-offs to average loans and leases (annualized)



# 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, ~5.06% current dividend yield <sup>2</sup>
  - Q2 total payout ratio of 42%

Q2 2019 Capital Ratios <sup>(1)</sup>



# Appendix – Non GAAP Reconciliation

# Non-GAAP Reconciliation – Tangible Book Value

(In thousands, except per share data)

	<u>June 30, 2019</u>	<u>Mar 31, 2019</u>	<u>Dec 31, 2018</u>	<u>Sep 30, 2018</u>	<u>June 30, 2018</u>
Total shareholders' equity	\$4,228,507	\$4,112,326	\$4,056,442	\$4,003,893	\$3,981,087
Subtract:					
Goodwill	1,787,651	1,787,651	1,787,651	1,787,651	1,787,651
Other intangible assets, net	21,155	22,560	23,964	25,506	27,047
Tangible equity - common	<u>\$2,419,701</u>	<u>\$2,302,115</u>	<u>\$2,244,827</u>	<u>\$2,190,736</u>	<u>\$2,166,389</u>
Total assets	\$27,986,075	\$27,355,625	\$26,939,781	\$26,615,067	\$26,480,601
Subtract:					
Goodwill	1,787,651	1,787,651	1,787,651	1,787,651	1,787,651
Other intangible assets, net	21,155	22,560	23,964	25,506	27,047
Tangible assets	<u>\$26,177,269</u>	<u>\$25,545,414</u>	<u>\$25,128,166</u>	<u>\$24,801,910</u>	<u>\$24,665,903</u>
Common shares outstanding at period end	220,499	220,457	220,255	220,238	220,205
Total shareholders' equity to total assets ratio	15.11%	15.03%	15.06%	15.04%	15.03%
Tangible common equity ratio	9.24%	9.01%	8.93%	8.83%	8.78%
Book value per common share	\$19.18	\$18.65	\$18.42	\$18.18	\$18.08
Tangible book value per common share	\$10.97	\$10.44	\$10.19	\$9.95	\$9.84

**Thank You**