



# EARNINGS CALL

## 3rd QUARTER 2018

October 19, 2018



Alliance Bank  
of ARIZONA



TORREY PINES BANK

# 3rd Quarter 2018 | Financial Highlights

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- Net income of \$111.1 million (\$1.05 per share), compared to \$104.7 million (\$0.99 per share) for Q2 2018, and \$82.8 million (\$0.79 per share) for Q3 2017
- Effective tax rate of 6.32%, compared to 19.48% for Q2 2018, as management re-assessed its tax planning strategies and made a carryback election
- Net interest margin of 4.72%, compared to 4.70% in Q2 2018, and 4.65% in Q3 2017
- Operating efficiency ratio of 41.5%, compared to 42.1% in Q2 2018, and 40.0% in Q3 2017
- Total loans of \$16.73 billion, up \$595 million from prior quarter and total deposits of \$18.91 billion, up \$821 million from prior quarter
- Nonperforming assets (nonaccrual loans and repossessed assets) to total assets of 0.26%, compared to 0.29% at June 30, 2018, and 0.42% at September 30, 2017
- Net loan charge-offs to average loans outstanding of 0.08%, compared to 0.07% in Q2 2018, and 0.01% in Q3 2017
- Tangible common equity ratio of 10.0% and tangible book value per share, net of tax, of \$20.70, compared to 9.9% and \$19.78, respectively, at June 30, 2018

# Adjusted Consolidated Financial Results

\$ in millions, except EPS

Q3-18

	Q3-18		
	As Reported	Non-GAAP	
		Adjustments	As Adjusted
Net Interest Income	\$ 234.0	\$ —	\$ 234.0
Operating Non-Interest Income	12.9	—	12.9
<b>Net Operating Revenue</b>	<b>\$ 246.9</b>	<b>\$ —</b>	<b>\$ 246.9</b>
Salaries and Employee Benefits (1)	(64.8)	1.2	(63.6)
Charitable Contributions (2)	(8.5)	7.6	(0.9)
Other Operating Non-Interest Expenses	(40.5)	—	(40.5)
<b>Operating Pre-Provision Net Revenue</b>	<b>\$ 133.1</b>	<b>\$ 8.8</b>	<b>\$ 141.9</b>
Provision for Credit Losses	(6.0)	—	(6.0)
Gains on OREO and Other Assets	0.1	—	0.1
Fair Market Value Adjustments (3)	(1.2)	1.2	—
Investment (Loss) on Sale (4)	(7.2)	7.2	—
<b>Pre-tax Income</b>	<b>\$ 118.6</b>	<b>\$ 17.2</b>	<b>\$ 136.0</b>
Income Tax (5)	(7.5)	(18.5)	(26.0)
<b>Net Income</b>	<b>\$ 111.1</b>	<b>\$ (1.3)</b>	<b>\$ 110.0</b>
<b>Diluted Shares</b>	<b>105.4</b>	<b>—</b>	<b>105.4</b>
<b>Earnings Per Share</b>	<b>\$ 1.05</b>	<b>\$ (0.01)</b>	<b>\$ 1.04</b>

Non-recurring and non-operating items during the quarter include the following:

- (1) Changes related to the Company's 401(k) plan and miscellaneous items
- (2) Advance contribution to the Company's Charitable Foundation
- (3) Mark-to-market changes on equity securities
- (4) Sales of lower yielding fixed income securities
- (5) Impact of carryback election

# Quarterly Consolidated Financial Results

\$ in millions, except EPS

	Q3-18 As Adjusted	Q2-18	Q3-17
Net Interest Income	\$ 234.0	\$ 224.1	\$ 201.6
Operating Non-Interest Income	12.9	14.1	10.1
<b>Net Operating Revenue</b>	<b>\$ 246.9</b>	<b>\$ 238.2</b>	<b>\$ 211.7</b>
Operating Non-Interest Expense	(105.0)	(102.7)	(89.0)
<b>Operating Pre-Provision Net Revenue</b>	<b>\$ 141.9</b>	<b>\$ 135.5</b>	<b>\$ 122.7</b>
Provision for Credit Losses	(6.0)	(5.0)	(5.0)
Gains on OREO and Other Assets	0.1	0.2	(0.3)
Fair Market Value Adjustments	—	(0.7)	—
Investment (Loss) Gain on Sale	—	—	0.3
<b>Pre-tax Income</b>	<b>\$ 136.0</b>	<b>\$ 130.0</b>	<b>\$ 117.7</b>
Income Tax	(26.0)	(25.3)	(34.9)
<b>Net Income</b>	<b>\$ 110.0</b>	<b>\$ 104.7</b>	<b>\$ 82.8</b>
<b>Diluted Shares</b>	<b>105.4</b>	<b>105.4</b>	<b>104.9</b>
<b>Earnings Per Share</b>	<b>\$ 1.04</b>	<b>\$ 0.99</b>	<b>\$ 0.79</b>

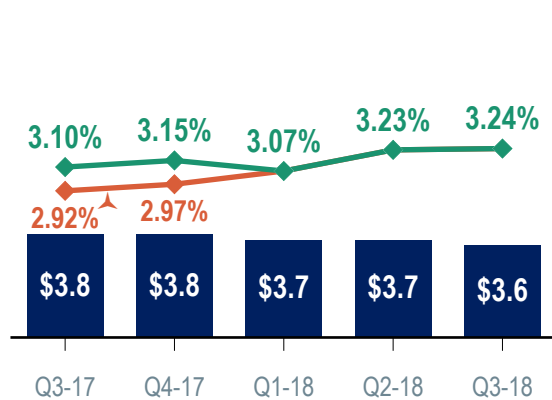
## Q3 2018 Highlights

- Net Interest Income increased \$9.9 million as a result of loan growth, partially offset by higher rates on deposits and interest expense on borrowings
- Operating Non-Interest Expense increased \$2.3 million primarily from incentive compensation costs

# Net Interest Drivers

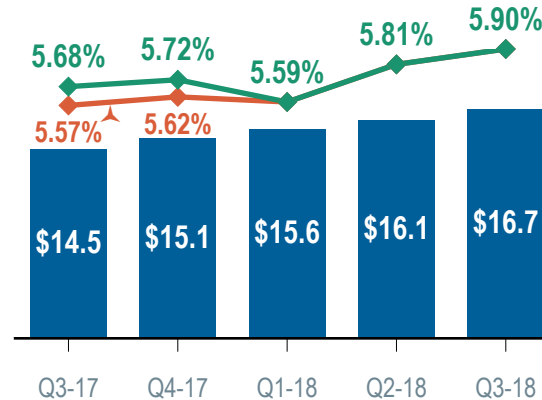
\$ in billions, unless otherwise indicated

## Total Investments and Yield



▲ Adjusted yield includes the effects of the decrease in the tax equivalent adjustment ("TEA") from the Tax Cuts and Jobs Act ("TCJA")

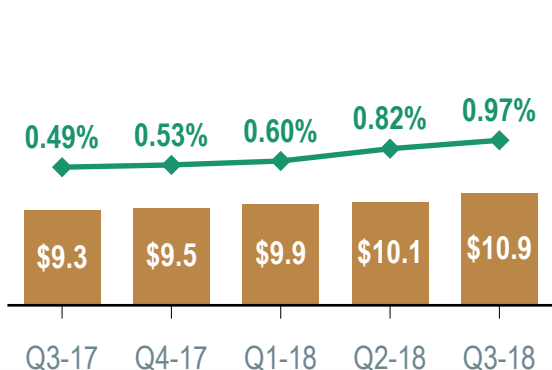
## Loans and Yield



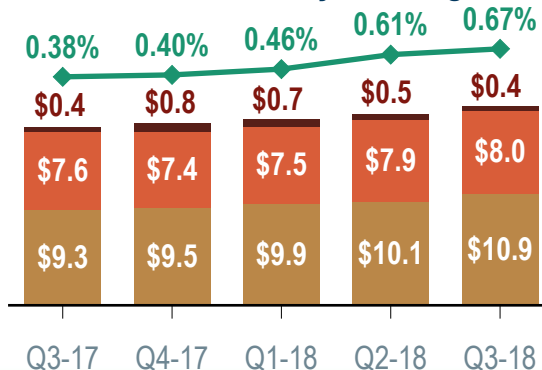
## Q3 2018 Highlights

- Loan yield increased 9 basis points due to rising interest rates across most loan types
- Cost of interest-bearing deposits increased 15 basis points due to higher rates across all interest-bearing deposit types
- Cost of funds for total deposits and borrowings increased 6 basis points to 0.67%

## Interest Bearing Deposits and Cost of Funds



## Deposits, Borrowings, and Cost of Liability Funding

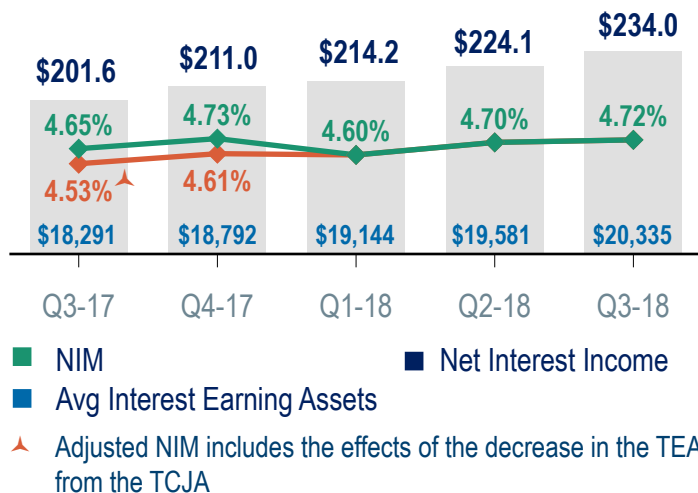


- Investments
- Loans
- Interest Bearing Deposits
- Non-Interest Bearing Deposits
- Total Borrowings

# Net Interest Income and Accretion

\$ in millions

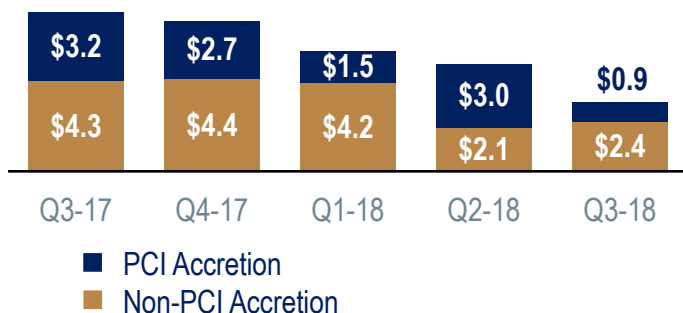
## Net Interest Income, NIM, and Average Interest Earnings Assets



## Q3 2018 Highlights

- NIM increased 2 basis points to 4.72% quarter-over-quarter due to favorable impacts of rising short-term interest rates for securities and loans, partially offset by higher rates on deposit accounts

## Acquired Loan Accretion



## Scheduled Acquisition Loan Accretion \*



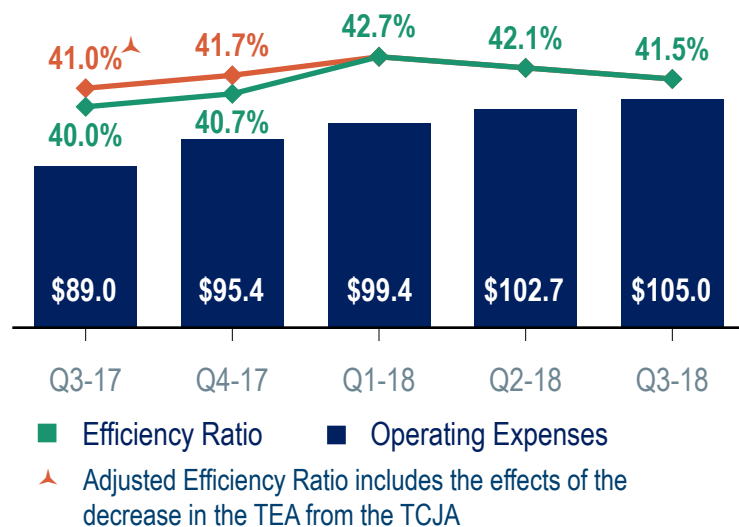
Ending rate and credit marks on all acquired loans at 9/30/2018 is \$25.9 million

\* Amounts do not include early loan payoffs

# Operating Expenses and Efficiency

\$ in millions

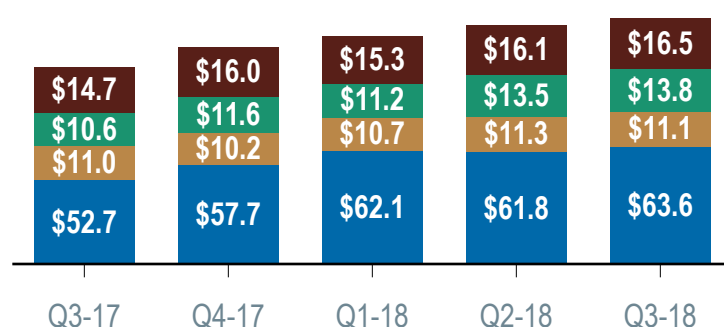
## Operating Expenses and Efficiency Ratio



## Q3 2018 Highlights

- The operating efficiency ratio decreased from 42.1% in Q2 2018 to 41.5% as revenue growth outpaced expense growth
- Operating expenses increased from the prior quarter primarily due to increased incentive compensation costs

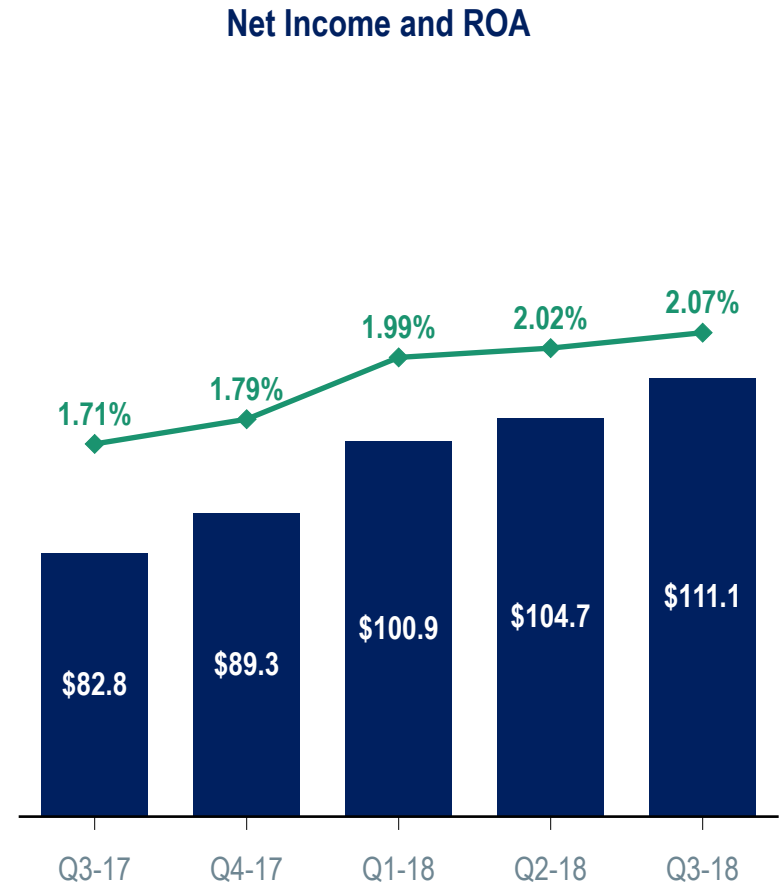
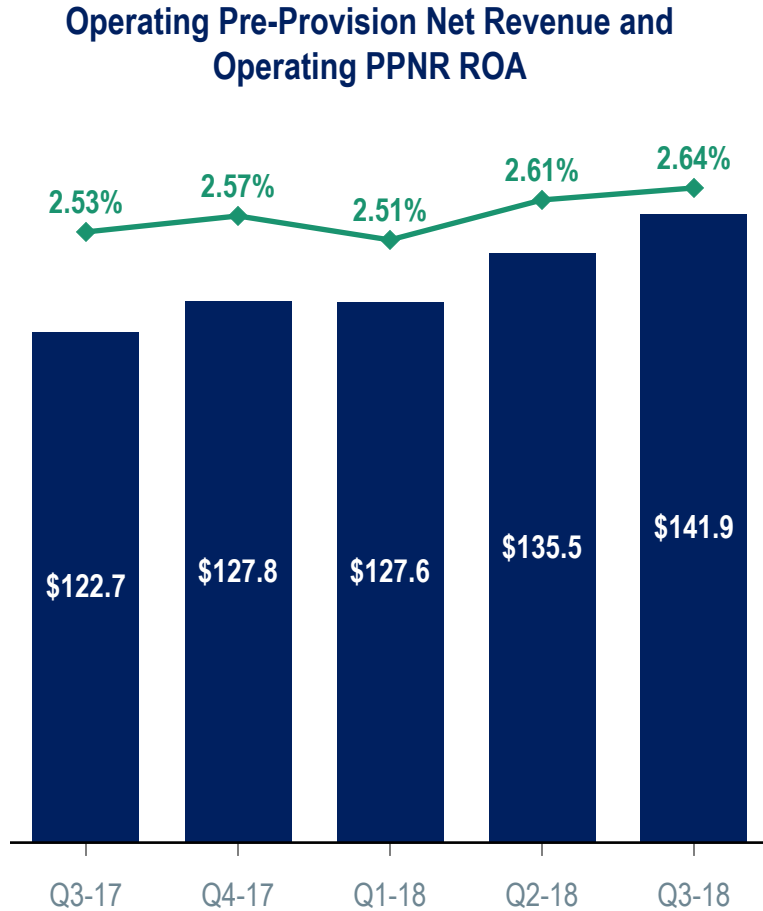
## Breakdown of Operating Expenses



- Other
- Professional Fees + Data Processing
- Occupancy + Insurance
- Compensation

# Operating Pre-Provision Net Revenue, Net Income, and ROA

\$ in millions





# Consolidated Balance Sheet

\$ in millions

	Q3-18	Q2-18	Q3-17
Investments & Cash	\$ 4,334	\$ 4,196	\$ 4,424
Loans	16,733	16,138	14,522
Allowance for Credit Losses	(150)	(147)	(136)
Other Assets	1,259	1,180	1,112
<b>Total Assets</b>	<b>\$ 22,176</b>	<b>\$ 21,367</b>	<b>\$ 19,922</b>
Deposits	\$ 18,909	\$ 18,088	\$ 16,905
Borrowings	380	454	399
Other Liabilities	399	434	472
<b>Total Liabilities</b>	<b>\$ 19,688</b>	<b>\$ 18,976</b>	<b>\$ 17,776</b>
Shareholders' Equity	2,488	2,391	2,146
<b>Total Liabilities and Equity</b>	<b>\$ 22,176</b>	<b>\$ 21,367</b>	<b>\$ 19,922</b>
<b>Tangible Book Value Per Share</b>	<b>\$ 20.70</b>	<b>\$ 19.78</b>	<b>\$ 17.53</b>

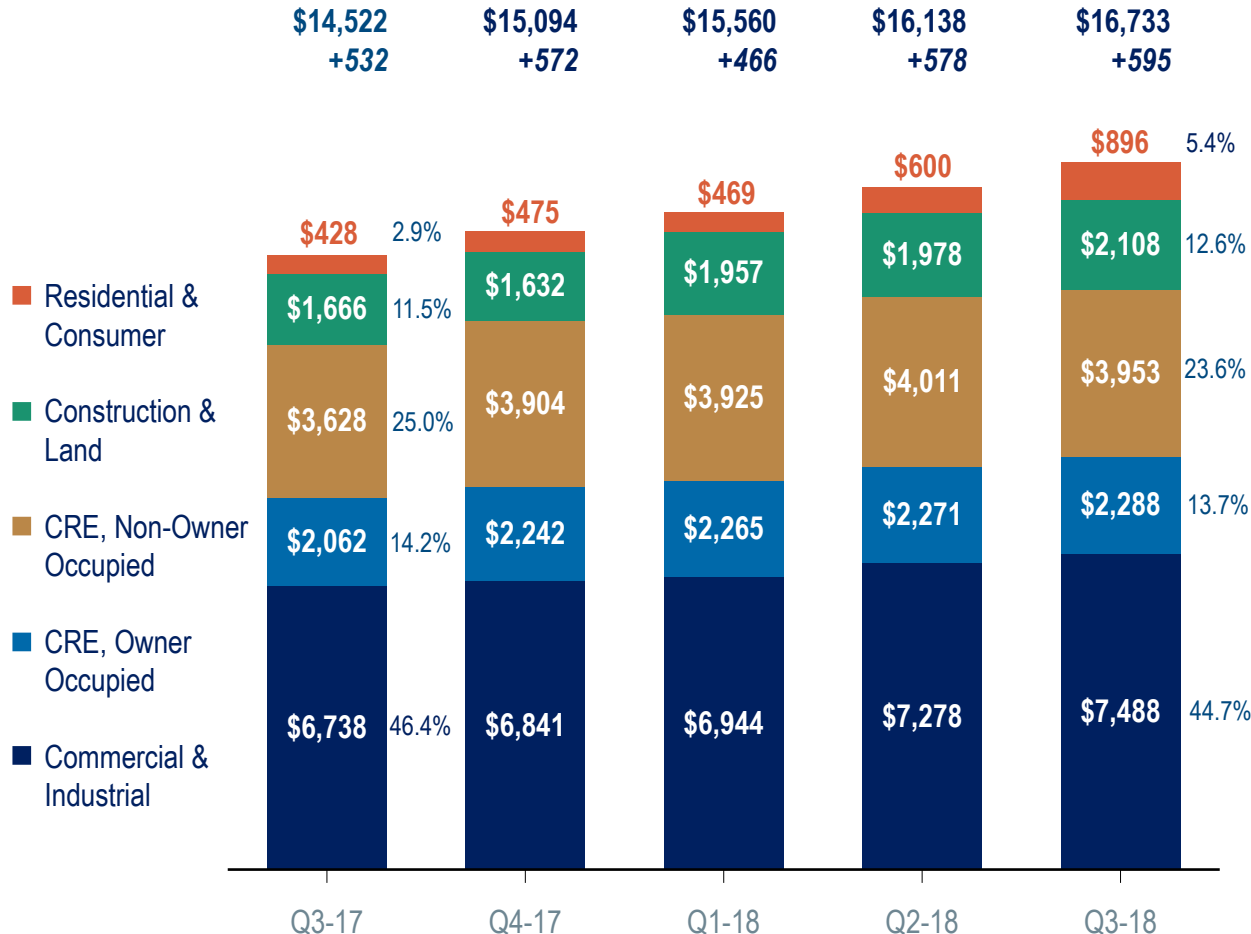
## Q3 2018 Highlights

- Loans increased \$595 million (3.7%) over prior quarter and \$2.21 billion (15.2%) over prior year
- Deposits increased \$821 million (4.5%) over prior quarter and \$2.00 billion (11.9%) over prior year
- Shareholders' Equity increased \$97 million over prior quarter and \$343 million over prior year as a function of Net Income
- Tangible Book Value/Share increased \$0.92 over prior quarter and \$3.17 (18.1%) over prior year

# 5 Quarter Loan Growth and Portfolio Composition

\$ in millions

## \$2.21 Billion Year Over Year Growth



### Highlights

Quarter-over-quarter loan growth driven by (in millions):

Residential & Consumer	\$ 296
C&I	209
Construction & Land	129

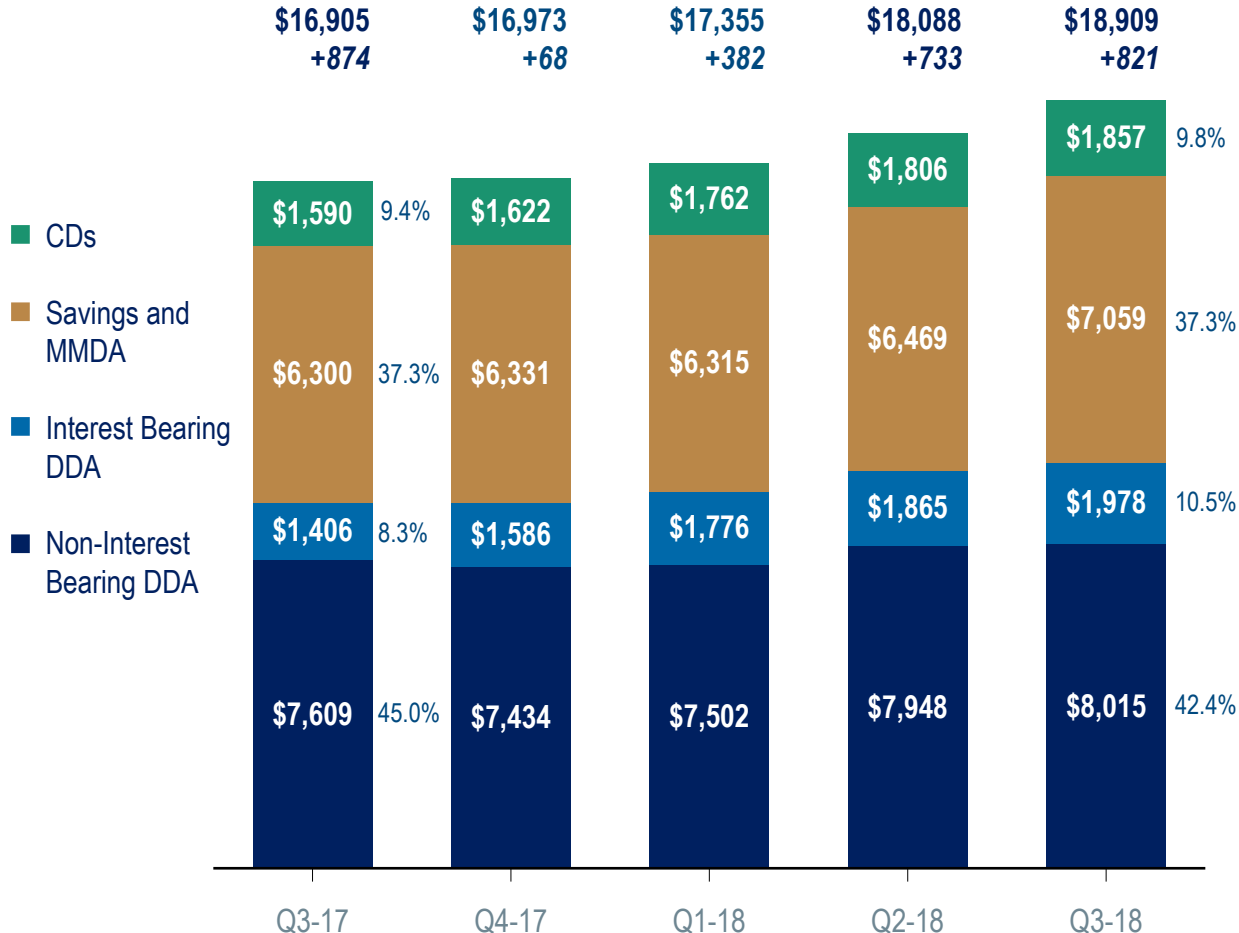
Year-over-year loan growth across all loan types (in millions):

C&I	\$ 750
Residential & Consumer	468
Construction & Land	441
CRE, Non-OO	325
CRE, OO	226

# 5 Quarter Deposit Growth and Composition

\$ in millions

## \$2.00 Billion Year Over Year Growth



### Highlights

Quarter-over-quarter deposit growth driven by (in millions):

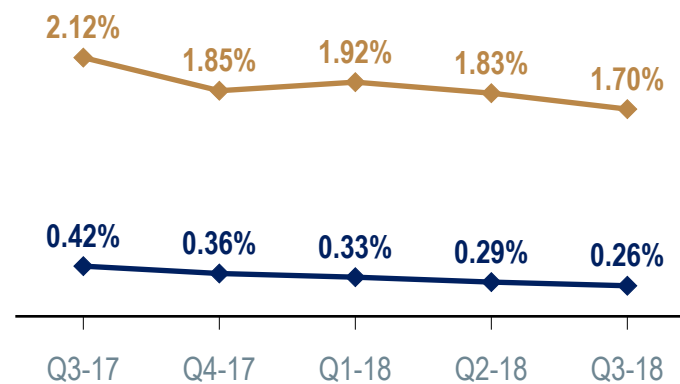
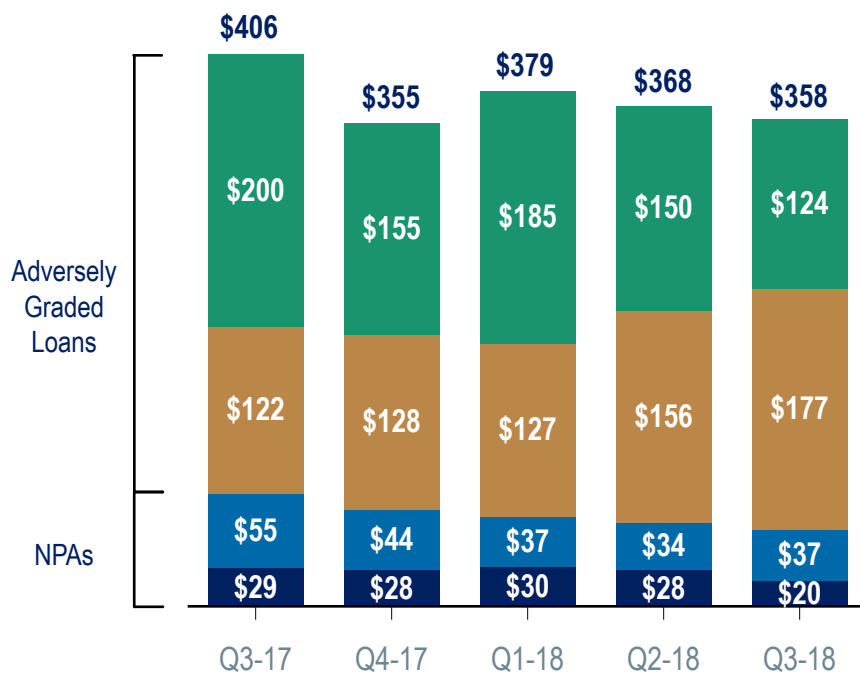
Savings and MMDA	\$ 590
Interest Bearing DDA	114

Year-over-year deposit growth across all deposit types (in millions):

Savings and MMDA	\$ 759
Interest-Bearing DDA	572
Non-Interest Bearing DDA	406
CDs	267

# Adversely Graded Loans and Non-Performing Assets \*

\$ in millions



- Special Mention Loans
- Non-Performing Loans
- Adversely Graded Assets to Total Assets
- Classified Accruing Loans
- OREO
- NPAs to Total Assets

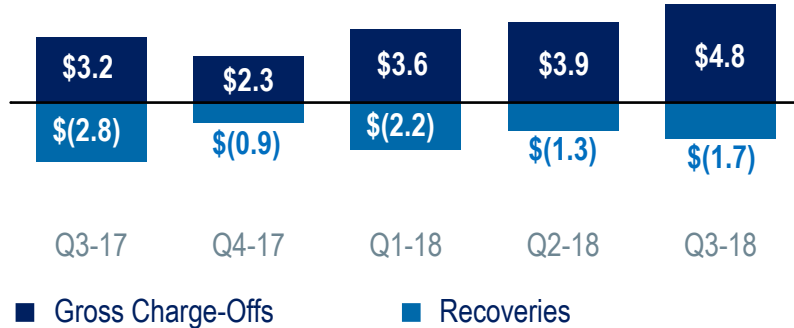
Accruing TDRs total \$42.6 million as of 9/30/2018

\* Amounts are net of total PCI credit and interest rate discounts of \$8.3 million as of 9/30/2018

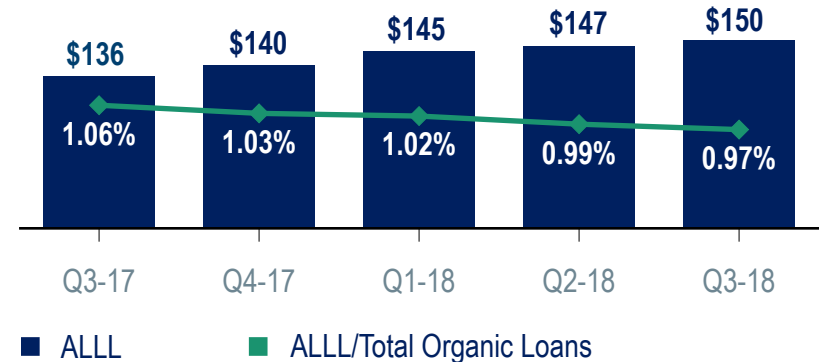
# Charge-Offs, Recoveries, ALLL, and Provision

\$ in millions

### Gross Charge-Offs, Recoveries and Rate



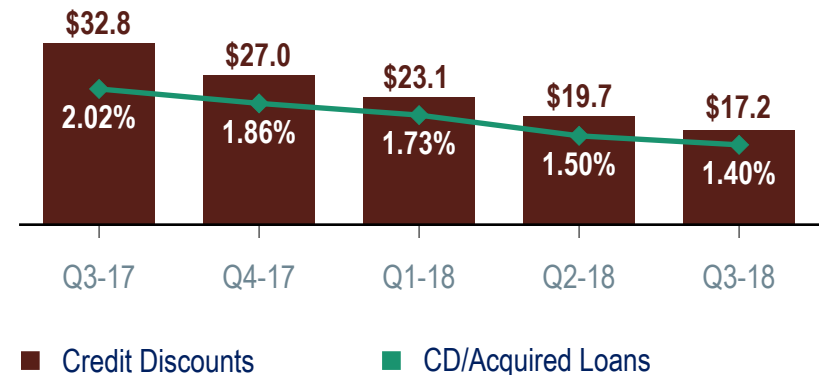
### ALLL and ALLL to Organic Loans Ratio



### Provision for Credit Losses

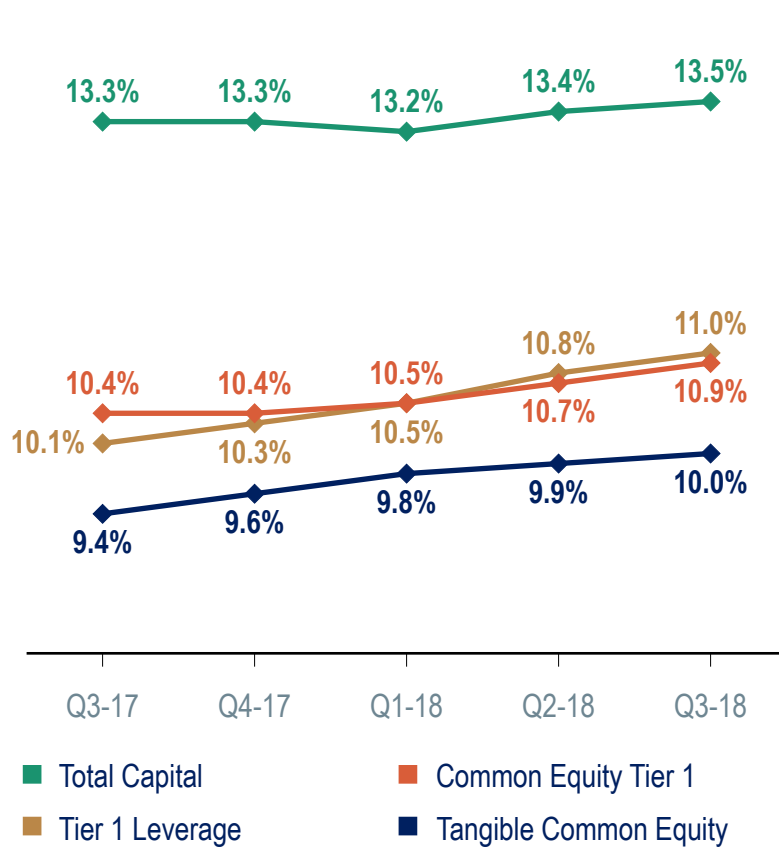


### Credit Discounts and CD to Acquired Loans Ratio

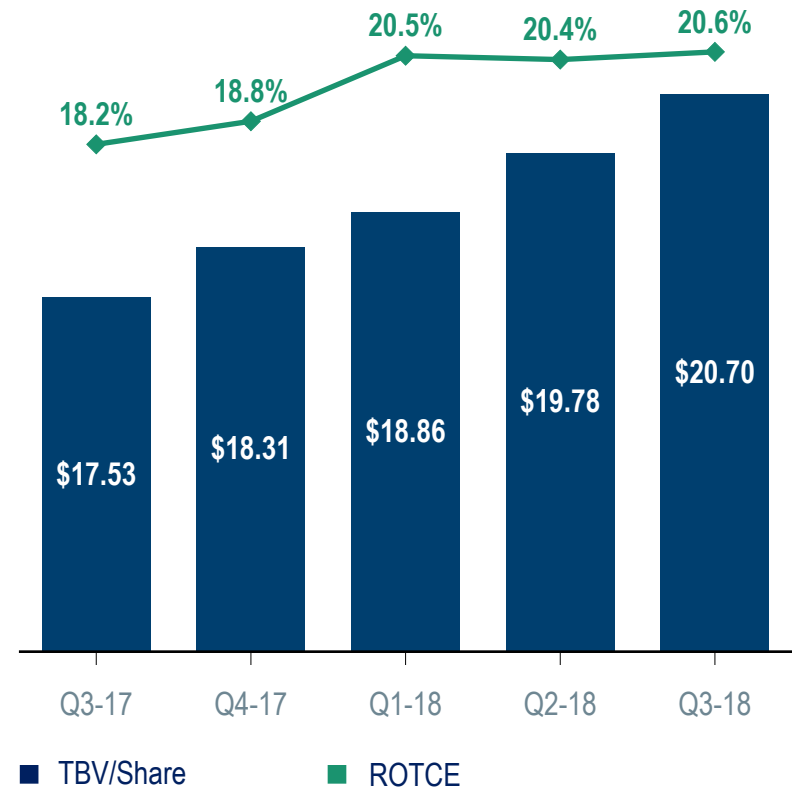


# Capital

## Capital Ratios



## ROTCE and TBV/Share



# Management Outlook

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- Financial Position
- Margin
- Operating Leverage
- Asset Quality



# Questions and Answers



# Forward-Looking Statements

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This presentation contains forward-looking statements that relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Examples of forward-looking statements include, among others, statements we make regarding our expectations with regard to our business, financial and operating results, and future economic performance. The forward-looking statements contained herein reflect our current views about future events and financial performance and are subject to risks, uncertainties, assumptions, and changes in circumstances that may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Some factors that could cause actual results to differ materially from historical or expected results include, among others: the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission; changes in general economic conditions, either nationally or locally in the areas in which we conduct or will conduct our business; inflation, interest rate, market and monetary fluctuations; increases in competitive pressures among financial institutions and businesses offering similar products and services; higher defaults on our loan portfolio than we expect; changes in management's estimate of the adequacy of the allowance for credit losses; legislative or regulatory changes or changes in accounting principles, policies, or guidelines; supervisory actions by regulatory agencies which may limit our ability to pursue certain growth opportunities, including expansion through acquisitions; additional regulatory requirements resulting from our continued growth; management's estimates and projections of interest rates and interest rate policy; the execution of our business plan; and other factors affecting the financial services industry generally or the banking industry in particular.

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