

**OpusBank.**

# **Third Quarter 2019 Earnings Presentation**

**October 28, 2019**



# Forward Looking Statements

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The supplemental information furnished here contains certain forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. Opus generally identifies forward-looking statements by terminology such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “could,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of those words or other comparable words. Any forward-looking statements contained in this release and the aforementioned conference call and webcast are based on the historical performance of Opus and its subsidiaries or on its current plans, beliefs, estimates, expectations and goals, including without limitation: our expectations regarding lessening headwinds related to the intentional runoff of Enterprise Value loans and expectations regarding improvement in our profitability. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity that could cause actual results to differ materially from those indicated by the forward-looking statements, including, without limitation: market and economic conditions, changes in interest rates, our liquidity position, the management of our growth, the risks associated with our loan portfolio, risks that our expected efficiencies and savings from our expense reduction initiatives will be less than anticipated, local economic conditions affecting retail and commercial real estate, our geographic concentration in the western region of the United States, competition within the industry, dependence on key personnel, government legislation and regulation, the risks associated with any future acquisitions, the effect of natural disasters, and risks related to our technology and information systems. For a discussion of these and other risks and uncertainties, see Opus' filings with the Federal Deposit Insurance Corporation, including, but not limited to, the risk factors in Opus' Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation on February 28, 2019. If one or more of these or other risks or uncertainties materialize, or if Opus' underlying assumptions prove to be incorrect, Opus' actual results may vary materially from those indicated in these statements. These filings are available on the Investor Relations page of Opus' website at: [investor.opusbank.com](http://investor.opusbank.com).

Opus undertakes no obligation to revise or publicly release any revision to these forward-looking statements, whether as a result of new information, future developments or otherwise.

# Third Quarter 2019 Results

## Highlights

- Net income of \$22.0 million and EPS of \$0.57, or adjusted net income of \$22.3 million and EPS of \$0.58<sup>1</sup>
- Avg. loans rose \$72.3 million, or 1.3%
- Avg. deposits rose \$79.8 million, or 1.3%
- Efficiency ratio of 61.8%, or 61.6% adjusted<sup>1</sup>
- NPAs decreased 65% to 0.10% of assets
- Enterprise Value loans decreased 44% to \$35.9 million
- Negative provision for loan losses of \$7.7 million driven by credit improvement
- Net charge-offs of \$4.9 million, or 0.33% of average loans annualized
- Tangible book value per share increased 62 cents to \$18.94
- Total risk-based capital of 15.26% and TCE Ratio of 9.28%<sup>1</sup>

## Summary Income Statement

(\$ in millions)

	3Q19	2Q19	3Q18
Net Interest Income	\$ 49.6	\$ 50.5	\$ 48.9
Noninterest Income	13.1	12.0	11.5
Noninterest Expense	(40.1)	(46.3)	(43.7)
Pre-Provision Net Revenue	22.6	16.2	16.7
Provision for Loan Losses	7.7	(3.3)	(8.2)
Net Income	<u>\$ 22.0</u>	<u>\$ 8.7</u>	<u>\$ 9.4</u>
Earnings Per Diluted Share	\$0.57	\$0.23	\$0.25
Return on Avg Assets	1.13%	0.45%	0.51%
Return on Avg TCE <sup>1</sup>	12.88%	5.27%	5.86%
Efficiency Ratio <sup>2</sup>	61.8%	71.3%	69.5%
<b>Adjusted Performance<sup>1</sup></b>			
Adjusted Net Income	\$ 22.3	\$ 13.3	\$ 7.6
Adjusted Earnings Per Diluted Share	\$0.58	\$0.35	\$0.20
Adjusted Return on Average Assets	1.14%	0.68%	0.42%
Adjusted Return on Avg TCE	13.06%	8.08%	4.75%
Adjusted Efficiency Ratio <sup>2</sup>	61.6%	63.6%	68.4%
<b>Other Ratios</b>			
Net Interest Margin	2.82%	2.88%	2.98%
Tangible Book Value per Share <sup>1</sup>	\$18.94	\$18.32	\$17.63
TCE Ratio <sup>1</sup>	9.28%	8.87%	9.05%

[1] See reconciliation of non-GAAP financial measures to corresponding GAAP measures on pages 16-19.

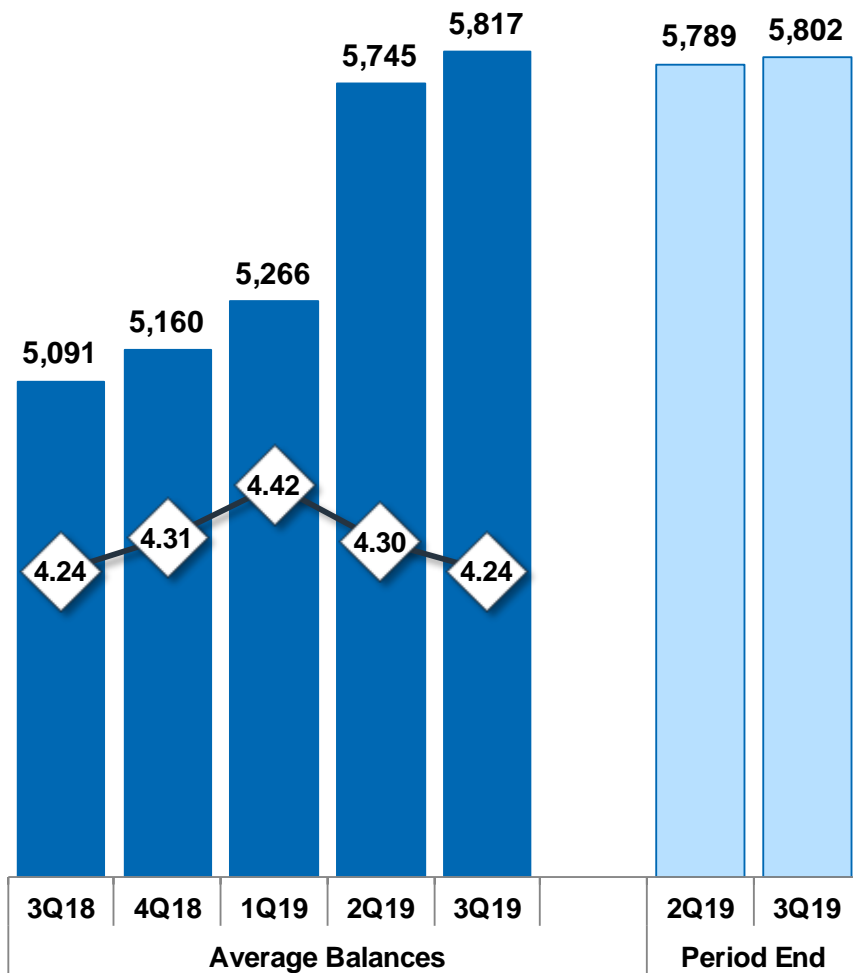
[2] The efficiency ratio is calculated by dividing noninterest expense less amortization of other intangible assets by the sum of tax-equivalent net interest income and noninterest income less gain (loss) on sale of loans, assets, OREO and other repossessed assets, and investment securities.

# Loan Portfolio

## Total Loans

(\$ in millions)

◇ Loan Yield (%)<sup>1</sup>

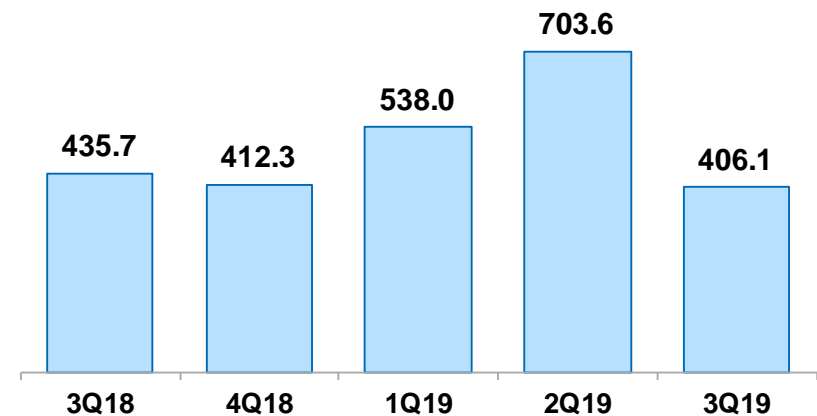


## 3Q 2019 Highlights

- Average loans increased \$72.3 million, or 1.3%
  - New loan fundings totaled \$406.1 million, down 42% from the prior quarter
  - Multifamily loan growth slowed in the third quarter, as expected
  - Commercial Banking division funded \$99.1 million of loans in the third quarter of 2019
  - Loan payoffs totaled \$300.0 million, up from \$192.8 million in the prior quarter
- Total loan yield decreased 6 basis points to 4.24%<sup>1</sup>

## New Loan Fundings

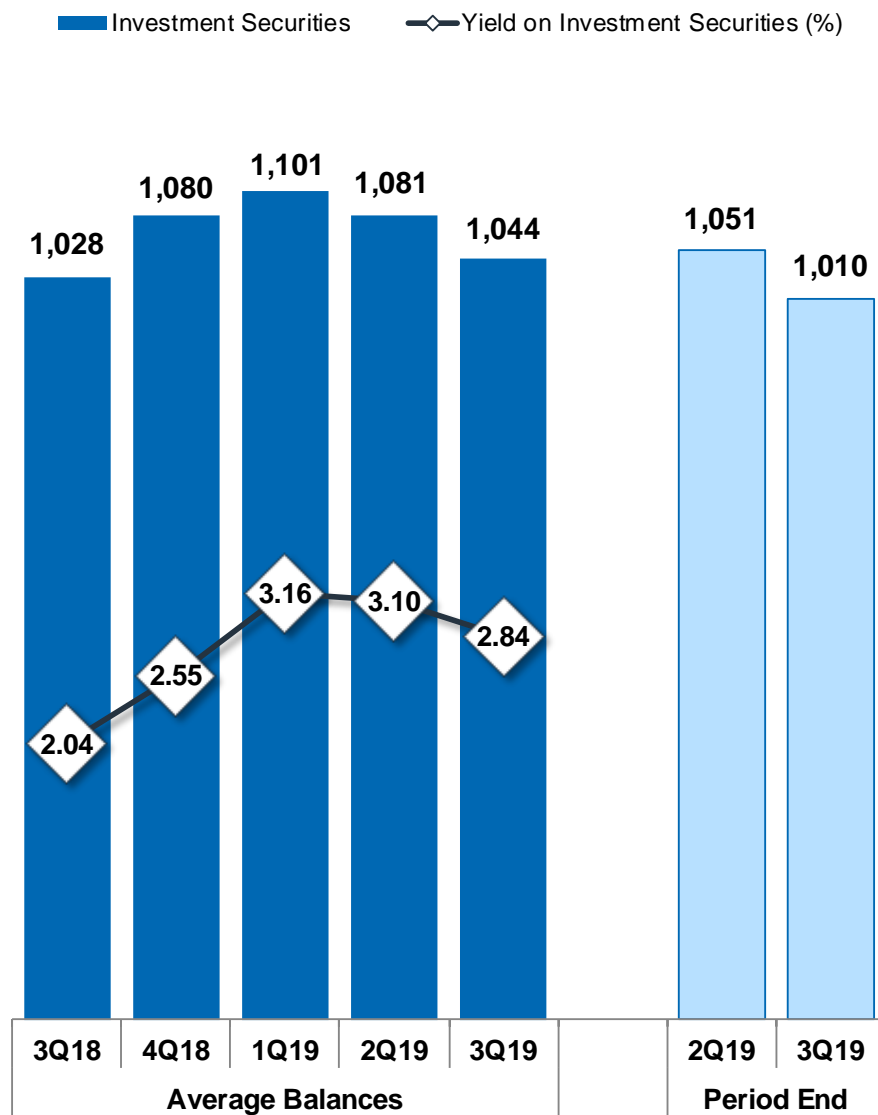
(\$ in millions)



# Investment Securities

## Investment Securities

(\$ in millions)



## 3Q 2019 Highlights

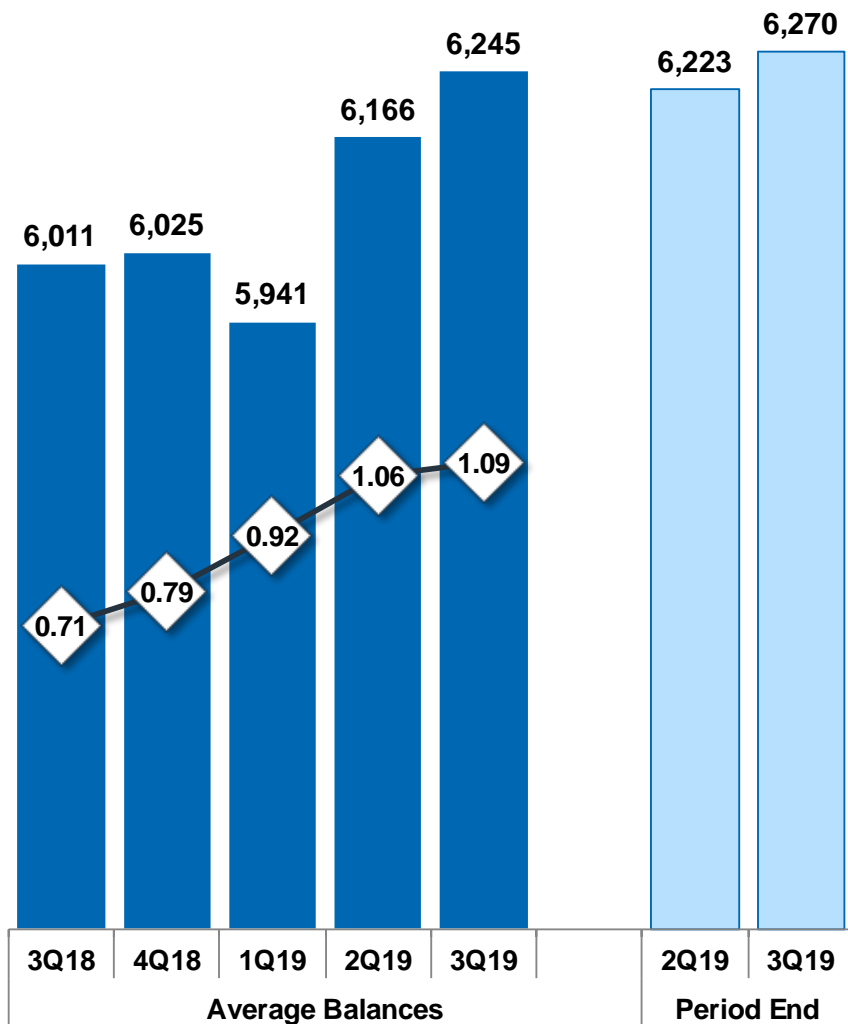
- Average investment securities decreased \$37.2 million, or 3.4%, from the prior quarter
  - Driven by sales of lower yielding securities and amortization due to higher prepays
  - Sold \$42 million yielding ~2.20%
  - Purchased \$48 million yielding 3.81%
- Securities yield decreased 26 basis points to 2.84% for 3Q 2019, primarily driven by premium amortization
- Investment securities comprised 14.8% of earning assets in the third quarter of 2019

# Deposit Portfolio

## Total Deposits

(\$ in millions)

—◇— Cost of Total Deposits (%)

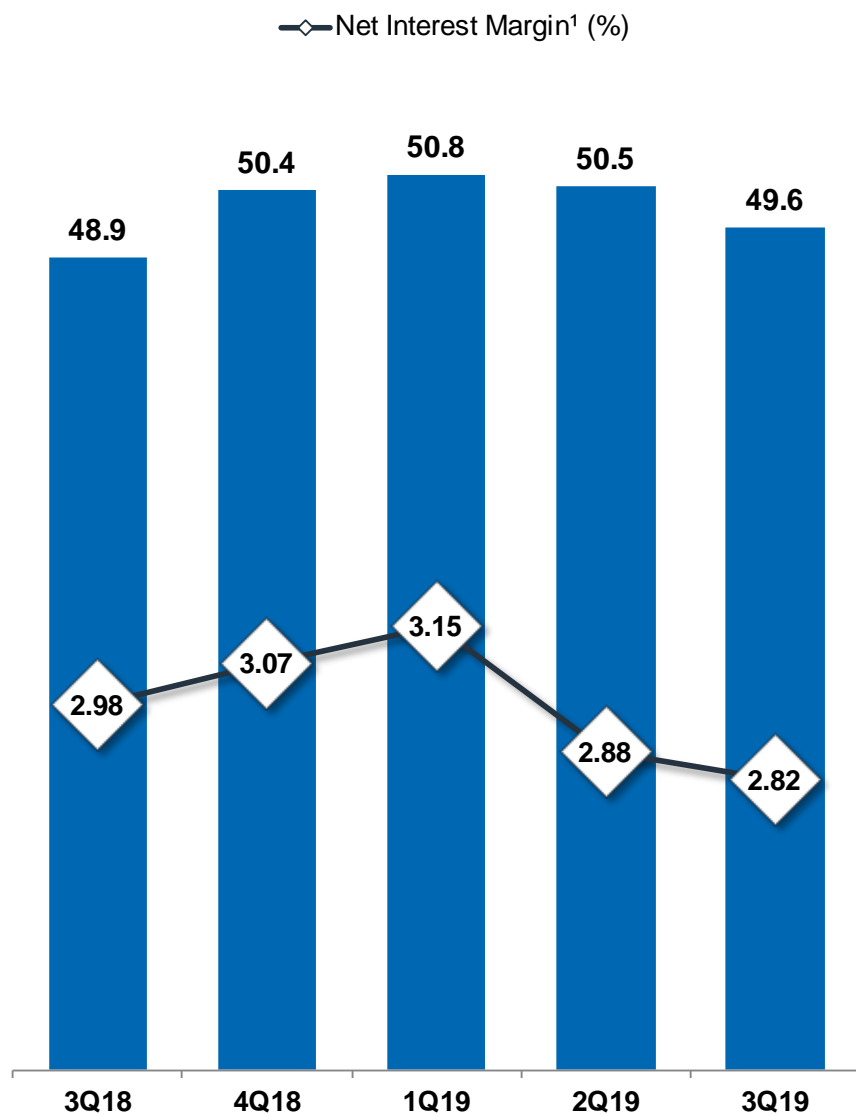


## 3Q 2019 Highlights

- Average deposits increased \$79.8 million, or 1.3%, from the prior quarter
- Period-end deposits increased \$46.4 million, or 0.7%
  - Noninterest bearing demand deposits increased \$24.8 million, or 3.4%
  - Money market and savings accounts increased \$102.0 million, or 5.0%
- Cost of deposits increased 3 bps to 1.09%
- Noninterest-bearing demand deposits comprise 12.2% of total deposits
- Brokered deposits decreased to \$4.7 million
- Loan-to-Deposit ratio decreased slightly to 92.5%, down from 93.0% in the prior quarter

# Net Interest Income and Margin

## Net Interest Income (\$ in millions)



## 3Q 2019 Highlights

- Net interest income decreased 1.9%
  - Interest income down \$937,000, or 1.3%, largely driven by lower yield on investment securities and interest earning cash
  - Interest expense was flat versus 2Q 2019
- NIM decreased 6 bps to 2.82%
  - Yield on interest-earning assets down 7 bps to 3.97%
  - Cost of funds was flat versus 2Q 2019

\$50,516	2Q 2019	2.88%
500	<b>Loan Impacts:</b>	0.03%
	558 Higher net benefit from prepays	
	195 Higher avg. balances and other dynamics	
	134 One additional day in the quarter	
	(296) Repricing/rate decreases	
	(91) Effect of changes in nonaccrual loans	
(1,435)	<b>Cash and Investment Securities:</b>	(0.08%)
	(632) Lower average balances	
	(479) Higher premium amortization from prepays	
	(324) Repricing/rate decreases	
(19)	<b>Deposits and Borrowings:</b>	(0.01%)
	863 Lower average FHLB advances	
	(538) Higher rates on deposits	
	(202) One additional day in the quarter	
	(142) Higher average deposits	
\$49,562	3Q 2019	2.82%

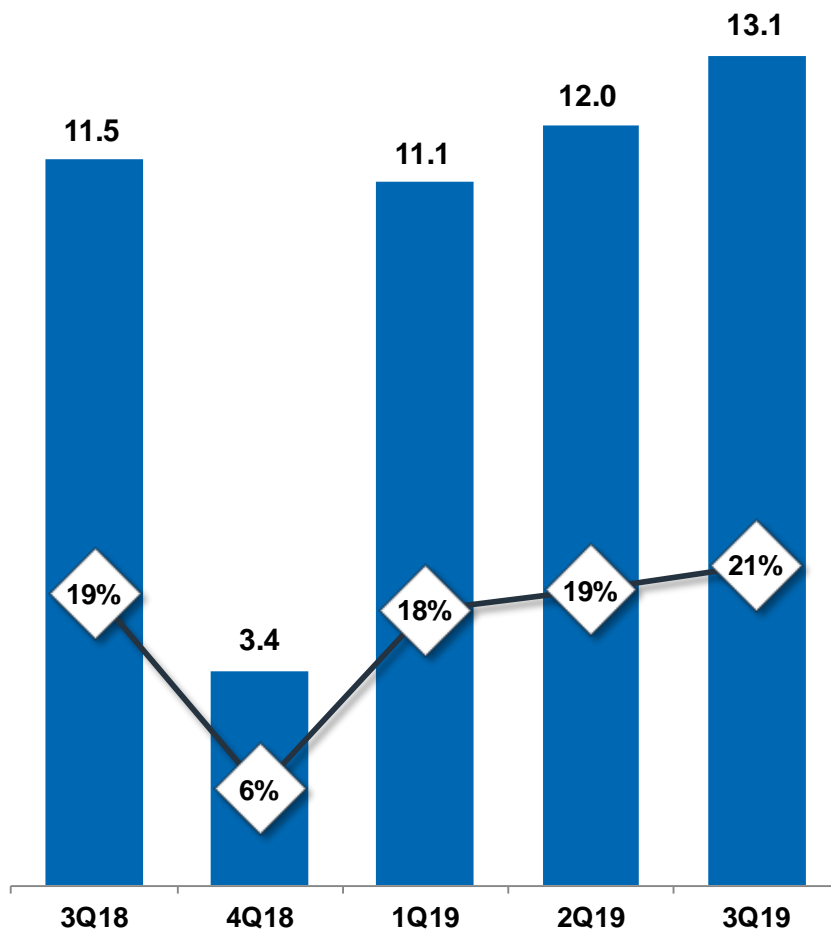
# Noninterest Income

## Noninterest Income

(\$ in millions)

■ Noninterest Income

◊ Noninterest Income / Total Revenues (%)



## 3Q 2019 Highlights

- Noninterest income totaled \$13.1 million for the third quarter of 2019
- Diverse sources of noninterest income:
  - Trust Administrative fees from PENSICO were \$7.2 million
  - Deposit and Treasury Management fees were \$1.5 million
  - Escrow & Exchange fees of \$1.6 million
  - BOLI income of \$1.0 million
- \$220,000 gain on sale, primarily loans
- Noninterest income equaled 21% of total revenues in 3Q 2019

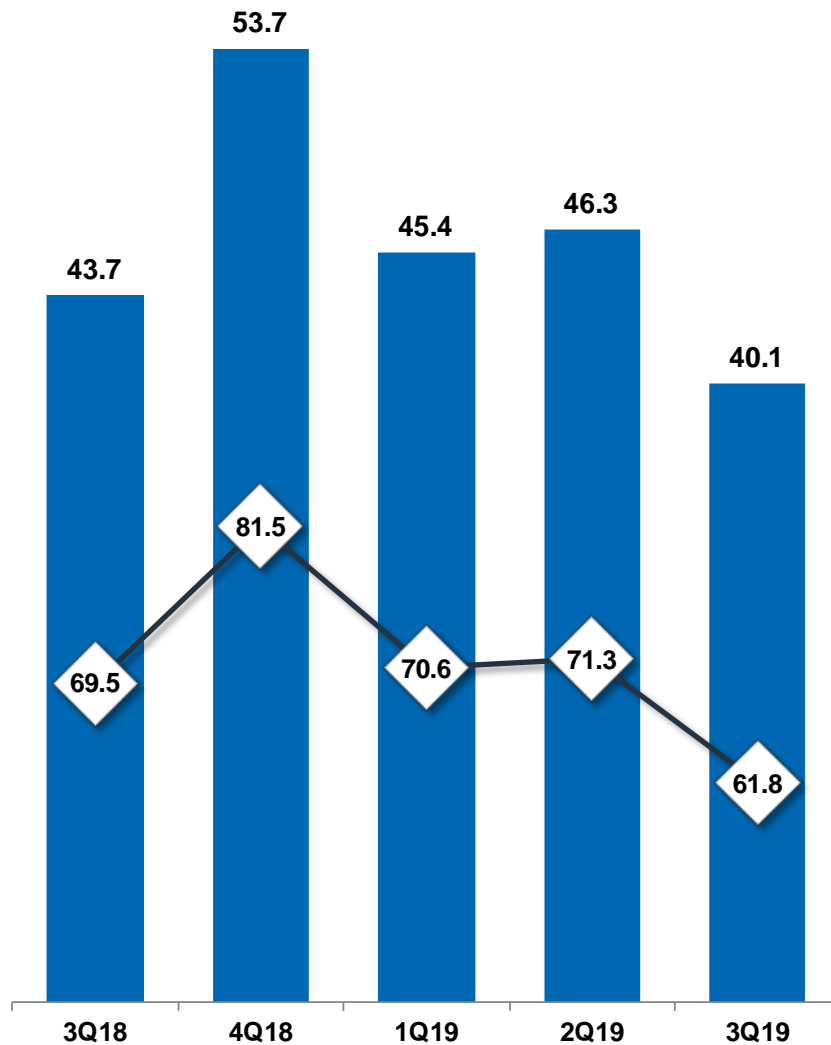


# Noninterest Expense and Efficiency

## Noninterest Expense

(\$ in millions)

—◇— Efficiency Ratio (%)<sup>1</sup>



## 3Q 2019 Highlights

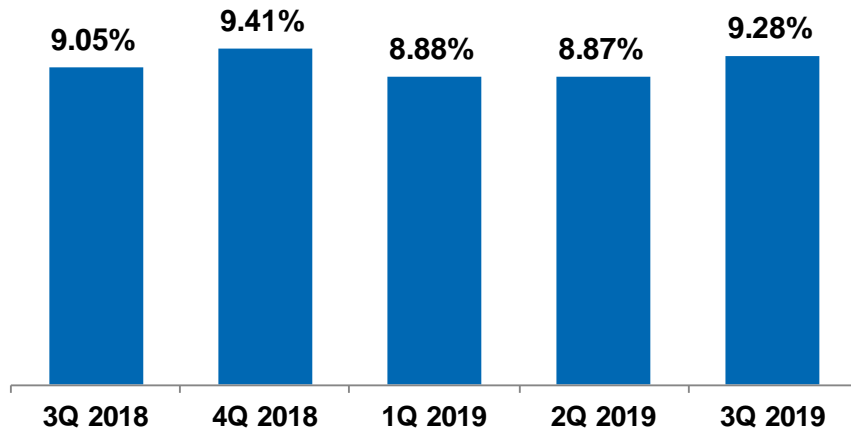
- Noninterest expense totaled \$40.1 million in the third quarter of 2019
  - Cost reduction initiative in 2Q 2019 significantly reduced compensation and benefits expense
  - Lower loan production in 3Q resulted in \$1.6M less deferred comp under FAS 91
  - Professional services expense increased \$1.0M due to legal and consulting fees
  - Received FDIC small bank assessment credit
  - Included \$119,000 of expenses for strategic actions related to the 2Q RIF
- Efficiency ratio was 61.8% in the third quarter<sup>1</sup>
  - Lower expenses drove decrease from the prior quarter
  - Adjusted efficiency ratio was 61.6%<sup>2</sup>

[1] The efficiency ratio equals noninterest expense adjusted to exclude the amortization of other intangible assets divided by the sum of tax-equivalent net interest income and noninterest income adjusted to exclude the gains and losses on the sale of investment securities, loans, and other repossessed assets.

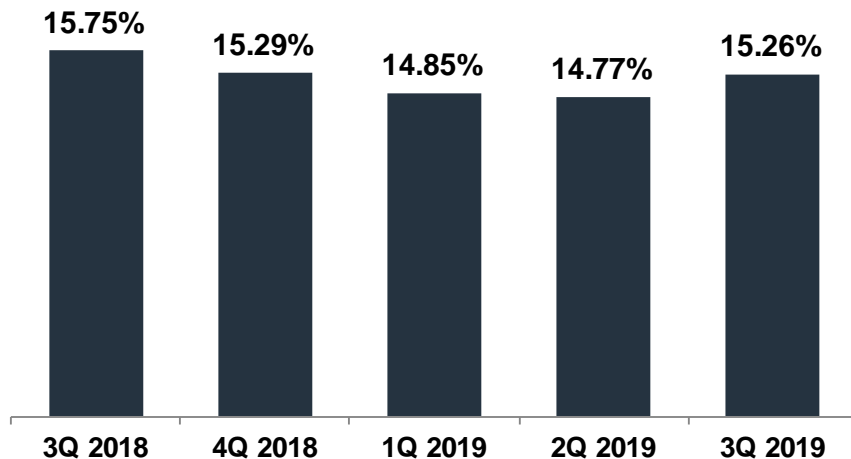
[2] See reconciliation of non-GAAP financial measures on pages 16-19

# Capital

## Tangible Common Equity Ratio<sup>1</sup>



## Total Risk Based Capital Ratio<sup>2</sup>



## 3Q 2019 Highlights

- Opus has ample capital, with tangible common equity of 9.3%
- Total Stockholders' Equity was \$1.1 billion as of September 30, 2019, up 2.0% from prior quarter
  - Retained earnings increased \$17.8 million
  - AOCI increased \$3.1 million, driven by lower rates
- Regulatory capital ratios remain robust<sup>2</sup>
  - Tier 1 Leverage decreased 40 bps to 9.70%
  - Total Risk-based Capital increased 49 bps to 15.26%
- Tangible book value per share increased 62 cents to \$18.94 as of September 30, 2019<sup>1</sup>
- Board of Directors authorized the payment of a quarterly cash dividend of \$0.11 per share payable in 4Q 2019

[1] See non-GAAP disclosures on pages 16-19.

[2] 3Q 2019 ratios are preliminary until the filing of our September 30, 2019 FDIC call report.

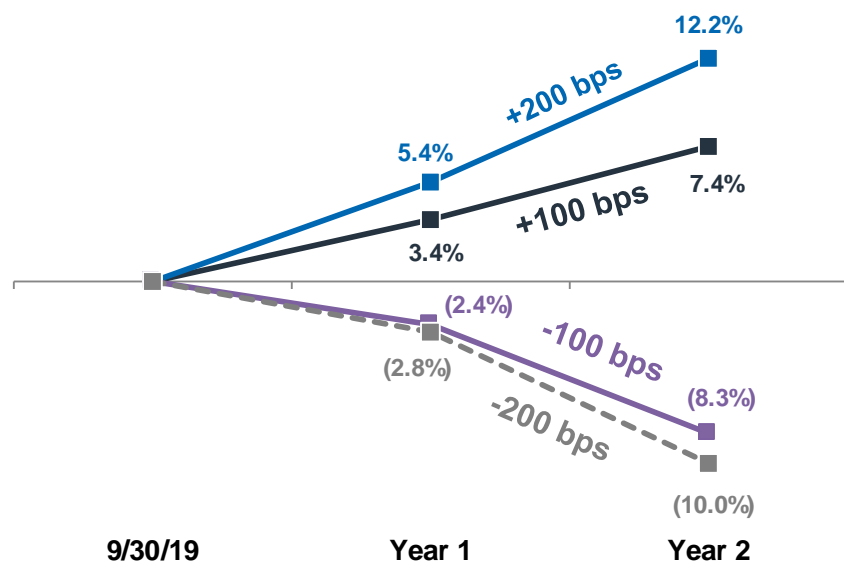
# Asset Sensitivity

As of September 30, 2019

- Duration of total assets 2.5 years compared to total liabilities 3.0 years
- Our asset liability management modeling estimates net interest income increases by 3.4% with +100 bps shift and decreases by 2.8% with -200 bps shift

## Simulations of Net Interest Income<sup>1</sup>

Assumes instantaneous parallel shifts in the yield curve



[1] Beginning of simulation is September 30, 2019

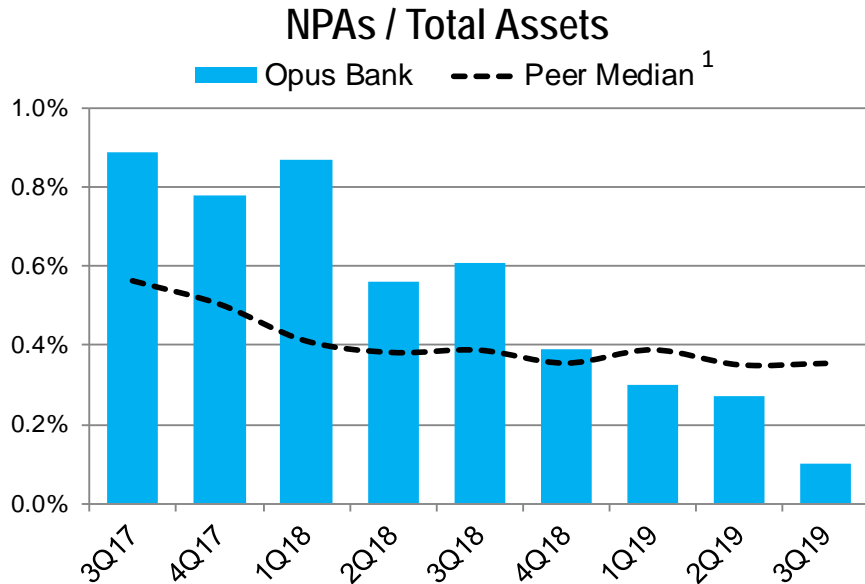
## Asset and Liability Duration

Assets		Liabilities	
	Years		Years
Investment Securities	3.2	Borrowings	1.6
Loans	2.3	Deposits	3.1
○ Commercial & Industrial	1.8	○ Non-interest Checking	6.1
○ Commercial Real Estate	1.8	○ NOW	4.3
○ Multifamily	2.6	○ Money Market	1.5
<b>Total Asset Duration</b>	<b>2.5</b>	○ Savings	4.3
		○ Time Deposits	0.7
		<b>Total Liability Duration</b>	<b>3.0</b>

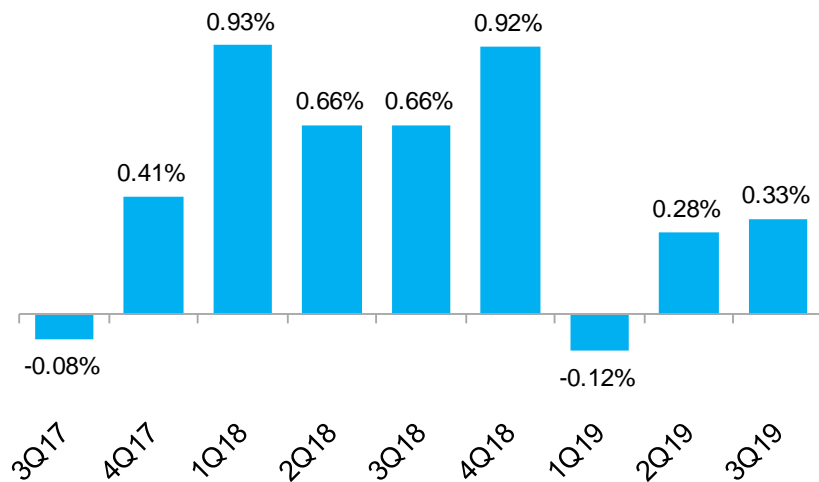
Loan Resets and Maturities <sup>2</sup>	< 1 Yr	1-3 Yrs	3-5 Yrs	> 5 Yrs	Total
Prime and 1M LIBOR	11.8%	0.5%	0.3%	0.0%	12.6%
3M LIBOR	0.8%	0.0%	1.2%	0.0%	1.9%
6M LIBOR	9.2%	16.6%	11.8%	12.8%	50.3%
Other Indexed Rate Loans	1.4%	1.4%	17.6%	0.8%	20.9%
<b>Total Variable Rate Loans</b>	<b>23.0%</b>	<b>18.2%</b>	<b>30.8%</b>	<b>13.6%</b>	<b>85.7%</b>
Fixed Rate Loans	0.4%	2.2%	2.4%	9.3%	14.3%
<b>Total Loans</b>	<b>23.5%</b>	<b>20.4%</b>	<b>33.2%</b>	<b>22.9%</b>	<b>100.0%</b>

[2] Does not consider prepayments, normal amortization, or the effect of floors.

# Credit Quality Overview



## Net Charge-offs / Average Loans (annualized)

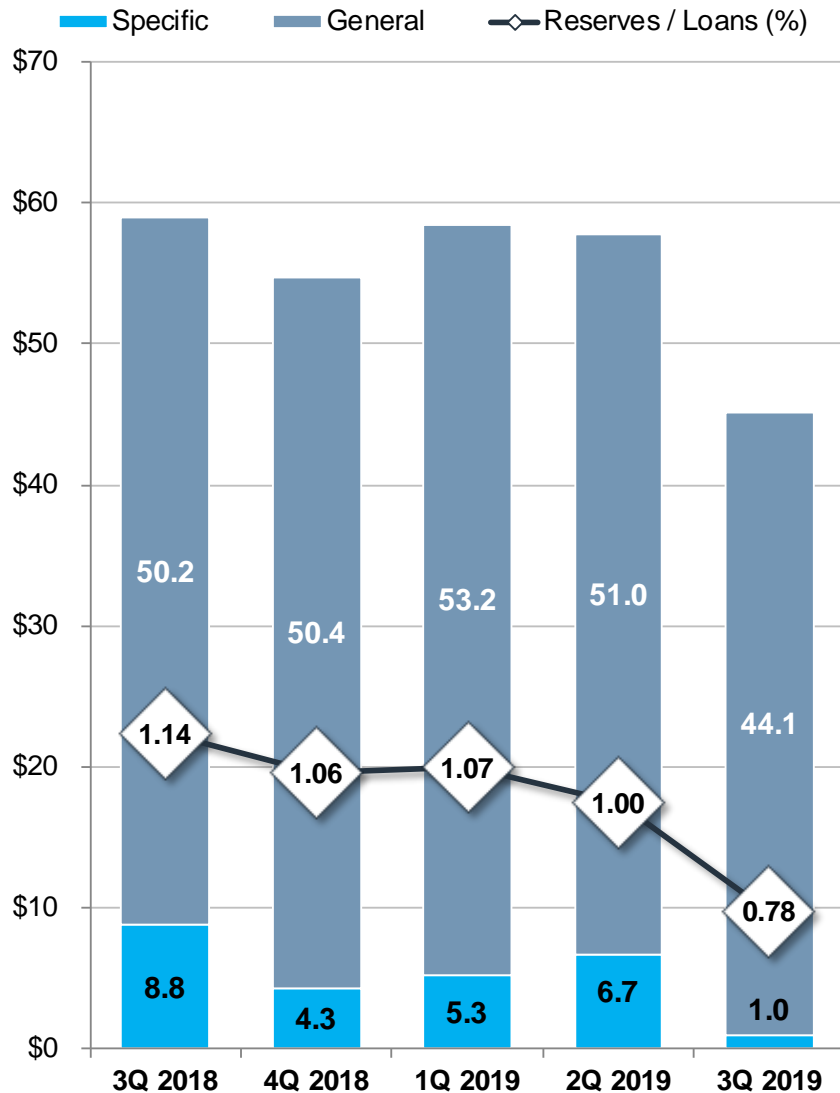


## 3Q 2019 Highlights

- Nonperforming assets decreased 65% to \$7.4 million, or 0.10% of total assets
- Net charge-offs of \$4.9 million, or 0.33% of average loans annualized
- Negative provision for loan losses of \$7.7 million
- Continued to reduce exposure to previously de-emphasized loan portfolios:
  - Enterprise Value loans down 44% to \$35.9 million, or 0.6% of loans
  - Total EV reduction of 96% since 4Q 2016
  - No longer reporting planned loan exits
- Criticized loans decreased 27% to \$101.4 million as of September 30, 2019
  - Classified decreased \$40.1 million
  - Special Mention increased \$3.5 million

# Allowance for Loan Losses

**Allowance for Loan Losses**  
(\$ in millions)



## 3Q 2019 Highlights

- Negative provision for loan losses of \$7.7 million
  - Loan exits \$7.0 million
  - Specific reserves \$5.7 million
  - Risk rating migration \$1.2 million
  - + Net Charge-offs \$4.9 million
  - + Changes in portfolio mix and fundings \$2.1 million
- Allowance for loan losses totaled \$45.2 million
  - Down \$12.6 million from the prior quarter
  - 0.78% of loans
  - Specific reserves of \$1.0 million
- Continue to work through de-emphasized and criticized portfolios

# Outlook for 2019

Assume continuation of current economic environment, with one rate cut in October 2019

<b>Loans</b>	<ul style="list-style-type: none"><li>• Estimate loan growth rate in the low double digits for the full year 2019</li><li>• Maintain credit discipline</li></ul>
<b>Deposits</b>	<ul style="list-style-type: none"><li>• Anticipate continued deposit competition in 2019</li></ul>
<b>Net Interest Margin</b>	<ul style="list-style-type: none"><li>• Estimate the full year 2019 NIM to be approximately 2.90%</li><li>• Opus continues to face the headwinds of a flattening yield curve, elevated prepayments, and competitive deposit and loan pricing</li></ul>
<b>Noninterest Expense</b>	<ul style="list-style-type: none"><li>• Disciplined expense management to increase operating leverage</li></ul>
<b>Efficiency Ratio</b>	<ul style="list-style-type: none"><li>• Core efficiency ratio in the range of 64% to 65% for the full year 2019, quarters coming in the low 60's</li></ul>
<b>Credit Quality</b>	<ul style="list-style-type: none"><li>• Expect credit metrics to be aligned with peers by year-end 2019</li></ul>
<b>Tax Rate</b>	<ul style="list-style-type: none"><li>• Estimate core effective tax rate of approximately 26% in 2019</li></ul>
<b>Dividend</b>	<ul style="list-style-type: none"><li>• Will evaluate the dividend based on loan growth, our risk profile, and market conditions</li></ul>

# OpusBank.

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# Reconciliation of Non-GAAP Financial Measures

Our accounting and reporting policies conform to generally accepted accounting principles in the United States ("GAAP"). We believe that the presentation of certain non-GAAP financial measures assists investors in evaluating our financial results. These non-GAAP measures include our net income, earnings per diluted share, return on average assets, return on average stockholders' equity, return on average tangible common equity, efficiency ratio, tangible book value per common share, and tangible common equity ratio. These non-GAAP measures should be taken together with the corresponding GAAP measures and should not be considered a substitute of the GAAP measures.

The following tables present a reconciliation of the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios:

## Non-GAAP Tangible Book Value per Common Share

(unaudited)

(\$ in thousands, except share amounts)	As of		
	September 30, 2019	June 30, 2019	September 30, 2018
Tangible equity:			
Total stockholders' equity	\$1,083,043	\$1,061,328	\$1,037,050
Less:			
Preferred stock	29,110	29,110	29,110
Common equity	1,053,933	1,032,218	1,007,940
Less:			
Goodwill	331,832	331,832	331,832
Other intangible assets, net	34,884	36,095	40,362
Tangible common equity	\$687,217	\$664,291	\$635,746
Shares of common stock outstanding	36,286,598	36,251,219	36,058,585
Book value per common share	\$29.04	\$28.47	\$27.95
Tangible book value per common share	\$18.94	\$18.32	\$17.63



# Reconciliation of Non-GAAP Financial Measures

## Non-GAAP Stockholders' Equity, Tangible Equity, and Tangible Common Equity Ratios

(unaudited)

(\$ in thousands)	As of		
	September 30, 2019	June 30, 2019	September 30, 2018
Total assets	\$7,771,343	\$7,856,961	\$7,395,074
Less:			
Goodwill	331,832	331,832	331,832
Other intangible assets, net	34,884	36,095	40,362
Tangible assets	7,404,627	7,489,034	7,022,880
Total stockholders' equity	1,083,043	1,061,328	1,037,050
Less:			
Goodwill	331,832	331,832	331,832
Other intangible assets, net	34,884	36,095	40,362
Tangible equity	716,327	693,401	664,856
Less: preferred stock	29,110	29,110	29,110
Tangible common equity	\$687,217	\$664,291	\$635,746
Total stockholders' equity to total assets	13.94%	13.51%	14.02%
Tangible equity to tangible assets ratio	9.67%	9.26%	9.47%
Total common equity to total assets	13.56%	13.14%	13.63%
Tangible common equity to tangible assets ratio	9.28%	8.87%	9.05%

# Reconciliation of Non-GAAP Financial Measures

## Non-GAAP Financial Measures

(unaudited)

(\$ in thousands)	For the three months ended			For the nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income	\$21,998	\$8,686	\$9,412	\$41,545	\$37,779
Adjustments to noninterest income:					
Impairment	—	—	—	489	—
(Gains) and losses on sales of securities, loans, and other repossessed assets	(220)	50	—	(174)	(215)
Adjustments to noninterest expense:	—	—	—	—	—
Strategic actions	119	4,891	548	4,920	2,298
Litigation	—	—	116	1,431	(2,734)
Pre-tax adjustments	(101)	4,941	664	6,666	(651)
Tax effect	383	(319)	(2,440)	(345)	(2,536)
Tax-effected adjustments <sup>1</sup>	282	4,622	(1,776)	6,321	(3,187)
Adjusted net income	\$22,280	\$13,308	\$7,636	\$47,866	\$34,592
Average assets	\$7,751,397	\$7,793,539	\$7,254,209	\$7,626,002	\$7,258,273
Average stockholders' equity	1,074,436	1,058,336	1,039,508	1,061,332	1,030,690
Less:					
Average preferred stock	29,110	29,110	29,110	29,110	29,110
Average goodwill	331,832	331,832	331,832	331,832	331,832
Average other intangible assets	35,639	36,956	41,139	36,933	42,598
Average tangible common equity	\$677,855	\$660,438	\$637,427	\$663,467	\$627,150

[1] The tax effect of adjustments was computed using the combined federal and state marginal tax rate of 26.1%, 25.5%, 16.1%, 25.4% and 22.0% for the three months ended September 30, 2019, June 30, 2019, and September 30, 2018 and the nine months ended September 30, 2019 and September 30, 2018, respectively, adjusted for the tax effect of nondeductible strategic action expenses..

# Reconciliation of Non-GAAP Financial Measures

## Non-GAAP Financial Measures (continued)

(unaudited)

	For the three months ended			For the nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Earnings per diluted share	\$0.57	\$0.23	\$0.25	\$1.08	\$0.99
Adjusted earnings per diluted share	\$0.58	\$0.35	\$0.20	\$1.25	\$0.90
Return on average assets	1.13%	0.45%	0.51%	0.73%	0.70%
Adjusted return on average assets	1.14%	0.68%	0.42%	0.84%	0.64%
Return on average equity	8.12%	3.29%	3.59%	5.23%	4.90%
Adjusted return on average equity	8.23%	5.04%	2.91%	6.03%	4.49%
Return on average tangible common equity	12.88%	5.27%	5.86%	8.37%	8.05%
Adjusted return on average tangible common equity	13.04%	8.08%	4.75%	9.65%	7.37%
Efficiency ratio <sup>1</sup>	61.82%	71.32%	69.49%	67.91%	67.05%
Adjusted efficiency ratio <sup>1</sup>	61.63%	63.55%	68.40%	64.36%	67.28%

[1] The efficiency ratio equals noninterest expense adjusted to exclude the amortization of other intangible assets divided by the sum of tax-equivalent net interest income and noninterest income adjusted to exclude the gains and losses on the sale of investment securities, loans, and other repossessed assets.