

# FOURTH QUARTER 2017 EARNINGS PRESENTATION

January 25, 2018



# DISCLAIMER

## Important note regarding forward-looking statements:

Statements made in this presentation which are not purely historical are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. This includes any statements regarding management's plans, objectives, or goals for future operations, products or services, and forecasts of its revenues, earnings, or other measures of performance. Such forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "should," "will," "intend," "outlook" or similar expressions. Forward-looking statements are based on current management expectations and, by their nature, are subject to risks and uncertainties. Actual results may differ materially from those contained in the forward-looking statements. Factors which may cause actual results to differ materially from those contained in such forward-looking statements include those identified in the Company's most recent Form 10-K and subsequent SEC filings. Such factors are incorporated herein by reference.

## Non-GAAP Measures

This presentation includes certain non-GAAP financial measures. These non-GAAP measures are provided in addition to, and not as substitutes for, measures of our financial performance determined in accordance with GAAP. Our calculation of these non-GAAP measures may not be comparable to similarly titled measures of other companies due to potential differences between companies in the method of calculation. As a result, the use of these non-GAAP measures has limitations and should not be considered superior to, in isolation from, or as a substitute for, related GAAP measures. Reconciliations of these non- GAAP financial measures to the most directly comparable GAAP financial measures can be found at the end of this presentation.

# 2017 HIGHLIGHTS<sup>1</sup>

Net income available to common equity of \$220 million, or \$1.42 per common share

or \$1.52 per common share, excluding expenses related to the Tax Act<sup>2</sup>

	2017 Guidance	2017 Actual		2017 Guidance	2017 Actual
<b>Balance Sheet Management</b>	▪ Mid-to-high single digit annual average loan growth	+5%	<b>Expense Management</b>	▪ Approximately 1% higher than the prior year	+0.9%
	▪ Maintain Loan to Deposit ratio under 100%	91%		▪ Continued improvement to our efficiency ratio	~100 bps
	▪ Improving NIM trend	Flat			
<b>Fee Businesses</b>	▪ Improving year over year fee-based revenues	+\$8M	<b>Capital &amp; Credit Management</b>	▪ Continue to follow stated corporate priorities for capital deployment	Dividends up +11%
	▪ Declining year over year mortgage banking revenue	Lower by \$19M		▪ Provision expected to adjust with changes to risk grade, other indications of credit quality, and loan volume	Lower by \$44M

4Q 2017: Net income available to common equity of \$48 million, or \$0.31 per common share

<sup>1</sup> – Unless otherwise noted, all comparative statements are made with reference to full year 2016 results

<sup>2</sup> – See slide 20 for detailed expenses related to the Tax Act



# TAX ACT IMPACTS

## 2017 Tax Act Expenses

1. Required partial write-off of deferred tax assets	~\$12 million
2. Required acceleration of low income housing tax credit amortization	~\$1 million
3. Previously disclosed compensation actions	~\$1 million
4. Other accelerated write-offs	~\$1 million
<b>Total 2017 Tax Act related expenses</b>	<b><u>~\$15 million</u></b>

**~\$0.10 per share**

## Corporate Effective Tax Rate Outlook

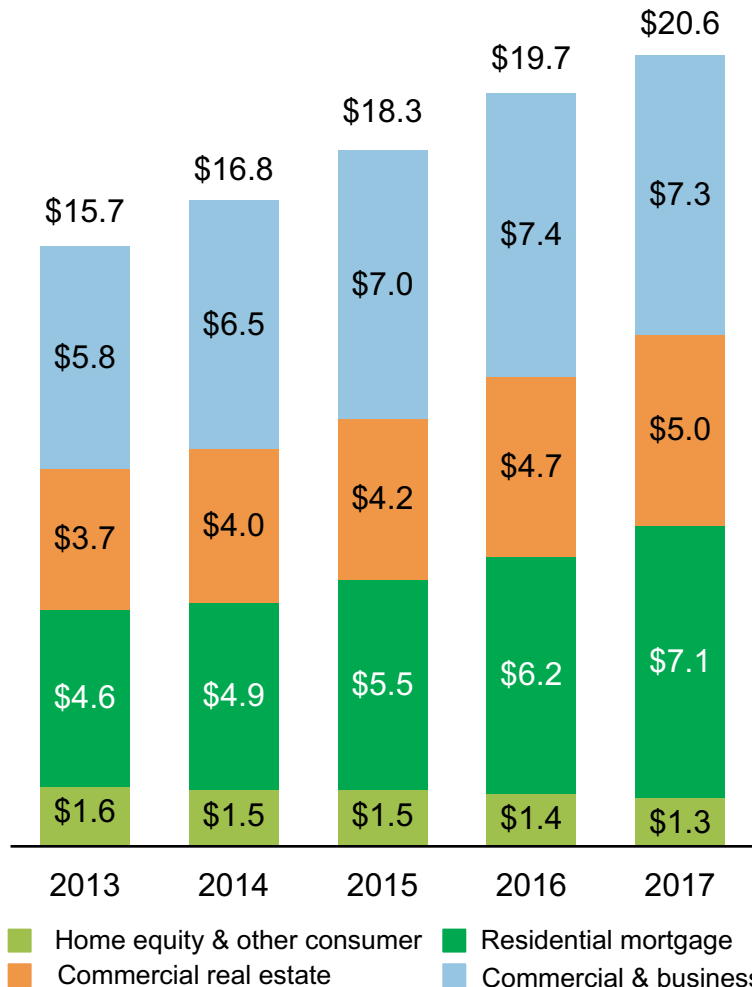
- ↓ Lower federal statutory rate
- ↑ Smaller net benefits from municipal, BOLI, and tax credit investments
- ↑ Newly disallowed FDIC insurance premiums, executive compensation, meals and entertainment, parking and commuting reimbursements, and other disallowed items
- ↑ Lower federal benefit on state taxes

**Expected 20-22% Effective Rate**

# LOAN PORTFOLIO - ANNUAL TRENDS

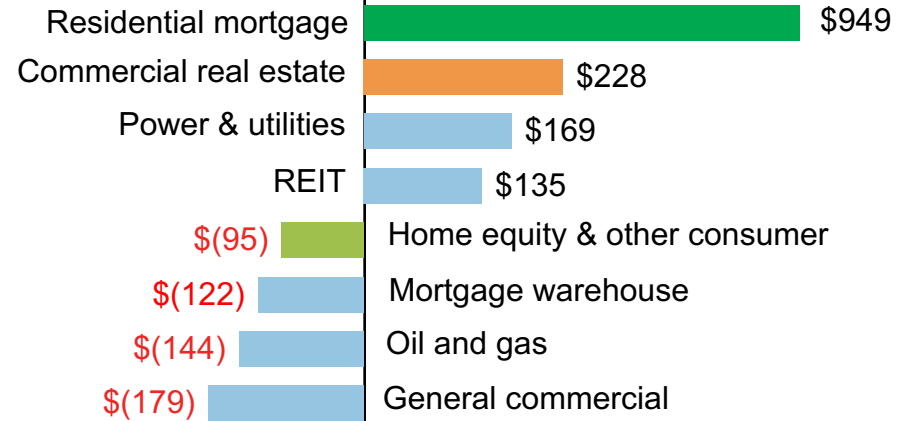
## Average Annual Loans

(\$ in billions)

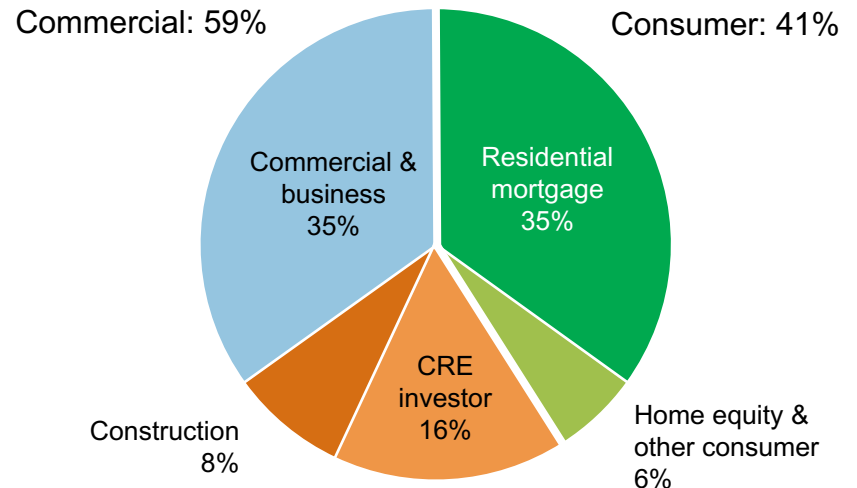


## Average Net Loan Change (from 2016)

(\$ in millions)



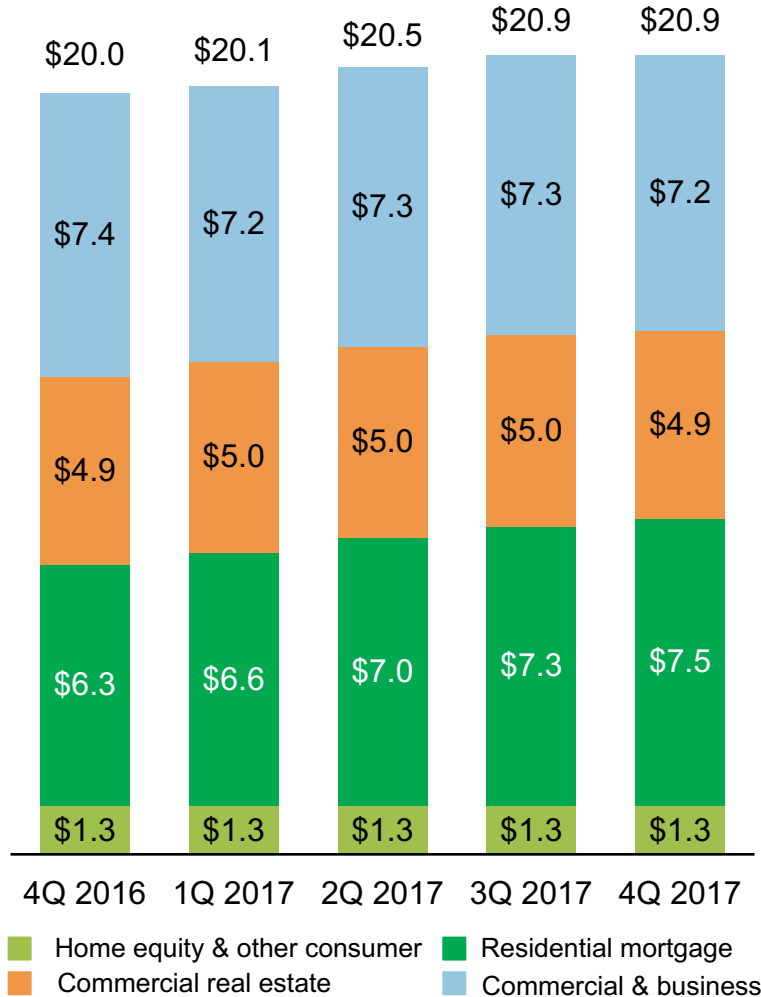
## Loan Mix – 2017 (Average)



# LOAN PORTFOLIO - QUARTERLY TRENDS

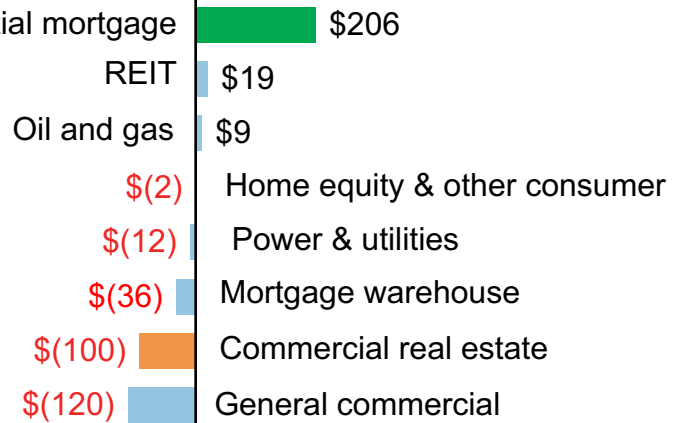
## Average Quarterly Loans

(\$ in billions)

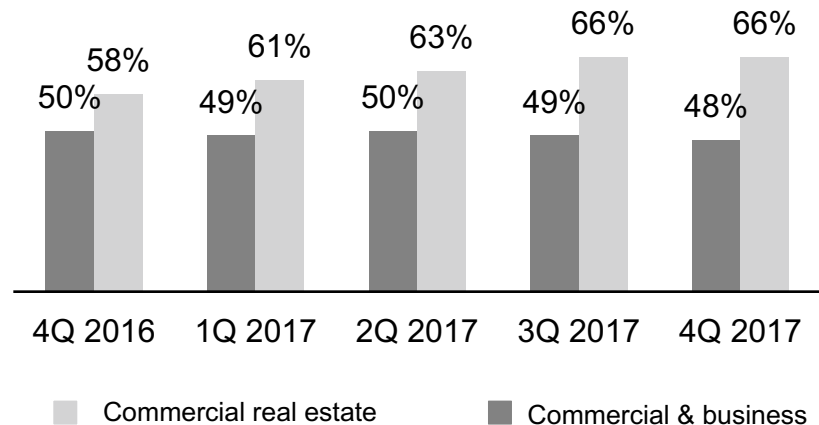


## Average Net Loan Change (from 3Q 2017)

(\$ in millions)



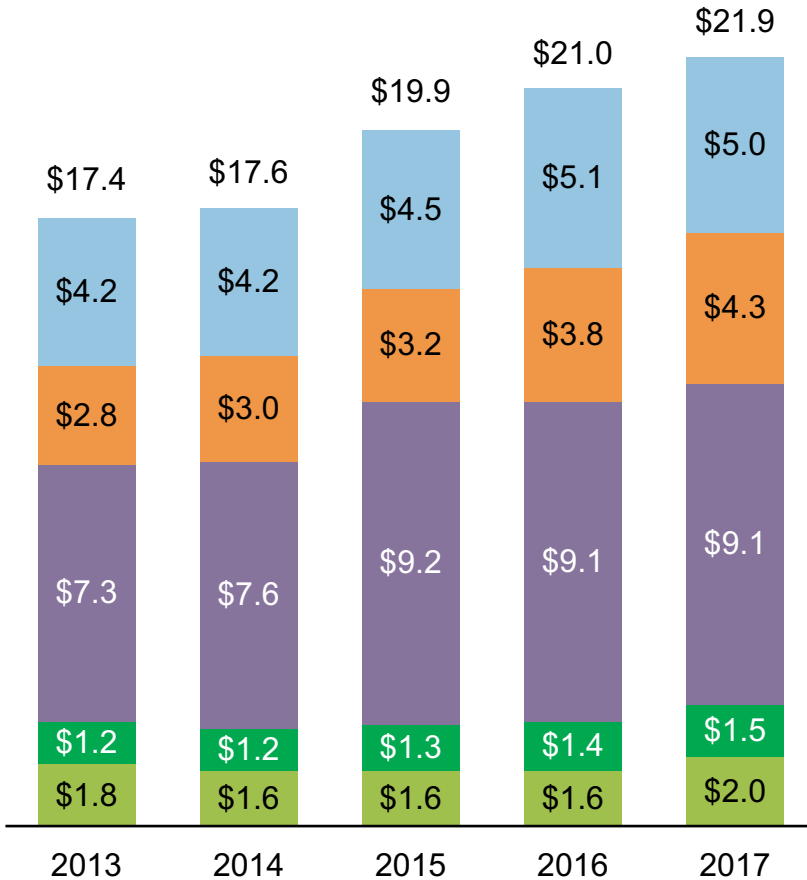
## Commercial Line Utilization



# DEPOSIT PORTFOLIO - ANNUAL TRENDS

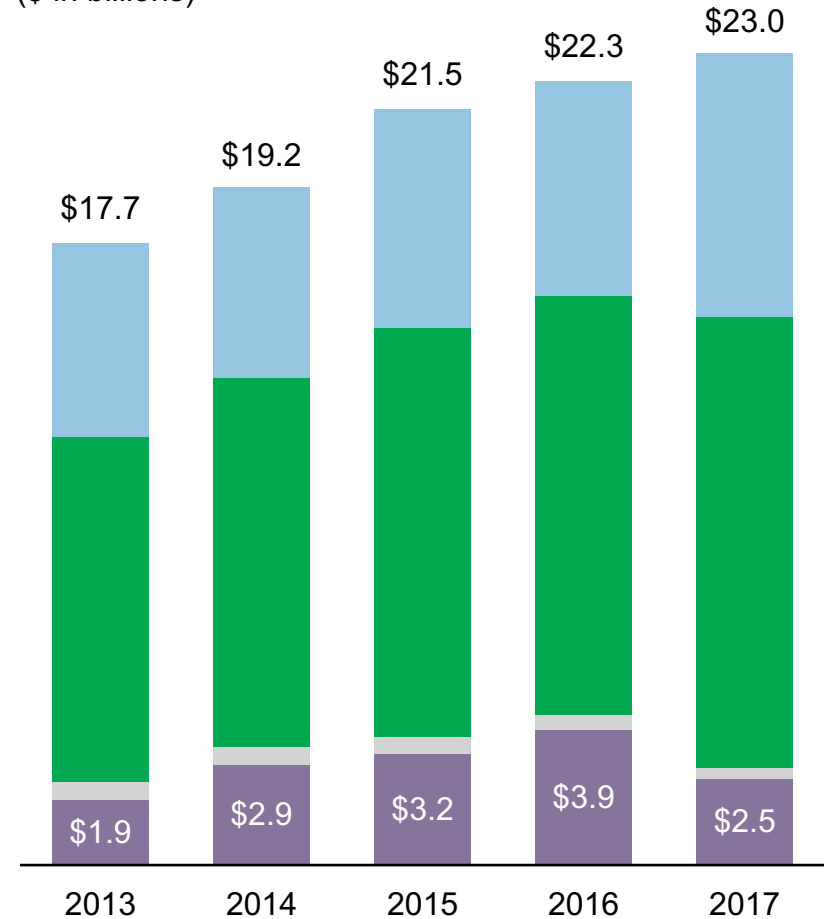
## Average Annual Deposits

(\$ in billions)



## Period End Deposits and Customer Funding

(\$ in billions)



- Time deposits
- Money market
- Noninterest-bearing demand
- Savings
- Interest-bearing demand

- Network transaction deposits
- Customer funding<sup>1</sup>
- Community, Consumer, and Business deposits
- Corporate and Commercial Specialty deposits

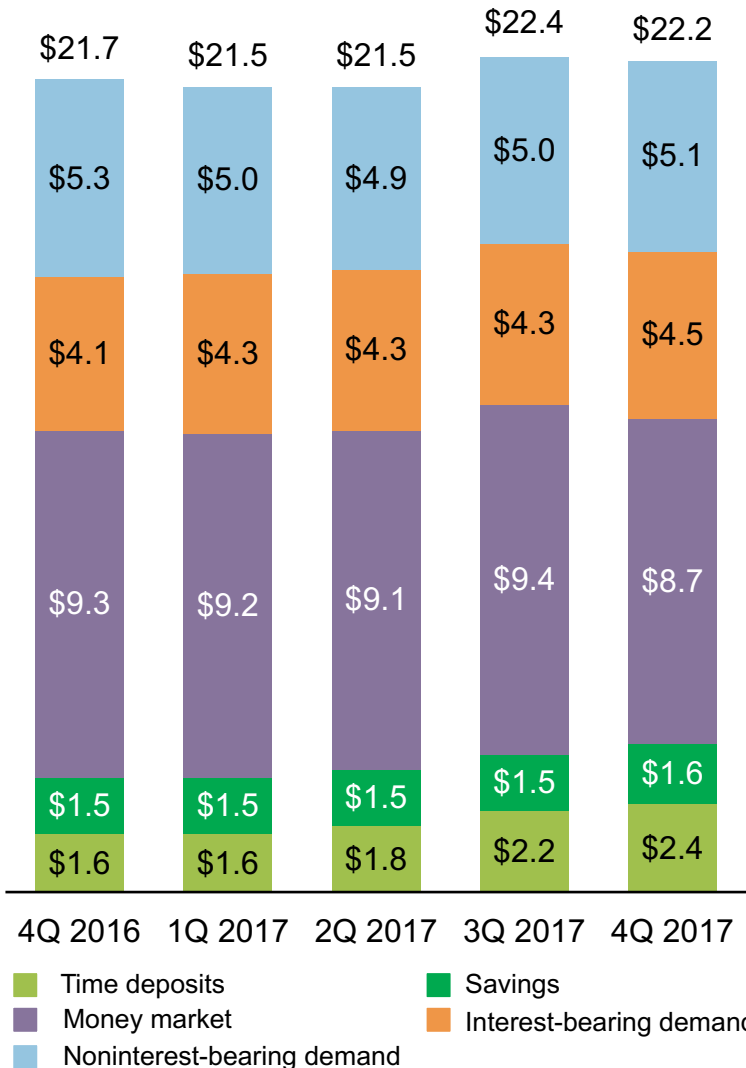
<sup>1</sup> - Includes repurchase agreements and commercial paper.



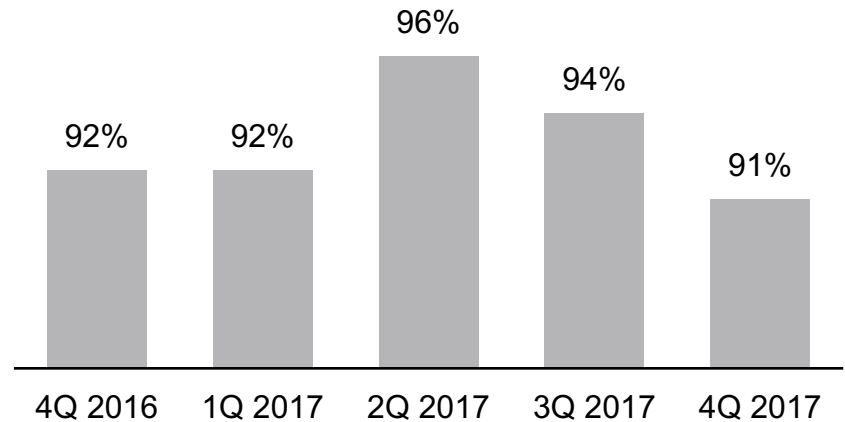
# DEPOSIT PORTFOLIO - QUARTERLY TRENDS

## Average Quarterly Deposits

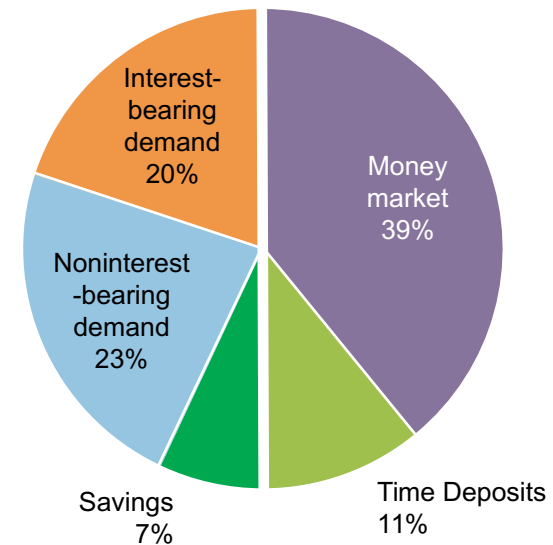
(\$ in billions)



## Loan to Deposit Ratio



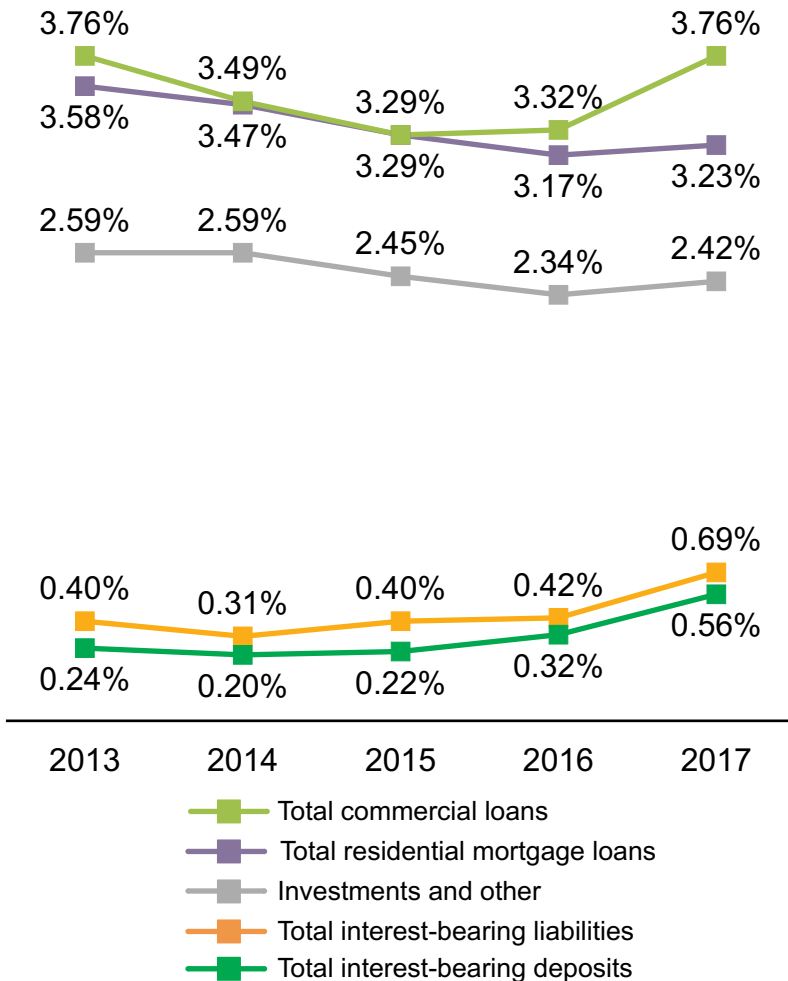
## Deposit Mix – 4Q 2017 (Average)





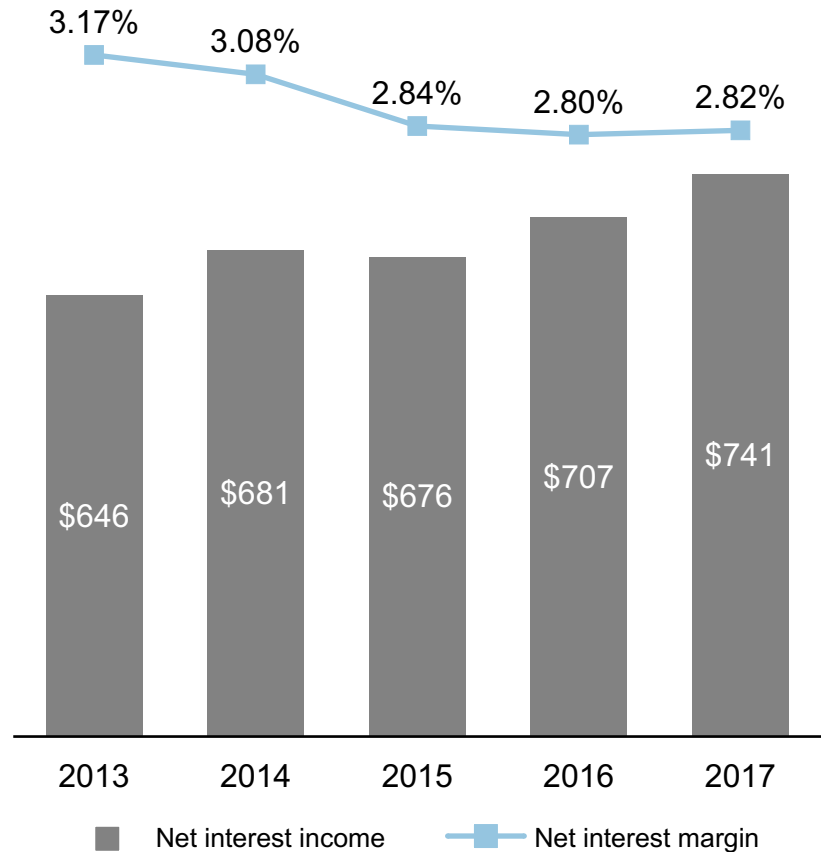
# NET INTEREST INCOME AND MARGIN - ANNUAL TRENDS

## Average Yields



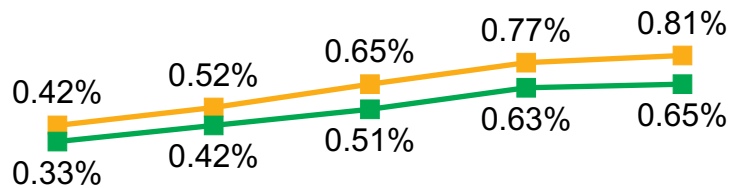
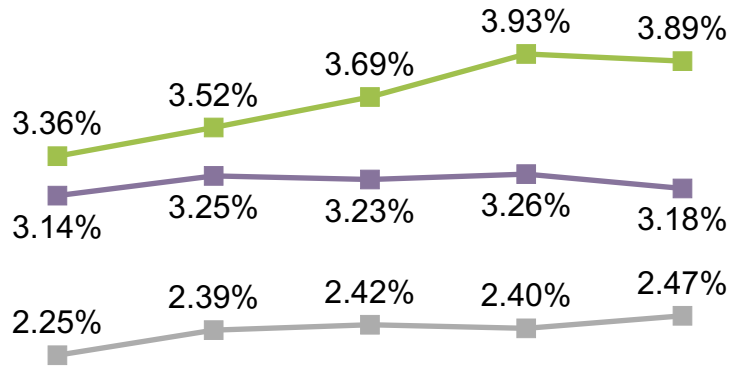
## Net Interest Income & Net Interest Margin

(\$ in millions)



# NET INTEREST INCOME AND MARGIN - QUARTERLY TRENDS

## Average Yields

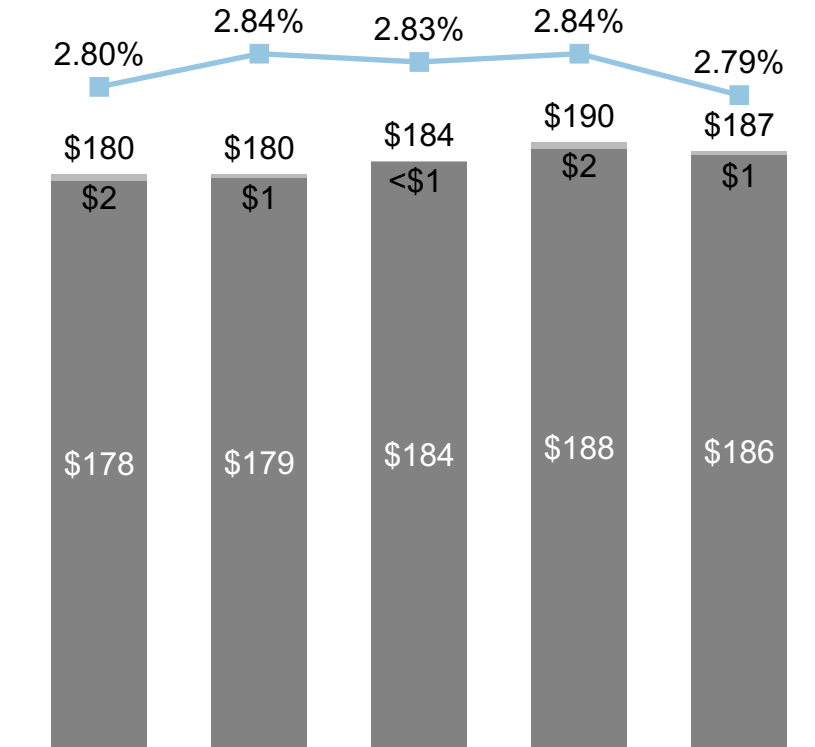


4Q 2016 1Q 2017 2Q 2017 3Q 2017 4Q 2017

- Total commercial loans
- Total residential mortgage loans
- Investments and other
- Total interest-bearing liabilities
- Total interest-bearing deposits

## Net Interest Income & Net Interest Margin

(\$ in millions)



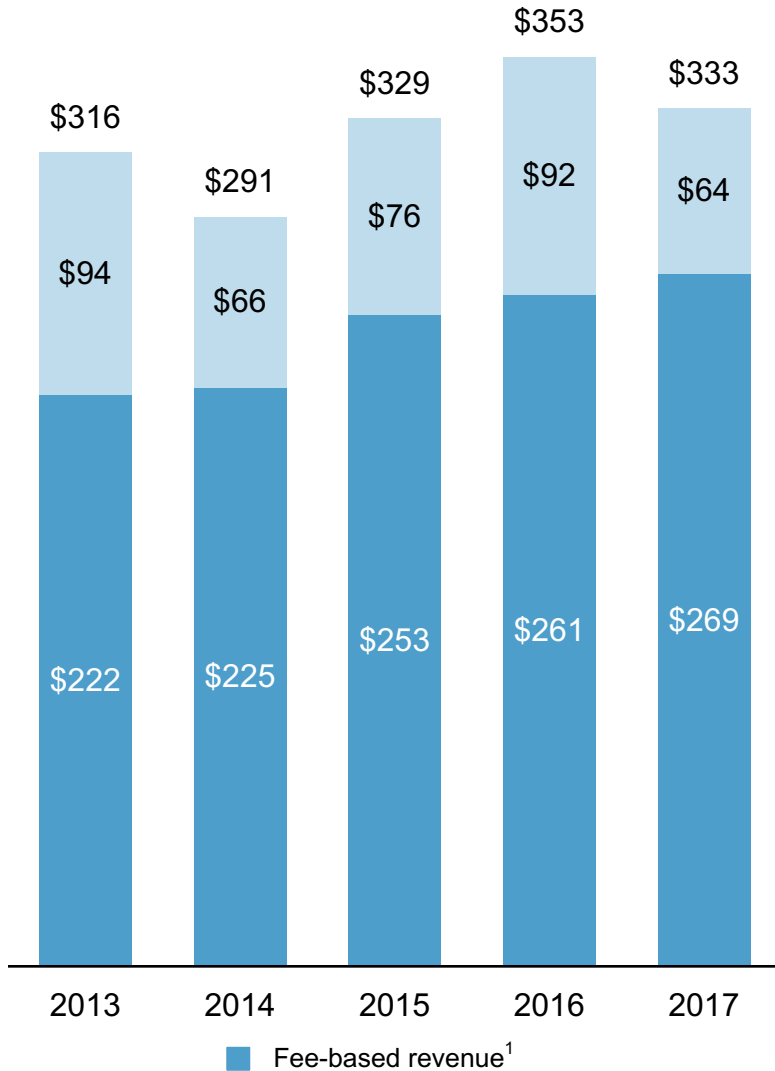
4Q 2016 1Q 2017 2Q 2017 3Q 2017 4Q 2017

- Interest recoveries, prepayment fees, & deferred fees
- Net interest income net of interest recoveries, prepayment fees, & deferred fees
- Net interest margin

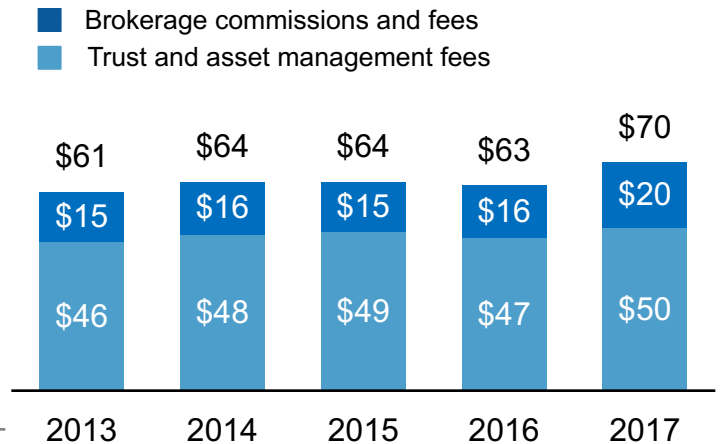
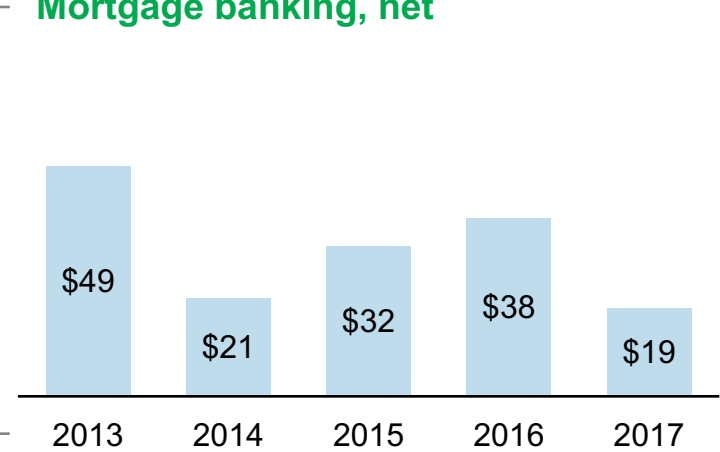


# NONINTEREST INCOME - ANNUAL TRENDS

(\$ IN MILLIONS)



## Mortgage banking, net

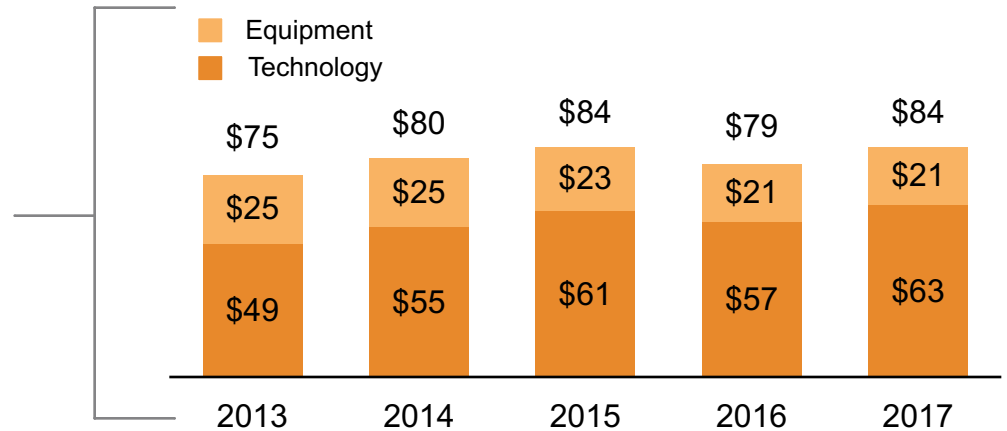
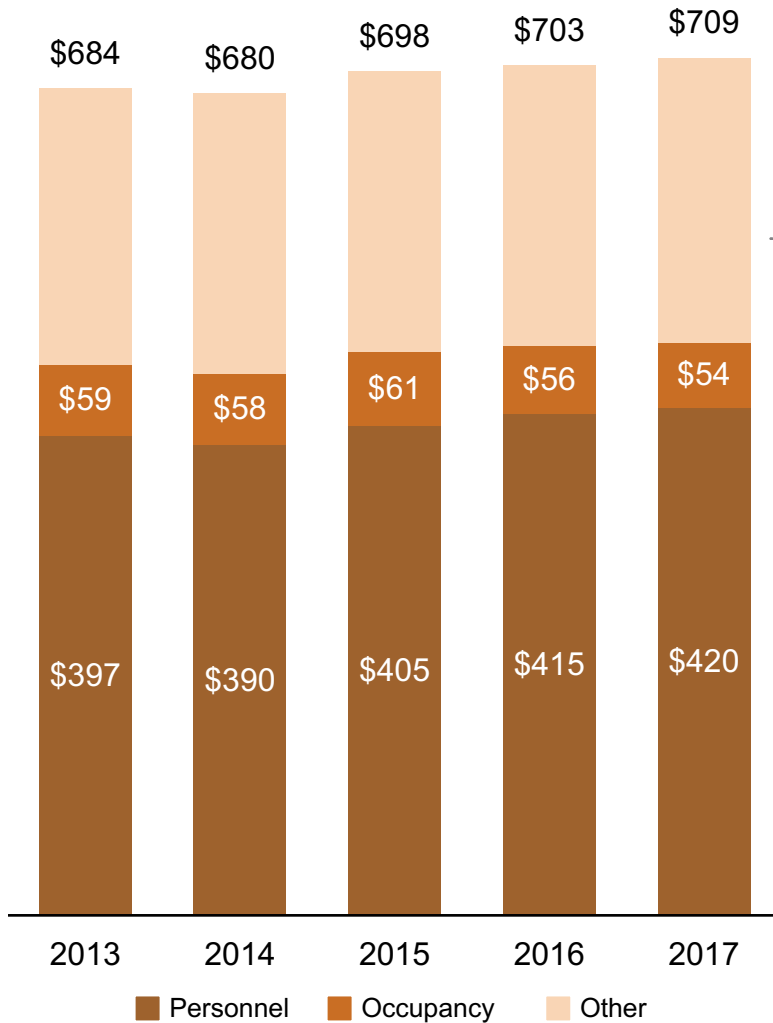


<sup>1</sup> – Fee-based revenue = A non-GAAP financial measure, is the sum of insurance commissions and fees, service charges and deposit account fees, card-based and loan fees, trust and asset management fees, and brokerage commissions and fees. Please refer to the appendix for a reconciliation of fee-based revenue to total noninterest income.

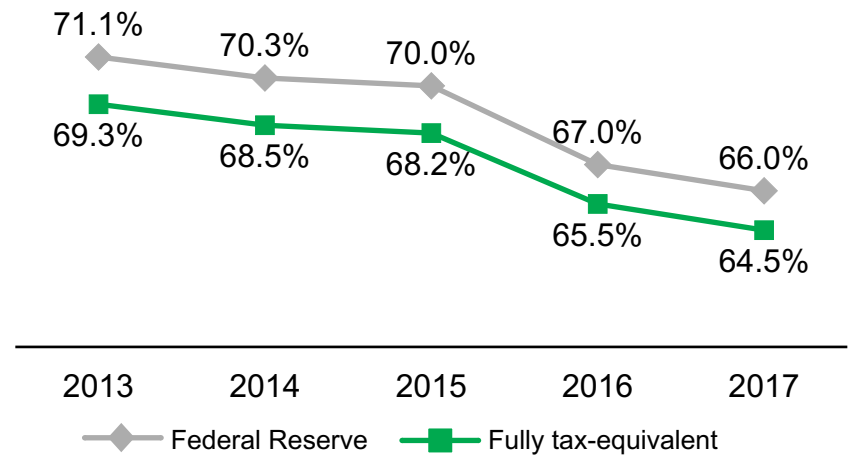


# NONINTEREST EXPENSE - ANNUAL TRENDS

(\$ IN MILLIONS)



## Efficiency Ratio<sup>1</sup>



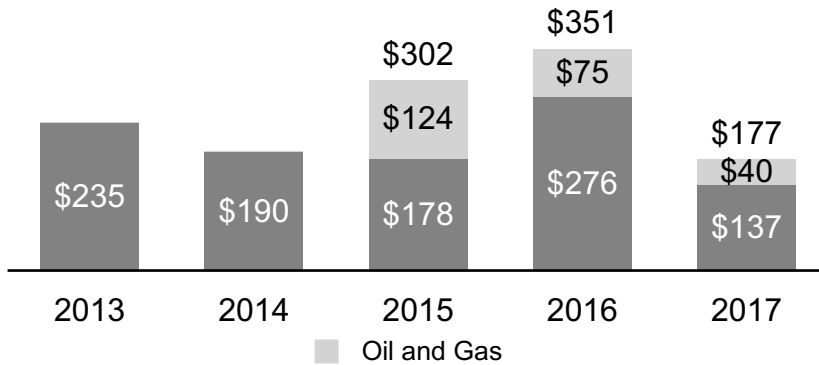
<sup>1</sup> – The efficiency ratio as defined by the Federal Reserve guidance is noninterest expense (which includes the provision for unfunded commitments) divided by the sum of net interest income plus noninterest income, excluding investment securities gains / losses, net. The fully tax-equivalent efficiency ratio, which is a non-GAAP financial measure, is noninterest expense (which includes the provision for unfunded commitments), excluding other intangible amortization, divided by the sum of fully tax-equivalent net interest income plus noninterest income, excluding investment securities gains / losses, net. Please refer to the appendix for a reconciliation of the Federal Reserve efficiency ratio to the fully tax-equivalent efficiency ratio.



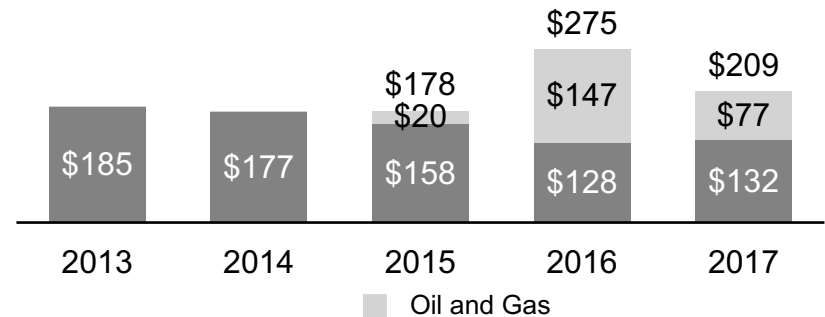
# CREDIT QUALITY - ANNUAL TRENDS

(\$ IN MILLIONS; AT OR FOR THE YEAR ENDED)

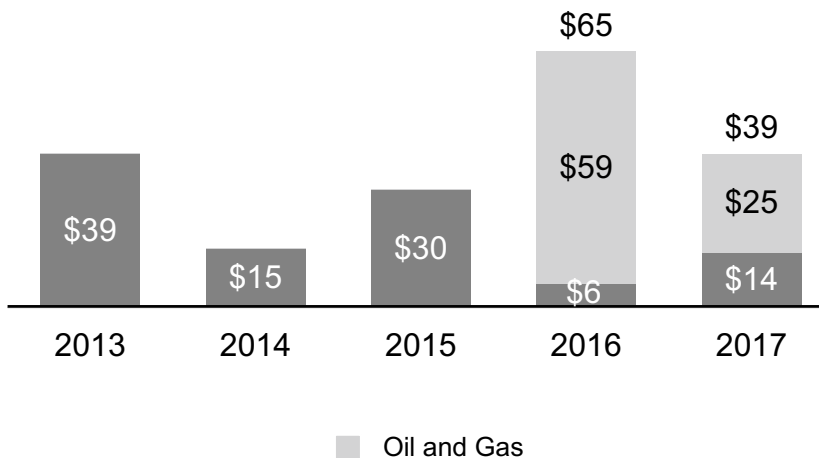
## Potential Problem Loans



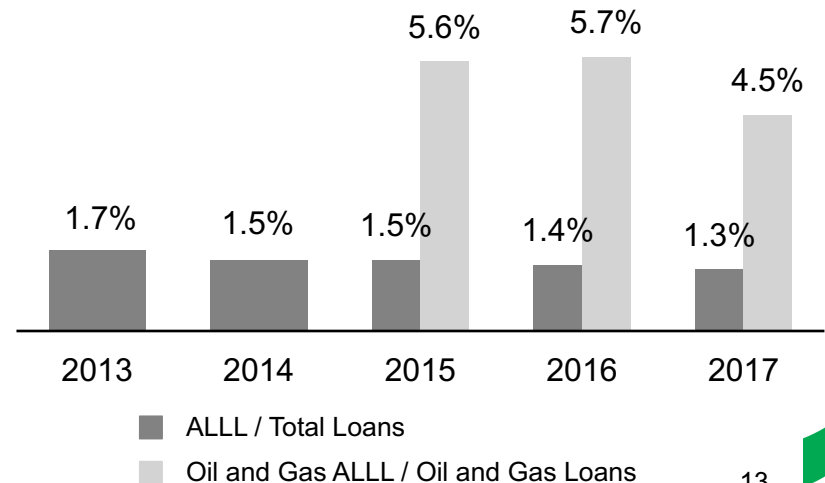
## Nonaccrual Loans



## Net Charge Offs (Recoveries)



## Allowance to Total Loans / Oil and Gas Loans



# BANK MUTUAL UPDATE

## Expected Closing

- February 1, 2018

## Shares Issued

- .422 fixed exchange ratio; ~19.6 million shares

## Expected System Conversion

- Late June / July 2018

## Branch and Systems Decommissioning

- Q3

## Expected Total Restructuring Costs (Q1 - Q3)

- ~\$40 million
  - Change of control and severance: ~\$10 million (Q1)
  - Merger advisors and consultants: ~\$10 million (Q1)
  - Facilities and other: ~\$10 million (Q1 - Q3)
  - Contract terminations: ~\$10 million (Q1 - Q3)

## 4Q 2018 Expected Combined Expense Run-Rate

- \$190 million - \$195 million

# NONINTEREST EXPENSE OUTLOOK

(\$ in millions)

<b>2017 Associated noninterest expense</b>	<b>\$709M</b>
2017 Bank Mutual noninterest expense	+ 70
Whitnell incremental noninterest expense	+ ~5
One-time Tax Act compensation actions	- ~\$2
<b>2018 noninterest expense baseline</b>	<b>= ~\$782M</b>
+ ~1.0% baseline expense growth	+ ~8
+ \$15 minimum wage impact	+ ~2
- Q3 Bank Mutual cost saves (mid-quarter) at 22.5%	- ~4
- Q4 Bank Mutual cost saves (full quarter) at 45%	- ~8
<b>2018 pro forma total noninterest expense baseline, before restructuring costs</b>	<b>= ~\$780M</b>
+ Estimated Bank Mutual restructuring costs	+ ~40
<b>2018 pro forma total noninterest expense, including restructuring costs</b>	<b>= ~\$820M</b>

# NET INTEREST MARGIN OUTLOOK

4Q 2017 Run-Rate	2.79%
+ Expected benefit of 3 Fed rate increases	+ 3-6 bps
+ Expected benefit of Bank Mutual's higher loan yields	+ 3 bps
Pro forma run-rate before tax adjustments	2.85%-2.88%
- Fully tax-equivalent adjustments on municipal securities and loans	- 3-4 bps
Net 2018 projected net interest margin range	= 2.82%-2.85%



# 2018 OUTLOOK

This outlook reflects a stable to improving economy and the impact of corporate tax reform. We may adjust our outlook if, and when, we have more clarity on any one, or more, of these factors. The outlook assumes the closure of the Bank Mutual transaction on February 1, 2018.

## Balance Sheet Management

- Pro forma mid-single digit annual average loan growth on the combined Associated and Bank Mutual portfolio
- Maintain Loan to Deposit ratio under 100%
- Stable to modestly improving year over year NIM trend

## Fee Businesses

- Improving year over year fee-based revenues
- Approximately \$360M - \$370M full year noninterest income

## Expense Management

- Approximately \$820M (including \$40M of restructuring costs)
- Continued improvement to our efficiency ratio
- Lower effective tax rate (20%-22%)

## Capital & Credit Management

- Continue to follow stated corporate priorities for capital deployment
- Provision expected to adjust with changes to risk grade, other indications of credit quality, and loan volume



# APPENDIX

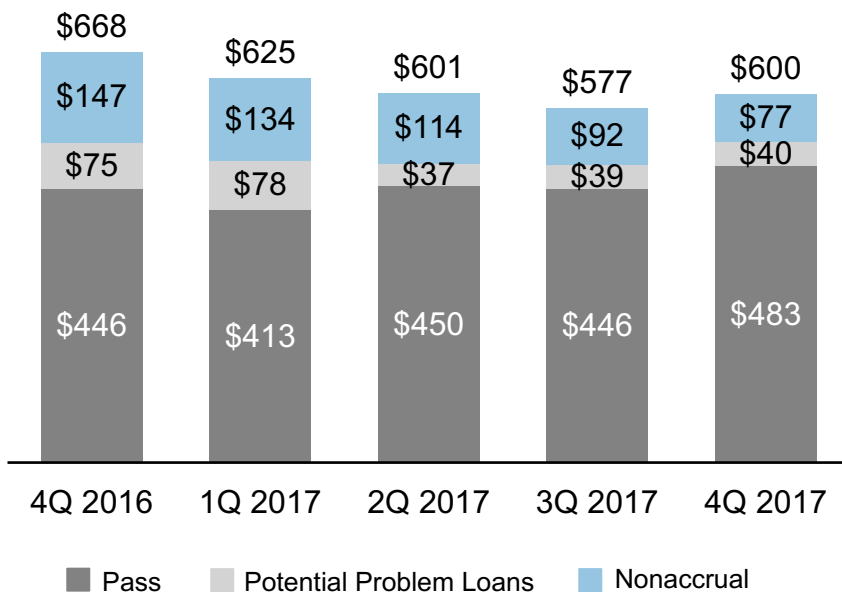


# OIL AND GAS UPDATE

	# of credits	\$ of commitments	\$ of outstandings	% of total loans
<b>Total O&amp;G Portfolio</b> As of December 31, 2017	56 credits	\$935 million	\$600 million	3%
<b>New Business Since</b> January 1, 2016	22 credits	\$453 million	\$258 million	1%
	39%	48%	43%	

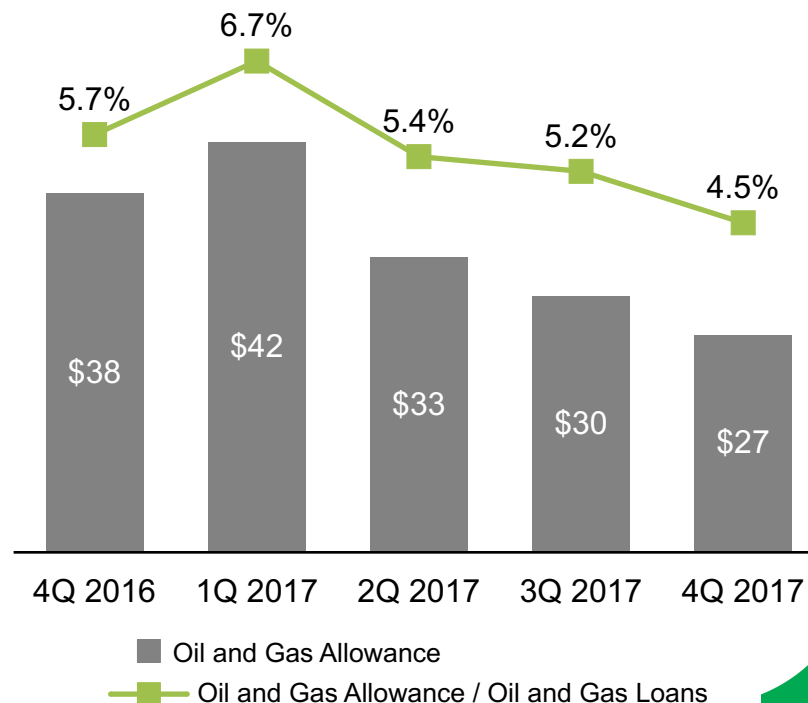
## Period End Loans by Credit Quality

(\$ in millions)



## Oil and Gas Allowance

(\$ in millions)



# RECONCILIATION AND DEFINITIONS OF NON-GAAP ITEMS

Efficiency Ratio	2013	2014	2015	2016	2017
Federal Reserve efficiency ratio	71.14 %	70.28 %	69.96 %	66.95 %	65.97 %
Fully tax-equivalent adjustment	(1.45)%	(1.36)%	(1.41)%	(1.29)%	(1.28)%
Other intangible amortization	(0.42)%	(0.39)%	(0.31)%	(0.20)%	(0.18)%
Fully tax-equivalent efficiency ratio	69.27 %	68.53 %	68.24 %	65.46 %	64.51 %

The efficiency ratio as defined by the Federal Reserve guidance is noninterest expense (which includes the provision for unfunded commitments) divided by the sum of net interest income plus noninterest income, excluding investment securities gains / losses, net. The fully tax-equivalent efficiency ratio, which is a non-GAAP financial measure, is noninterest expense (which includes the provision for unfunded commitments), excluding other intangible amortization, divided by the sum of fully tax-equivalent net interest income plus noninterest income, excluding investment securities gains / losses, net. Management believes the fully tax-equivalent efficiency ratio, which adjusts net interest income for the tax-favored status of certain loans and investment securities, to be the preferred industry measurement as it enhances the comparability of net interest income arising from taxable and tax-exempt sources.

Fee-based Revenue (\$ millions)	2013	2014	2015	2016	2017
Insurance commissions and fees	44	44	75	81	81
Service charges and deposit account fees	70	69	66	67	65
Card-based and loan fees	47	47	48	50	53
Trust and asset management fees	46	49	49	47	50
Brokerage commissions and fees	15	16	15	16	20
Fee-based revenue	\$ 222	\$ 225	\$ 253	\$ 261	\$ 269
Other	94	66	76	92	64
Total noninterest income	\$ 316	\$ 291	\$ 329	\$ 353	\$ 333

(\$ in millions, except per share data)	4Q 2017	4Q 2017 per share data	FY 2017	FY 2017 per share data
GAAP earnings and EPS	\$ 48	\$ 0.31	\$ 220	\$ 1.42
Required partial write-off of deferred tax asset	12	0.08	12	0.08
Required acceleration of low income housing tax credit amortization	1	<0.01	1	<0.01
Previously disclosed compensation actions	1	<0.01	1	<0.01
Other accelerated write-offs	1	<0.01	1	<0.01
Total expenses related to the Tax Act	\$ 15	\$ 0.10	\$ 15	\$ 0.10
Earnings and EPS, excluding expenses related to the Tax Act	\$ 63	\$ 0.41	\$ 235	\$ 1.52

Given the passage of the Tax Cuts and Jobs Act of 2017, the Company believes the above required and reported impacts of the Tax Cuts and Jobs Act of 2017 are generally of a non-recurring nature and notably impacted the fourth quarter 2017 results. Management believes this measure is meaningful because it reflects adjustments commonly made by management, investors, regulators, and analysts to evaluate the adequacy of earnings per common share. Associated believes net income available to common equity, excluding expenses related to the Tax Act and earnings per common share, excluding expenses related to the Tax Act provide a greater understanding of ongoing operations and enhances comparability of results with prior periods. All items are tax effected.

