

2016

Q1

# QUARTERLY REPORT

BOU Bancorp, Inc.

## PRESIDENT'S MESSAGE

On behalf of BOU Bancorp Inc., (Company) the holding company of Bank of Utah (Bank) and Utah Risk Management, I am pleased to report a cash dividend paid in the first quarter of 2016 of \$0.40 per share. At book value, the dividend yield is approximately 2.19 percent.

The Company has a long history of profitability. This consistent performance is not a result of chance or the by-product of a strong economy. Since the inception of the Bank in 1952, there have been ten recessions in the United States. Modernization of the banking industry has forced banks to become more efficient and has drastically reduced the number of surviving banks. In 1980, there were over 14,400 commercial banks across the country—today there are less than 5,400.

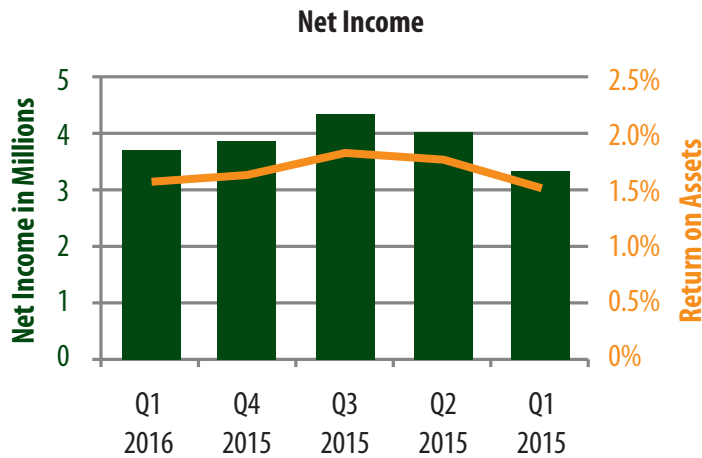
Our profitability and resilience is attributed to great customers, shareholders and a management team that leads with foresight. The Company continues to focus attention on asset quality and capital strength. Most importantly, the culture of the Company empowers all of its employees to take accountability for their job and the customer.

### Net Income

In the first quarter of 2016, the net income was \$3.70 million. This is an increase of approximately \$400 thousand compared to the first quarter of 2015. This growth came from all areas of the Company. As shown in the graph above, net income for the past five quarters has been excellent. The Company's return on assets of 1.55 percent and return on equity of 11 percent is strong, while the Company maintains a solid equity position of \$136.5 million and 17.1 percent in total risk-based capital.

### First Quarter Highlights

In the first quarter of 2016, the corporate trust department experienced a complete restructure, adding new emphasis on their established aircraft owner trust specialties and agency services for life settlements. In a short



period of time, a highly skilled and experienced management team was put in place. They are supported by a qualified staff of knowledgeable employees with years of expertise. This change has proven to be highly beneficial as demonstrated by the department's year-over-year increase in revenue for the quarter. First quarter revenue in 2016 was \$1.5 million as compared to \$1.4 million in the first quarter of 2015.

Further changes in the first quarter of 2016 include the introduction of a new web site and online banking product. The new features enable customers to find the products and tools they need to manage their finances, wherever they may be. Now, whether at a computer or on a phone, customers can apply for business or personal loans, open accounts, find wealth management services or handle virtually all of their deposit needs. Additionally, the improvements allow for person-to-person and bank-to-bank transfers. These are just a few of the many additional services available to our customers. I encourage you to visit us online at [bankofutah.com](http://bankofutah.com) and check out the new improvements.

The first quarter of 2016 is off to an excellent start. On behalf of the management team, we are appreciative of your continued support and trust.

Sincerely,

*Douglas L. DeFries*

**Douglas L. DeFries**  
Bank President and CEO  
Company Vice President



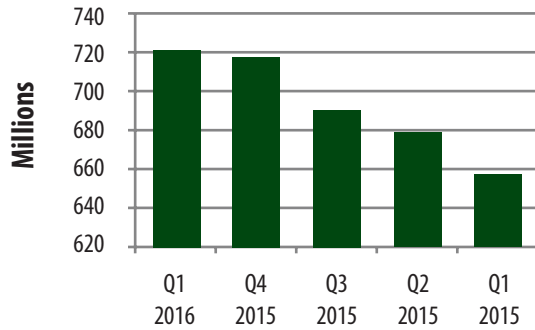
 **BANK of UTAH**  
Experience. Service.

# Q1 2016 FINANCIAL ANALYSIS

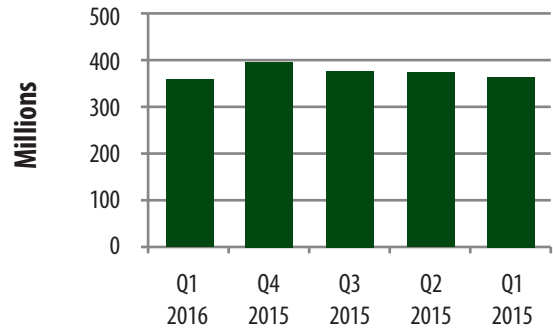
**COMMERCIAL LENDING:** The commercial loan portfolio grew by 0.6 percent year to date. Loan volume remains healthy with over \$48 million of loans funded. Total loan portfolio growth was dampened by payoffs on several large construction loans. These payoffs were expected. Loan quality remains exceptional as measured by the .26 percent ratio of non-accrual loans and ORE to Tier One capital and allowance. Non-performing assets were .05 percent of the loan portfolio.

**WEALTH MANAGEMENT:** We recently incorporated four departments that now constitute our wealth management department. They are; personal trust, insurance, private banking and investments. This combination allows the Bank to serve the financial investment and insurance needs of all our customers. As seen in the graph below, the Bank has stability in assets under management in the personal trust area.

**Period End Loans, Net of Unearned Income**



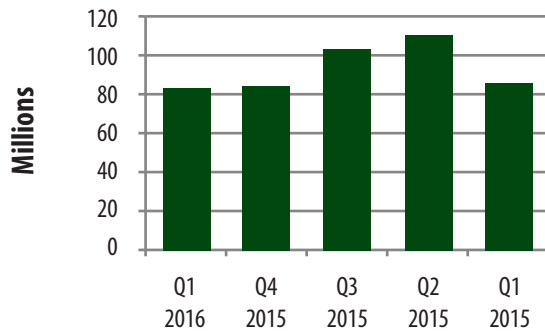
**Personal Trust Assets Under Management**



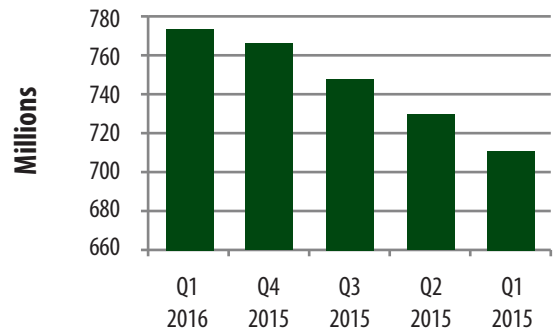
**MORTGAGE LENDING:** The mortgage department experienced steady production of residential mortgage loans, home construction and home equity loans similar to the first quarter of 2015. Mortgage lending continues to have a positive effect on the overall performance of the Company. New loan officers hired during the quarter are now producing, the market for housing is still good and our expectations for the year are optimistic.

**DEPOSITS:** For the past five quarters, deposits have grown at a steady, sustainable pace. Branch managers, treasury management operations, sales associates and tellers strive to communicate effectively with our customers and potential clients to ensure they are offered products and services that fit their needs. This high level of care has enabled our customers to have the financial services they need at their fingertips and the Bank to have the deposits for use in lending.

**Mortgage Production**



**Average Deposits**



## Notable Points

Net interest income before provision grew from \$8 million in the first quarter of 2015 to \$9 million in the first quarter of 2016, a 12.8 percent increase from the prior year. This is due to growth in the Bank's loan portfolio, thus allowing us to put more of our assets into higher earning loans.

The Bank did not take a provision for loan losses in the first quarter. This is due to the pristine nature of the loan portfolio. We continue to monitor the economy and the portfolio and will make the appropriate additions to the allowance for loan losses, if the need arises.

Non-interest income remained steady compared to the first quarter of 2015. Unlike most community banks that rely heavily on net interest income, primarily from consumer and commercial lending, the Company has built other streams of revenue to diversify its potential.