



BOU Bancorp, Inc.

# QUARTERLY REPORT

Q1 2019

## PRESIDENT'S MESSAGE

On behalf of BOU Bancorp, Inc. the holding company of Bank of Utah (Bank) and Utah Risk Management, Inc. (URM), collectively known as the Company, I am pleased to report a dividend of \$0.07 per share was paid on February 4, 2019 and a dividend of \$0.07 per share was paid on April 1, 2019. The growth in our loan portfolio, both organically and through the AmBank acquisition, has driven strong increases in our interest income. We also continue to see the benefit of an improving net interest margin that increased from 4.59 to 4.93. Our focus has been, and will continue to be, to provide our customers with the products they need with a high level of customer service.

Net Income for the first quarter of 2019 was \$9.0 million, compared to \$5.5 million for the fourth quarter of 2018 and \$5.1 million for the first quarter of 2018. Consolidated net income for the first quarter of 2019 included a pre-tax gain of \$1.4 million on the sale of our branch at 711 South State Street in Salt Lake City and a pre-tax gain of \$156,000 on the sale of our property and casualty insurance business. In addition, consolidated net income for the fourth quarter 2018 included \$1.5 million in pre-tax one-time acquisition related expenses. Excluding the impact of these one-time transactions, consolidated income for the first quarter of 2019 was \$7.9 million, compared to \$6.7 million for the fourth quarter of 2018 and \$5.1 million for the first quarter of 2018, an increase of 17.3 percent and 53.4 percent, respectively. This is the highest earnings quarter in terms of net income in the history of the Company.

Return on average equity (ROAE) increased to 20.50 percent, compared to 12.81 percent for the previous quarter and 13.29 percent for first quarter 2018. Adjusted return on average equity

was 17.82 percent in the first quarter of 2019, compared to 15.57 percent for the previous quarter with one-time adjustments taken into account.

Net interest income (fully taxable equivalent basis) for the first quarter of 2019 was \$16.0 million as compared to \$12.2 million for the first quarter of 2018. This is a result of loans increasing by 13.9 percent and deposits growing by 6.9 percent compared to the first quarter of 2018. This strong growth has not come at the expense of the narrowing net interest margin. Net interest margin was 4.93 percent at first quarter end 2019, compared to 4.17 percent in the same quarter of the previous year. We expect interest rates to stay neutral through 2019; however, there has been a strong demand for deposits in the banking industry. Deposit rates may continue to rise and put pressure on the net interest margin going forward.

The State of Utah continues to have the most diverse economy of any state in the nation, with every major industry experiencing growth in employment. Total personal income grew to \$146.0 billion at the end of 2018, which is the seventh highest in the nation. In terms of percentage of employment growth, Utah ranks second. Home values rose by 9.8 percent in 2018. We continue to expect healthy but moderate growth for 2019.

During this period of strong economic growth, we as bankers and members of our community are proactive in helping build a Utah that will continue to attract quality businesses. We see the Company's role in the transformation of the state to be involved in community organizations, state associations, charities and civic engagement. We strive to be actively involved in helping those less fortunate in our area through programs such as our annual *Kick Childhood Hunger* food drive in which our employees and customers donate non-perishable food items to help fill our local pantries. We are a community bank that is actively involved. We will continue to help build our communities through the products and services we offer, the service hours provided to worthy causes and the donations we give to make our neighborhoods and businesses better.

Net Income and Book Value



*Douglas L. DeFries*

**Douglas L. DeFries**

PRESIDENT AND CEO



# Q1 2019 BANK FINANCIAL ANALYSIS

## COMMERCIAL LENDING

Commercial loan balances for first quarter of 2019 remained flat compared to fourth quarter of 2018. This was due to a number of construction loans that paid off. Year-over-year growth remains strong. Loans outstanding were \$1.04 billion at first quarter end 2019 compared to \$919.3 million at the end of first quarter 2018. Loan quality remains exceptional as measured by a 0.00 percent Texas ratio. Commercial real estate transactions on existing buildings and new construction are still driving the market.

Period End Loans, Net of Unearned Income



## RESIDENTIAL LENDING

Residential loan production was \$78 million for the first quarter of 2019, a decrease from the previous quarter of 24.5 percent and a decrease of 9.3 percent from the first quarter of 2018. This is a typical decrease due to the seasonality of residential lending. The Bank believes that it will hit its projections in production by the year end. Due to slightly better pricing in the secondary market, the gain on sale of loans was up 7.7 percent over the first quarter of 2018. The Bank continues to hold its position in the market as one of the top lenders in the state in terms of loan production.

Mortgage Production



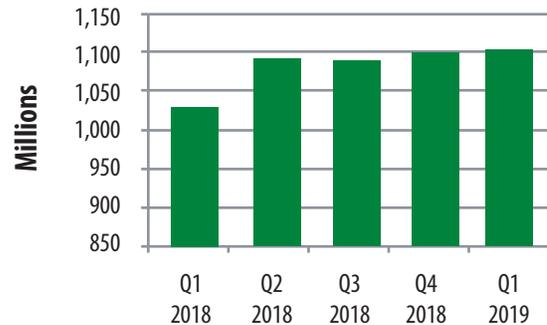
## CORPORATE TRUST

Corporate trust production was ahead of goal for the first quarter of 2019. This was helped by strong performance in core aviation products. Market conditions continue to evolve and high-quality clients are seeking the Bank's expertise. Customer service continues to be the focus both internationally and domestically. Life settlement opportunities were positive through the quarter as well. Airline economic forecasts continue to show strong opportunities moving forward and both corporate and commercial aircraft continue to perform robustly.

## DEPOSITS

Average deposits reached a milestone for the first quarter of 2019 at \$1.1 billion, a 4.3 percent increase from the previous quarter and an 11.5 percent increase from the first quarter of 2018. Merging the AmBank deposits and branches has been a success. This new customer base is benefiting from additional products and services and all customers are benefiting from additional locations along the Wasatch Front. The treasury management function is making significant contributions to the Bank's growing deposit base by bringing on new business customers and aiding existing customers with cash management solutions.

Average Deposits



## WEALTH MANAGEMENT

Wealth management aims to increase customer service by proactively reaching out to clients at their homes and places of business. Personal trust assets under management were \$483.3 million, a 4.0 percent increase from the previous quarter and a 9.6 percent increase from the first quarter of 2018.

## COMPANY NOTABLE POINTS

	Q1 2019	Q4 2018	Q1 2018
Return of Average Assets	2.63%	1.63%	1.66%
Return on Average Equity	20.50%	12.81%	13.29%
Net Income	\$9.0MM	\$5.5MM	\$5.1MM
Net Interest Margin (FTE)	4.93%	4.59%	4.17%
Net Interest Income (FTE)	\$16.0MM	\$14.7MM	\$12.2MM
Earnings Per Share	\$0.54	\$0.33	\$0.30
Equity	\$181.9MM	\$174.3MM	\$158.6MM
Total Assets	\$1.41B	\$1.43B	\$1.31B

Net interest income (fully taxable equivalent basis) grew 8.8 percent from the previous quarter due to a higher net interest margin and higher average loan balances in the quarter.

At the bank level, Tier 1 leverage ratio was 12.0 percent, compared to 11.46 percent in the previous quarter.

Return on average equity increase was partially due to a one-time sale of a branch, which was a pre-tax gain of \$1.4 million.

The Bank has driven down the efficiency ratio to 48.76 percent for the first quarter of 2019, compared to 61.58 percent for the first quarter of 2018.