



BOU Bancorp, Inc.

# QUARTERLY REPORT

Q3 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 third quarter dividend of \$0.07 per share was paid on September 23, 2019. The dividend paid for the second quarter of 2019 was also \$0.07 per share.

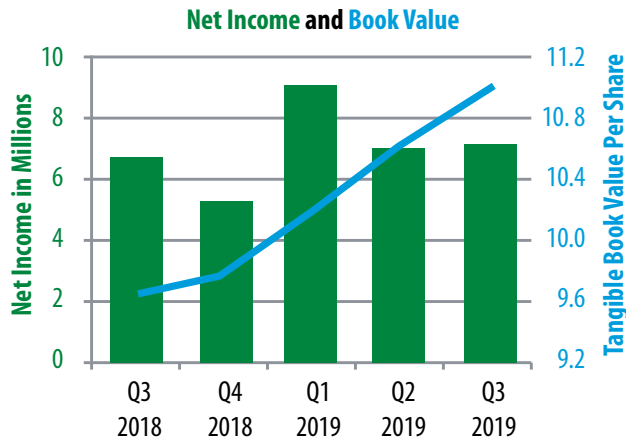
World and national economies are experiencing uncertainty, causing the Federal Reserve to lower interest rates. However, our regional economy has remained strong and the Company continues to deliver positive results through a diverse product offering and by adapting to market changes.

**Consolidated Net Income** for the third quarter of 2019 was \$7.0 million compared to \$7.2 million for the second quarter of 2019 and \$6.8 million for the third quarter of 2018. In the third quarter of 2019, the Bank took a \$1.3 million provision for loan losses. The Bank only took \$.2 million in the provision the previous two quarters. Consolidated net income for nine months ended September 30, 2019 was \$23.3 million, compared to \$17.9 million for the same period 2018, a 29.9 percent increase. Strong contributions to net income has come from the gain on sale of mortgage loans, which is up 23 percent; net interest income which is up 19 percent; and personal trust revenue, which is up 16 percent year over year.

**Return on Average Equity (ROAE)** continues to be in the upper tier of the industry at 14.43 percent, compared to 15.62 percent for the previous quarter and 16.22 percent for the third quarter of 2018.

**Net Interest Income** fully taxable equivalent basis (FTE) for the third quarter of 2019 was \$15.3 million as compared to \$15.4 million for the second quarter of 2019 and \$13.9 million for the third quarter of 2018. The year-over-year increase was due to a 10.1 percent increase in the loans outstanding and increase in the net interest margin of 26 basis points.

**Net Interest Margin** remained solid at 4.68 percent for the quarter as compared to 4.88 percent in the second quarter of 2019 and 4.42 percent for the third quarter of 2018.



In addition, the interest rates paid on deposits have increased throughout the year as the market responded to Federal Reserve activity in prior quarters. The FOMC made the first of three rate cuts in late July. After the most recent cut in October, the FOMC signaled it would not cut rates further unless the economy deteriorates substantially.

Operating income and expenses have continued to rise, though at a measured pace. Salaries and employee benefits increased by \$.5 million. Some of this was due to the increase in commission-based mortgage volume and some increases for employee base pay. Utah's personal income has grown 4.4 percent and is one of the highest rates of increase in the country.

## POSITIONED FOR THE FUTURE

According to many economists and upon review of market indicators, we expect that the global and national economy will continue to slow over the next two years. We expect the Utah economy to slow as well, but continue to outperform the national average. With this said, we feel confident that Utah's economy will continue to grow, just at a slower pace. We have been in the longest cycle of economic growth in our history; however, the growth in this cycle has been slower and less subject to large spikes, making a recession less severe and more manageable for consumers and businesses, if it comes about.

Our management team has built the Bank on sound principles. This includes the ability to adapt to meet our customers' needs and offer services in a manner the customer requires; to deliver better than average returns for our shareholders; and to provide an environment for our employees to work and succeed. In the past 25 years, there are 60 percent fewer banks in the United States. Bank of Utah is one of the few banks that has not only survived, but excelled. Through our consistent efforts, we expect to continue delivering positive results for our customers, shareholders and employees for years to come.

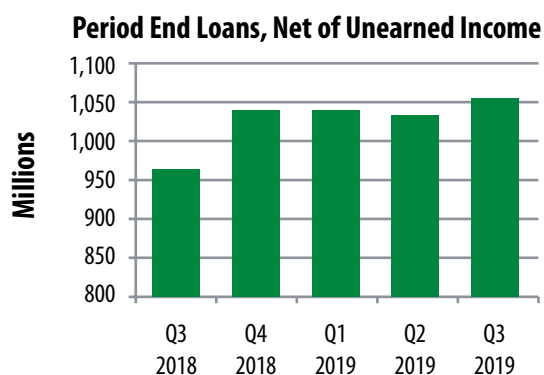
*Douglas L. DeFries*  
**Douglas L. DeFries**  
PRESIDENT AND CEO



# Q3 2019 BANK FINANCIAL ANALYSIS

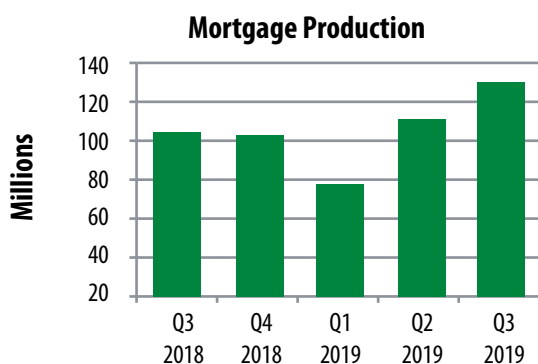
## COMMERCIAL LENDING

Commercial loan balances for the third quarter of 2019 grew 1.8 percent over the second quarter of 2019 and 10.1 percent over the third quarter of 2018. This is a result of larger loans closed over the previous year and funding of construction loans booked in previous quarters. Year-over-year growth remains strong with loans outstanding of \$1.05 billion in the third quarter of 2019. Loan quality improved as measured by a 2.62 percent Texas ratio as compared to 3.53 percent for the second quarter of 2019. Competition for loans continues to increase with new lenders emerging in the market. Loan growth is expected to continue through year end, despite lower rates and more competition in the industry.



## MORTGAGE LENDING

Residential mortgage loan production was \$129.9 million for the third quarter of 2019, an increase of 16.1 percent from the previous quarter and 24.7 percent over the third quarter of 2018. This increase was expected due to seasonality; however, lower mortgage rates spurred the market more than normal for this time of year. The gain on sale of mortgage loans was up 38.7 percent over the second quarter of 2019 due to increased volume and better pricing in the secondary market.

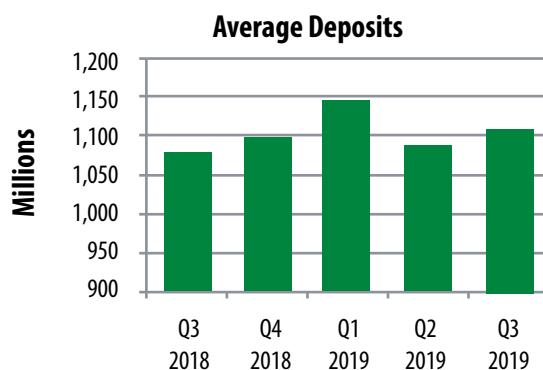


## WEALTH MANAGEMENT

Personal trust assets under management was \$501.2 million, which was comparable to \$486.5 million in the previous quarter and a 3.1 percent increase from the third quarter of 2018. Corporate clients are benefiting from the addition of the Bank's Foreign Currency Exchange department. Private banking continues to support high-net-worth customers with personalized services.

## DEPOSITS

Average deposits increased 1.8 percent over the previous quarter to \$1.1 billion. This is a 3.1 percent increase over the third quarter of 2018. Efforts to strategically increase balances by year end are coming to fruition and the Bank is on track to meeting long-term deposit growth objectives. Additionally, more resources have been allocated to improve the digital banking experience for our customers.



## CORPORATE TRUST

Corporate trust increased total number of accounts by 8 percent from the third quarter of 2018. Strong growth in commercial aircraft, corporate aircraft and equipment trusts have helped create a balanced model for the portfolio. The total number of aircraft held in trust increased 11 percent over the second quarter of 2019. Strong revenue from all sources of trust business helped offset natural accretion. A culture of timely responses to customer needs, blended with a thoughtful risk management strategy, has strengthened the portfolio and fostered client loyalty.

## COMPANY NOTABLE POINTS

	Q3 2019	Q2 2019	Q3 2018
Return on Average Assets	2.02%	2.16%	2.04%
Return on Average Equity	14.43%	15.62%	16.22%
Net Income	\$7.0MM	\$7.2MM	\$6.8MM
Net Interest Margin (FTE)	4.68%	4.88%	4.42%
Net Interest Income (FTE)	\$15.3MM	\$15.4MM	\$13.9MM
Earnings Per Share	\$0.41	\$0.43	\$0.40
Equity	\$194.9MM	\$188.8MM	\$168.3MM
Total Assets	\$1.44B	\$1.33B	\$1.30B

At the Bank level, Tier 1 leverage ratio was 12.97%, compared to 12.90% in the previous quarter.

The Bank's efficiency ratio is 52.46%. This ranks Bank of Utah in the top 2% efficiency for all banks in the United States.

Bank of Utah ranks in the top 5% of all banks in the nation based on Return on Average Assets.