

2016

Q4

# QUARTERLY REPORT

BOU Bancorp, Inc.

## PRESIDENT'S MESSAGE

On behalf of BOU Inc., (Company) the holding company of Bank of Utah (Bank) and Utah Risk Management, I am pleased to report a cash dividend of \$0.60 per share to be paid on January 27, 2017. The dividend paid in the fourth quarter of 2016 was \$0.65 per share. Dividends of \$2.25 per share were paid in 2016, as compared to \$2.10 per share paid in 2015.

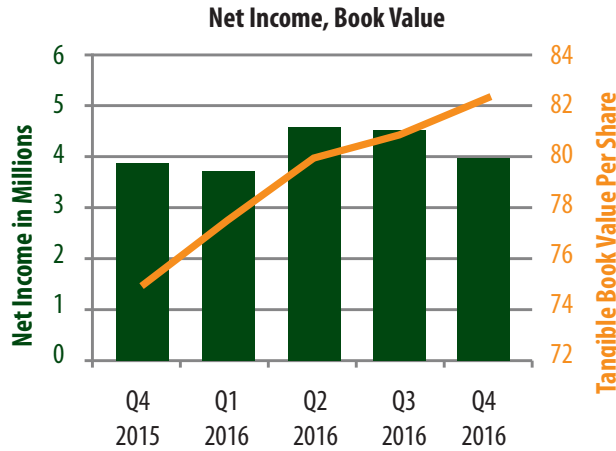
Net income for the fourth quarter of 2016 was \$4.0 million compared to \$4.4

million for the third quarter of 2016 and \$3.8 million for the fourth quarter of 2015. In 2016, the Company recorded a \$900,000 loan loss provision, compared to a \$1.3 million provision for loan losses for all of 2015. The allowance for loan losses to gross loans was 1.28% at the end of the fourth quarter of 2016 as compared to 1.21% for the same period in 2015.

Net income grew from \$15.5 million in 2015 to \$16.7 million in 2016. This was driven by excellent results from all of the revenue producing areas of the Bank. Due to the increase in commercial loans, net interest income surpassed 2015 by \$3.1 million. Trust fees increased by \$1.1 million. Gain on sale of mortgage loans increased by \$0.8 million. Assets for the Company increased significantly from \$953.7 million in 2015 to \$1.1 billion in 2016, a growth rate of 14%. Deposits grew by \$118 million, a 15.4% growth rate.

The Briden Report, an independent company that issues quarterly bank comparisons, evaluated Bank of Utah against 44 of its peers. For the past several years, Briden has rated Bank of Utah as one of the top performing banks in its peer group. Bauer Financial, Inc. gives the Bank a "five out of five" star rating for strength and capitalization. Bank of Utah is one of the top performing banks in the nation in earnings and strength of balance sheet. The reason is simple—we hold ourselves accountable to ensure the customer is given the best products and services available in the industry and this is done in a manner that is profitable to the Bank.

In order to remain competitive, we continue to analyze the way we do business. A few years ago, the lobbies were filled with customers making deposits and cashing checks. This has largely been replaced by mobile and internet banking services. Currently, most of the paperwork for loans is completed electronically.



The new business model paradigm has required us to hire more sophisticated employees that can drive efficiencies in our systems, without compromising customer service. This is a continual process.

### Future Growth and the Economy

With the election of President Trump, we expect to see changes in the country, both in politics and the economy. The hope in the financial industry is that there will be a reduction of regulations placed on the

current banking sector, thus reducing the cost of doing business. In addition, expectations are for two or three more increases in the federal funds rate in 2017. Rising rates are actually a good sign—it means that the United States GDP is growing, unemployment is low, and prospects remain strong for continued growth in the U.S. economy. Raising rates at a moderate pace is generally good for bank earnings. It also has a positive effect for the consumer in the long run because it has a tendency to keep inflation in check.

For the coming year, the Bank will stay focused on improving customer service. Products and services will be refined to stay competitive and the Bank will ensure operations are efficient.

On behalf of the Bank's management team, our goal is to continue to earn your trust and support every day. We are optimistic about the future, but understand there will be swings in the economy. We will manage in such a way that we will keep the Bank a high-performing organization for our customers and shareholders in all economic cycles.

Sincerely,

*Douglas L. DeFries*

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



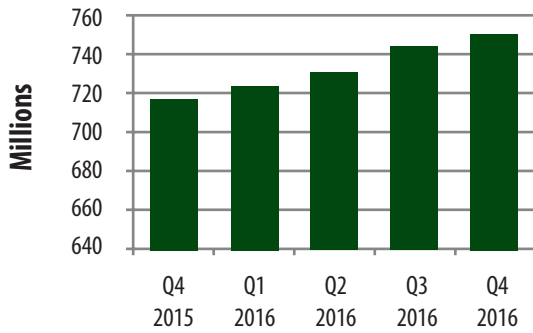
**BANK of UTAH**  
Experience. Service.



# Q4 2016 BANK FINANCIAL ANALYSIS

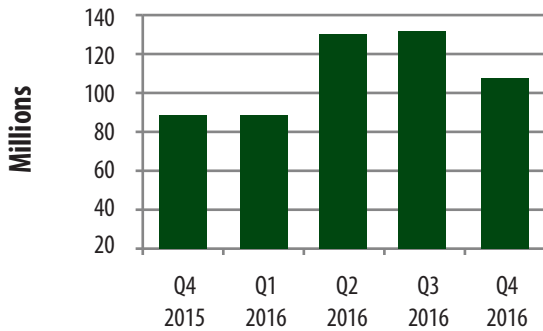
**COMMERCIAL LENDING:** The loan portfolio, net of unearned income, grew to \$752.4 million, a 4.7% increase from \$718.9 million in 2015. The Bank closed a record number of loans in 2016 and booked over \$396 million in new commitments. Loan quality remains exceptional as measured by a 0.10% Texas ratio. Non-performing assets were 0.02% of the total loan portfolio. These ratios remained consistent throughout the year.

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



**MORTGAGE LENDING:** Mortgage loan production was \$112.4 million for the quarter, and \$456.6 million for year-end 2016. This was an increase of 18.7% over year-end 2015. This level of production makes the Bank one of the leading mortgage lenders in Utah. The top priorities for the mortgage group are to close loans within the expectations of the borrowers, continue to hire top producing loan officers who know how to take care of their customers and improve back office operations.

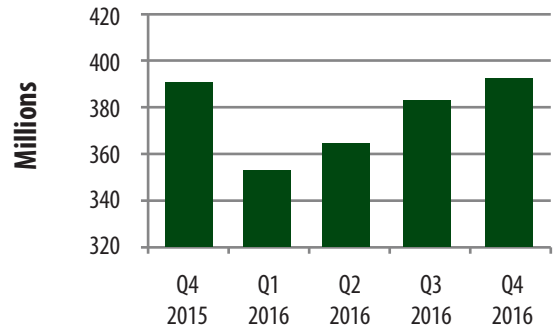
**Mortgage Production**



**CORPORATE TRUST:** The number of accounts for the fourth quarter of 2016 ended at 1,596, which were primarily composed of 1,392 aircraft accounts and 156 life settlement accounts. The Bank is extremely proud of the growth in this sector. The change in management that took place in the first quarter of 2016 proved to be beneficial to both our customers and the Bank. This team has brought many quality customers to the Bank, while continuing to provide exceptional service to existing customers.

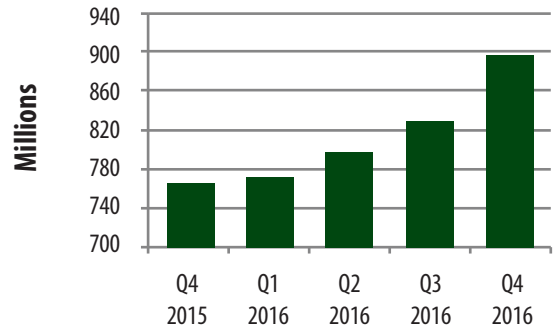
**WEALTH MANAGEMENT:** Wealth Management has seen growth in every sector of its business. Success was demonstrated by an increase in clients and assets held under management. Personal trust assets under management ended the year at \$392.2 million. This growth has come from a strong referral base of satisfied customers who use our services and outside attorneys and other professionals that respect our expertise.

**Personal Trust Assets Under Management**



**DEPOSITS:** Average deposits were \$824.5 million for year-end 2016, an 11.7% increase from \$738.3 million in 2015. The growth came from three distinct groups: existing account holders, new customers and the Bank's Corporate Trust division. A new building for the Roy branch will be completed in February. A new office in Bountiful will be opening in the second quarter of 2017.

**Average Deposits**



## Company Notable Points

Earnings per share for the fourth quarter of 2016 was \$2.37 compared to \$2.64 for the previous quarter. Year-end 2016 earnings per share was \$9.90, compared to \$9.22 in 2015. These increased earnings fueled the nice increase in tangible book value per share.

Total stockholder's equity increased by \$12.4 million for year-end 2016. This was accomplished while paying out 22.7% of earnings in dividends to shareholders with a 2.7% dividend yield.

The Bank's Tier 1 leverage ratio decreased slightly from 13.17% at year-end of 2015

to 12.54% at year-end of 2016. This was due to the asset growth mix coupled with the use of capital for investments in people and infrastructure.

Return on average assets for year-end 2016 was 1.64% compared to 1.69% in 2015. This was accomplished while substantially increasing the Bank's asset base.

Return on average equity (ROAE) declined slightly for year-end 2016 at 11.90% compared to 12.12% in 2015. Earnings grew by \$1.2 million, yet equity grew at a stronger pace, thus the slight decline in ROAE compared to 2015.