BANK OF UTAH

2016

Annual Report

BOU BANCORP, INC.

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2016 Annual Report

BOU Bancorp, Inc., the holding company of Bank of Utah (Bank) and Utah Risk Management, Inc., collectively referred to as "Company", produced record earnings in 2016, with net income of $16.7 million. The Company's tangible net worth increased over 10 percent in 2016, from $127 million to $140 million and has grown over 59 percent in the past five years. This upward trend increased the tangible book value per share from $75.50 in 2015 to $83.15 in 2016. Cash dividends rose 7.1 percent from $2.10 per share in 2015 to $2.25 per share in 2016. This increase in capital will allow us to take advantage of opportunities for growth in the future.

> **"Bank of Utah is in the top 12 percent in asset size of all banks in the United States and in the top 8 percent in net income. Our overall performance ranks #1 in our custom peer group.**

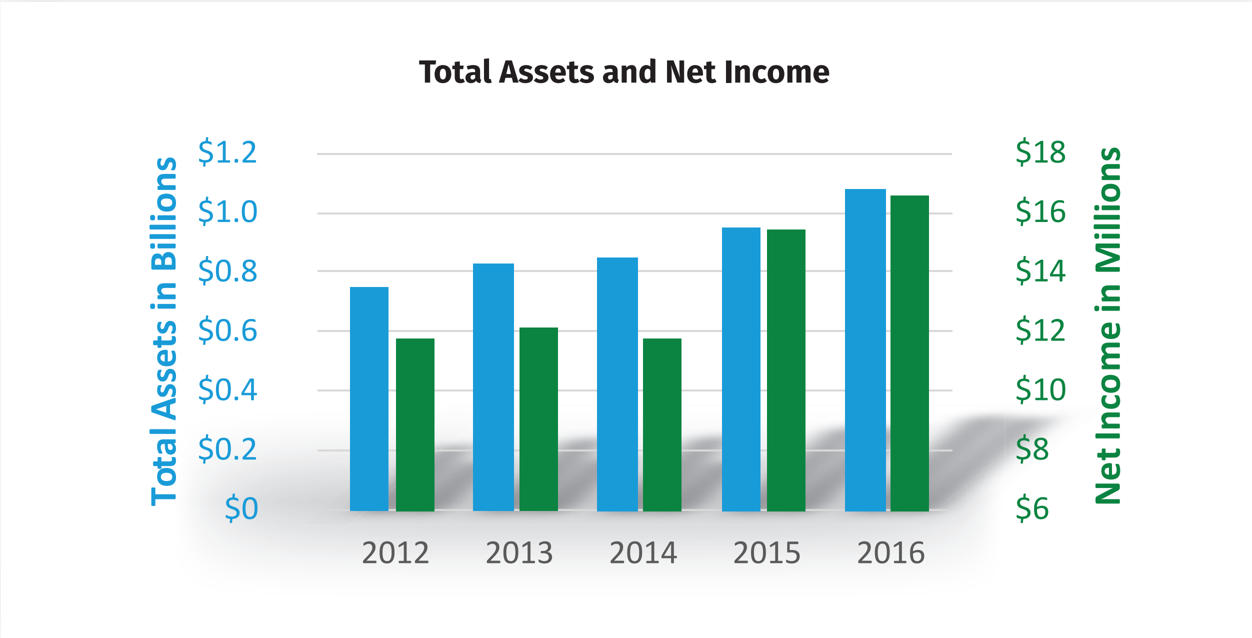
During the past 30 years, the banking industry has experienced many changes such as consolidations, the Great Recession, increased regulation and the emergence of non-bank entities, just to name a few. As a result, fewer banks exist today. In 1984, there were over 14,000 banks in the United States, today there are less than 6,000. During the Great Recession, the Bank was one of a small number of banks in the United States that did not have a loss during any quarter. During this challenging time, the Bank not only survived, but excelled. Today, Bank of Utah is in the top 12 percent in asset size of all banks in the United States and in the top 8 percent in net income, according to usbanklocations.com. Our overall performance ranks #1 in our custom peer group in 2012, 2013, 2014, 2015 and 2016, according to the Briden Report. Additionally, the Bank has a 5-Star Bauer Rating.

Billion Dollar Bank

This year the bank exceeded $1 billion in assets. Of the 5,922 banks in the United States, only 742 have reached this mark. This milestone has enabled us to make larger loans to fund local businesses and diversify our product mix.

New Logo

More than 30 years ago, we selected the beautiful pine tree to represent our brand. The tree symbolizes strength, protection and growth. Building upon these same qualities, we updated the logo with an even bolder pine tree. Like the pine tree, we stand for the long term. We are committed to help our customers grow their businesses and personal wealth. With our roots firmly planted in the Utah soil by the Frank M. Browning family, we have grown from 16 employees to over 330 bank representatives in 18 locations across the State of Utah. With more than $1 billion in assets, the Bank has increased its depth and breadth of services such as personal and business banking, consumer, residential and commercial lending, trust management, insurance and investment services. Like our logo, we will continue to grow and adapt in an ever-changing landscape.



Bank of Utah Providence Branch Employees

Our Goal

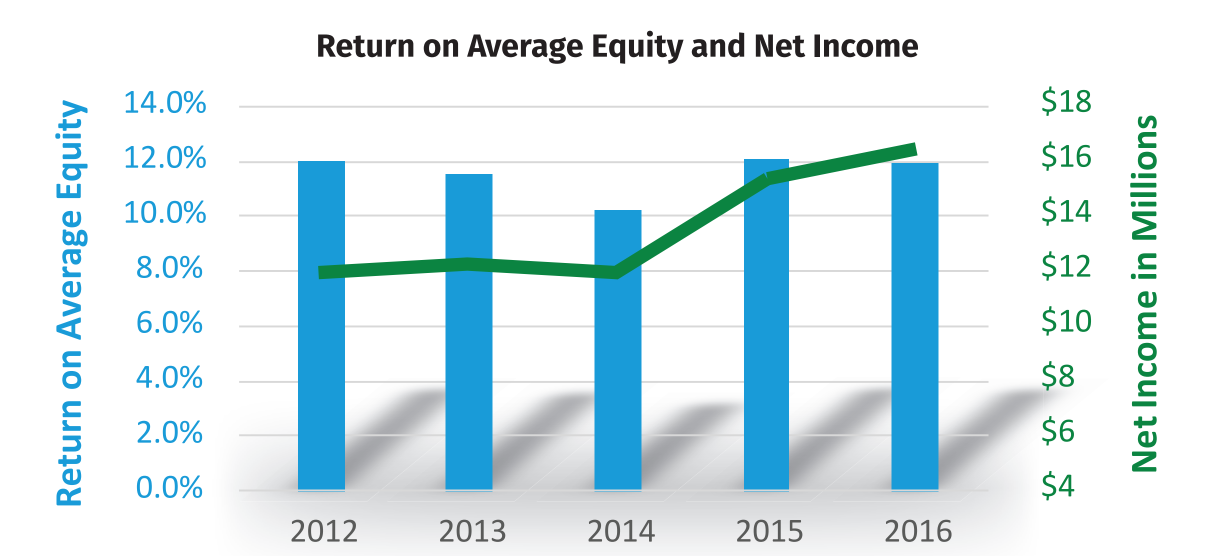
Bank of Utah is dedicated to offering a full spectrum of financial services you would expect from a large national bank, with the friendly, local touch of a community bank. We are responsive to our present and prospective customers and strive to be a major banking force in Utah, the country and around the world. The honor, respect and integrity of our employees, customers and stockholders are our highest priorities.

Frank W. Browning
Chairman, BOU Bancorp, Inc.

Douglas L. DeFries
President & CEO, Bank of Utah

In terms of profitability, the Bank had its best year ever. Not only did the Company achieve record earnings of $16.7 million, all business lines reached new levels of growth and profitability. While some of the success can be attributed to a strong local economy, these results were achieved because of the outstanding efforts of Bank officers and employees. Their dedication and resilience are the backbone of the Company's success. From the design of the strategic plan by management, to the execution of that plan by employees, each takes personal responsibility for the customer. Ultimately, customers receive valued products and services, and shareholders get a proper return on their investment.

> **"Not only did the Company achieve record earnings of $16.7 million, all business lines reached new levels of growth and profitability.**



Profitability

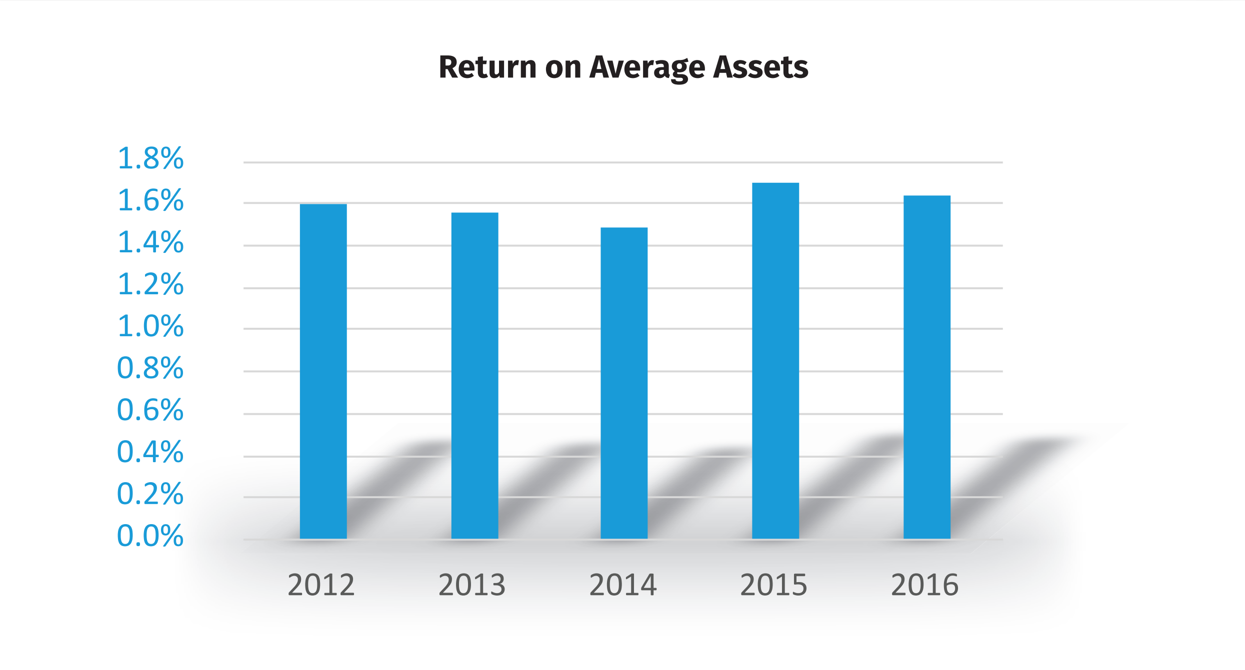
Long-term profitability is an excellent measure of a bank's ability to succeed in an ever-changing marketplace. The Bank has 30 consecutive years of profitable earnings. The Company's net income for 2016 was $16.7 million as compared to $15.5 million in 2015. This is a 7.4 percent increase from the previous year and a 72 percent increase over five years.

Primary changes to the income statement in 2016:

- Interest income and fees on loans increased to $39.3 million from $35.9 million. The $3.4 million change was primarily due to loan growth.
- Trust fees grew by $1.1 million.
- Gain on sale of loans increased $0.8 million.

Primary changes to expense items:

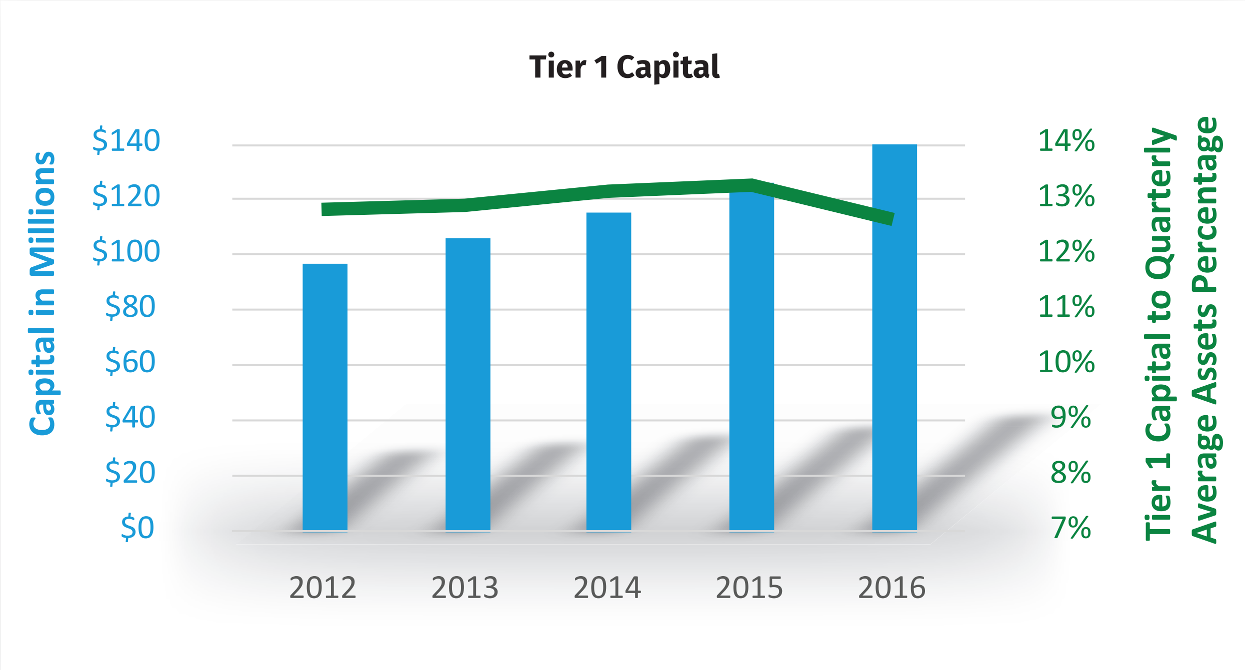
- Salaries and employee benefits grew by $2.6 million. This was primarily due to increased loan production and commissions paid. Additions to corporate trust and information technology staffing also contributed.
- Taxes increased by $0.6 million.



Through the efficient use of assets and excellent non-interest income, the Company's return on average assets (ROA) was 1.6 percent in 2016, with total assets increasing from $953 million to over $1 billion. This consistent, measured growth in income and assets over the past five years has given the Company the ability to invest in its future and to keep it sound, safe and secure. Maintaining capital will enable the Company to preserve its competitive advantage for years to come.

Capital Levels

Consolidated Tier 1 capital to quarterly average assets was 12.7 percent at year-end 2016. The prior year ended at 13.3 percent. The Bank has maintained this higher level of capital with the expectation to invest in opportunities as they occur. The Company is actively looking for investment opportunities that will increase its value and serve more customers. Capital levels continue to grow, even with record payouts in cash dividends. In 2016, the Bank paid $3.8 million in dividends, which represents $2.25 per share. In comparison, a total of $3.5 million was paid in dividends in 2015, which represents $2.10 per share.

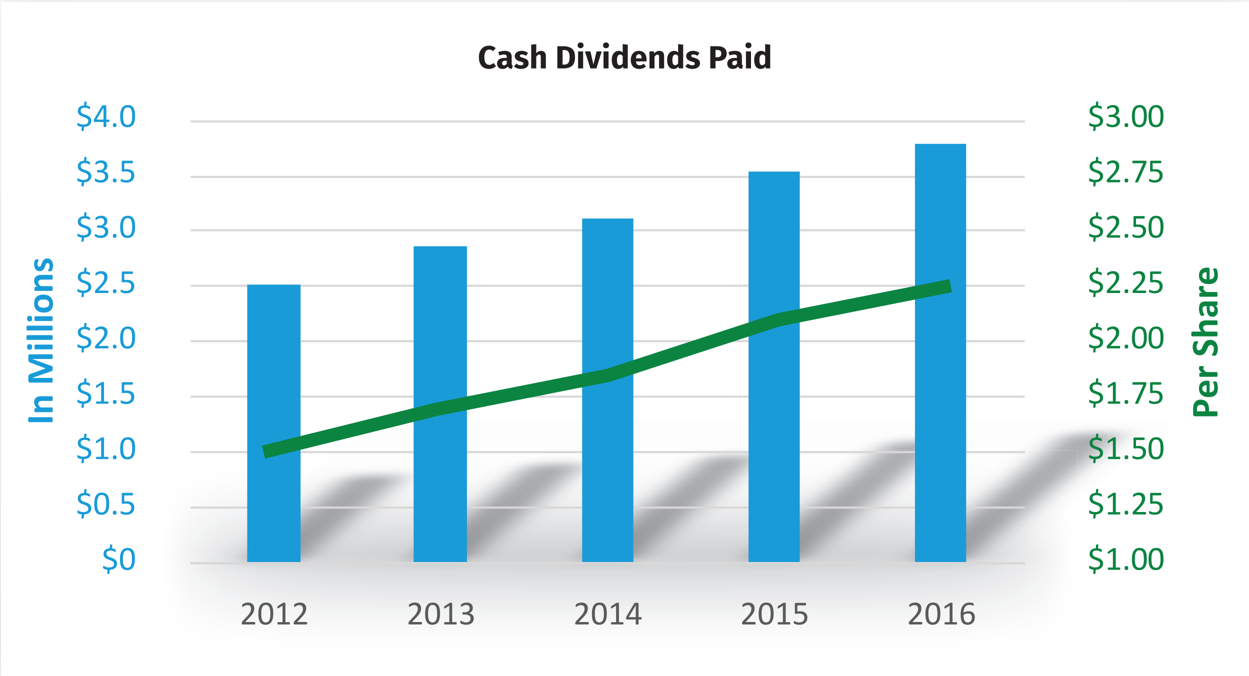


Future Initiatives

The Bank will continue to focus on its core lines of business. In addition, the Bank will fund key areas of operations to ensure it offers the most up-to-date products and services available.

Other initiatives include:

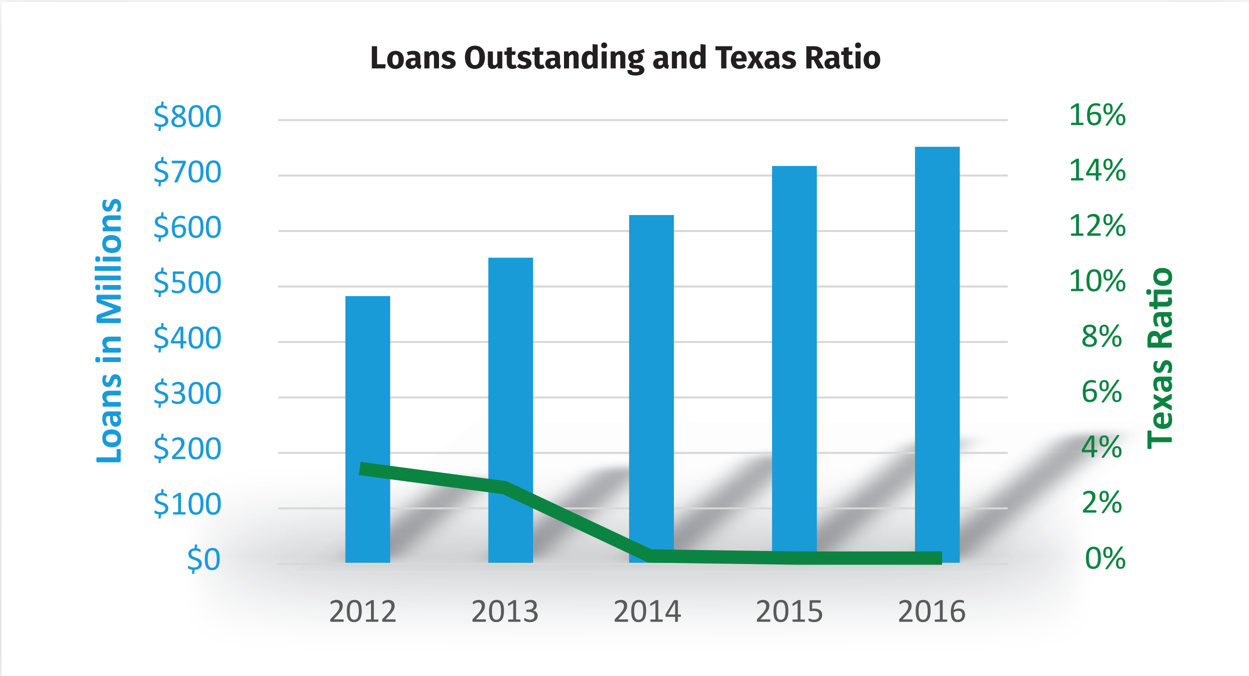
- Growing the assets of each core business line through the use of technology and keeping the existing personnel stable.
- Investing in infrastructure to keep banking systems and customer information secure from cyber threats.
- Adding new product lines in each area of the Bank, such as leasing in commercial lending, servicing the maritime industry in corporate trust, online offering in treasury management, and online applications for consumer loans.



Commercial Lending

Growth in commercial loans continued with a well-rounded mixture of loans from all segments of the business industry such as commercial real estate, equipment, income property, revolving lines of credit and leasing. Municipal lending is also a significant aspect of the Bank's lending focus. Interest and fees on loans increased by 9.1 percent to $36.3 million. Loan growth was 4.7 percent, which was lower than the 14.3 percent in 2015. While growth in outstanding balances was lower in 2016, the dollar amount of loans booked in 2016 was significantly higher than in 2015. The Bank increased the allowance for loan losses by $0.9 million, despite having net recoveries for the past two years.

The Bank's non-performing loans plus other real estate owned (OREO) was 0.1 percent of tangible capital plus allowance (Texas Ratio). This measure is among the lowest in the industry. The Bank has not had any OREO property for over three years. The loan portfolio's pristine credit quality is due to knowledgeable staff and sound underwriting standards.

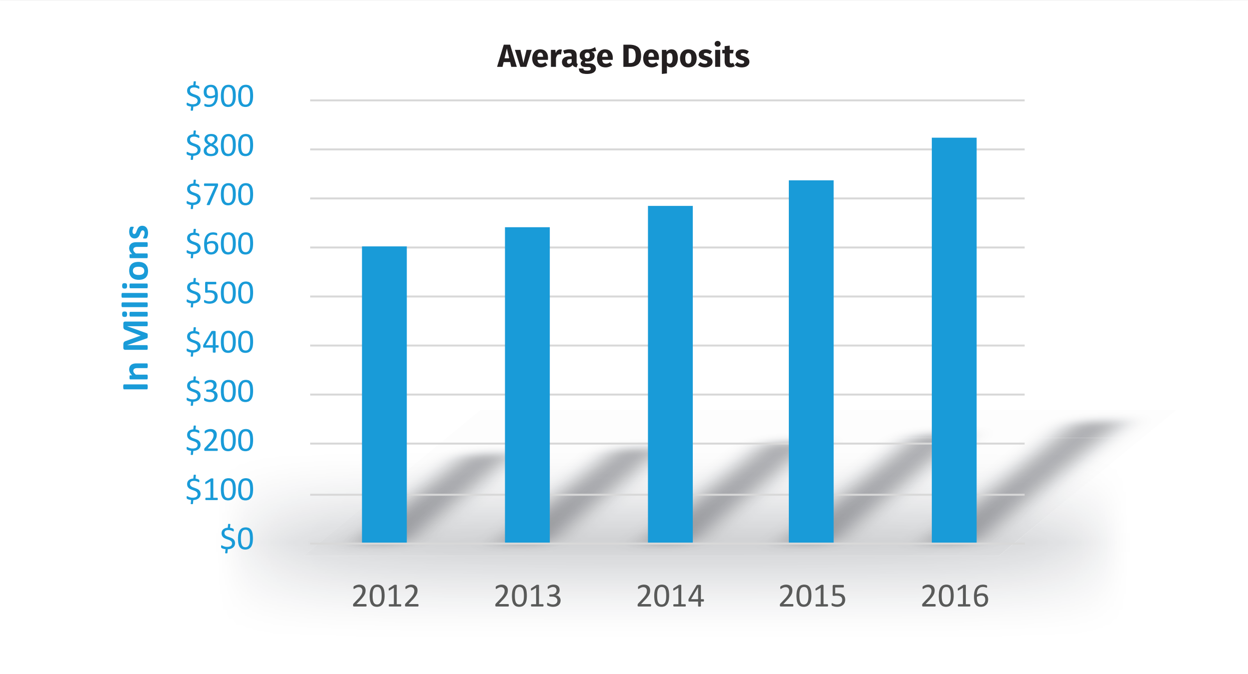


Deposits and Treasury Management

In 2016, average deposits grew by 11.7 percent, an increase of $86 million. The growth came from three distinct groups: existing account holders, new customers and the Bank's corporate trust division.

While many large banking institutions are shrinking their facilities, the Bank continues to strategically grow its footprint. In 2016, construction began on a new office in Roy, Utah, as a replacement to the existing building. Bank of Utah was the first bank to open in Roy and it is committed to maintaining its presence in this area. Plans to open a new office in Bountiful, Utah were also announced. This new branch will offer traditional banking services, home and commercial lending and wealth management services.

Treasury management has seen significant increases in customers and accounts. This service allows businesses to know their cash position, collect and make payments, and reconcile all of this from their office or mobile device. These online offerings can compete with any financial institution. Experienced employees are also ready and willing to help customers in person or by phone.



Wealth Management

Personal Trust: This line of business experienced growth in fee income in 2016 of 16.6 percent with a five-year average of 17.7 percent per year. Current assets under management are $392 million, this represents a 28.2 percent increase over the past five years. Growth is attributed to self-directed IRA contributions and additions of traditional trust accounts. The Bank continues to offer best-in-class products to clients and exceptional service to aid customers with their long-term financial plans.


Bank of Utah Trust Officers

Investments: The Bank offers a full array of products for retirement and wealth management such as 401(k) plans, annuities, mutual funds and securities. Experienced financial advisors design strategies to suit the individual investment needs of each customer. This personal service provides the security and knowledge needed to make wise investments.

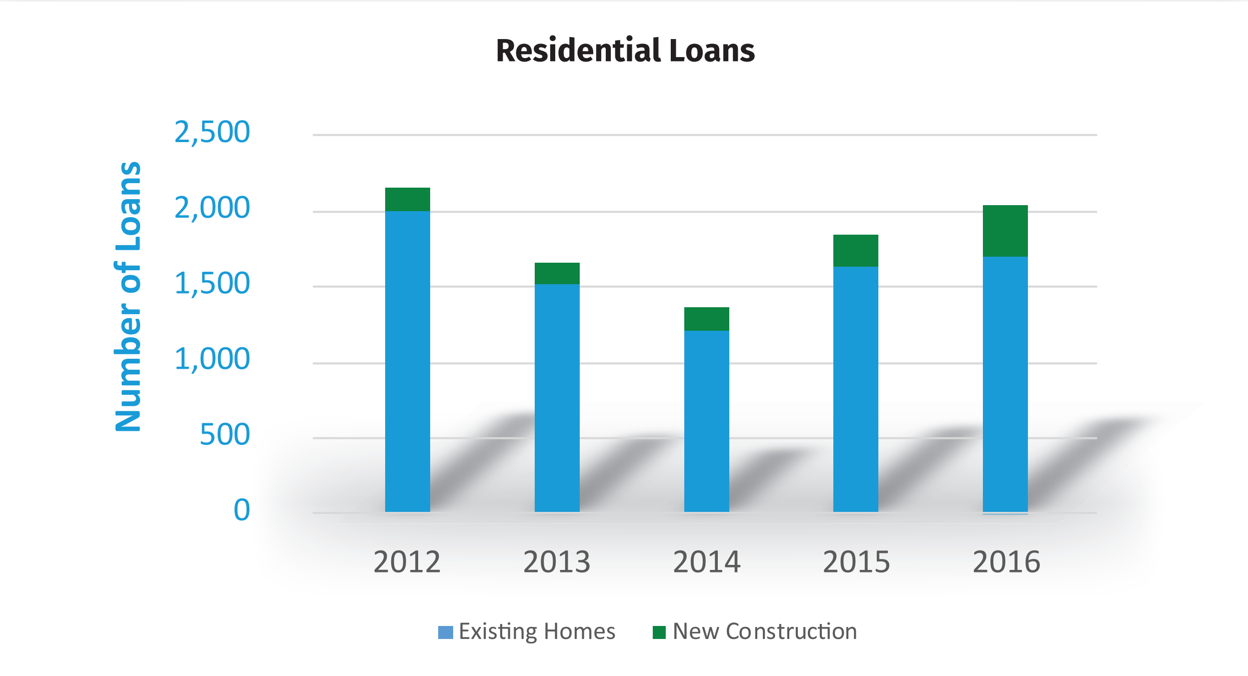
Private Banking: The goal of private banking is to ensure that clients in this segment get the one-on-one attention that they desire and have the products that fit their needs. Through this approach, the portfolio of satisfied customers will continue to grow.

Insurance: Insurance sales have seen steady growth in the first year of operation. With this addition, the Bank now offers all lines of property, casualty, life and disability insurance.

Bank of Utah Loan Officers

Residential Lending

The Bank experienced another great year in residential lending for existing homes and new construction. The number of new construction loans increased 58.6 percent over 2015. Bank of Utah funded a total of $455 million in loans, which is an 18.7 percent increase over the prior year. This represents over 2,000 loans. Based on the average Utah household, this affects over 8,000 people—an equivalent of a small city. Residential lending is very important to clients, as this will be one of the largest assets they own. The Bank implemented a new lending platform in 2016 that will continue to facilitate growth and improve future lending operations.



Consumer Lending

The Bank has $41 million in consumer loans, this represents over 5 percent of the total loan portfolio. The goal is to grow this portfolio through making the product more readily available. In 2017, the Bank will offer an online application to make it easy for customers to apply in the comfort of their home or office.

Corporate Trust

The number of accounts held in corporate trust at year-end 2016 was 1,596—which were primarily composed of 1,392 aircraft accounts and 156 life settlement accounts. The Bank is well-respected in the aircraft owner trust industry. In 2016, $4 billion processed through accounts in which the Bank acted as security trustee. According to the FAA, Bank of Utah is trustee to 17 percent of all aircraft owner trust accounts, making it the second largest account holder in the United States.

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
BOU Bancorp, Inc. and subsidiaries

Report on Financial Statements

We have audited the accompanying consolidated financial statements of BOU Bancorp, Inc. and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BOU Bancorp, Inc. and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedule - statement of condition and consolidating schedule - statement of income are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Spokane, Washington
March 14, 2017

BOU Bancorp, Inc.
Consolidated Statements of Condition

December 31, 2016 and 2015

(in thousands, except share data)

ASSETS		2016	2015
Cash and due from banks (note 2)	$	14,874	15,818
Interest-bearing deposits in banks		117,413	47,379
Federal funds sold		2,005	264
Investment securities (notes 3 and 10):			
Held to maturity, at cost (fair value of $13,901 and $18,107 respectively)		13,878	17,846
Available for sale, at fair value		127,706	97,954
Total investment securities		141,584	115,800
Loans held for sale		13,041	15,333
Loans (note 4)		752,415	718,856
Less allowance for loan losses (note 5)		9,653	8,683
Net loans		742,762	710,173
Accrued interest receivable		3,041	2,986
Goodwill		5,894	5,894
Bank owned life insurance		25,194	19,595
Premises and equipment, net (note 6)		13,332	12,371
Deferred tax asset		4,079	3,184
Other assets		4,217	4,534
Total assets	$	1,087,436	953,691

LIABILITIES AND STOCKHOLDERS' EQUITY		2016	2015
Deposits:			
Non interest-bearing	$	310,009	216,004
Interest-bearing (note 7)		572,369	548,367
Total deposits		882,378	764,371
Securities sold under agreements to repurchase (note 8)		50,982	49,020
Other liabilities		8,883	7,496
Total liabilities		942,243	820,887
Commitments and contingent liabilities (note 11)			
Common stock, $1 par value, 5,000,000 shares authorized, 1,683,375 issued and outstanding at December 31, 2016 and 2015, respectively		1,683	1,683
Paid-in capital		4,334	4,334
Accumulated other comprehensive loss		(677)	(182)
Retained earnings		139,853	126,969
Total stockholders' equity		145,193	132,804
Total liabilities and stockholders' equity	$	1,087,436	953,691

See accompanying notes to consolidated financial statements.

BOU Bancorp, Inc.
Consolidated Statements of Income

Years Ended December 31, 2016 and 2015

(in thousands)

		2016	2015
INTEREST INCOME:			
Interest and fees on loans	$	36,299	33,286
Interest on investment securities:			
Taxable		1,642	1,435
Tax-exempt		355	496
Interest on loans held for sale		540	560
Interest on federal funds sold		2	1
Interest on interest-bearing deposits in banks		456	122
Total interest income		39,294	35,900
INTEREST EXPENSE:			
Interest on deposits		1,960	1,654
Interest on securities sold under agreements to repurchase		157	152
Interest on other borrowings		2	1
Total interest expense		2,119	1,807
Net interest income		37,175	34,093
Provision for loan losses (note 5)		900	1,300
Net interest income after provision for loan losses		36,275	32,793
OPERATING INCOME:			
Service charges on deposits		1,383	1,493
Gain on sale of loans		9,833	9,038
Trust fees		8,826	7,772
Cash surrender value increase of bank owned life insurance		703	641
Other		1,597	1,461
		22,342	20,405
OPERATING EXPENSES:			
Salaries and employee benefits		22,530	19,940
Net occupancy expense		2,209	2,169
Equipment expense		3,538	3,074
Professional fees and services		1,660	1,248
Advertising expense		1,235	1,122
Office expense		995	975
Other		2,208	2,184
		34,375	30,712
Income before provision for income taxes		24,242	22,486
Provision for income taxes (note 11)		7,570	6,970
Net income	$	16,672	15,516

See accompanying notes to consolidated financial statements.

BOU Bancorp, Inc.
Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

(in thousands)

	2016	2015
Net income	$ 16,672	15,516
Other comprehensive loss:		
Net change in unrealized holding loss on securities available for sale, net of tax expense of $307 and $99 as of December 31, 2016 and 2015, respectively	(495)	(167)
Comprehensive income	$ 16,177	15,349

BOU Bancorp, Inc.
Consolidated Statements of Changes in Stockholder's Equity

(dollars in thousands)

	Common Stock	Amount	Paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balances, December 31, 2014	1,683,375	$ 1,683	4,334	(15)	114,988	120,990
Net income		-	-	-	15,516	15,516
Other comprehensive loss		-	-	(167)	-	(167)
Dividends paid		-	-	-	(3,535)	(3,535)
Balances, December 31, 2015	1,683,375	$ 1,683	4,334	(182)	126,969	132,804
Net income		-	-	-	16,672	16,672
Other comprehensive loss		-	-	(495)	-	(495)
Dividends paid		-	-	-	(3,788)	(3,788)
Balances, December 31, 2016	1,683,375	$ 1,683	4,334	(677)	139,853	145,193

See accompanying notes to consolidated financial statements.

BOU Bancorp, Inc.
Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(in thousands)

	2016	2015
OPERATING ACTIVITIES:		
Net income	$ 16,672	15,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,638	1,541
Provision for loan losses	900	1,300
Provision for commitments to fund loans	100	-
Deferred income tax benefit	(584)	(154)
Increase in cash surrender value of bank owned life insurance	(704)	(641)
Net amortization of investment premiums and discounts	542	495
Gain on sale of loans	(9,833)	(9,038)
Proceeds from sales of loans held for sale	309,294	302,680
Origination of loans held for sale	(297,169)	(297,169)
(Gain) loss on sale of premises and equipment	(3)	(24)
Change in accrued interest receivable and other assets	263	(268)
Change in other liabilities	1,286	499
Net cash provided by operating activities	22,402	14,737
INVESTING ACTIVITIES:		
Proceeds from maturities of held to maturity securities	3,805	7,715
Proceeds from maturities of available for sale securities	19,640	14,857
Purchase of held to maturity securities	-	(1,104)
Purchase of available for sale securities	(50,577)	(9,146)
Net change in loans from loan originations and principal repayments	(33,489)	(89,634)
Net change in interest-bearing deposits in banks	(70,034)	(15,880)
Net change in federal funds sold	(1,741)	(250)
Purchase of bank owned life insurance	(4,895)	-
Proceeds from sale of premises and equipment	74	24
Purchase of premises and equipment	(2,310)	(1,379)
Net cash used in investing activities	(139,527)	(94,797)
FINANCING ACTIVITIES:		
Increase in demand, savings, and money market deposits	128,002	78,231
Proceeds from issuance of time deposits	13,414	11,142
Payments for maturing time deposits	(23,409)	(11,751)
Net change in securities sold under agreement to repurchase	1,964	6,286
Dividends paid to stockholders	(3,788)	(3,535)
Net cash provided by financing activities	116,183	80,373
Net change in cash and cash equivalents	(944)	313
Cash and cash equivalents, beginning of period	15,818	15,505
Cash and cash equivalents, end of period	$ 14,874	15,818
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 2,109	1,799
Cash paid for income taxes	7,515	7,420

See accompanying notes to consolidated financial statements.

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by BOU Bancorp, Inc. (the Corporation) in the preparation of the accompanying consolidated financial statements are as follows:

Description of Business

The Corporation is a Utah state bank holding company formed in 2000. Bank of Utah, (the Bank), is a Utah state-chartered commercial bank founded in 1952 wholly owned by the Corporation. Utah Risk Management, Inc. (URM), is a Nevada captive insurance company wholly owned by the Corporation. The Corporation and its wholly-owned subsidiaries are collectively referred to as the Company. The Company, which is primarily centered along Utah's Wasatch Front, focuses on providing community banking services including: 1) attracting deposits from the general public; 2) originating loans, including residential mortgage loans; 3) providing treasury cash management products and services; 4) personal and corporate trust management services; and 5) wealth management and advisory services.

Basis of Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of BOU Bancorp, Inc., Bank of Utah, and Utah Risk Management, Inc. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, as of the date of the balance sheet and revenues and expenses for the period. Actual results could significantly differ from those estimates. Certain prior year amounts have been reclassified to conform to the current financial statement presentation. Such reclassifications had no impact on net income or stockholders' equity.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, income taxes and the fair value of financial assets and liabilities. Management believes the allowance for loan losses, income taxes, and the fair value of financial assets and liabilities are adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary, based on changes in economic conditions. Management obtains independent appraisals for significant properties as one of the factors used in the determination of the allowance for loan losses. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses.

Cash Equivalents

Cash equivalents include cash and due from banks and federal funds sold, all with maturities of three months or less.

Interest-Bearing Deposits

Interest-bearing deposits mature within one year and are carried at cost.

Investment Securities

The Company classifies its investment securities in two categories: held to maturity or available for sale. The Company had no trading securities during 2016 or 2015. Held to maturity securities are stated at cost, net of unamortized premiums and unaccreted discounts. The Company has the intent and ability to hold such securities to maturity. Investment securities classified as available for sale are recorded at fair value. Unrealized holding gains and losses on available for sale securities are reported as a component of other comprehensive income (OCI). Gains and losses on sales are recorded on the trade date and determined using the specific identification method. Realized gains and losses on available for sale securities are reported in the consolidated statements of income as other income.

Premiums and discounts are amortized or accreted over the life of the related security and recognized in interest income using the effective-interest method. Dividend and interest income are recognized when earned.

Any declines in the values of these securities that are considered to be other-than-temporary-impairment (OTTI) due to declines in credit quality are recognized in earnings. Noncredit-related OTTI on securities not expected to be sold is recognized in OCI. The review for OTTI is conducted on an ongoing basis and takes into account the severity and duration of the impairment, recent events specific to the issuer or industry, fair value in relationship to cost, extent and nature of change in fair value, creditworthiness of the issuer, including external credit ratings and recent downgrades, trends and volatility of earnings, current analysts' evaluations, and other key measures. In addition, the Company determines that it does not intend to sell the securities and it is more likely than not that it will not be required to sell the securities before recovery of their amortized cost basis. In making this determination, the Company takes into account its balance sheet management strategy and consideration of current and future market conditions.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock

FHLB of Des Moines stock is a required investment for institutions that are members of the FHLB of Des Moines. The required investment in FHLB common stock is based on a predetermined formula and is carried at par value ($100 per share). The Company may request redemption at par value of any stock in excess of the amount the Company is required to hold. FHLB stock is restricted as to purchase, sale, and redemption. The carrying amount of FHLB stock as of December 31, 2016 and 2015, respectively, was $1.1 million and $1.0 million and is reported on the consolidated statements of financial condition as other assets.

The Company also holds FRB stock as stipulated in the requirements of the Federal Reserve Act. The carrying amount of FRB stock as of December 31, 2016 and 2015 was $366,000 at cost, and is reported on the consolidated statements of condition as other assets.

The Bank views its investment in FHLB and FRB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value.

Loans Held for Sale

The Company originates mortgage loans which are sold to investors in the secondary market. Loans held for sale are carried at the lower of cost or fair market value as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. The amount of the Company's commitments to sell loans approximated the balance of loans held for sale on December 31, 2016 and 2015. Gains and losses resulting from the sale of loans are determined on the specific-identification method and reflect the extent that the sale proceeds, based on the contractual commitment entered into by the Company and investor, exceed or are less than the Company's investment in the loans.

Loans

A substantial portion of the Company's general overall lending territory is focused in the counties where it maintains branch offices. However, the Company also extends credit into other areas where a branch office is not maintained. The ability of the Company's debtors to honor their loan agreements is dependent upon, among other things, the general economic conditions and the real estate values in these areas.

Loans are generally recorded at cost, net of discounts, deferred fees and certain direct origination related costs. Discounts and premiums on purchased loans are amortized using the interest method over the remaining contractual life, adjusted for actual prepayments.

The accrual of interest on loans is discontinued and the loan is considered impaired when, (1) in the opinion of management, it is probable that the Company will be unable to collect principal or interest when due according to the contractual terms of the loan agreement, or (2) when loans are contractually past due 90-days or more with respect to principal or interest. Thereafter, payments received are generally applied to principal. However, based on management's assessment of the ultimate collectability of an impaired or nonaccrual loan, interest income may be recognized on a cash basis.

Impaired and nonaccrual loans are returned to an accrual status when all delinquent principal and interest becomes current in accordance with the terms of the loan agreement and when management determines that circumstances have improved to the extent that there has been a sustained period of repayment performance, generally six months. Loans are placed on nonaccrual or charged off to the allowance for loan losses when, in the opinion of management, it is probable the Company will be unable to collect contractual principal or interest on loans after a reasonable time for collection efforts.

In cases where a borrower experiences financial or legal difficulty and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring (TDR). When the Bank modifies the terms of an existing loan that is not considered a TDR, the Company accounts for the loan modification as a new loan if the terms of the new loan resulting from a loan refinancing or restructuring are at least as favorable to the Company as the terms for comparable loans to other customers with similar risk characteristics who are not undergoing a refinancing or restructuring. The new loan is excluded from any impairment assessment.

Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

Loan origination fees and certain direct origination costs are deferred and amortized as an adjustment of the yields of the loans over their contractual lives, adjusted for prepayment of the loans, using the interest method. In the event loans are sold, the deferred net loan origination fees or costs are recognized as a component of the gains or losses on the sales of loans.

In the normal course of business, the Company periodically sells participating interests in loans to various other banks and investors. All new participations are sold on a proportionate (pro-rata) basis with all cash flows divided proportionately among the participating interest holders in an amount subordinate to the interest of another and no party has the right to pledge or exchange the entire financial asset without the consent of all the participating interest holders. Other than standard 90-day prepayment provisions and standard representations and warranties, participating interests are sold without recourse. Certain participating interests sold by the Company are guaranteed by government agencies such as the Small Business Administration and U.S. Department of Agriculture.

The gain or loss on sale of the participating interest in loans is the difference between the proceeds from the sale and the basis of the assets sold. The Company did not recognize any gains from the sale of such loans in 2016 or 2015.

The Company continues to service approximately $178.0 million and $181.3 million in participating interests at December 31, 2016 and 2015, respectively, that have been accounted for as transfers of assets and not included in the Company's statements of condition. The Company's retained portion of participated loans was $104.9 million and $112.2 million, respectively, at December 31, 2016 and 2015. The Company recorded approximately $451,000 and $382,000 in servicing fee income during 2016 and 2015, respectively.

A servicing asset is recorded when the Company retains the right to service purchased or originated loans and receives servicing fees that exceed the going market rate. This asset is amortized as a reduction in fee income over the life of the servicing income. The servicing asset was $286,000 and $347,000 as of December 31, 2016 and 2015 and is included in the accompanying financial statements as a component of other assets.

The Company holds purchased participating interest in loans of $25.5 million and $14.7 million at December 31, 2016 and 2015, respectively.

Allowance for Loan Losses

The allowance for loan losses is based on management's estimate of probable losses inherent in the loan portfolio. In the opinion of management, the allowance is adequate to absorb estimated losses in the portfolio at the balance sheet date. While management uses available information to analyze losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. In analyzing the adequacy of the allowance for loan losses, a comprehensive loan grading system to determine risk potential in loans is utilized together with the results of internal credit reviews.

To determine the adequacy of the allowance, the loan portfolio is broken into segments based on loan type. Historical loss experience factors by segment, adjusted for changes in trends and conditions, are used to determine an indicated allowance for each portfolio segment. These factors are evaluated and updated based on the composition of the specific loan segment. Other considerations include volumes and trends of delinquencies, nonaccrual loans, levels of bankruptcies, criticized and classified loan trends, expected losses on real estate secured loans, new credit products and policies, economic conditions, concentrations of credit risk, and the experience and abilities of the Company's lending personnel. In addition to the segment evaluations, impaired loans with a balance of $250,000 or more are individually evaluated based on facts and circumstances of the loan to determine if a specific allowance amount may be necessary. Specific allowances may also be established for loans whose outstanding balances are below the above threshold when it is determined that the risk associated with the loan differs significantly from the risk factor amounts established for its loan segment.

After a preliminary allowance has been established for loan portfolio segments, an additional review is performed on the adequacy of the allowance based on the portion of the loan portfolio collectively evaluated for impairment. This procedure helps to mitigate the imprecision inherent in most estimates of expected credit losses and also supplements the allowance. This supplemental portion of the allowance includes judgmental consideration of any additional amounts necessary for subjective factors such as the economy and loan concentration risks. The credit quality indicators supporting the supplemental portion of the allowance were evaluated at December 31, 2016.

Reserve for Unfunded Lending Commitments

The Company also estimates a reserve for potential losses associated with off-balance sheet commitments and letters of credit. It is included in other liabilities in the Company's consolidated statements of condition, with any related provisions to the reserve included in non-interest expense in the consolidated statement of income.

In determining the reserve for unfunded lending commitments, a process similar to the one used for the allowance for loan losses is employed. Based on historical experience, loss factors, adjusted for expected funding, are applied to the Company's off-balance sheet commitments and letters of credit to estimate the potential for losses.

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at net depreciated cost and are depreciated over their estimated useful lives that vary in term from one year to fifty years. Depreciation is provided on a straight-line basis. Leasehold improvements are stated at unamortized cost. Amortization is provided on the straight-line basis over the shorter of the asset life or the lease term. Costs for maintenance and repairs are expensed as incurred.

Other Real Estate

Other real estate includes properties acquired by the Company through foreclosure or deed in lieu of foreclosure. Properties are carried at the lower of cost or estimated fair value. The value of the underlying loan is written down to the fair value of the property acquired, as determined by a recent appraisal, less reasonable selling costs, by a charge to the allowance for loan losses. Routine holding costs (net of rental income), subsequent declines in appraised value and net losses on disposal are included in non-interest expenses. Significant costs of development and improvement of ORE are capitalized.

Goodwill

Goodwill has an indefinite useful life and is not amortized, but tested for impairment annually. At December 31, 2016 and 2015, the Company's goodwill totaled $5.9 million. There were no changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015. As of December 31, 2016, the Company has identified its reporting unit as the Bank and has allocated goodwill accordingly. Additionally, management evaluated the carrying value of the Company's goodwill as of December 31, 2016 and 2015, and determined that no impairment existed. The Company has no other intangible assets other than the loan servicing asset noted above.

Bank Owned Life Insurance

The carrying amount of bank owned life insurance approximates its fair value. Fair value of bank owned life insurance is estimated using the cash surrender value, net of surrender charges.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale.

Transfer of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset, in which the transferor surrenders control over those financial assets, are accounted for as sales. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and commitments under credit card arrangements. Such financial instruments are recorded in the financial statements when they are funded or when related fees are incurred or received.

Fair values of financial instruments are estimated using relevant market information and other assumptions (Note 11). Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Advertising Costs

Advertising costs include marketing and business development costs and are expensed as incurred.

Income Taxes

Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are estimated using the asset and liability approach. Under this method, a deferred tax asset or deferred tax liability is determined based on management's estimate of the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning of the year to the end of the year, less amounts applicable to the change in value related to investments available for sale. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, tax benefits related to positions considered uncertain are recognized only if, based on the technical merits of the issue, the Company is more likely than not to sustain the position.

BOU Bancorp, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2016 and 2015

As of December 31, 2016, the Company has no recorded unrecognized tax benefits. The Company would recognize accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of income as income tax expense. The Company is subject to taxation in the U.S. Federal and Utah State jurisdictions.

Trust Department Assets

The Bank acts in various capacities as a fiduciary for customers' assets in the Trust department. Such assets are not included in the statements of condition. Trust fees and expenses are reported in the statements of income on an accrual basis.

Employee Stock Ownership Plan with 401(k) Provisions

The Company has an employee stock ownership plan with 401(k) provisions (KSOP) for virtually all full-time Company employees. Eligible employees may make contributions up to IRS limits and the Company makes a 100 percent matching contribution up to five percent of the employee's compensation. The Company's contributions are fully vested after six years and are used to purchase Corporation stock. Company contributions were approximately $734,000 and $813,000 for the years ended December 31, 2016 and 2015, respectively. An independent valuation of the BOU Bancorp, Inc.'s stock held by the KSOP is obtained annually and resulted in a valuation of $119 per share at December 31, 2016. The KSOP owns 113,044 shares (6.72%) of BOU Bancorp, Inc. stock, all of which are allocated, at December 31, 2016.

Subsequent Events

Subsequent events are events or transactions that occur after the date of the consolidated statement of condition but before the financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statements of condition but arose after the date of the consolidated statements of condition and before the consolidated financial statements are available to be issued.

Subsequent events have been evaluated through March 14, 2017, the date these financial statements were available to be issued.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The ASU requires certain equity investments to be measured at fair value with changes recognized in net income. It also requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purpose and eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value disclosed for financial instruments measured at amortized cost. The guidance in the ASU is effective for reporting periods beginning after December 15, 2018. This ASU is not expected to have a material impact on the Company's financial condition or results of operation.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires lessees recognize a lease liability and a right-of use asset for all leases, excluding short-term leases, at the commencement date. The guidance in the ASU is effective for reporting periods beginning after December 15, 2019. Additionally, a modified retrospective transition approach is required for a leases existing at the earliest comparative period presented. This ASU is not expected to have a material impact on the Company's financial condition or results of operation.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU requires the replacement of the current incurred loss model with an expected loss model, referred to as the current expected credit loss (CECL) model. The guidance in the ASU is effective for reporting periods beginning after December 15, 2020 with a cumulative-effect adjustment to retained earnings required for the first reporting period. Management is still assessing the impact of this ASU, however it is expected that it will have a material impact on the Company's financial condition and results of operations as this modifies calculation of the allowance for loan losses.

(2) CASH AND DUE FROM BANKS & INTEREST-BEARING DEPOSITS IN BANKS

The Company is required to maintain certain daily reserve balances on hand in accordance with Federal Reserve Board requirements. The reserve balance maintained in accordance with such requirements was approximately $38.2 million and $28.4 million at December 31, 2016 and 2015, respectively.

(3) INVESTMENT SECURITIES

Investment securities as of December 31, 2016 are summarized as follows:

(in thousands)

	Held to Maturity			
	Amortized cost	Unrealized gain	Unrealized loss	Fair value
States and political subdivisions	$ 13,878	81	58	13,901

	Available for Sale			
	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. government agency	$ 97,771	47	859	96,959
U.S. government agency mortgage backed securities	25,593	149	165	25,577
Mutual fund	5,438	-	268	5,170
	$ 128,802	196	1,292	127,706

Investment securities as of December 31, 2015 are summarized as follows:

(in thousands)

	Held to Maturity			
	Amortized cost	Unrealized gain	Unrealized loss	Fair value
States and political subdivisions	$ 17,846	272	11	18,107

	Available for Sale			
	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. government agency	$ 72,270	70	374	71,936
U.S. government agency mortgage backed securities	20,652	237	19	20,870
Mutual fund	5,321	-	173	5,148
	$ 98,243	277	566	97,954

There were no securities sold during the year ended December 31, 2016 or 2015.

December 31, 2016 and 2015
BOU Bancorp, Inc.
Notes to Consolidated Financial Statements *(Continued)*

A summary of investment securities with unrealized losses as of December 31, 2016, by the amount of unrealized losses and fair value by length of time that the securities have been in an unrealized loss position, follows:

(in thousands)

	Held to Maturity					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
States and political subdivisions	$ 58	8,323	-	-	58	8,323

	Available for Sale					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. government agency	$ 846	71,858	13	4,992	859	76,850
U.S. government agency mortgage backed securities	165	18,240	.	.	165	18,240
Mutual fund	-	-	268	5,170	268	5,170
	$ 1,011	90,098	281	10,163	1,292	100,260

A summary of investment securities with unrealized losses as of December 31, 2015, by the amount of unrealized losses and the fair value by length of time that the securities have been in an unrealized loss position, follows:

(in thousands)

	Held to Maturity					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
States and political subdivisions	$ 3	2,626	8	685	11	3,311

	Available for Sale					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. government agency	$ 229	31,939	145	9,848	374	41,787
U.S. government agency mortgage backed securities	19	8,225	-	-	19	8,225
Mutual fund	-	-	173	5,148	173	5,148
	$ 248	40,164	318	14,996	566	55,160

Unrealized losses on investment securities result from the current market yield on securities being higher than the book yield on the securities. Based on past experience with these types of investments and the Company's financial performance, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost basis. The Company reviews these investment securities on an ongoing basis according to the policy described in Note 1. While such a review did not result in an other than temporary impairment adjustment as of December 31, 2016, and 2015, the Company will continue to review these investment securities for possible adjustment in the future. The number of investment securities in an unrealized loss position for securities held to maturity at December 31, 2016 and 2015, respectively, was 25 and 9. The number of investment securities in an unrealized loss position for securities available for sale at December 31, 2016, and 2015, respectively, was 23 and 13.

A summary of the amortized cost and fair value of investment securities as of December 31, 2016, by contractual maturity, follows:

(in thousands)

	Held to Maturity	
	Amortized cost	Fair value
Due in one year or less	$ 2,611	2,636
Due after one year through five years	8,813	8,812
Due after five years through ten years	2,454	2,453
	$ 13,878	13,901

	Available for Sale	
	Amortized cost	Fair value
Due in one year or less	$ 14,997	14,921
Due after one year through five years	77,729	77,099
Due after five years through ten years	5,045	4,939
U.S. government agency mortgage backed securities	25,593	25,577
Mutual fund	5,438	5,170
	$ 128,802	127,706

U.S. government agency securities with a book value of $58.2 million and $55.2 million at December 31, 2016 and 2015, respectively, were pledged to collateralize securities sold under agreements to repurchase and other borrowings. The fair value of such securities was $57.9 million and $55.0 million at December 31, 2016 and 2015, respectively. (See notes 8)

(4) LOANS

The following table summarizes the composition of the loan portfolio, excluding loans held for sale, as of December 31:

(in thousands)

	2016	2015
Construction & development	$ 140,458	139,718
1-4 family real estate	62,292	55,412
Nonfarm nonresidential real estate	333,633	322,494
Commercial & industrial	65,823	64,579
States & political subdivisions	108,391	102,760
Other	42,655	34,522
	753,252	719,485
Less unearned fees, net	837	629
	$ 752,415	718,856

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit, and involve, to varying degrees, elements of credit risk. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

December 31, 2016 and 2015
BOU Bancorp, Inc.
Notes to Consolidated Financial Statements *(Continued)*

Loans are made in the normal course of business to directors, executive officers and principal shareholders of the Company. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions and do not involve more than a normal risk of collectability. A summary of the activity of such loans follows:

(in thousands)

	2016	2015
Balance, beginning of year	$ 290	279
New loans and advances	775	521
Payments	(746)	(510)
Balance, end of year	$ 319	290

(5) ALLOWANCE FOR LOAN LOSSES, UNFUNDED LENDING COMMITMENTS AND IMPAIRED LOANS

Allowance for loan losses activity is summarized as follows:

(in thousands)

As of December 31, 2016: Allowance for loan losses:	Balance, beginning of year	Provision for loan losses	Loans charged off	Recoveries on loans previously charged off	Balance, end of year
Construction & development	$ 2,842	38	-	-	2,880
1-4 family real estate	422	191	-	1	614
Nonfarm nonresidential real estate	4,143	272	-	-	4,415
Commercial & industrial	389	1	-	73	463
States & political subdivisions	579	72	-	-	651
Other	308	326	(14)	10	630
	$ 8,683	900	(14)	84	9,653

As of December 31, 2015: Allowance for loan losses:	Balance, beginning of year	Provision for (reversal of) loan losses	Loans charged off	Recoveries on loans previously charged off	Balance, end of year
Construction & development	$ 2,476	366	-	-	2,842
1-4 family real estate	433	(44)	-	33	422
Nonfarm nonresidential real estate	3,504	639	-	-	4,143
Commercial & industrial	347	(38)	-	80	389
States & political subdivisions	399	180	-	-	579
Other	122	197	(19)	8	308
	$ 7,281	1,300	(19)	121	8,683

The following tables summarize the allowance for loan losses and outstanding loan balances, which were evaluated individually and collectively for impairment.

(in thousands)

As of December 31, 2016:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Allowance for loan losses:			
Construction & development	$ -	2,880	2,880
1-4 family real estate	-	614	614
Nonfarm nonresidential real estate	30	4,385	4,415
Commercial & industrial	-	463	463
States & political subdivisions	-	651	651
Other	-	630	630
	$ 30	9,623	9,653

As of December 31, 2016:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Outstanding loan balances:			
Construction & development	$ -	140,458	140,458
1-4 family real estate	560	61,732	62,292
Nonfarm nonresidential real estate	4,191	329,442	333,633
Commercial & industrial	-	65,823	65,823
States & political subdivisions	-	108,391	108,391
Other	-	42,655	42,655
	$ 4,751	748,501	753,252

The following tables summarize the allowance for loan losses and outstanding loan balances, which were evaluated individually and collectively for impairment.

(in thousands)

As of December 31, 2015:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Allowance for loan losses:			
Construction & development	$ -	2,842	2,842
1-4 family real estate	-	422	422
Nonfarm nonresidential real estate	58	4,085	4,143
Commercial & industrial	-	389	389
States & political subdivisions	-	579	579
Other	-	308	308
	$ 58	8,625	8,683

As of December 31, 2015:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Outstanding loan balances:			
Construction & development	$ -	139,718	139,718
1-4 family real estate	698	54,714	55,412
Nonfarm nonresidential real estate	4,304	318,190	322,494
Commercial & industrial	-	64,579	64,579
States & political subdivisions	-	102,760	102,760
Other	-	34,522	34,522
	$ 5,002	714,483	719,485

Loans are considered to be impaired when it is determined that collection of all contractually owed amounts, including principal and interest, is unlikely. For nonaccrual loans with a balance greater than $250,000 or otherwise determined to be a Troubled Debt Restructure (TDR), the Company considers the loan to be impaired and performs an impairment evaluation to determine the need for a specific reserve. The specific reserve is equal to the portion of the loan found to be impaired based on the present value of discounted cash flows, the observable market price of the loan, or the fair value of the loan's underlying collateral, less cost to sell. Payments received on impaired loans that are accruing are recognized in interest income, according to the loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding.

The following presents a summary of impaired loans as of December 31, 2016:

(in thousands)

	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Total recorded investment	Total Allowance
1-4 family real estate	$ 560	560	-	560	-
Nonfarm nonresidential real estate	4,191	1,220	2,971	4,191	30
	$ 4,751	1,780	2,971	4,751	30

The following presents a summary of impaired loans as of December 31, 2015:

(in thousands)

	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Total recorded investment	Total Allowance
1-4 family real estate	$ 698	698	-	698	-
Nonfarm nonresidential real estate	4,304	-	4,304	4,304	58
	$ 5,002	698	4,304	5,002	58

The average recorded investment in impaired loans and the related interest income recognized for cash payments received as of December 31 were as follows:

(in thousands)

	2016		2015	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
1-4 family real estate	$ 616	33	800	47
Nonfarm nonresidential real estate	4,242	271	4,957	390
Commercial & industrial	153	14	22	1
	$ 5,011	318	5,779	438

Included in certain loan categories of impaired loans are TDRs on which the Company has granted certain material concessions to the borrower as a result of the borrower experiencing financial difficulties. The concessions granted by the Company may include, but are not limited to: (1) a modification in which the maturity date, timing of payments or frequency of payments is modified, (2) an interest rate lower than the current market rate for new loans with similar risk, or (3) a combination of the first two factors.

As of December 31, 2016 and 2015, respectively, none of the Company's loans were modified in TDRs and identified as nonaccrual loans. As of December 31, 2016 and 2015, respectively, there were no additional funds committed to lend to borrowers whose loans have been modified in a troubled debt restructuring. There were no new loans identified as TDRs for the years ended December 31, 2016 and 2015. There were no loans modified as TDRs within the previous 12 months and for which there was a payment default, defined as being 30 days or more past due, during the years ended December 31, 2016 and 2015.

If a borrower on a restructured accruing loan has demonstrated performance under the previous terms, is not experiencing financial difficulty and shows the capacity to continue to perform under the restructured terms, the loan will remain on accrual status. Otherwise, the loan will be placed on nonaccrual status until the borrower demonstrates a sustained period of performance, which generally requires six consecutive months of payments. Loans identified as TDRs are evaluated for impairment using the present value of the expected cash flows or the estimated fair value of the collateral, if the loan is collateral dependent. The fair value is determined, when possible, by an appraisal of the property less estimated costs related to liquidation of the collateral. The appraisal amount may also be adjusted for current market conditions. Adjustments to reflect the present value of the expected cash flows or the estimated fair value of collateral dependent loans are a component in determining an appropriate allowance for loan losses, and as such, may result in increases or decreases to the provision for loan losses in current and future earnings.

Loans are generally placed on nonaccrual status when they are past due for over 90 days, unless they are adequately collateralized and are in the process of collection. No interest is accounted for as income on nonaccrual loans unless received in cash or until such time as the borrower demonstrates an ability to resume payments of principal and interest. Generally, interest previously accrued but not collected is reversed and charged against income when a loan is placed on nonaccrual.

Nonaccrual loans as of December 31 are summarized as follows:

(in thousands)

	2016	2015
Construction & development	$ 29	-
Commercial & industrial	124	178
	$ 153	178

December 31, 2016 and 2015
BOU Bancorp, Inc.
Notes to Consolidated Financial Statements (Continued)

The following tables present an aging analysis of loans as of December 31, 2016 and 2015, respectively. Nonaccrual loans that are current represents nonaccrual loans that are not past due more than 30 days; however, full payment of principal and interest is still not expected. As of December 31, 2016 there were $124,000 in nonaccrual loans considered current, no nonaccrual loans 30-89 days past due and $29,000 in nonaccrual loans 90 days or more past due. There are no loans past due more than 90 days still accruing interest as of December 31, 2016 or 2015. As of December 31, 2015 there were $178,000 in nonaccrual loans considered current, no nonaccrual loans 30-89 days past due and no nonaccrual loans 90 days or more past due.

(in thousands)

As of December 31, 2016:	Accruing loans 30-59 days past due	Accruing loans 60-89 days past due	Total nonaccrual loans	Total past due and nonaccrual loans	Current	Total loans
Construction & development	$ 321	-	29	350	140,108	140,458
1-4 family real estate	-	-	-	-	62,292	62,292
Nonfarm nonresidential real estate	91	-	-	91	333,542	333,633
Commercial & industrial	-	172	124	296	65,527	65,823
States & political subdivisions	-	-	-	-	108,391	108,391
Other	2	-	-	2	42,653	42,655
	$ 414	172	153	739	752,513	753,252

As of December 31, 2015:	Accruing loans 30-59 days past due	Accruing loans 60-89 days past due	Total nonaccrual loans	Total past due and nonaccrual loans	Current	Total loans
Construction & development	$ 69	-	-	69	139,649	139,718
1-4 family real estate	-	-	-	-	55,412	55,412
Nonfarm nonresidential real estate	-	-	-	-	322,494	322,494
Commercial & industrial	-	2	178	180	64,399	64,579
States & political subdivisions	-	-	-	-	102,760	102,760
Other	-	-	-	-	34,522	34,522
	$ 69	2	178	249	719,236	719,485

In addition to the past due and nonaccrual criteria, the Company also evaluates loans according to its internal risk grading system. Loans are segregated between pass grade, special mention, substandard accruing, and substandard non-accruing categories. The definitions of those categories are as follows:

Pass: Loans that do not fit either of the other two categories listed below and for which likelihood of loss is considered to be remote.
Special mention: Loans with potential for deteriorating into a substandard classification without close supervision and monitoring. Loans remain in this category on a temporary basis and should be reclassified up or down, depending on improvement or continued deterioration.
Substandard accruing: Loans not adequately protected by sound current net worth or adequate repayment capacity of the borrower and/or of the collateral pledged. Substandard loans have well defined weaknesses that jeopardize the liquidation of the classified debt. A potential for loss exists if the deficiencies or weaknesses are not recognized and corrected.
Substandard non-accruing: Loans where an element of loss is present and collection is considered questionable.
Loss: Loans that are considered uncollectible and of such little value that their continuance as an active bank-owned asset in not warranted. These loans are immediately charged off.

Outstanding loan balances categorized by internal risk grades as of December 31, 2016 are summarized as follows:

(in thousands)

	Pass	Special mention	Substandard accruing	Substandard non-accruing	Total
Construction & development	$ 136,376	-	4,053	29	140,458
1-4 family real estate	62,169	-	123	-	62,292
Nonfarm nonresidential real estate	324,811	-	8,822	-	333,633
Commercial & industrial	64,976	-	723	124	65,823
State & political subdivisions	108,391	-	-	-	108,391
Other	42,627	-	28	-	42,655
	$ 739,350	-	13,749	153	753,252

Outstanding loan balances categorized by internal risk grades as of December 31, 2015 are summarized as follows:

(in thousands)

	Pass	Special mention	Substandard accruing	Substandard non-accruing	Total
Construction & development	$ 137,280	-	2,438	-	139,718
1-4 family real estate	55,311	-	101	-	55,412
Nonfarm nonresidential real estate	311,503	-	10,991	-	322,494
Commercial & industrial	64,086	-	315	178	64,579
State & political subdivisions	102,760	-	-	-	102,760
Other	34,522	-	-	-	34,522
	$ 705,462	-	13,845	178	719,485

(6) PREMISES AND EQUIPMENT

Premises and equipment as of December 31, is summarized as follows:

(in thousands)

	2016	2015
Land	$ 3,597	3,597
Buildings and leasehold improvements	17,267	16,324
Furniture and equipment	11,903	11,074
	32,767	30,995
Less accumulated depreciation and amortization	19,435	18,264
	$ 13,332	12,731

(7) INTEREST-BEARING DEPOSITS

Interest-bearing deposits as of December 31, 2016 and 2015, respectively, are summarized as follows:

(in thousands)

	2016	2015
Interest-bearing checking	$ 161,013	167,170
Insured money market	246,187	222,415
Savings accounts	100,574	93,983
Certificates of deposit greater than $100,000	42,544	42,448
Other certificates of deposit	22,051	22,351
	$ 572,369	548,367

The aggregate amount of time deposits with balances of $250,000 or more was $25.7 million and $27.8 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, respectively, overdraft deposits totaling $55,000 and $29,000 were reclassified as loans.

A summary of the maturity of certificates of deposit as of December 31, 2016 follows:

(in thousands)

Year ended December 31:	
2017	$ 37,224
2018	14,767
2019	6,173
2020	5,197
2021	1,234
Total	$ 64,595

The Company accepts deposits from its executive officers, directors, and affiliated companies on substantially the same terms for comparable transactions with unrelated parties. The aggregate dollar amounts of these deposits were $4.7 million and $4.9 million at December 31, 2016 and 2015, respectively.

(8) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consists of sweep repurchase agreements that mature in less than 30-days with a weighted average interest rate of 0.33 percent and 0.37 percent at December 31, 2016 and 2015, respectively. The daily average borrowings and maximum borrowings outstanding at any month-end during 2016 did not significantly fluctuate from year-end balances.

The U.S. government securities transferred under agreements to repurchase are book entry securities delivered on behalf of depositors into the Company's pledged safekeeping account maintained at a correspondent bank. The book value of the underlying securities that have been sold under agreements to repurchase were $58.2 and $55.2 million at December 31, 2016 and 2015, respectively. The fair value of such securities was $57.9 and $55.0 million at December 31, 2016 and 2015, respectively.

(9) INCOME TAXES

The provision for income tax expense for the year ended December 31 is summarized as follows:

(in thousands)

	2016	2015
Current:		
Federal	$ 6,971	6,169
State	1,183	955
Deferred:		
Federal	(508)	(140)
State	(76)	(14)
Income tax expense	$ 7,570	6,970

A reconciliation of expected tax expense to actual income tax expense based on the federal rate of 35 percent for the years ended December 31, 2016 and 2015, respectively, is summarized as follows:

(in thousands)

		2016	2015
Expected federal tax expense	$	8,485	7,870
Increases (decreases) in taxes resulting from:			
Tax-exempt interest income		(1,008)	(1,027)
State taxes, net of federal benefit		739	607
Captive insurance		(398)	(126)
Bank owned life insurance		(246)	(225)
Other		(2)	(129)
Income tax expense	$	7,570	6,970

Temporary differences between the amounts reported in the financial statements and the tax bases of liabilities and assets result in deferred taxes. Deferred tax assets and deferred tax liabilities at December 31 are as follows:

(in thousands)

		2016	2015
Deferred tax liabilities			
Premises and equipment	$	411	416
Deferred loan costs		1,092	1,086
Deferred income on FHLB stock		213	208
Other		425	429
		2,141	2,139
Deferred tax assets			
Net unrealized loss on investment securities available for sale		419	108
Allowance for loan losses		3,960	3,463
Deferred compensation		1,586	1,554
Other		255	198
		6,220	5,323
Net deferred tax asset	$	4,079	3,184

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset. The net deferred tax asset is included on the consolidated statements of condition as a component of other assets.

(10) FAIR VALUE

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in the underlying methodologies and assumptions used could significantly affect the estimates. Further, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements. Therefore, the fair value amounts shown in the table do not, by themselves, represent the underlying value of the Company as a whole.

This summary excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and due from banks, interest-bearing deposits in banks, federal funds sold, FRB and FHLB stock, bank owned life insurance, available for sale securities, accrued interest receivable, loans held for sale, and mortgage servicing rights. For financial liabilities, these include non-interest bearing deposits, securities sold under agreements to repurchase and accrued interest payable. The estimated fair value of non-interest bearing deposits is the amount payable on demand at the reporting date because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments recorded at fair value on a recurring basis, as previously described.

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31 are as follows:

(in thousands)

		2016		2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Investment securities, held to maturity	$	13,878	13,901	17,846	18,107
Loans, net		742,762	735,333	710,173	705,898
Financial liabilities:					
Interest-bearing deposits		572,369	572,260	548,367	561,034

The following methods and assumptions were used to estimate the fair values disclosed in the above table:

Investment securities, held to maturity – Fair values are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value. Third party pricing services normally derive the security prices through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information.

Loans – The fair value is estimated by discounting future cash flows of certain groups of homogeneous loans using the current market rates. These future cash flows are then reduced by the estimated 'life-of-the-loan' aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are highly judgmental because the Company does not have a validated model to estimate lifetime losses on large portions of its loan portfolio. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of the portfolio.

Interest-bearing deposits – The fair value is estimated by discounting future cash flows using rates currently available to the Company for debt with similar terms.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to valuation methodology:

Investment securities, available for sale – The Company evaluates the fair value of investment securities, available for sale on a monthly basis. Where quoted prices are available in an active market, securities are classified within level 1 of the hierarchy. Level 1 includes securities that have quoted prices in an active market for identical assets. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Company has categorized its investment securities, available for sale as Level 2.

Impaired loans – The Company evaluates the fair value of impaired loans on a quarterly basis. Fair value applies to loans measured for impairment using the practical expedients, including impaired loans measured at an observable market price (if available) or at the fair value of the loan's collateral (if collateral dependent). Fair value of the loan's collateral is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. The Company has categorized its impaired loans as Level 3.

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

Financial assets measured at fair value as of December 31 are summarized as follows:

(in thousands)

Description of Financial Instrument		Fair Value	2016 Level 1	Level 2	Level 3
Recurring:					
Investment securities, available for sale					
U.S. government agency	$	96,959	-	96,959	-
U.S. government agency mortgage backed securities		25,577	-	25,577	.
Mutual fund		5,170	-	5,170	-
Nonrecurring:					
Impaired loans with a specific valuation allowance		2,941	-	-	2,941

Description of Financial Instrument		Fair Value	2015 Level 1	Level 2	Level 3
Recurring:					
Investment securities, available for sale					
U.S. government agency	$	71,936	-	71,936	-
U.S. government agency mortgage backed securities		20,870	-	20,870	-
Mutual fund		5,148	-	5,148	-
Nonrecurring:					
Impaired loans with a specific valuation allowance		4,246	-	-	4,246

The following tables present information about significant unobservable inputs related to the Company's categories of Level 3 financial assets measured on a nonrecurring basis:

(dollars in thousands)

As of December 31, 2016:		Fair value	Valuation technique	Unobservable inputs	Range of inputs	Weighted average discount
Impaired loans with a specific valuation allowance:						
Nonfarm nonresidential real estate	$	2,941	Discounted cash flow	Discount rate	0.59% to 0.63%	0.62%

As of December 31, 2015:		Fair value	Valuation technique	Unobservable inputs	Range of inputs	Weighted average discount
Impaired loans with a specific valuation allowance:						
Nonfarm nonresidential real estate	$	4,246	Discounted cash flow	Discount rate	0.59% to 0.63%	0.62%

(11) COMMITMENTS AND CONTINGENT LIABILITIES

The Company is obligated under certain operating lease agreements for the rental of buildings that vary in terms from one to seven years. As of December 31, 2016, the minimum annual lease commitments under noncancellable operating leases (net of sublease income) are as follows:

(in thousands)

Year ended December 31:		
2017	$	427
2018		412
2019		397
2020		268
2021		199
Thereafter		398
	$	2,101

The Company recorded lease expense (net of sublease income of approximately $12,000 for the years ending December 31, 2016 and 2015) under these agreements of approximately $541,000 and $483,000 in 2016 and 2015, respectively. Of these amounts, $14,000 was paid in both 2016 and 2015, to related parties.

Combined allowances for loan losses and reserve for unfunded lending commitments is summarized as follows:

(in thousands)

		2016	2015
Allowance for loan losses	$	9,653	8,683
Reserve for unfunded lending commitments		700	600
	$	10,353	9,283

In the normal course of business, the Company enters into commitments and contingent liabilities to extend credit under various lending agreements. Off balance-sheet loan commitments and letters of credit upon which the reserve for unfunded lending commitments is calculated, was $279.0 and $218.0 million as of December 31, 2016 and 2015, respectively. Commitments on letters of credit totaled $3.1 and $5.2 million as of December 31, 2016 and 2015, respectively, and $275.9 and $212.8 million respectively, on all other loan commitments.

The Company has lines of credit established with the FHLB of Des Moines for $371.9 million (35 percent of total assets), Zions First National Bank for $15.0 million and JP Morgan Chase for $10.0 million. The FHLB credit line is limited to the amount of pledged collateral which was $171.5 million as of December 31, 2016. The lines of credit are reviewed on an annual basis and market interest rates are set at the time funds are borrowed. The Company did not have outstanding borrowings from FHLB of Des Moines, Zions First National Bank, or JP Morgan Chase at December 31, 2016 or 2015.

In the normal course of its business, the Company becomes involved in litigation. In the opinion of management, based upon discussion with legal counsel, liabilities, if any, arising from these proceedings would not have a material adverse effect on the Company's financial position or results of operations.

(12) REGULATORY CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average quarterly assets (as defined). The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company and the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. One of the phased requirements is for the Bank to establish a "conservation buffer" consisting of common equity Tier 1 capital equal to 0.625% of risk-weighted assets in 2016, which will increase annually to 2.5% by January 1, 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including the payment of dividends, stock repurchases, and discretionary bonuses to executive officers. As part of the Basel III rules implementation, in March 2015 the Company exercised a one-time irrevocable option to exclude the investment components of accumulated other comprehensive income in the capital calculation. Capital amounts and ratios for December 31, 2016 and 2015 are calculated using the Basel III rules. Management believes, as of December 31, 2016, that the Company meets all minimum capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain certain Total and Tier 1 capital to risk-weighted assets and Tier 1 capital to quarterly average asset ratios. There are no conditions or events since that notification that management believes have changed the Company's category.

Dividends declared by the Company in any calendar year may not, without the approval of the federal regulatory agencies, exceed net income for that year combined with net income less dividends paid for the preceding two years. At December 31, 2016, the Company had approximately $37.4 million available for payment of dividends under the aforementioned restrictions.

Capital amounts and ratios as of December 31, 2016 are summarized as follows:

(in thousands)

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)						
Consolidated	$ 150,062	17.81%	67,402	8.0%	N/A	N/A
Bank of Utah	146,491	17.38%	67,438	8.0%	84,298	10.0%
Common Equity Tier 1 Capital (to risk weighted assets)						
Consolidated	139,709	16,58%	37,913	4.5%	N/A	N/A
Bank of Utah	136,138	16.15%	37,934	4.5%	54,794	6.5%
Tier 1 Capital (to risk weighted assets)						
Consolidated	139,709	16.58%	50,551	6.0%	N/A	N/A
Bank of Utah	136,138	16.15%	50,579	6.0%	67,438	8.0%
Tier 1 Capital (to quarterly average assets)						
Consolidated	139,709	12.74%	43,877	4.0%	N/A	N/A
Bank of Utah	136,138	12.50%	43,576	4.0%	54,471	5.0%

Capital amounts and ratios as of December 31, 2015 are summarized as follows:

(in thousands)

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)						
Consolidated	$ 136,201	16.96%	64,246	8.0%	N/A	N/A
Bank of Utah	134,008	16.69%	64,234	8.0%	80,292	10.0%
Common Equity Tier 1 Capital (to risk weighted assets)						
Consolidated	126,918	15.81%	36,125	4.5%	N/A	N/A
Bank of Utah	124,725	15.53%	36,141	4.5%	52,203	6.5%
Tier 1 Capital (to risk weighted assets)						
Consolidated	126,918	15.81%	48,166	6.0%	N/A	N/A
Bank of Utah	124,725	15.53%	48,187	6.0%	64,250	8.0%
Tier 1 Capital (to quarterly average assets)						
Consolidated	126,918	13.32%	38,114	4.0%	N/A	N/A
Bank of Utah	124,725	13.17%	37,882	4.0%	47,352	5.0%

BOU Bancorp, Inc.
Consolidating Schedule
Statement of Condition *Schedule 1*

December 31, 2016

(in thousands)

	BOU Bancorp, Inc.	Bank of Utah	Utah Risk Management, Inc.	Eliminations	Consolidated
ASSETS					
Cash and due from banks	$ -	14,874	-	-	14,874
Interest-bearing deposits in banks	2,237	115,331	2,082	(2,237)	117,413
Federal funds sold	-	2,005	-	-	2,005
Investment securities:					
Held to maturity, at cost	-	13,878	-	-	13,878
Available for sale, at fair value	-	127,706	-	-	127,706
Total investment securities	-	141,584	-	-	141,584
Loans held for sale	-	13,041	-	-	13,041
Loans	-	752,415	-	-	752,415
Less allowance for loan losses	-	9,653	-	-	9,653
Net loans	-	742,762	-	-	742,762
Investment in Bank of Utah	141,622	-	-	(141,622)	-
Investment in Utah Risk Management, Inc.	1,565	-	-	(1,565)	-
Accrued interest receivable	-	3,036	5	-	3,041
Goodwill	-	5,894	-	-	5,894
Bank owned life insurance	-	25,194	-	-	25,194
Premises and equipment, net	-	13,332	-	-	13,332
Deferred tax asset	-	4,079	-	-	4,079
Other assets	57	4,683	280	(803)	4,217
Total assets	$ 145,481	1,085,815	2,367	(146,227)	1,087,436
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Non interest-bearing	$ -	310,009	-	-	310,009
Interest-bearing	-	574,606	-	(2,237)	572,369
Total deposits	-	884,615	-	(2,237)	882,378
Securities sold under agreements to repurchase	-	50,982	-	-	50,982
Other liabilities	288	8,596	802	(803)	8,883
Total liabilities	288	944,193	802	(3,040)	942,243
Common stock	1,683	3,656	2	(3,658)	1,683
Paid-in capital	4,334	8,534	248	(8,782)	4,334
Accumulated other comprehensive loss	(677)	(677)	-	677	(677)
Retained earnings	139,853	130,109	1,315	(131,424)	139,853
Total stockholders' equity	145,193	141,622	1,565	(143,187)	145,193
	$ 145,481	1,085,815	2,367	(146,227)	1,087,436

See accompanying report of independent auditors.

December 31, 2015

BOU Bancorp, Inc.
Consolidating Schedule
Statement of Condition *Schedule 1*

(in thousands)

	BOU Bancorp, Inc.	Bank of Utah	Utah Risk Management, Inc.	Eliminations	Consolidated
ASSETS					
Cash and due from banks	$ -	15,818	-	-	15,818
Interest-bearing deposits in banks	1,744	46,155	1,224	(1,744)	47,379
Federal funds sold	-	264	-	-	264
Investment securities:					
Held to maturity, at cost	-	17,846	-	-	17,846
Available for sale, at fair value	-	97,954	-	-	97,954
Total investment securities	-	115,800	-	-	115,800
Loans held for sale	-	15,333	-	-	15,333
Loans	-	718,856	-	-	718,856
Less allowance for loan losses	-	8,683	-	-	8,683
Net loans	-	710,173	-	-	710,173
Investment in Bank of Utah	130,611	-	-	(130,611)	-
Investment in Utah Risk Management, Inc.	609	-	-	(609)	-
Accrued interest receivable	-	2,982	4	-	2,986
Goodwill	-	5,894	-	-	5,894
Bank owned life insurance	-	19,595	-	-	19,595
Premises and equipment, net	-	12,731	-	-	12,731
Deferred tax asset	-	3,184	-	-	3,184
Other assets	128	4,955	320	(869)	4,534
Total assets	$ 133,092	952,884	1,548	(133,833)	953,691
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Non interest-bearing	$ -	216,004	-	-	216,004
Interest-bearing	-	550,111	-	(1,744)	548,367
Total deposits	-	766,115	-	(1,744)	764,371
Securities sold under agreements to repurchase	-	49,020	-	-	49,020
Other liabilities	288	7,139	938	(869)	7,496
Total liabilities	288	822,274	938	(2,613)	820,887
Common stock	1,683	3,656	2	(3,658)	1,683
Paid-in capital	4,334	8,534	248	(8,782)	4,334
Accumulated other comprehensive loss	(182)	(182)	-	182	(182)
Retained earnings	126,969	118,602	360	(118,962)	126,969
Total stockholders' equity	132,804	130,610	610	(131,220)	132,804
	$ 133,092	952,884	1,548	(133,833)	953,691

See accompanying report of independent auditors

BOU Bancorp, Inc.

Consolidating Schedule

Statement of Income *Schedule 2*

Year Ended December 31, 2016

(in thousands)

	BOU Bancorp, Inc.	Bank of Utah	Utah Risk Management, Inc.	Eliminations	Consolidated
INTEREST INCOME:					
Interest and fees on loans	$ -	36,299	-	-	36,299
Interest on investment securities:					
Taxable	-	1,642	-	-	1,642
Tax-exempt	-	355	-	-	355
Interest on loans held for sale	-	540	-	-	540
Interest on federal funds sold	-	2	-	-	2
Interest on interest-bearing deposits in banks	3	442	14	(3)	456
Total interest income	3	39,280	14		39,294
INTEREST EXPENSE:					
Interest on deposits	-	1,963	-	(3)	1,960
Interest on securities sold under agreement to repurchase	-	157	-	-	157
Interest on other borrowings	-	2	-	-	2
Total interest expense	-	2,122	-	(3)	2,119
Net interest income	3	37,158	14	-	37,175
Provision for loan losses	-	900	-	-	900
Net interest income after provision for loan losses	3	36,258	14	-	36,275
OPERATING INCOME:					
Dividend from Bank of Utah	4,752	-	-	(4,752)	-
Equity in undistributed income of Bank of Utah	11,507	-	-	(11,507)	-
Equity in undistributed income of Utah Risk Management, Inc.	956	-	-	(956)	-
Service charges on deposits	-	1,383	-	-	1,383
Gain on sale of loans	-	9,833	-	-	9,833
Trust fees	-	8,826	-	-	8,826
Cash surrender value increase of bank owned life insurance	-	703	-	-	703
Other	-	1,597	1,006	(1,006)	1,597
	17,215	22,342	1,006	(18,221)	22,342
OPERATING EXPENSES:					
Salaries and employee benefits	634	21,896	-	-	22,530
Net occupancy expense	-	2,209	-	-	2,209
Equipment expense	-	3,538	-	-	3,538
Professional fees and services	76	1,527	57	-	1,660
Advertising expense	-	1,235	-	-	1,235
Office expense	-	995	-	-	995
Other	172	3,038	4	(1,006)	2,208
	882	34,438	61	(1,006)	34,375
Income before provision for income taxes	16,336	24,162	959	(17,215)	24,242
Provision for income taxes	(336)	7,903	3	-	7,570
Net income	$ 16,672	16,259	956	(17,215)	16,672

See accompanying report of independent auditors.

Year Ended December 31, 2015

BOU Bancorp, Inc.

Consolidating Schedule

Statement of Income *Schedule 2*

(in thousands)

	BOU Bancorp, Inc.	Bank of Utah	Utah Risk Management, Inc.	Eliminations	Consolidated
INTEREST INCOME:					
Interest and fees on loans	$ -	33,286	-	-	33,286
Interest on investment securities:					
Taxable	-	1,435	-	-	1,435
Tax-exempt	-	496	-	-	496
Interest on loans held for sale	-	560	-	-	560
Interest on federal funds sold	-	1	-	-	1
Interest on interest-bearing deposits in banks	3	119	3	(3)	122
Total interest income	3	35,897	3	(3)	35,900
INTEREST EXPENSE:					
Interest on deposits	-	1,657	-	(3)	1,654
Interest on securities sold under agreement to repurchase	-	152	-	-	152
Interest on other borrowings	-	1	-	-	1
Total interest expense	-	1,810	-	(3)	1,807
Net interest income	3	34,087	3	-	34,093
Provision for loan losses	-	1,300	-	-	1,300
Net interest income after provision for loan losses	3	32,787	3	-	32,793
OPERATING INCOME:					
Dividend from Bank of Utah	4,569	-	-	(4,569)	-
Equity in undistributed income of Bank of Utah	11,134	-	-	(11,134)	-
Equity in undistributed income of Utah Risk Management, Inc.	360	-	-	(360)	-
Service charges on deposits	-	1,493	-	-	1,493
Gain on sale of loans	-	9,038	-	-	9,038
Trust fees	-	7,772	-	-	7,772
Cash surrender value increase of bank owned life insurance	-	641	-	-	641
Other	-	1,461	489	(489)	1,461
	16,063	20,405	489	(16,552)	20,405
OPERATING EXPENSES:					
Salaries and employee benefits	644	19,296	-	-	19,940
Net occupancy expense	-	2,169	-	-	2,169
Equipment expense	-	3,074	-	-	3,074
Professional fees and services	107	1,116	25	-	1,248
Advertising expense	-	1,122	-	-	1,122
Office expense	-	975	-	-	975
Other	124	2,442	107	(489)	2,184
	875	30,194	132	(489)	30,712
Income before provision for income taxes	15,191	22,998	360	(16,063)	22,486
Provision for income taxes	(325)	7,295	-	-	6,970
Net income	$ 15,516	15,703	360	(16,063)	15,516

See accompanying report of independent auditors.

Board of Directors

BOU Bancorp, Inc.

BOARD

Frank W. Browning
Chairman of the Board
President

Douglas L. DeFries
Vice President

Jonathan W. Browning
Secretary to the Board
Vice President

George E. Hall

H. Dee Hutzley

Dr. Gary R. Gibbons

OFFICERS

Frank W. Browning
Chairman of the Board
President

Douglas L. DeFries
Vice President

Jonathan W. Browning
Secretary to the Board
Vice President

Nathan L. DeFries
Treasurer

Utah Risk Management, Inc.

BOARD

Larry M. Wood
Chairman of the Board
President

Branden P. Hansen
Vice President

Benjamin F. Browning
Vice President

Colby J. Dustin
Vice President

OFFICERS

Larry M. Wood
Chairman of the Board
President and Treasurer

Joshua C. Miller
Secretary

Branden P. Hansen
Vice President

Benjamin F. Browning
Vice President

Colby J. Dustin
Vice President

Nathan L. DeFries
Treasurer

Bank of Utah


Frank W. Browning
Chairman of the Board


Douglas L. DeFries
President & CEO


Jonathan W. Browning
Secretary to the Board

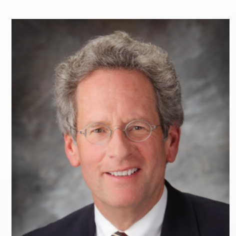

Benjamin F. Browning


Dr. Gary R. Gibbons


George E. Hall


H. Dee Hutzley


Marlin K. Jensen


Eugene B. Jones


Steven M. Petersen

Executive Officers

Bank of Utah


Douglas L. DeFries
President & CEO


Branden P. Hansen
Executive Vice President
Chief Financial Officer


Taft G. Meyer
Executive Vice President
Chief Lending Officer


Roger G. Shumway
Executive Vice President
Chief Credit Officer


Roger L. Christensen
Senior Vice President
Business Development &
Communications


David B. Guzy
Senior Vice President
Wealth Management


K. Darrel May
Senior Vice President
Human Resources


T. Craig Roper
Senior Vice President
Chief Deposit Officer


Menah C. Strong
Senior Vice President
Chief Administrative
Officer


Bret J. Wall
Senior Vice President
Residential & Consumer
Lending


Colby J. Dustin
Vice President
Enterprise Risk


Brian S. Stevens
Vice President
Information Technology

Officers
Bank of Utah

LENDING:

Jared M. Anderson	Senior Vice President, Team Leader, Ogden Muni
Gregory J. Brown	Senior Vice President, Relationship Manager
Robert W. Bunce	Senior Vice President, Credit Administrator
Steven P. Diamond	Senior Vice President, Relationship Manager
Norman G. Fukui	Senior Vice President, Team Leader, Box Elder, Small Business
Cari G. Fullerton	Senior Vice President, Team Leader, Ogden CRE
Krista L. Lewis	Senior Vice President, Team Leader, Logan
David K. Snow	Senior Vice President, Team Leader, Redwood
Kelly D. Crane-Hale	Vice President, Team Leader, Orem
M. Brady Fosmark	Vice President, Team Leader, 7th South
Eric S. Blanchard	Vice President, Relationship Manager
Mark J. Carpenter	Vice President, Relationship Manager
Larry R. Hintze	Vice President, Relationship Manager
David E. Mumm	Vice President, Relationship Manager
Spencer R. Richins	Vice President, Relationship Manager
Tiffany S. Hernandez	Assistant Vice President, Credit Analyst
Jeffery L. Norton	Assistant Vice President, Relationship Manager
Blake W. Ostler	Assistant Vice President, Portfolio Manager
Beckie K. Reynosa	Assistant Vice President, Portfolio Manager

BRANCH MANAGEMENT:

Patty K. Frehner	Vice President, Banking Operations
Charly Owens	Vice President, Treasury Management Relationship Manager
David B. Rusch	Vice President, Retail Banking Manager
Jodi L. Miller	Assistant Vice President, Branch Manager
Mary M. Ryan	Assistant Vice President, Branch Manager
Linda Schiffman	Assistant Vice President, Branch Manager
Teresa R. Thompson	Assistant Vice President, Branch Manager
Helen C. White	Assistant Vice President, Branch Manager

LENDING ADMINISTRATION:

Daniel S. Boren	Vice President, Collections/Special Assets
Dillon George	Vice President, Portfolio Manager, CRM
Christina L. Thurnwald	Vice President, Loan Documentation Manager
Rachel L. Phillips	Assistant Vice President, Commercial Servicing Manager

CORPORATE ADMINISTRATION:

Benjamin F. Browning	Vice President, Business Optimization Officer
Nathan L. DeFries	Vice President, Finance
Colleen Schulthies	Vice President, General Counsel
Elizabeth N. Warner	Vice President, Lending Compliance Officer
Jay D. Weaver	Vice President, Technology Officer
Laura Castro	Assistant Vice President, Lending Compliance Officer
Susana K. Feightner	Assistant Vice President, Central Operations Manager

CORPORATE ADMINISTRATION *(Continued)*:

Heidi Foust	Assistant Vice President, Lending Compliance Officer
Christopher N. McIntyre	Assistant Vice President, IT Data Center Manager
Misty Riley	Assistant Vice President, BSA/Deposit Compliance Manager

MORTGAGE & RESIDENTIAL CONSTRUCTION:

Wesley T. Barlow	Vice President, Mortgage Production Area Manager
Jennifer H. Dee	Vice President, Mortgage Production Support
Eric D. DeFries	Vice President, Mortgage and Consumer Finance
W. Dan Farnsworth	Vice President, Mortgage Loan Office Manager, Logan
Michael R. Medsker	Vice President, Mortgage Loan Office Manager, Ogden
Russell G. Piggott	Vice President, Mortgage Loan Office Manager, Logan City Center
Kathy L. Robles	Vice President, Mortgage Operations Supervisor
Linda C. Rose	Vice President, Mortgage Loan Office Manager, South Ogden
Katherine L. Davis	Assistant Vice President, Relationship Manager, Consumer
Shawn A. Hanlin	Assistant Vice President, Secondary Market Manager
Cindee L. Himelright	Assistant Vice President, Consumer Servicing Manager
John P. Neil	Assistant Vice President, Mortgage Loan Officer

WEALTH MANAGEMENT:

David B. Guzy	Senior Vice President, Wealth Management
John W. Walton	Senior Vice President, Private Banking
Paul R. Buchanan	Vice President, Trust Assistant Manager
Brenda L. Lambert	Vice President, Trust Officer
Lisa K. Mariano	Vice President, Trust Officer
Jodie K. Nutt	Vice President, Trust Officer
Craig A. Standing	Vice President, Trust Officer
Brock J. Riley	Vice President, Trust Business Services Manager
Tyler M. Bell	Assistant Vice President, Insurance Group Team Leader
F. Alberto (Alvin) Gomez	Assistant Vice President, Trust Operations Manager

CORPORATE TRUST:

Jon W. Croasmun	Vice President, Corporate Trust Manager
Michael R. Arsenault	Vice President, Corporate Trust Counsel
Jodie B. Curtis	Vice President, Senior Corporate Trust Administrator
John H. Thomas	Vice President, Corporate Trust Counsel
Rebecca Archibald	Assistant Vice President, Life Settlement Account Administrator
Margaret (Peggy) Hawkins	Assistant Vice President, Life Settlement Account Administrator
Sharlee M. Kuch	Assistant Vice President, Corporate Trust Administrator
Jennifer Miller	Assistant Vice President, Corporate Trust Administrative Officer
Kirk G. Peterson	Assistant Vice President, Corporate Trust Administrative Manager

BANK OF UTAH
LOCATIONS

OGDEN (Main)
2605 Washington Blvd.
Ogden UT 84401
801-409-5000

BEN LOMOND
115 Washington Blvd.
Ogden, UT 84404
801-399-4425

BRIGHAM CITY
80 East 800 South
Brigham City, UT 84302
435-723-9313

LAYTON
717 West Antelope Dr.
Layton, UT 84041
801-773-2221

LOGAN
5 East 1400 North
Logan, UT 84341
435-752-7102

LOGAN CITY CENTER
45 East 200 North, Ste. 102
Logan, Utah 84321
435-792-4600

OREM
1000 West 800 North
Orem, UT 84057
801-765-4401

PRICE
475 East Main, Ste. B
Price, UT 84501
435-637-3305

PROVIDENCE
121 North Gateway Dr.
Providence, UT 84332
435-752-7198

REDWOOD
2309 South Redwood Rd.
Salt Lake City, UT 84119
801-973-2798

ROY
5729 South 1900 West
Roy, UT 84067
801-825-1647

SALT LAKE CITY
200 East South Temple
Ste. 210
Salt Lake City, 84111
801-924-3636

SANDY
9320 South State
Sandy, UT 84070
801-562-5375

SEVENTH SOUTH
711 South State
Salt Lake City, UT 84111
801-532-7111

SOUTH OGDEN
4605 Harrison Blvd. Ste100
Ogden UT 84403
801-394-6611

SOUTH TOWNE
11075 South State, Bldg. 2
Sandy, UT 84070
801-285-5000

ST. GEORGE
243 E. St. George Blvd. Ste. 110
St. George, UT 84790
435-986-7221

TREMONTON
25 North Tremont St.
Tremonton, UT 84337
435-257-3613

DEPOSITS **COMMERCIAL LENDING** **HOME LOANS**

WEALTH MANAGEMENT **CORPORATE TRUST**