



BOU Bancorp, Inc.

# QUARTERLY REPORT

Q3 2018

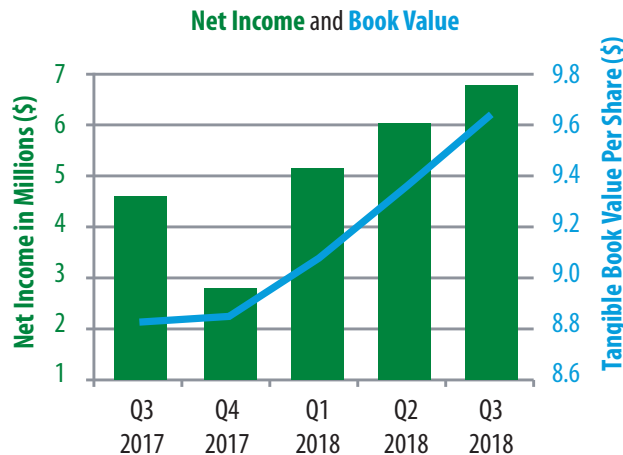
## PRESIDENT'S MESSAGE

On behalf of BOU Bancorp, Inc., the holding company of Bank of Utah (Bank) and Utah Risk Management, Inc. (URM), collectively known as the Company, I am pleased to report a third quarter dividend of \$0.09 per share paid on October 22, 2018. The dividend paid for the second quarter of 2018 was \$0.08 per share. The dividend paid for the third quarter of 2017 was \$0.12 per share. All per share information has been adjusted to reflect the impact of a nine-for-one stock dividend that was effective May 1, 2018.

Year to date, we have earned \$17.9 million. Although the year is only three-quarters complete, our earnings have exceeded all 2017. Our profitability has been augmented by the lower corporate tax rate and an increasing rate environment; however, our core business remains strong. Our loan and deposit balances continue to trend upward and our non-interest income lines of business also contribute positively to the bottom line. Additionally, our previously announced acquisition of AmBank and the resulting access to new markets will improve our earning potential.

Net income for the third quarter of 2018 was \$6.8 million compared to \$6.0 million in the second quarter of 2018 and \$4.6 million for the third quarter of 2017, an increase of 12.7 percent and 45.8 percent respectively. Consolidated net income for the nine months ending September 30, 2018 was \$17.9 million, compared to \$12.6 million for the nine months ending September 30, 2017, an increase of 42.2 percent.

Loan growth and the increase in the net interest margin continues to drive earnings. Net interest income, on a fully taxable equivalent basis, was \$13.9 million for the third quarter of 2018, a 5.2 percent increase from the previous quarter and an 18.0 percent increase from third quarter of 2017. Loans increased 1.0 percent from the previous quarter and 12.0 percent over the last 12 months. The net interest



margin, on a fully taxable equivalent basis, rose to 4.42 percent, compared to 4.27 percent for the previous quarter and 4.22 percent for third quarter 2017. We expect to see a slight increase in the margin as the Federal Reserve continues to raise interest rates. However, pressures from rising deposit rates may keep the net interest margin from rising at the same level.

## Future Growth and the Economy

Bank of Utah has always taken a thoughtful approach to managing the Bank's assets, as well as the locations of our branch network.

Utah's economic expansion, and specifically along the southern end of the Wasatch Front, continues to outpace the nation. Utah County ranks second in the country for job growth with the projected population to grow an additional one million in the next 50 years.

The acquisition of AmBank, which we expect to close in November, grows our presence in Utah County with a branch in Provo and one in Lindon. It also establishes Bank of Utah in Wasatch County with our first branch in Heber City. We believe the acquisition of a quality bank, such as AmBank, will enable us to help our customers achieve their financial goals and allow Bank of Utah to obtain the growth and profitability that our shareholders have come to expect.

Our mission is to have a quality institution that our customers, shareholders and employees are proud to call their own. We will continue to focus on what is necessary to serve each of these groups in a profitable and wise manner.



*Douglas L. DeFries*

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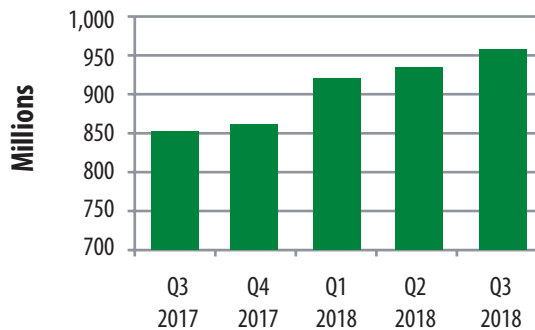
PRESIDENT AND CEO

# Q3 2018 BANK FINANCIAL ANALYSIS

## COMMERCIAL LENDING

Commercial loans remained relatively flat during the third quarter of 2018 with outstanding loans increasing by 1.0 percent over the second quarter of 2018 from \$947.6 million to \$956.7 million. Loan production was similar to previous periods; however, significant repayment of completed and stabilized construction projects by traditional long-term lenders moderated net loan growth. Loan quality remains exceptional as measured by a 0.01% Texas ratio. Commercial real estate transactions continue to drive the market. The effect of rising interest rates, vacancies, inventory demand and other economic factors are being closely monitored.

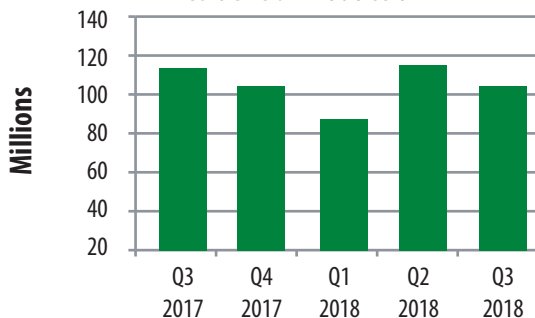
Period End Loans, Net of Unearned Income



## MORTGAGE LENDING

Mortgage loan production was \$104.2 million for the third quarter of 2018, a 12.2 percent decrease from the previous quarter and a 10.8 percent decrease from the third quarter of 2017. Despite the decrease, the Bank is still performing above goals, remains strong in the residential construction market and maintains its market share of loan production. Profitability per loan has decreased due to fierce price competition demanded in the market. In addition, rising interest rates are slowing the purchase and refinance market.

Residential Production



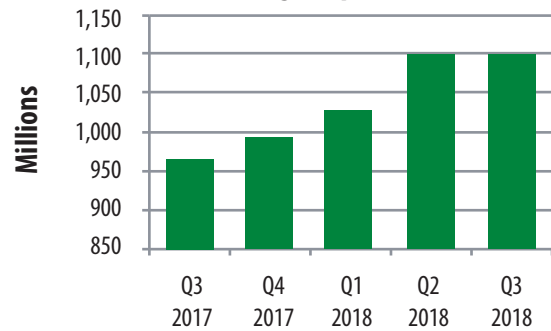
## CORPORATE TRUST

Corporate trust accounts at the end of third quarter 2018 are up 4.2 percent from the prior quarter and 13.4 percent from the third quarter of 2017. The portfolio is primarily composed of aircraft and life settlement related accounts. The aviation industry projects steady performance and stable growth in aircraft finance. Lenders and participants continue to invest and airlines and corporations are updating fleets. In over five years, global passenger traffic has grown year over year. Life settlement investment continues to be strong and new financing and transactions strengthen the market.

## DEPOSITS

Average deposits remained flat at the end of the third quarter of 2018 at \$1.1 billion, and increased 11.3 percent from the third quarter of 2017. Year over year, growth remains strong with the number of new account openings consistent with previous quarters. Newly acquired branches from AmBank will increase deposits by approximately \$80 million and will support expanded deposit growth in the future.

Average Deposits



## WEALTH MANAGEMENT

Personal trust assets under management continues to see solid increases with \$462.9 million under management, a 3.6 percent increase from the previous quarter and a 7.2 percent increase from the third quarter of 2017. Private banking and personal trust professionals have added real value to our customers, giving them the ability to discuss complex financial matters with financial experts. This service will be an added value to our new customers that come from the AmBank merger.

## COMPANY NOTABLE POINTS

	Q3 2018	Q2 2018	Q3 2017
Return on Average Assets	2.04%	1.84%	1.57%
Return on Average Equity	16.22%	15.01%	11.97%
Net Interest Margin	4.42%	4.27%	4.22%
Net Interest Income (FTE)	13.9M	\$13.2M	11.8M
Earnings Per Share	\$0.40	\$0.36	\$0.28
Total Assets	\$1.30B	\$1.34B	\$1.24B

Net interest income (fully taxable equivalent basis-FTE) was \$13.9 million which was a 5.2 percent increase from the second quarter of 2018 and an 18.0 percent increase from the third quarter of 2017. This was due to an increase in loan volume, a low cost of funds.

At the Bank level, Tier 1 leverage ratio was 12.23 percent, compared to 11.92 for the previous quarter and 12.45 percent for the third quarter of 2017. Loan growth has been strong which has deployed capital. Tier 1 leverage ratio is expected to decrease by approximately 1.0 percent when the AmBank purchase is closed.

Salaries expense increased by 3.5 percent from the previous quarter, and increased 7.0 percent over the third quarter of 2017. Low unemployment rates necessitate increased wages in certain areas to keep quality employees and additional employees have been added to support the Bank's growth.