



BOU Bancorp, Inc.

# QUARTERLY REPORT

Q4 2019

## PRESIDENT'S MESSAGE

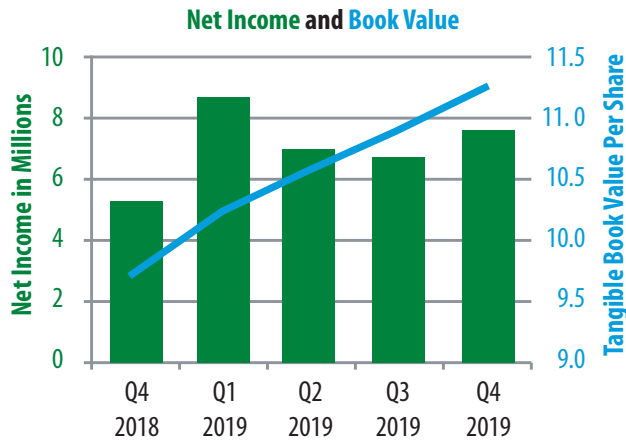
On behalf of BOU Bancorp, Inc. the holding company of Bank of Utah (Bank) and Utah Risk Management, Inc. (URM), collectively known as the Company, I am pleased to report a fourth quarter dividend of \$0.07 per share was paid on December 23, 2019. Yearly dividends of \$0.35 per share were paid in 2019 compared to \$0.31 per share paid in 2018, a 12.9 percent increase. The Company plans to pay dividends, when appropriate, to shareholders quarterly so they can share in the prosperity of the Company earnings.

2019 was a record-breaking year. Not only did we achieve unprecedented net income levels, we also delivered positive returns to shareholders, employees and customers and invested in infrastructure to ensure we have capacity for continued growth.

**Consolidated Net Income** for the fourth quarter of 2019 was \$7.9 million compared to \$7.0 million for the third quarter of 2019 and \$5.5 million for the fourth quarter of 2018, an increase of 13.0 percent and 43.3 percent respectively. Consolidated net income for year end 2019 was \$31.2 million compared to \$23.4 million for the comparable 2018 period, an increase of 33.1 percent. The 2019 results include one-time gains on the sales of our insurance portfolio and also a branch to facilitate our new City Creek Banking Center location. These one-time gains totaled approximately \$1.2 million after tax. 2018 results include expenses of approximately \$1.2 million related to our acquisition of AmBancorp, Inc. Adjusting for these one-time events, consolidated net income for year end 2019 was \$30.0 million compared to \$24.6 million in 2018, a 21.9 percent increase.

**Return on Average Equity (ROAE)** for 2019 continues to be in the upper tier of the industry at 16.44 percent, compared to 14.28 percent for year end 2018. Bank of Utah stands in the top 10 percent of earnings of all banks in the nation.

**Net Interest Income** fully taxable equivalent basis (FTE) for the fourth quarter of 2019 was \$15.2 million as compared to \$15.3 million for the third quarter of 2019 and \$14.7 million for the fourth quarter of 2018. Net interest income was \$61.9 million for year end 2019 compared to \$54.0 for year end 2018, an increase of 14.5 percent.



**Net Interest Margin** remained solid at 4.37 percent for the quarter as compared to 4.68 percent in the second quarter of 2019 and 4.59 percent for the fourth quarter of 2018. Net interest margin was 4.70 percent for the entire year of 2019 compared to 4.37 percent in 2018.

**Noninterest Income and Expenses** continued to increase. The gain on sale of loans from the mortgage group improved year over year from \$7.2 million to \$8.7 million due to increase in volume and improved

pricing from the secondary market. Personal and corporate trust also had significant increases to their income for the quarter and the year. The largest increase to expenses continues in salaries and employee benefits which increased by \$2.8 million. Utah's personal income continues to grow faster than the national average, but it has not yet met the national average. Therefore, we expect wages will continue to rise next year.

## ECONOMIC OUTLOOK

What does the future hold in 2020? According to many economic indicators, we expect the global and national economies will continue to see a gradual slowdown. This is also our expectations for Utah's economy, though we anticipate that the state will continue to outpace the nation in growth. Currently, Utah leads the nation in job growth. The state is adding over 50,000 people to our population each year. This growth presents both opportunities and challenges. The Bank has positioned itself to help fund the opportunities that have been presented, help our customers and communities and make Utah an even better place to live and work. There are always challenges on the horizon; however, I have confidence that we have the right people, products, and platforms in place to capitalize on our current momentum and adjust with market demands.

As we look ahead to a new decade, we will continue to build upon the success of the past year and provide value for our communities, customers, shareholders and employees.

*Douglas L. DeFries*

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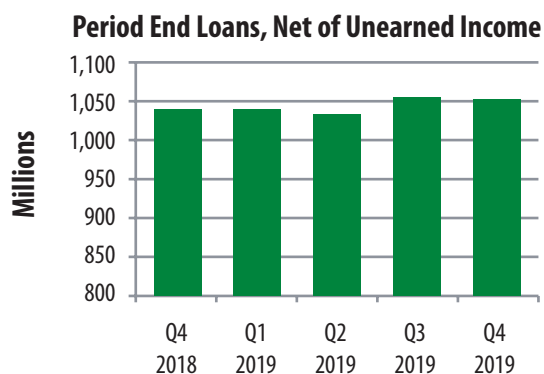
PRESIDENT AND CEO



# Q4 2019 BANK FINANCIAL ANALYSIS

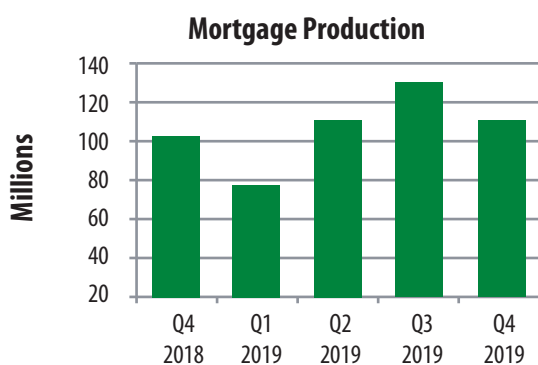
## COMMERCIAL LENDING

The Bank saw a 10 percent increase in loan production in 2019; however, net loan growth was marginal due to a high volume of loan payoffs. Year-over-year growth remained steady with loans outstanding of \$1.05 billion for 2019, compared to \$1.04 billion for 2018. Loan quality remained excellent as measured by a 0.45 percent non-performing asset ratio. Loan totals are expected to increase in 2020, primarily due to interest rates stabilizing, thus reducing refinancing activity.



## MORTGAGE LENDING

Mortgage production was \$435.4 million in 2019, an increase of 5.6 percent from 2018. This increase was due to consistent marketing efforts of mortgage loan officers. Loan production from home purchases accounted for most of the growth with refinance loans on existing mortgages contributing to the overall increase.

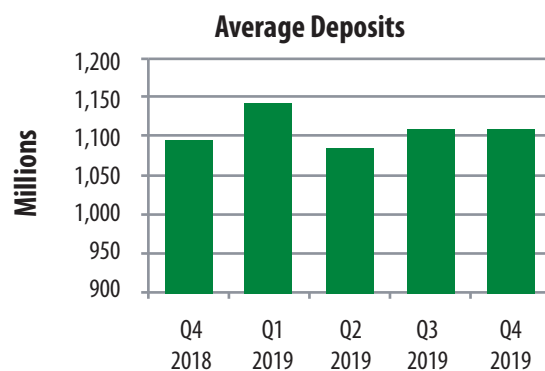


## CORPORATE TRUST

Corporate trust aircraft and life settlement trust fees increased year over year, primarily due to new business and favorable markets. The total number of accounts increased 6.0 percent from fourth quarter 2018, with a 3.5 percent increase in fee revenue. Commercial aircraft lessees (airlines and cargo companies) have continued to use trusts when leasing aircraft, which has helped the business grow among increased competition. Business aircraft trusts have been a sturdy backbone to the business. The corporate trust department topped 2,100 aircraft registered on the FAA at the end of fourth quarter 2019.

## DEPOSITS

Average deposits were \$1.2 billion at the end of fourth quarter 2019. This is an 8.2 percent increase over the fourth quarter of 2018. In order to improve customer experience, new products and services will be added to our product mix in 2020. This will make it easier for customers to open accounts and transfer funds. In addition, the Bank continues to put resources into safekeeping customer information and fraud prevention.



## WEALTH MANAGEMENT

Personal trust assets under management was \$525.9 million at year end 2019, compared to \$464.7 million in 2018, a 13.2 percent increase. In addition to personal trust services, the Bank's wealth management department offers an array of products and services to business owners and clients including investment advisory, private banking and foreign currency exchange.

## COMPANY NOTABLE POINTS

	Year End 2019	Year End 2018
Return on Average Assets	2.23%	1.79%
Return on Average Equity	16.44%	14.28%
Net Income	\$31.2MM	\$23.4MM
Net Interest Margin (FTE)	4.70%	4.37%
Net Interest Income (FTE)	\$61.9MM	\$54.0MM
Earnings Per Share	\$1.84	\$1.39
Equity	\$201.6MM	\$174.3MM
Total Assets	\$1.43B	\$1.43B

At the Bank level, Tier 1 leverage ratio was 12.7 percent, compared to 11.5 percent in the previous quarter.

The Bank's efficiency ratio for 2019 is 52.7 percent, compared to 59.1 percent in 2018.

Bank of Utah ranks in the top 2 percent of all banks in the nation based on Return on Average Assets.

Total Non-Interest Income in 2019 was \$25.1 million compared to \$20.8 million in 2018.