

Q1

BOU BANCORP, INC. QUARTERLY REPORT 2020



Douglas L. DeFries
President & CEO

PRESIDENT'S MESSAGE



ADAPTING . INNOVATING . OVERCOMING .

The importance of our results this quarter have taken a backseat to our responsibility to help our friends, neighbors and community during this COVID-19 pandemic. At this time of uncertainty, I am proud to be a part of a community bank that is well positioned to support our customers with payroll protection loans, payment deferrals and loan modification. As the means to conduct business changes almost daily, we have adapted our processes to continue to serve our customers. Our employees have been flexible, nimble and worked around the clock to deliver quality customer service, while navigating the challenges of trying to stay healthy and safe themselves.

It seems surreal to think that within the span of the first quarter of 2020, we would experience a health crisis and a financial crisis; stock market volatility and seismic activity. But, we have prepared for such events. The Bank maintains a strong capital and liquidity position and is here for our communities as a source of financial stability.

- **Consolidated Net Income** for Q1 2020 was \$6.4 million as compared to \$7.9 million for Q4 2019 and \$9.0 million for Q1 2019, a decrease of 18.6 percent and 28.8 percent, respectively. Our Q1 2019 results were elevated by one time gains on the sale of a branch building and our insurance portfolio, while our Q1 2020 results include additional provisions for loan loss.
- **Return on Average Equity (ROAE)** for Q1 2020 was 12.5 percent. This is down from 15.8 percent for the previous quarter and 20.5 percent in Q1 2019. This still reflects a strong performance for the first quarter, which is typically lower than year-end results.
- **Net Interest Income (NII) and Net Interest Margin (NIM)** on a fully taxable equivalent basis (FTE) for Q1 2020 was \$14.7 million and 4.28 percent, respectively, compared to \$15.2 million NII and 4.37 percent NIM for Q4 2019 and \$16.0 million NII and 4.93 percent NIM for Q1 2019. This represents a decline of 2.1 percent NIM from the previous quarter and an 13.2 percent NIM decline from Q1 2019. The decline is due, in large part, to a lower interest rate environment. Interest rates on loans and other interest bearing assets have dropped at a more precipitous rate than the deposit rates, thus narrowing the margin of return.
- **Noninterest Income and Expense** remained stable. The gain on sale of mortgage loans was \$2.0 million in Q1 2020 as compared to \$1.8 million in Q1 2019. Personal and corporate trust also experienced a modest increase in fee income. On the expense side, salaries and employee benefits held steady in comparison to Q1 2019 and declined by \$0.3 million from the previous quarter.

The toll of the pandemic remains to be seen. As we navigate these difficult times, Bank of Utah will continue to do what is necessary and prudent to overcome these challenges and support our customers and communities that have relied upon us since 1952.

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SHAREHOLDER DIVIDEND

A dividend of \$0.05 per share was paid on March 30, 2020 for Q1 2020 compared to a \$0.14 per share dividend paid in Q1 2019 and \$0.07 paid in Q4 2019.

Q1 2020 BANK FINANCIAL ANALYSIS

Commercial Lending

Loan balances for Q1 2020 grew by 4.0 percent as compared to Q4 2019. Year-over-year growth remains strong with loans outstanding of \$1.1 billion in Q1 2020, this is an increase of 4.9 percent from Q1 2019. Loan quality remained superb, as measured by a 0.5 percent Texas ratio. These loan quality numbers are among the best in the nation. However, in preparation for potential defaults due to the COVID-19 situation, the Bank has set aside another \$1.3 million in the loan loss reserve account, bringing the total to \$13.9 million.

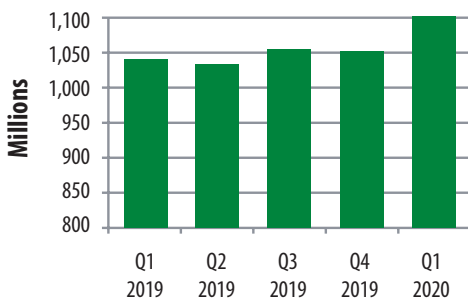
Mortgage Lending

Mortgage loan production was \$114.6 million for Q1 2020, a small decrease of 1.0 percent from the previous quarter due to seasonality and an increase of 46.9 percent from Q1 2019. This increase year over year is primarily due to the low interest rate environment that prevailed during the first quarter. This has stimulated a refinance boom across the country and has given a tremendous boost to our mortgage business. This should last well into the second quarter of the year and perhaps into the autumn months.

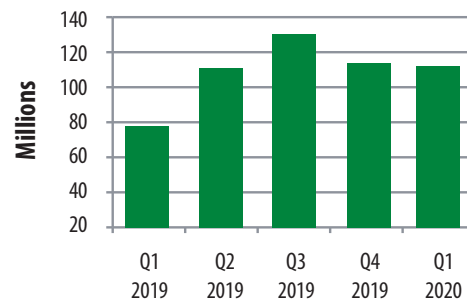
Deposits

Average deposits at the end of Q1 2020 were \$1.2 billion, flat compared to Q4 2019 and a 3.2 percent increase as compared to Q1 2019. In the past few months, the Bank has added to its core of Treasury Management employees to accommodate new business accounts. In-person service and beneficial product offerings are motivating many businesses to move their accounts to the Bank. Additionally, on-line account opening capabilities will be rolling out later this year.

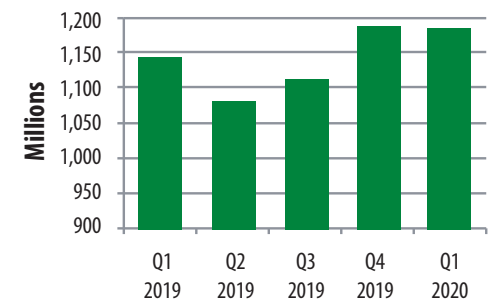
Period End Loans, Net of Unearned Income



Mortgage Production



Average Deposits



Corporate Trust

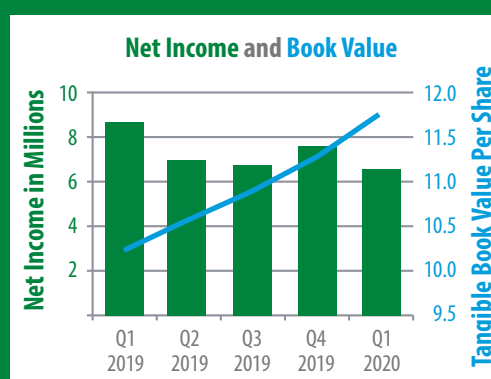
At the end of Q1 2020, fee revenue was up 2.4 percent over Q1 2019. As trustee, Bank of Utah now holds the most aircraft in trust on the FAA registry—surpassing 2,100 in 2019. The portfolio is nearly evenly split between aircraft for commercial carriers and corporate business jets. First quarter production was in line with forecast results until mid-March when the coronavirus pandemic struck the industry. Expectations are to see continued disruptions through Q2 2020 and within the aviation industry throughout the year. Life settlements were not as dramatically affected as the aviation industry and the market is expected to see continued solid organic growth.

Wealth Management

Personal Trust assets under management were \$466.6 million in Q1 2020, compared to \$525.9 million in Q4 2019, a 11.3 percent decrease and a 3.4 percent decrease from the same period in 2019. This is mainly attributed to the devaluation of the stock market due to the coronavirus pandemic. Foreign Exchange is now handling foreign currency transactions for individuals who are traveling to other countries as well as large business transactions for those companies that operate outside of the United States. Private Banking continues to add new clients to its portfolio by offering personalized service to those who choose to maintain larger deposits with the Bank.

COMPANY NOTABLE POINTS

- At the bank level, Tier 1 leverage ratio was 13.04 percent, compared to 12.66 percent in Q4 2019.
- The Bank's efficiency ratio is 53.92 percent, one of the nation's most efficient.
- The Bank added \$1.3 million to the loan loss reserve for potential losses due to the severe economic downturn.



| | Q1 20 | Q4 19 | Q1 19 |
|---------------------------|-----------|-----------|-----------|
| Return on Average Assets | 1.77% | 2.14% | 2.63% |
| Return on Average Equity | 12.50% | 15.82% | 20.50% |
| Net Income | \$6.4MM | \$7.9MM | \$9.0MM |
| Net Interest Margin (FTE) | 4.28% | 4.37% | 4.93% |
| Net Interest Income (FTE) | \$14.7MM | \$15.2MM | \$16.0MM |
| Earnings Per Share | \$0.38 | \$0.47 | \$0.54 |
| Equity | \$209.0MM | \$201.6MM | \$181.9MM |
| Total Assets | \$1.46B | \$1.43B | \$1.41B |