

# Q2

# BOU BANCORP, INC. QUARTERLY REPORT 2020



**Douglas L. DeFries**  
President & CEO

“**WE ARE THE  
ECONOMIC FIRST  
RESPONDERS  
IN THE  
COMMUNITIES IN  
WHICH WE LIVE  
AND WORK.**”

## SHAREHOLDER DIVIDEND

A dividend of \$0.07 per share was paid on June 29, 2020 for Q2 2020 compared to \$0.07 per share dividend paid in Q2 2019 and \$0.05 paid in Q1 2020.

## PRESIDENT'S MESSAGE



At Bank of Utah, our passion for building a better community is what drives us. In the midst of this pandemic, we continue to support and bolster our neighbors and local businesses. We are the economic first responders in the communities in which we live and work. Our commitment to relationship building, combined with our solid financial foundation, allows us to grow, even in uncertain times, and to reaffirm our role as a source of strength for our customers when they need it most.

Let me give you an example. In the second quarter, we funded over \$170 million in Paycheck Protection Program (PPP) loans. These loans were able to keep over 23,000 local employees on the payroll. Without this lifeline, many businesses and nonprofit organizations would have had to shut their doors and lay off their employees. During this time of crisis, our strong deposit growth and earnings enabled us to fund loans from our own liquidity. Due to our thoughtful approach to managing the Bank's operations, we had the capital and liquidity available. That means our customers can trust us as a source of financial stability—and trust is more important now than ever.

In addition to our strong capital and liquidity position, we accelerated growth and delivered positive results in other areas. The commercial loan portfolio grew by 20.1 percent from the previous quarter, and average deposits increased by 12.5 percent from Q1 2020. Mortgage production soared 59.4 percent over Q1 2020, and corporate trust revenue increased 13.8 percent over the previous year.

- **Consolidated Net Income** for Q2 2020 was \$7.3 million, compared to \$6.4 million for Q1 2020 and \$7.2 million for Q2 2019, an increase of 12.8 percent and 0.7 percent, respectively.
- **Return on Average Equity** for Q2 2020 was 13.8 percent, compared to 12.5 percent for the previous quarter and 15.6 percent for Q2 2019.
- **Net Interest Income (NII) and Net Interest Margin (NIM)** on a fully taxable equivalent basis (FTE) for Q2 2020 was \$14.8 million and 3.84 percent, compared to \$14.7 million and 4.28 percent respectively, in the previous quarter.
- **Noninterest Income and Expense** Noninterest Income surged to \$8.6 million in Q2, a 48.0% increase from the previous quarter and 58.0% increase from the second quarter of 2019. Expenses increased by 4.0 percent from the previous quarter and only 0.9 percent from Q2 2019.

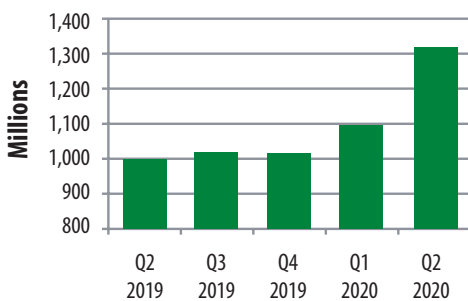
As I reflect back on the second quarter, I remember the uncertainty we felt with shortages of toilet paper, canned food and disinfectant—wondering what would be next. As I look ahead, I realize that uncertainties remain, but supply chains are improving, we are taking measures to stay safe while keeping our economy open. We are responding with essential financial aid. And, I can ensure this: Our community can continue to rely on us, just as it has for the past 67 years.

# Q2 2020 BANK FINANCIAL ANALYSIS

## Commercial Lending

Loan balances for Q2 2020 grew by 20.1 percent, of which 15.2 percent was attributed to PPP loan production. Year-over-year growth remains strong with loans outstanding of \$1.3 billion in Q2 2020. This is an increase of 26.6 percent from Q1 2019, of which 10.7 percent were unrelated to PPP loans. Loan quality remained superb, as measured by a 0.04 percent Texas ratio. However, in preparation for potential defaults due to COVID-19, the Bank set aside another \$2.5 million in loan loss provision in Q2 2020, bringing the total loan loss provision to \$3.8 million for the year.

### Period End Loans, Net of Unearned Income

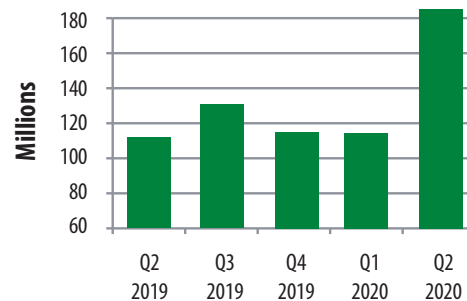


## Mortgage Lending

Mortgage loan production soared to \$182.6 million for Q2 2020, a 59.4 percent increase from the previous quarter and a 63.2 percent increase from Q2 2019.

The year-over-year increase is primarily due to strong loan demand, a hard-working mortgage team and low interest rates. The low interest rates continue to stimulate the purchase and refinance market. We expect the trend to continue well into the fall of this year.

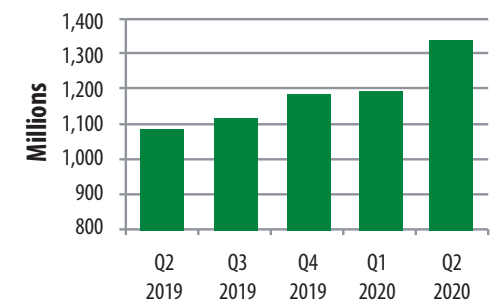
### Mortgage Production



## Deposits

Average deposits at the end of Q2 2020 were \$1.33 billion, a strong increase of 12.5 percent compared to Q1 2020, and a 22.3 percent increase compared to Q2 2019. Part of the increase is due to the proactive approach the Bank took with PPP loans to have new customers open deposit accounts with the Bank. In addition, our branch and treasury management teams have been actively gathering new clients and solidifying current relationships with personalized service and quality product offerings.

### Average Deposits



## Corporate Trust

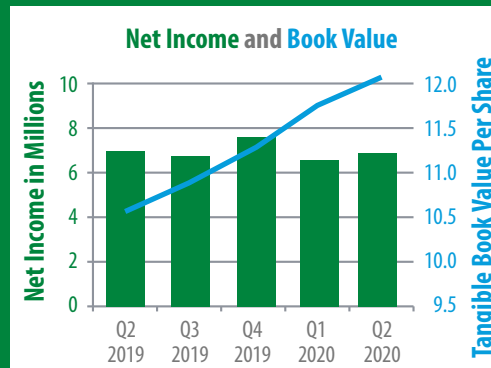
The end of Q1 brought unique challenges to the world and particularly to the aviation industry. A majority of the corporate trust work stems from trusts for the corporate and commercial aircraft aviation industry, both as debt and equity trustee. Much of the industry paused for the first part of Q2 to better understand how to respond to the pandemic. The U.S. Department of Transportation reported April 2020 had a 96.0 percent reduction in U.S. airline passengers from April 2019. However, corporate trust customers were able to turn to Bank of Utah for various restructuring and debt transactions, which resulted in 5.8 percent growth in new accounts over the prior quarter.

## Wealth Management

Personal Trust assets under management were \$484.2 million in Q2 2020, compared to \$466.6 million in Q1 2020, a 3.8 percent increase and a slight decrease from the same period in 2019. This is mainly attributed to the improved performance of the stock market after COVID-related losses experienced in Q1 2020. 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 individualized service to those who maintain larger deposits with the Bank.

## COMPANY NOTABLE POINTS

- At the bank level, Tier 1 leverage ratio was 12.00 percent, compared to 13.04 percent in Q1 2020.
- The Bank's efficiency ratio is 49.13 percent, one of the nation's most efficient.
- The Bank added \$2.5 million in Q2 (\$3.8 million year to date) in loan loss provision for potential losses due to economic uncertainty.



	Q2 20	Q1 20	Q2 19
Return on Average Assets	1.79%	1.77%	2.16%
Return on Average Equity	13.76%	12.50%	15.62%
Net Income	\$7.3MM	\$6.4MM	\$7.2MM
Net Interest Margin (FTE)	3.84%	4.28%	4.88%
Net Interest Income (FTE)	\$14.8MM	\$14.7MM	\$15.3MM
Earnings Per Share	\$0.43	\$0.38	\$0.43
Equity	\$215.1MM	\$209.0MM	\$188.9MM
Total Assets	\$1.69B	\$1.46B	\$1.33B