

# Q3

# BOU BANCORP, INC. QUARTERLY REPORT 2020



**Douglas L. DeFries**  
President & CEO

## PRESIDENT'S MESSAGE



The first three quarters of 2020 reminded us that sometimes we get thrust into circumstances in which we have little or no control. There's a saying, "It's how you react to those situations that matters," and it is, but also important is how you prepare for those situations.

Bank of Utah's operating model has always been to look forward, to anticipate threats and to be proactive. So when 2020 threw us some twists and turns, we were prepared financially with a strong capital and liquidity position. We were also able to react swiftly to customers' needs, thanks to dedicated employees who are laser-focused on customer service.

As a result of the systems we've implemented, our diverse lines of business, employee training and attention to detail, the Bank is not just weathering 2020, it's prospering in 2020.

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- **Consolidated Net Income** for the third quarter was a near-record high, at \$7.8 million. Loan and deposit growth soared from the previous year, with a 30.2 and 26.6 percent increase, respectively. Payroll Protection Program (PPP) loans helped bring in new customers, many of whom chose to take advantage of all our services and made Bank of Utah their primary institution. The loan growth helped offset the decline in our **Net Interest Margin**, which has followed interest rates to lower levels.
- **Noninterest Income** was \$8.9 million, a 3.1 percent increase from the previous quarter and a 41.7 percent increase from Q3 2019. This is due, in large part, to the increase in mortgage loan production. Employees worked tirelessly to process the loans, which elevated both production and our image in the community. An increase in production has also been the case for corporate trust and wealth management. This has all been done while keeping our **Noninterest Expense** in line, with only a 5.5 percent increase from the previous quarter.
- **Return on Average Assets** for Q3 2020 also improved to 1.82 percent compared to 1.79 percent for Q2 2020, ranking the bank in the top 3 percent of all banks in the nation.

There's another story behind those numbers that I'd like to share: The Bank encourages each employee to serve in their communities. In fact, many employees serve on the boards of more than 75 nonprofit and for-profit organizations across Utah. I am proud of their commitment to the financial, social and emotional well-being of the people in our communities.

Looking ahead, the near future will undoubtedly bring things we cannot control, like the presidential election and its effect on banking policies, possible COVID-19 surges and reduced interest rates. Anticipating the potential risks, we will continue to make the necessary changes to ensure we are protecting the assets of the Bank, as well as improving customer service by adding new products and services. As always, the core of our Bank is the employees that work hard to make this a quality institution for our customers and shareholders; I applaud them for their role in the successes we've had this quarter.

### SHAREHOLDER DIVIDEND

A dividend of \$0.09 per share was paid on Sept. 28, 2020, for Q3 2020, compared to \$0.07 per share dividend paid in both Q2 2020 and 2019.

# Q3 2020 BANK FINANCIAL ANALYSIS

## Commercial Lending

Loan balances for Q3 2020 grew by 4.7 percent over the previous quarter. Year-over-year growth remains strong with loans outstanding of \$1.4 billion in Q3 2020. This is an increase of 30.2 percent from Q3 2019, of which, 16.3 percent was related to PPP loans. Loan quality remained superb, as measured by a 0.00 percent Texas ratio. However, in response to the current economic uncertainties, the Bank set aside another \$1.3 million in loan loss provision in Q3 2020, bringing the total loan loss provision to \$5.1 million for 2020.

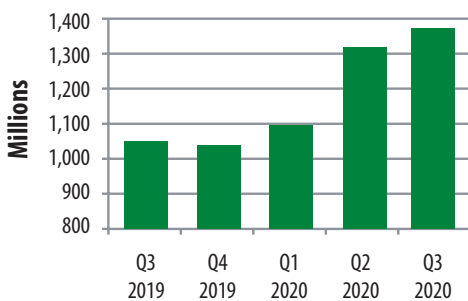
## Mortgage Lending

Mortgage loan production was \$170.7 million for Q3 2020. This is a decrease of 6.5 percent from Q2 2020, however, it is a substantial increase of 31.5 percent compared to Q3 2019. In the past two quarters of 2020, the Bank has seen some of the strongest production numbers in recent history. The low rate interest environment has spurred the purchase and refinance markets across the country. Assuming the economy starts to stabilize in 2021, we believe mortgage production will continue at a strong pace.

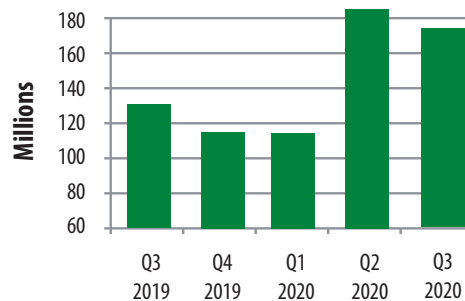
## Deposits

Average deposits at the end of Q3 2020 were \$1.4 billion, a solid increase compared to Q2 2020 and a considerable increase of 26.6 percent compared to Q3 2019. The Bank has grown in every facet its deposit base. This growth was spurred from businesses that took advantage of Payroll Protection Program loans and then moved their deposit accounts to Bank of Utah because of the excellent service they received. In addition, our customer service and banking solutions continue to draw new customers to the Bank.

Period End Loans, Net of Unearned Income



Mortgage Production



Average Deposits



## Corporate Trust

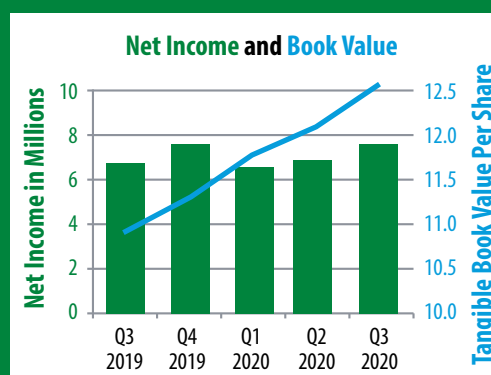
Corporate trust production is in line with goals set for the year. Total number of trusts increased by 5.7 percent since the beginning of the year with fee revenue increasing by 13.8 percent over Q3 2019. The industry continues to see challenges as recovery for the airline industry itself will be longer than originally anticipated. Working closely together, the Bank has a strong portfolio of quality clients and transactions. A great customer base with responsive working relationships have helped foster good communication through the unique needs of the industry.

## Wealth Management

Personal trust assets under management were \$489.7 million in Q3 2020, compared to \$484.2 million in Q2 2020, a 1.1 percent increase and a slight decrease of 2.3 percent from Q3 2019. This portfolio will fluctuate with the ebbs and flows of the stock market since most of the funds are held there. The Bank's strategy of growing clients through personal service of local trust officers with years of experience in the industry have proven to be successful for the Bank.

## COMPANY NOTABLE POINTS

- At the Bank level, Tier 1 leverage ratio was 11.73 percent, compared to 12.00 percent in Q2 2020.
- The Bank's efficiency ratio is 49.7 percent, still one of the nation's best.
- The Bank added \$1.3 million in Q3 (\$5.1 million year to date) in loan loss provision for potential losses due to economic uncertainty.



|                           | Q3 20     | Q2 20     | Q3 19     |
|---------------------------|-----------|-----------|-----------|
| Return on Average Assets  | 1.82%     | 1.79%     | 2.02%     |
| Return on Average Equity  | 14.31%    | 13.76%    | 14.43%    |
| Net Income                | \$7.8MM   | \$7.3MM   | \$7.0MM   |
| Net Interest Margin (FTE) | 3.78%     | 3.84%     | 4.68%     |
| Net Interest Income (FTE) | \$15.6MM  | \$14.8MM  | \$15.3MM  |
| Earnings Per Share        | \$0.47    | \$0.43    | \$0.41    |
| Equity                    | \$220.6MM | \$215.1MM | \$194.9MM |
| Total Assets              | \$1.79B   | \$1.69B   | \$1.44B   |