

# Q3

# BOU BANCORP, INC. QUARTERLY REPORT 2022



**Douglas L. DeFries**  
President & CEO

“**WHEN WE MAKE THE DECISION TO SHIFT, IT’S DONE MEANINGFULLY AND PROACTIVELY, TO PROTECT OUR CUSTOMERS, COMMUNITIES, SHAREHOLDERS AND BOTTOM LINE**”

## SHAREHOLDER DIVIDEND

A dividend of \$0.10 per share was declared on Sept. 27, 2022, for Q3 2022, compared to \$0.10 per share dividend paid in Q2 2022 and \$0.09 in Q3 2021.

## PRESIDENT’S MESSAGE



### DRIVING SUCCESS IN SHIFTING TIMES

The word “shifting” is a key word in today’s banking industry. “Shifting rates” and “shifting economic conditions” dominate conversations. At Bank of Utah, add to that “shifting balance sheet makeup”, “shifting ups and downs in revenue streams” and even “shifting leadership”, as I retire and my role as president shifts to our current chief business officer Branden Hansen on Jan. 1, 2023.

Shifts often cause unease because they mean change is coming, and change brings uncertainty. What I’ve come to realize in my 37 years at Bank of Utah, however, is that when we make the decision to shift, it’s done meaningfully and proactively, to protect our customers, communities, shareholders and bottom line. In fact, it is our ability to shift that helped us grow in the third quarter of 2022, with increases in deposits and loans, even against a volatile economic backdrop.

- **Consolidated net income** for the third quarter of 2022 was \$8.6 million, compared to \$7.4 million for the second quarter of 2022 and \$7.2 million for the third quarter of 2021, an increase of 15.5 percent and 19.4 percent, respectively.
- **Noninterest income** was \$5.0 million, a 14.2 percent decrease from the previous quarter and a 27.5 percent decrease from third quarter 2021. Offsetting the decrease, however, was our net interest income.
- **Net interest income** increased to \$21.3 million, up 16.0 percent quarter over quarter and up 24.1 percent year over year.

This growth was, in very large part, due to the Bank’s customer-centric employees who communicate the right products and services to customers at just the right time. The Bank’s success is their success. This growth was also due to the Bank’s proactive balance sheet management. This includes the allocation of liquidity to the right balance of loans and investment securities, as well as our decision made long ago to diversify revenue streams.

That leads me to another shift, a bittersweet one: my retirement. As Branden moves into his role as president in January, I am confident in his ability to make strong, thoughtful decisions to drive Bank of Utah forward. He’s been a vital member of the executive team since 2011, and I know he will continue to set a strong vision and strategy for the Bank.

To end, I cannot overstate the impact Bank of Utah has had on me. As I look back on my life in this state and on my banking career and then forward to my future on Bank of Utah’s board of directors, I can say that this has been, and always will be, My Utah, My Bank.

# Q3 2022 FINANCIAL ANALYSIS

## Lending

Loans grew at a rate of 3.5 percent quarter over quarter and 13.2 percent year over year, increasing to \$1.65 billion. In addition, net interest margin rose to 3.99 percent from 3.52 percent in Q2 2022 and 3.44 percent in Q3 2021. As a result, interest and fees on loans increased by \$2.30 million from Q2 2022 and \$2.80 million from Q3 2021. Loan quality remains excellent with nonperforming and delinquent loans to capital plus reserves at 0.53 percent. With the Federal Reserve expected to raise rates through the first part of 2023 to combat inflation, loan production may slow, but the net interest margin should increase.

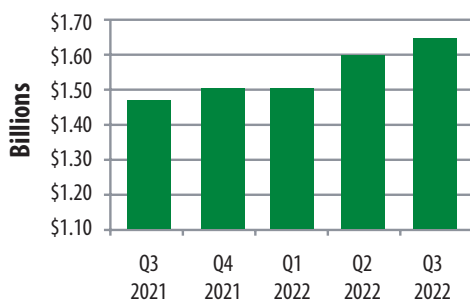
## Mortgage Production

Mortgage loan production was \$125.9 million, a 10.9 percent quarter-over-quarter decrease and a 21.3 percent year-over-year decrease. Historically, Q3 is the best quarter of the year. However, in the past year, mortgage rates have risen from an average of 3 percent for a 30-year mortgage to 7 percent. This has directly resulted in a reduction in loan closing and home buying. Gain on sale of loans dropped 43 percent from Q2 2022 and 68 percent from Q3 2021. With rates continuing to rise, home sales will most likely slow through the end of 2022 and into 2023, a dramatic shift from recent years.

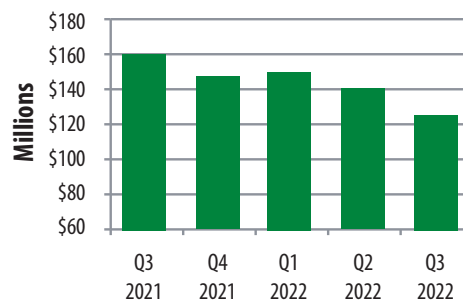
## Deposits

Average deposits for the quarter were \$1.9 billion, up 1.1 percent from Q2 2022 and up 8.0 percent from Q3 2021. The mix of our deposits has changed over the quarter, with the Bank seeing an increase in business accounts and activity as a percentage of total deposits. This is due to our expert team of Treasury Management employees who meet with each new and existing business customer to formulate a deposit plan. This enables clients to use their deposits in the most effective manner to maximize income and liquidity.

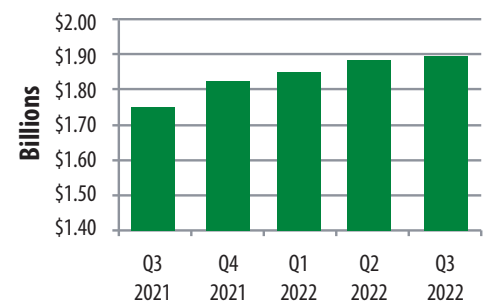
Period End Loans, Net of Unearned Income



Mortgage Production



Average Deposits



## Corporate Trust

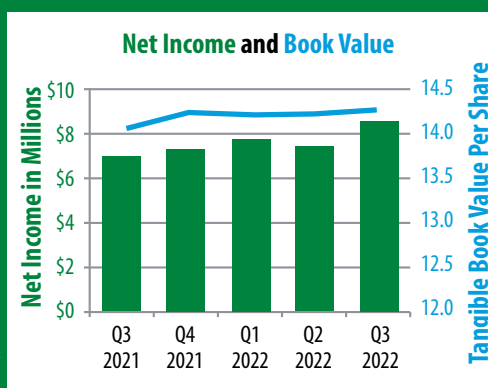
Over the past three consecutive quarters, Corporate Trust continues to outpace forecasted growth in new business accounts. Primary corporate trust accounts increased 2.6 percent in Q3 2022 over the previous quarter and 8.0 percent over Q3 2021. Steady commitments from customers have helped grow both the aircraft and life settlement portfolios. Due diligence continues to be a primary focus with high risk rated accounts declining 15 percent year to date.

## Personal Trust

Personal Trust assets for Q2 2022 were \$630 million, a 0.7 percent quarter-over-quarter decrease and a 3.5 percent year-over-year decrease. This has been accomplished during a time of contracting stock values. The portfolio's assets will fluctuate, as most are invested in the stock market. With the valuations in the stock market hitting a bear market (20 percent decrease in value), the value of our portfolio has declined. However, we have seen growth in the number of customers in our portfolio, which helps offset the valuation decline.

## COMPANY NOTABLE POINTS

- The Bank's Tier 1 leverage ratio has kept up with the growth of the Bank, edging up to 11.30 percent — a slight increase over Q2 2022 and Q3 2021.
- The Bank added \$0.4 million to loan loss reserves due to increased loan portfolio growth and expected market uncertainty.
- The Bank's efficiency ratio is 56.78 percent, a 4.1 improvement over Q2 2022.
- Salaries and benefits are flat quarter over quarter and up \$500 thousand over Q3 2021.



	Q3 2022	Q2 2022	Q3 2021
Return on Average Assets	1.52%	1.35%	1.37%
Return on Average Equity	13.42%	11.90%	11.69%
Net Income	\$8.6MM	\$7.4MM	\$7.2MM
Net Interest Margin (FTE)	3.99%	3.52%	3.44%
Net Interest Income (FTE)	\$21.3MM	\$18.4MM	\$17.2MM
Noninterest Income	\$5.0MM	\$5.8MM	\$6.9MM
Earnings Per Share	\$0.51	\$0.45	\$0.43
Dividend Per Share	\$0.10	\$0.10	\$0.09
Equity	\$249.1MM	\$248.9MM	\$243.3MM
Total Assets	\$2.32B	\$2.23B	\$2.17B