People's Utah Bancorp
Form 10-Q
November 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-37416

PEOPLE'S UTAH BANCORP

(Exact name of registrant as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	87-0622021 (IRS Employer Identification No.)
1 East Main Street, American Fork, Utah (Address of principal executive offices)	84003 (Zip Code)

(801) 642-3998

Registrant's telephone number, including area code

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares of Registrant's common stock outstanding on October 31, 2016 was 17,790,549. No preferred shares are issued or outstanding.

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PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$29,852	$19,745
Interest bearing deposits	67,930	20,428
Federal funds sold	253	2,176
Total cash and cash equivalents	98,035	42,349
Investment securities:		
Available-for-sale, at fair value	326,096	332,736
Held-to-maturity, at historical cost	61,471	65,882
Total investment securities	387,567	398,618
Non-marketable equity securities	1,827	2,244
Loans held for sale	15,178	17,947
Loans:		
Loans held for investment	1,105,398	1,047,975
Less allowance for loan losses	(16,181)	(15,557)
Total loans held for investment, net	1,089,217	1,032,418
Premises and equipment, net	22,056	22,104
Accrued interest receivable	5,801	5,767
Deferred income tax assets	8,248	8,606
Other real estate owned	407	568
Bank-owned life insurance	19,581	19,170
Other assets	5,940	6,191
Total assets	$1,653,857	$1,555,982
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Non-interest bearing deposits	$464,638	$408,508
Interest bearing deposits	947,201	900,677
Total deposits	1,411,839	1,309,185
Short-term borrowings	3,188	27,204
Accrued interest payable	293	314
Other liabilities	13,387	9,871
Total liabilities	1,428,707	1,346,574
Commitments and contingencies		
Shareholders’ equity:		
Preferred shares, $0.01 par value: 3,000,000 shares authorized, no shares issued	—	—
Common shares, $0.01 par value: 30,000,000 shares authorized; 17,790,549 and 17,567,154 shares issued and outstanding as of September 30, 2016	178	176

and December 31, 2015, respectively		
Additional paid-in capital	68,415	67,338
Retained earnings	155,573	142,223
Accumulated other comprehensive income (loss)	984	(329)
Total shareholders’ equity	225,150	209,408
Total liabilities and shareholders’ equity	$1,653,857	$1,555,982

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except share and per share data)	2016	2015	2016	2015
Interest income				
Interest and fees on loans	$16,876	$15,095	$49,147	$43,250
Interest and dividends on investments	1,471	1,424	4,563	4,171
Total interest income	18,347	16,519	53,710	47,421
Interest expense	710	730	2,162	2,230
Net interest income	17,637	15,789	51,548	45,191
Provision for loan losses	325	200	750	800
Net interest income after provision for loan losses	17,312	15,589	50,798	44,391
Non-interest income				
Service charges on deposit accounts	582	613	1,626	1,870
Card processing	1,129	1,079	3,296	3,147
Mortgage banking	2,244	1,841	6,269	5,638
Other operating	431	432	1,356	1,597
Total non-interest income	4,386	3,965	12,547	12,252
Non-interest expense				
Salaries and employee benefits	7,674	7,323	23,517	21,825
Occupancy, equipment and depreciation	1,101	969	3,165	2,914
Data processing	665	729	2,112	2,020
FDIC premiums	124	186	507	564
Card processing	509	512	1,648	1,516
Marketing and advertising	301	279	760	656
Other	1,528	1,446	4,728	4,651
Total non-interest expense	11,902	11,444	36,437	34,146
Income before income tax expense	9,796	8,110	26,908	22,497
Income tax expense	3,548	2,844	9,840	7,769
Net income	$6,248	$5,266	$17,068	$14,728
Earnings per common share:				
Basic	$0.35	$0.30	$0.96	$0.93
Diluted	$0.34	$0.29	$0.94	$0.90
Weighted average common shares outstanding:				
Basic	17,764,647	17,467,161	17,711,899	15,821,403
Diluted	18,248,008	18,105,766	18,182,053	16,374,034

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$6,248	$5,266	$17,068	$14,728
Other comprehensive income				
Unrealized holding gains (losses) on securities available for sale	(779)	761	2,125	799
Tax effect	(298)	285	812	301
Unrealized holding gains (losses) on securities available for sale, net of tax	(481)	476	1,313	498
Total comprehensive income	$5,767	$5,742	$18,381	$15,226

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY

(Dollars in thousands, except share data)	Common Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of January 1, 2015	14,758,121	$ 148	$ 31,137	$ 125,595	$ 779	$ 157,659
Comprehensive income	-	-	-	14,728	498	15,226
Cash dividends declared ($0.12 per share)	-	-	-	(1,935)	-	(1,935)
Share-based compensation	-	-	363	-	-	363
Issuance of common shares	2,657,000	27	34,870	-	-	34,897
Exercise of stock options	76,431	-	399	-	-	399
Balance as of September 30, 2015	17,491,552	$ 175	$ 66,769	$ 138,388	$ 1,277	$ 206,609
Balance as of January 1, 2016	17,567,154	$ 176	$ 67,338	$ 142,223	$ (329)	$ 209,408
Comprehensive income	-	-	-	17,068	1,313	18,381
Cash dividends declared ($0.21 per share)	-	-	-	(3,718)	-	(3,718)
Share-based compensation	-	-	410	-	-	410
Exercise of stock options	223,395	2	667	-	-	669
Balance as of September 30, 2016	17,790,549	$ 178	$ 68,415	$ 155,573	$ 984	$ 225,150

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$17,068	$14,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	750	800
Depreciation and amortization	1,916	1,901
Net gain on sales of other real estate owned	—	(153)
Deferred income taxes	(455)	(26)
Net amortization of securities discounts and premiums	2,254	2,354
Other	406	344
Gain on sale of loans held for sale	(4,787)	(4,086)
Originations of loans held for sale	(199,991)	(173,366)
Proceeds from sale of loans held for sale	207,547	179,817
Net changes in:		
Accrued interest receivable	(34)	(657)
Other assets	(160)	(13,461)
Accrued interest payable	(21)	(31)
Other liabilities	3,516	5,419
Net cash provided by operating activities	28,009	13,583
Cash flows from investing activities:		
Net change in loans held for investment	(57,786)	(53,431)
Purchase of available-for-sale securities	(100,372)	(105,728)
Purchase of held-to-maturity securities	(1,764)	(22,532)
Proceeds from maturities/sales of available-for-sale securities	107,340	88,917
Proceeds from maturities of held-to-maturity securities	5,718	8,196
Purchase of premises and equipment	(1,864)	(2,668)
Proceeds from sale of other real estate owned, net of improvements	399	1,207
Purchase of non-marketable equity securities	(2,663)	—
Proceeds from sale of non-marketable equity securities	3,080	984
Net cash provided by (used in) investing activities	(47,912)	(85,055)
Cash flows from financing activities:		
Net increase in non-interest bearing deposits	56,130	101,777
Net increase in interest bearing deposits	46,524	31,863
Issuance of common shares	—	34,897
Proceeds related to exercise of stock options	669	399
Net change in short-term borrowings	(24,016)	918
Cash dividends paid	(3,718)	(4,001)
Net cash provided by financing activities	75,589	165,853
Net change in cash and cash equivalents	55,686	94,381
Cash and cash equivalents, beginning of period	42,349	47,702
Cash and cash equivalents, end of period	$98,035	$142,083

Supplemental disclosures of cash flow information:		
Cash paid for interest	$1,915	$2,032
Income taxes paid	9,163	$7,380
Supplemental disclosures of non-cash transactions:		
Reclassifications from loans to other real estate owned	$237	$-
Unrealized gains on securities available for sale	$2,125	$799

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

People's Utah Bancorp, Inc. ("PUB" or the "Company") is a Utah corporation headquartered in American Fork, Utah. The Company's subsidiary is People's Intermountain Bank ("PIB" or the "Bank"), which includes two banking divisions doing business as ("dba") Bank of American Fork ("BAF") and Lewiston State Bank ("LSB") and an equipment leasing division dba GrowthFunding Equipment Finance. BAF and LSB have over 100 years of history and will continue to do business as registered names of PIB.

The interim consolidated financial statements include the accounts of the Company together with its subsidiary Bank. All intercompany transactions and balances have been eliminated.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial information. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are of a normal recurring nature. These financial statements and the accompanying notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015 which are included in the Company's 2015 Form 10-K. Operating results for the nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or any other period.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired through foreclosure, deferred tax assets, and share-based compensation.

Earnings per share — Basic earnings per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares includes shares that may be issued by the Company for outstanding stock options determined using the treasury stock method and for all outstanding restricted stock units ("RSU").

Earnings per common share have been computed based on the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share and per share data)	2016	2015	2016	2015
Numerator				
Net income	$6,248	$5,266	$17,068	$14,728
Denominator				
Weighted-average number of common shares outstanding	17,764,647	17,467,161	17,711,899	15,821,403

Incremental shares assumed for stock options and RSUs	483,361	638,605	470,154	552,631
Weighted-average number of dilutive shares outstanding	18,248,008	18,105,766	18,182,053	16,374,034
Basic earnings per common share	$0.35	$0.30	$0.96	$0.93
Diluted earnings per common share	$0.34	$0.29	$0.94	$0.90

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 — Basis of Presentation – Continued

Reclassifications — Certain amounts in the prior period’s financial statements have been reclassified to conform to the current period’s presentation.

Impact of Recent Authoritative Accounting Guidance — The Financial Accounting Standards Board issued Accounting Standards Codification (“ASC”) 2016-13, Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaces today’s “incurred loss” approach with an “expected loss” model for instruments such as loans and held-to-maturity securities that are measured at amortized cost. The standard requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than a reduction of the carrying amount. It also changes the accounting for purchased credit-impaired debt securities and loans. The standard retains many of the current disclosure requirements in current GAAP and expands certain disclosure requirements. While we expect this standard will have a material impact on the Company’s financial statements, we are still in the process of conducting our evaluation. The standard will become effective for the Company in the first quarter of 2020.

Note 2 — Investment Securities

Amortized cost and approximate fair values of investment securities available for sale are summarized as follows:

			Gross Unrealized Losses		
(in thousands)	Amortized Cost	Gross Unrealized Gains	Less Than 12 Months	12 Months or Longer	Fair Value
As of September 30, 2016					
U.S. Government-sponsored securities	$ 117,241	$ 112	$ (91)	$ —	$ 117,262
Municipal securities	28,479	724	(4)	—	29,199
Mortgage-backed securities	168,783	1,808	(186)	(346)	170,059

Corporate securities	10,000	5	(32)	(397)	9,576
	$ 324,503	$ 2,649	$ (313)	$ (743)	$ 326,096
As of December 31, 2015					
U.S. Government-sponsored securities	$ 104,591	$ 11	$ (612)	$ -	$ 103,990
Municipal securities	36,820	926	(7)	(9)	37,730
Mortgage-backed securities	181,857	940	(724)	(687)	181,386
Corporate securities	10,000	-	(253)	(117)	9,630
	$ 333,268	$ 1,877	$ (1,596)	$ (813)	$ 332,736

Carrying amounts and estimated fair values of securities held-to-maturity are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	12 Months or Longer	Fair Value
As of September 30, 2016					
Municipal securities	$ 59,239	$ 584	$ (13)	$ (7)	$ 59,803
Certificates of deposit	2,232	1	—	—	2,233
	$ 61,471	$ 585	$ (13)	$ (7)	$ 62,036
As of December 31, 2015					
Municipal securities	$ 63,650	$ 238	$ (74)	$ (2)	$ 63,812
Certificates of deposit	2,232	5	-	—	2,237
	$ 65,882	$ 243	$ (74)	$ (2)	$ 66,049

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 — Investment Securities – continued

The amortized cost and estimated fair values of investment securities that are available-for-sale and held-to-maturity at September 30, 2016, by contractual maturity, are as follows:

	Available-for-sale		Held-to-maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities maturing in:				
One year or less	$21,055	$21,140	$10,767	$10,772
After one year through five years	123,786	124,171	39,850	40,175
After five years through ten years	71,359	71,661	10,854	11,089
After ten years	108,303	109,124	—	—
	$324,503	$326,096	$61,471	$62,036

Expected maturities may differ from contractual maturities because issuers may have the right to call obligations with or without penalties.

As of September 30, 2016 and December 31, 2015, the Company held 131 and 234 investment securities, respectively, with fair values less than amortized cost. Management evaluated these investment securities and determined that the decline in value is temporary and related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. The Company anticipates full recovery of the amortized cost with respect to these securities at maturity, or sooner in the event of a more favorable market interest rate environment.

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

(in thousands)	September 30, 2016	December 31, 2015
Loans held for investment:		
Commercial real estate loans:		

Real estate term	$578,462	$577,804
Construction and land development	235,350	179,664
Total commercial real estate loans	813,812	757,468
Commercial and industrial loans	205,443	208,277
Consumer loans:		
Residential and home equity	75,571	71,169
Consumer and other	15,062	14,945
Total consumer loans	90,633	86,114
Total gross loans	1,109,888	1,051,859
Less:		
Net deferred loan fees	(4,490)	(3,884)
Total loans held for investment	1,105,398	1,047,975
Less: allowance for loan losses	(16,181)	(15,557)
Total loans held for investment, net	$1,089,217	$1,032,418

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

Changes in the allowance for loan losses (“ALLL”) are as follows:

(in thousands)	Three Months Ended September 30, 2016 Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$6,869	$ 4,725	$ 3,768	$ 628	$ 162	$16,152
Additions: Provisions for loan losses	(426)	413	411	(24)	(49)	325
Deductions:						
Gross loan charge-offs	—	—	(558)	—	(57)	(615)
Recoveries	3	148	81	8	79	319
Net loan charge-offs	3	148	(477)	8	22	(296)
Balance at end of period	$6,446	$ 5,286	$ 3,702	$ 612	$ 135	$16,181

(in thousands)	Three Months Ended September 30, 2015 Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$5,184	$ 3,852	$ 5,694	$ 692	$ 233	$15,655
Additions: Provisions for loan losses	1,381	(78)	(1,133)	(15)	45	200
Deductions:						
Gross loan charge-offs	(1)	(151)	(201)	-	(53)	(406)
Recoveries	5	2	31	16	24	78
Net loan charge-offs	4	(149)	(170)	16	(29)	(328)
Balance at end of period	$6,569	$ 3,625	$ 4,391	$ 693	$ 249	$15,527

(in thousands)	Nine Months Ended September 30, 2016 Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$6,783	$ 3,984	$ 3,941	$ 603	$ 246	$15,557
Additions: Provisions for loan losses	(349)	1,108	202	(80)	(131)	750
Deductions:						
Gross loan charge-offs	—	—	(630)	—	(177)	(807)
Recoveries	12	194	189	89	197	681
Net loan charge-offs	12	194	(441)	89	20	(126)
Balance at end of period	$6,446	$ 5,286	$ 3,702	$ 612	$ 135	$16,181

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PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

(in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
	Nine Months Ended September 30, 2015					
Balance at beginning of period	$5,181	$ 4,425	$ 4,608	$ 671	$ 266	$15,151
Additions: Provisions for loan losses	1,316	(442)	(129)	(41)	96	800
Deductions:						
Gross loan charge-offs	(2)	(396)	(235)	-	(174)	(807)
Recoveries	74	38	147	63	61	383
Net loan charge-offs	72	(358)	(88)	63	(113)	(424)
Balance at end of period	$6,569	$ 3,625	$ 4,391	$ 693	$ 249	$15,527

Non-accrual loans are summarized as follows:

(in thousands)	September 30, 2016	December 31, 2015
Non-accrual loans, not troubled debt restructured:		
Real estate term	$ 2,483	$ 2,961
Construction and land development	85	56
Commercial and industrial	605	1,176
Residential and home equity	152	631
Consumer and other	69	88
Total non-accrual loans, not troubled debt restructured	3,394	4,912
Troubled debt restructured loans, non-accrual:		
Real estate term	824	1,153
Construction and land development	667	1,329
Commercial and industrial	17	21
Residential and home equity	—	—
Consumer and other	—	—
Total troubled debt restructured loans, non-accrual	1,508	2,503
Total non-accrual loans	$ 4,902	$ 7,415

Troubled debt restructured loans are summarized as follows:

(in thousands)	September 30, 2016	December 31, 2015
Accruing troubled debt restructured loans	$ 6,006	$ 7,049
Non-accrual troubled debt restructured loans	1,508	2,503
Total troubled debt restructured loans	$ 7,514	$ 9,552

A restructured loan is considered a troubled debt restructured loan ("TDR"), if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession in terms or a below-market interest rate to the debtor that it would not otherwise consider. Each TDR loan is separately negotiated with the borrower and includes terms and conditions that reflect the borrower's prospective ability to service the debt as modified.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

Current and past due loans held for investment (accruing and non-accruing) are summarized as follows:

(in thousands)	September 30, 2016 Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual	Total Past Due	Total Loans
Commercial real estate:						
Real estate term	$574,515	$640	$ —	$ 3,307	$3,947	$578,462
Construction and land development	234,000	598	—	752	1,350	235,350
Total commercial real estate	808,515	1,238	—	4,059	5,297	813,812
Commercial and industrial	204,327	494	—	622	1,116	205,443
Consumer:						
Residential and home equity	74,953	466	—	152	618	75,571
Consumer and other	14,765	226	2	69	297	15,062
Total consumer	89,718	692	2	221	915	90,633
Total gross loans	$1,102,560	$2,424	$ 2	$ 4,902	$7,328	$1,109,888

(in thousands)	December 31, 2015 Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual	Total Past Due	Total Loans
Commercial real estate:						
Real estate term	$567,886	$5,804	$ —	$ 4,114	$9,918	$577,804
Construction and land development	170,495	7,784	—	1,385	9,169	179,664
Total commercial real estate	738,381	13,588	—	5,499	19,087	757,468
Commercial and industrial	205,765	1,315	—	1,197	2,512	208,277
Consumer:						
Residential and home equity	69,950	588	—	631	1,219	71,169
Consumer and other	14,596	258	3	88	349	14,945
Total consumer	84,546	846	3	719	1,568	86,114
Total gross loans	$1,028,692	$15,749	$ 3	$ 7,415	$23,167	$1,051,859

Credit Quality Indicators:

In addition to past due and non-accrual criteria, the Company also analyzes loans using a loan grading system. Performance-based grading follows the Company's definitions of Pass, Special Mention, Substandard and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard and Doubtful are summarized as follows:

Pass: A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

Special Mention: A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the Company is currently protected and loss is considered unlikely and not imminent.

Substandard: A Substandard asset is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the Company may sustain some loss if deficiencies are not corrected.

Doubtful: A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.

For Consumer loans, the Company generally assigns internal risk grades similar to those described above based on payment performance.

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

Outstanding loan balances (accruing and non-accruing) categorized by these credit quality indicators are summarized as follows:

	September 30, 2016				
(in thousands)	Pass	Special Mention	Substandard and Doubtful	Total Loans	Total Allowance
Commercial real estate:					
Real estate term	$557,377	$13,078	$ 8,007	$578,462	$ 6,446
Construction and land development	229,804	2,250	3,296	235,350	5,286
Total commercial real estate	787,181	15,328	11,303	813,812	11,732
Commercial and industrial	197,741	899	6,803	205,443	3,702
Consumer loans:					
Residential and home equity	71,763	1,918	1,890	75,571	612
Consumer and other	14,928	1	133	15,062	135
Total consumer	86,691	1,919	2,023	90,633	747
Total	$1,071,613	$18,146	$ 20,129	$1,109,888	$ 16,181

	December 31, 2015				
(in thousands)	Pass	Special Mention	Substandard and Doubtful	Total Loans	Total Allowance
Commercial real estate:					
Real estate term	$551,001	$16,326	$ 10,477	$577,804	$ 6,783
Construction and land development	172,368	2,934	4,362	179,664	3,984
Total commercial real estate	723,369	19,260	14,839	757,468	10,767
Commercial and industrial	195,611	5,626	7,040	208,277	3,941
Consumer loans:					
Residential and home equity	67,088	1,666	2,415	71,169	603
Consumer and other	14,816	36	93	14,945	246
Total consumer	81,904	1,702	2,508	86,114	849
Total	$1,000,884	$26,588	$ 24,387	$1,051,859	$ 15,557

The ALLL and outstanding loan balances reviewed according to the Company’s impairment method are summarized as follows:

(in thousands)	September 30, 2016 Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Allowance for loan losses:						
Individually evaluated for impairment	$271	$ 67	$ 664	$ 76	$ -	$1,078
Collectively evaluated for impairment	6,175	5,219	3,038	536	135	15,103
Total	$6,446	$ 5,286	$ 3,702	$ 612	$ 135	$16,181
Outstanding loan balances:						
Individually evaluated for impairment	$7,910	$ 3,285	$ 6,879	$ 1,503	$ 14	$19,591
Collectively evaluated for impairment	570,552	232,065	198,564	74,068	15,048	1,090,297
Total gross loans	$578,462	$ 235,350	$ 205,443	$ 75,571	$ 15,062	$1,109,888

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

(in thousands)	December 31, 2015 Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Allowance for loan losses:						
Individually evaluated for impairment	$283	$ 67	$ 1,078	$ 79	$ 15	$1,522
Collectively evaluated for impairment	6,500	3,917	2,863	524	231	14,035
Total	$6,783	$ 3,984	$ 3,941	$ 603	$ 246	$15,557
Outstanding loan balances:						
Individually evaluated for impairment	$10,225	$ 4,219	$ 7,009	$ 2,451	$ 15	$23,919
Collectively evaluated for impairment	567,579	175,445	201,268	68,718	14,930	1,027,940
Total gross loans	$577,804	$ 179,664	$ 208,277	$ 71,169	$ 14,945	$1,051,859

Information on impaired loans is summarized as follows:

	September 30, 2016				
		Recorded Investment			
(in thousands)	Unpaid Principal Balance	With No Allowance	With Allowance	Total Recorded Investment	Related Allowance
Commercial real estate:					
Real estate term	$8,104	$5,032	$ 2,878	$ 7,910	$ 271
Construction and land development	5,137	3,081	204	3,285	67
Total commercial real estate	13,241	8,113	3,082	11,195	338
Commercial and industrial	7,362	4,076	2,803	6,879	664
Consumer loans:					
Residential and home equity	1,562	1,096	407	1,503	76
Consumer and other	14	14	-	14	-
Total consumer	1,576	1,110	407	1,517	76
Total	$22,179	$13,299	$ 6,292	$ 19,591	$ 1,078

December 31, 2015

Recorded Investment

(in thousands)	Unpaid Principal Balance	With No Allowance	With Allowance	Total Recorded Investment	Related Allowance
Commercial real estate:					
Real estate term	$10,430	$7,266	$ 2,959	$ 10,225	$ 283
Construction and land development	6,055	4,007	212	4,219	67
Total commercial real estate	16,485	11,273	3,171	14,444	350
Commercial and industrial	7,562	3,510	3,499	7,009	1,078
Consumer loans:					
Residential and home equity	2,514	2,019	432	2,451	79
Consumer and other	58	15	-	15	15
Total consumer	2,572	2,034	432	2,466	94
Total	$26,619	$16,817	$ 7,102	$ 23,919	$ 1,522

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Concluded

The interest income recognized on impaired loans was as follows:

	Three Months Ended			
	September 30, 2016		September 30, 2015	
(in thousands)	Average Recorded Investment	Interest Income Recognition	Average Recorded Investment	Interest Income Recognition
Commercial real estate:				
Real estate term	$8,990	$ 65	$10,440	$ 85
Construction and land development	3,528	54	5,161	109
Total commercial real estate	12,518	119	15,601	194
Commercial and industrial	6,353	88	5,024	44
Consumer loans:				
Residential and home equity	1,971	23	2,819	24
Consumer and other	15	1	32	-
Total consumer	1,986	24	2,851	24
Total	$20,857	$ 231	$23,476	$ 262

	Nine Months Ended			
	September 30, 2016		September 30, 2015	
(in thousands)	Average Recorded Investment	Interest Income Recognition	Average Recorded Investment	Interest Income Recognition
Commercial real estate:				
Real estate term	$9,067	$ 218	$11,792	$ 300
Construction and land development	3,752	156	5,234	255
Total commercial real estate	12,819	374	17,026	555
Commercial and industrial	6,944	273	5,004	136
Consumer loans:				
Residential and home equity	1,977	57	3,179	93
Consumer and other	15	1	32	1
Total consumer	1,992	58	3,211	94

Total	$21,755	$ 705	$25,241	$ 785

Loans and Deposits to affiliates — The Company has entered into loan transactions with certain directors, affiliated companies and executive committee members (“affiliates”). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Total outstanding loans with affiliates were approximately $336,000 and $48,000 as of September 30, 2016 and December 31, 2015, respectively. Available lines of credit for loans and credit cards to affiliates were approximately $533,000 as of September 30, 2016. Deposits held by affiliates were $8.6 million and $7.9 million as of September 30, 2016 and December 31, 2015, respectively.

Note 4 — Income Taxes

Income tax expense was $9.8 million and $7.8 million for the nine months ended September 30, 2016 and 2015, respectively. The Company’s effective tax rate was 36.6% and 34.5% for the nine months ended September 30, 2016 and 2015, respectively.

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 — Commitments and Contingencies

Litigation contingencies— The Company is involved in various claims, legal actions and complaints which arise in the ordinary course of business. In the Company’s opinion, all such matters are adequately covered by insurance, are without merit or are of such kind, or involve such amounts, that unfavorable disposition would not have a material adverse effect on the financial condition or results of operations of the Company.

Commitments to extend credit — In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and unused credit card lines, which are not included in the accompanying consolidated financial statements. The Company’s exposure to credit loss in the event of non-performance by other parties to the financial instruments for commitments to extend credit and unused credit card lines is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Contractual amounts of off-balance sheet financial instruments were as follows:

(in thousands)	September 30, 2016	December 31, 2015
Commitments to extend credit, including unsecured commitments of $13,419 and $12,869 as of September 30, 2016 and December 31, 2015, respectively	$481,566	$382,928
Stand-by letters of credit and bond commitments, including unsecured commitments of $668 and $1,391 as of September 30, 2016 and December 31, 2015, respectively	33,322	36,333
Unused credit card lines, all unsecured	26,488	25,512

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management’s credit evaluation of the customer.

Unused credit card lines are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Note 6 — Regulatory Capital Matters

The consolidated Tier 1 Leverage ratio increased from 13.42% at December 31, 2015 to 13.93% as of September 30, 2016. Federal Reserve Board Regulations require maintenance of certain minimum reserve balances based on certain average deposits which as of September 30, 2016 and December 31, 2015 were $8.6 million and $8.7 million, respectively. The Company’s Board of Directors may declare a cash or stock dividend out of retained earnings provided the regulatory minimum capital ratios are met. The Company plans to maintain capital ratios that meet the well-capitalized standards per the regulations and, therefore, plans to limit dividends to amounts that are appropriate to maintain those well-capitalized regulatory capital ratios.

Note 7 — Shareholders’ Equity

The Board of Directors began declaring quarterly dividends in April 2015. Dividends on quarterly earnings are generally declared and paid subsequent to the end of the quarter.

Note 8 — Incentive Share-Based Plan and Other Employee Benefits

In June 2014, the Board of Directors ("Board") and shareholders of the Company approved a share-based incentive plan ("the Plan"). The Plan provides for various share-based incentive awards including incentive share-based options, non-qualified share-based options, restricted shares, and stock appreciation rights to be granted to officers, directors and other key employees. The maximum aggregate number of shares that may be issued under the Plan is 800,000 common shares. The share-based awards are granted to participants under the Plan at a price not less than the fair value on the date of grant and for terms of up to ten years. The Plan also allows for granting of share-based awards to directors and consultants who are not employees of the Company.

During the nine months ended September 30, 2016, the Company granted options for the purchase of 86,831 common shares, which have a weighted average exercise price of $15.66 per share and a weighted average fair value as of the date of grant of $2.26 per share. Additionally, the Company granted 3,866 restricted stock units ("RSU") at a weighted-average fair value of $16.50 per unit. The options and RSU's generally vest over periods from one to three years. The Company recorded share-based compensation expense of $410,000 and $363,000 for the nine months ended September 30, 2016 and 2015, respectively.

Note 9 — Fair Value

Fair value measurements — Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, GAAP has established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
Level 3	Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 — Fair Value – Continued

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation methodology:

Investment securities, available for sale — Where quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 includes securities that have quoted prices in an active market for identical assets. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows, and accordingly, are classified as Level 2 or 3. The Company has categorized its available-for-sale investment securities as Level 1 or 2.

Impaired loans and other real estate owned — Fair value applies to loans and other real estate owned measured for impairment. Impaired loans are measured at an observable market price (if available) or at the fair value of the loan's collateral (if collateral dependent). Fair value of the loan's collateral is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. The Company has categorized its impaired loans and other real estate owned as Level 2.

Assets measured at fair value are summarized as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
As of September 30, 2016				
Fair valued on a recurring basis:				
Investment securities available for sale	$4,709	$321,387	$ —	$326,096
Fair valued on a non-recurring basis:				
Impaired loans	—	5,214	—	5,214
Other real estate owned	—	407	—	407
As of December 31, 2015				
Fair valued on a recurring basis:				
Investment securities available for sale	$2,017	$330,719	$ —	$332,736
Fair valued on a non-recurring basis:				
Impaired loans	—	5,580	—	5,580
Other real estate owned	—	460	—	460

Note 9 — Fair Value – Continued

Fair value of financial instruments — The following table summarizes carrying amounts, estimated fair values and assumptions used to estimate fair values of financial instruments:

(in thousands)	Carrying Value	Estimated Fair Value
As of December 31, 2015		
Financial Assets:		
Net loans held for investment	$1,032,418	$1,029,540
Financial Liabilities:		
Interest bearing deposits	900,677	901,211

The fair values of financial assets and liabilities as of September 30, 2016 were not presented because the assumptions used to estimate fair values have not changed significantly from those used at December 31, 2015.

The above summary excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and cash equivalents, held-to-maturity securities (see Note 2), loans held for sale, bank-owned life insurance, accrued interest receivable and FHLB stock. For financial liabilities, these include non-interest bearing deposits, short-term borrowings, and accrued interest payable. Also excluded from the summary are financial instruments recorded at fair value on a recurring basis, as previously described.

Fair values of off-balance sheet commitments such as lending commitments, standby letters of credit and guarantees are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The fair value of the fees as of September 30, 2016 and December 31, 2015 were insignificant.

The following methods and assumptions were used to estimate the fair value of financial instruments:

Net loans — The fair value is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating rate or expected maturity characteristics.

Interest bearing deposits — The fair value of interest bearing deposits is estimated by discounting the estimated future cash flows using the rates currently offered for deposits with similar remaining maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates. Further, certain financial instruments and all non-financial instruments are excluded from the applicable disclosure requirements. Therefore, the fair value amounts shown in the table do not, by themselves, represent the underlying value of the Company as a whole.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of People's Utah Bancorp's operating results and financial condition than can be obtained from reading the Unaudited Consolidated Financial Statements alone. The discussion should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto included in "Part I. Item 1. Financial Statements."

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10–Q may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views and are not historical facts. These statements can generally be identified by use of phrases such as "believe," "expect," "will," "seek," "should," "anticipate," "estimate," "intend," "plan," "target," "project," "commit" or other words of similar import. Similarly, statements that describe our future financial condition, results of operations, objectives, strategies, plans, goals or future performance and business are also forward-looking statements. These forward-looking statements include but are not limited to, (i) our plans to open new branches in the first half of 2017 and to pursue potential acquisitions, and (ii) statements concerning future growth trends in our residential mortgage business. Statements that project future financial conditions, results of operations and shareholder value are not guarantees of performance and many of the factors that will determine these results and values are beyond our ability to control or predict. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These are forward-looking statements and involve known and unknown risks, uncertainties and other factors, including, but not limited to, those described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections in this report and our Annual Report on Form 10-K for the year ended December 31, 2015 ("Form 10-K"), and other parts of this report that could cause our actual results to differ materially from those anticipated in these forward-looking statements. The following is a non-exclusive list of factors which could cause our actual results to differ materially from our forward-looking statements in this prospectus:

- changes in general economic conditions, either nationally or in our local market;
- inflation, interest rates, securities market volatility and monetary fluctuations;
- increases in competitive pressures among financial institutions and businesses offering similar products and services;
- higher defaults on our loan portfolio than we expect;
- changes in management's estimate of the adequacy of the allowance for loan losses;
- risks associated with our growth and expansion strategy and related costs;
- increased lending risks associated with our high concentration of real estate loans;
- ability to successfully grow our business in Utah and neighboring states;
- legislative or regulatory changes or changes in accounting principles, policies or guidelines;
- technological changes;
- regulatory or judicial proceedings; and
- other factors and risks including those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and our Annual Report on Form 10-K for the year ended December 31, 2015.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed.

Please take into account that forward-looking statements speak only as of the date of this Form 10-Q. We do not undertake any obligation to release publicly our revisions to such forward-looking statements to reflect events or circumstances after the date of this Form 10-Q.

Overview

We are a bank holding company, formed in 1998 and headquartered in American Fork, Utah, which is located on the I-15 corridor between the cities of Salt Lake City and Provo. We have three divisions in our wholly-owned subsidiary, People's Intermountain Bank ("PIB" or the "Bank"). We have 18 banking locations operating through two banking divisions, dba, BAF and LSB, which began offering banking services in 1913 and 1905, respectively. Our third division is GrowthFunding Equipment Finance, an equipment leasing operation which originates direct equipment leasing products to businesses nationwide and to our banking customers. In the past we have acquired rental streams of payments from third-party leasing companies. We provide full-service retail banking in many of the leading population centers in the state of Utah, including a wide range of banking and related services to locally-owned businesses, professional firms, real estate developers, residential home builders, high net-worth individuals, investors and other customers. Our primary customers are small and medium-sized businesses that require highly personalized commercial banking products and services.

We believe our growth is a result of our ability to attract and retain high-quality associates, add branches in attractive markets and provide good customer service, as well as due to the expansion of our construction, land acquisition and development and commercial and industrial lending. The primary source of funding for our asset growth has been the generation of core deposits, which we accomplish through a combination of competitive pricing for local deposits coupled with expansion of our branch system. We plan to open two new branches in the first half of 2017. We had anticipated opening one of the branches at the end of this year, but permitting delays have moved the opening to next year.

Our results of operations are largely dependent on net interest income. Net interest income is the difference between interest income we earn on interest earning assets, which are comprised of loans, investment securities and short-term investments and the interest we pay on our interest bearing liabilities, which are primarily deposits, and, to a lesser extent, other borrowings. Deposits are our primary source of funding. Management strives to match the re-pricing characteristics of the interest earning assets and interest bearing liabilities to protect net interest income from changes in market interest rates and changes in the shape of the yield curve.

We measure our performance by calculating our net interest margin, return on average assets, and return on average equity. Net interest margin is calculated by dividing net interest income, which is the difference between interest income on interest earning assets and interest expense on interest bearing liabilities, by average interest earning assets. Net interest income is our largest source of revenue. Interest rate fluctuations, as well as changes in the amount and type of earning assets and liabilities, combine to affect net interest income. We also measure our performance by our efficiency ratio, which is calculated by dividing non-interest expense less merger-related costs, if applicable, by the sum of net interest income and non-interest income.

Key Factors in Evaluating Our Financial Condition and Results of Operations

As a bank holding company, we focus on a number of key factors in evaluating our financial condition and results of operations including:

- Return on average equity;
- Return on average assets;
- Asset quality;
- Asset growth;
- Capital and liquidity;
- Net interest margin; and
- Operating efficiency.

The chart below shows these key financial measures:

(Dollars in thousands except per share amounts)	Year to Date September 30, 2016		September 30, 2015	
Net income	$17,068		$14,728	
Basic earnings per share	0.96		0.93	
Diluted earnings per share	0.94		0.90	
Total assets	1,653,857		1,553,955	
Total loans held for investment	1,105,398		993,464	
Total deposits	1,411,839		1,332,873	
Net interest margin	4.62	%	4.43	%
Efficiency ratio	56.85	%	59.44	%
Return on average assets	1.45	%	1.37	%
Return on average equity	10.42	%	10.98	%
Average equity to average assets	13.91	%	12.48	%
Non-performing assets to total assets	0.32	%	0.64	%
Liquidity ratio (1)	31.19	%	34.35	%
Dividend Payout Ratio (2)	21.80	%	13.14	%

(1) The liquidity ratio is the sum of cash equivalents and investment securities, less investment securities pledged as collateral against short-term borrowings, all divided by total liabilities. Pledged investment securities were $39.9 million and $39.7 million at September 30, 2016 and 2015, respectively.

(2) The dividend payout ratio is dividends declared divided by net income for the period. During the year-to-date period in 2015 only two quarterly dividends were declared. We began declaring quarterly dividends in April 2015.

Return on Average Equity. We measure the return to our shareholders through a return on average equity, or ROE, calculation. Our net income for the nine months ended September 30, 2016 increased 15.9% to $17.1 million from $14.7 million for the comparable period in 2015. Net income for the nine months ended September 30, 2016 increased primarily due to an increase to net loans from loan growth, a higher net interest margin, an increase in non-interest income, and offset by an increase in operating expenses and income tax expense. Basic earnings per share, or EPS, was $0.96 for the nine months ended September 30, 2016 compared to $0.93 for the comparable period in 2015. Diluted EPS was $0.94 per share for the nine months ended September 30, 2016 compared to $0.90 per share for the comparable period in 2015. Earnings per share was impacted by a 2.7 million or 18.0% increase in weighted average shares resulting from our initial public offering ("IPO") in June 2015. Our ROE decreased to 10.42% for the nine months ended September 30, 2016 compared to 10.98% for the comparable period in 2015 due primarily from the additional equity of $34.9 million from our IPO. Future returns on average equity may be impacted by the additional equity from the IPO.

Return on Average Assets. We measure asset utilization through a return on average assets, or ROA, calculation. For the nine months ended September 30, 2016 our ROA increased to 1.45% compared to 1.37% for the nine months ended September 30, 2015. The increase in ROA is a result of improved operating results as discussed throughout this Management's Discussion & Analysis.

Asset Quality. Since the majority of our performing assets are loans, we measure asset quality in terms of non-performing assets as a percentage of total assets. This measurement is used in determining asset quality and its potential effect on future earnings. Due to improving asset quality, non-performing assets as a percentage of total assets were 0.32% as of September 30, 2016 compared to

0.64% as of September 30, 2015. Nonperforming assets are loans that are 90 days or more past due or have been placed on nonaccrual status, or are other real estate owned, or OREO.

Asset Growth. Revenue growth and EPS are directly related to earning assets growth. In descending order, our earning assets are loans, investments (including federal funds) and interest earning balances. As of September 30, 2016 compared to September 30, 2015, total assets grew 6.4%, total net loans increased by 11.8% and investment securities increased by 7.5%. Loan growth in 2016 came primarily from the increased level of real estate lending activities offset by a small decline in commercial and industrial lending.

Capital and Liquidity. Maintaining appropriate capital and liquidity levels is imperative for us to continue our strong growth levels. We have been successful in maintaining capital levels well above the minimum regulatory requirements, which we believe has enabled our growth strategy. We raised approximately $34.9 million in new capital from our IPO. We plan to utilize the additional capital for expansion purposes, both organic and through acquisition, and for general corporate purposes. Our average equity to average assets ratio as of September 30, 2016 was 13.91% compared to 12.48% as of September 30, 2015. We monitor liquidity levels to ensure we have adequate sources available to fund our loan growth and to accommodate daily operations. The key measure we use to monitor liquidity is our liquidity ratio which is calculated as cash and cash equivalents plus unpledged investment securities divided by total liabilities. Our liquidity ratio was 31.19% as of September 30, 2016, compared to 34.35% as of September 30, 2015.

Net Interest Margin. Net interest margin is a metric that allows us to gauge our loan pricing and funding cost relationship. For the nine months ended September 30, 2016 and 2015, our net interest margin was 4.62% and 4.43%, respectively. The improvement in net interest margin is attributable primarily to a higher loan volume which contributed to a higher percentage of loans in our earning asset mix, higher loan yields and lower costs of interest-bearing liabilities.

Operating Efficiency. Operating efficiency is the measure of how much it costs us to generate each dollar of revenue. A lower percentage indicates a better operating efficiency. Our efficiency ratio is calculated as the sum of non-interest expense less merger related expenses, if applicable, divided by the sum of net interest income and non-interest income and was 56.85% for the nine months ended September 30, 2016 as compared to 59.44% for the nine months ended September 30, 2015.

Results of Operations

Factors that determine the level of net income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, fee income, non-interest expense, the level of non-performing loans and other non-earning assets, and the amount of non-interest bearing liabilities supporting earning assets. Non-interest income primarily includes service charges and other fees on deposits, and mortgage banking income. Non-interest expense consists primarily of employee compensation and benefits, occupancy, equipment and depreciation expense, and other operating expenses.

Average Balance and Yields. The following tables set forth a summary of average balances with corresponding interest income and interest expense as well as average yield, cost and net interest margin information for the periods presented. Average balances are derived from daily balances. Average non-accrual loans are derived from quarterly balances and are included as non-interest earning assets for purposes of these tables.

	Three Months Ended							
	September 30, 2016				September 30, 2015			
(Dollars in thousands, except footnotes)	Average Balance	Interest Income/ Expense	Average Yield/ Rate		Average Balance	` Income/ Expense	Average Yield/ Rate	
ASSETS								
Interest earning deposits in other banks and federal funds sold	$58,875	$74	0.50	%	$79,061	$49	0.25	%
Securities: [1]								
Taxable securities	272,827	1,010	1.47	%	259,719	973	1.49	%
Non-taxable securities [2]	84,405	590	2.78	%	81,793	616	2.99	%
Loans [3] [4]	1,106,695	16,876	6.07	%	991,198	15,095	6.04	%
Non-marketable equity securities	1,826	4	0.87	%	1,644	1	0.24	%
Total interest earning assets	1,524,628	$18,554	4.84	%	1,413,415	$16,734	4.70	%
Allowance for loan losses	(16,165)				(15,560)			
Non-interest earning assets	100,176				98,759			
Total average assets	$1,608,639				$1,496,614			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest bearing deposits:								
Demand and savings accounts	$611,994	$431	0.28	%	$551,378	$389	0.28	%
Money market accounts	146,069	81	0.22	%	148,633	84	0.22	%
Certificates of deposit, under $100,000	93,829	77	0.33	%	103,564	104	0.40	%
Certificates of deposit, $100,000 and over	73,591	120	0.65	%	80,300	152	0.75	%
Total interest bearing deposits	925,483	709	0.30	%	883,875	729	0.33	%
Short-term borrowings	4,124	1	0.10	%	2,485	1	0.16	%
Total interest bearing liabilities	929,607	$710	0.30	%	886,360	$730	0.33	%
Other non-interest bearing liabilities	454,964				405,577			
Shareholders' equity	224,068				204,677			
Total average liabilities and shareholders' equity	$1,608,639				$1,496,614			
Net interest income (tax-equivalent)		$17,844				$16,004		
Interest rate spread (tax-equivalent)			4.54	%			4.37	%
Net interest margin (tax-equivalent) [5]			4.66	%			4.49	%

[1] Excludes average unrealized gains of $2.0 million and $1.2 million for the three months ended September 30, 2016 and 2015, respectively, which are included in non-interest earning assets.

(2) Calculated on a fully tax equivalent basis using an assumed tax rate of 35%, which includes federal tax benefits relating to income earned on municipal securities totaling $207,000 and $215,000 for the three months ended September 30, 2016 and 2015, respectively.

(3) Loan interest income includes loan fees of $1.6 million and $1.4 million for the three months ended September 30, 2016 and 2015, respectively.

(4) Average loans do not include average non-accrual loans of $5.1 million and $9.1 million for the three months ended September 30, 2016 and 2015, respectively, which are included in non-interest earning assets.

(5) Net interest margin is computed by dividing net interest income (tax-equivalent) by average interest earning assets.

(Dollars in thousands, except footnotes)	Nine Months Ended September 30, 2016 Average Balance	Interest Income/ Expense	Average Yield/ Rate	September 30, 2015 Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Interest earning deposits in other banks and federal funds sold	$31,990	$112	0.47 %	$62,228	$114	0.24 %
Securities: (1)						
Taxable securities	278,746	3,196	1.53 %	247,586	2,863	1.55 %
Non-taxable securities (2)	90,063	1,918	2.84 %	78,799	1,832	3.11 %
Loans (3) (4)	1,088,091	49,147	6.03 %	972,541	43,250	5.95 %