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People's Utah Bancorp  
Form 10-Q  
November 09, 2018

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, 2018

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<br>(State or other jurisdiction of<br>incorporation or organization) | 87-0622021<br>(IRS Employer<br>Identification No.) |
|---|--|

|   |                     |
|---|---------------------|
| 1 East Main Street, American Fork, Utah<br>(Address of principal executive offices) | 84003<br>(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)

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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, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 18,719,496. No preferred shares are issued or outstanding.

TABLE OF CONTENTS

|   |    |
|---|----|
| PART I. FINANCIAL INFORMATION   |    |
| Item 1 – Financial Statements   |    |
| <u>Unaudited Consolidated Balance Sheets</u>  | 3  |
| <u>Unaudited Consolidated Statements of Income</u>  | 4  |
| <u>Unaudited Consolidated Statements of Comprehensive Income</u>                                      | 5  |
| <u>Unaudited Consolidated Statements of Changes in Shareholders’ Equity</u>                           | 6  |
| <u>Unaudited Consolidated Statements of Cash Flows</u>  | 7  |
| <u>Notes to Unaudited Consolidated Financial Statements</u>   | 8  |
| <u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 23 |
| <u>Item 3 – Quantitative and Qualitative Disclosures about Market Risk</u>                            | 43 |
| <u>Item 4 – Controls and Procedures</u>   | 43 |
| PART II. OTHER INFORMATION  |    |
| <u>Item 1 – Legal Proceedings</u>   | 44 |
| <u>Item 1A – Risk Factors</u>   | 44 |
| <u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 44 |
| <u>Item 3 – Defaults upon Senior Securities</u>   | 44 |
| <u>Item 4 – Mine Safety Disclosures</u>   | 44 |
| <u>Item 5 – Other Information</u>   | 44 |
| <u>Item 6 – Exhibits</u>  | 45 |
| <u>Signatures</u>   | 46 |

## PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

| (Dollars in thousands, except share data)   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| <b>ASSETS</b>   |                          |                         |
| Cash and cash equivalents:  |                          |                         |
| Cash and due from banks   | \$27,231                 | \$36,235                |
| Interest bearing deposits   | 23,005                   | 13,158                  |
| Federal funds sold  | 4,697                    | 1,634                   |
| Total cash and cash equivalents   | 54,933                   | 51,027                  |
| Investment securities:  |                          |                         |
| Available-for-sale, at fair value   | 255,021                  | 263,056                 |
| Held-to-maturity, at historical cost  | 67,148                   | 74,654                  |
| Total investment securities   | 322,169                  | 337,710                 |
| Non-marketable equity securities  | 4,231                    | 3,706                   |
| Loans held for sale   | 8,467                    | 10,871                  |
| Loans:  |                          |                         |
| Loans held for investment   | 1,718,403                | 1,627,444               |
| Allowance for loan losses   | (23,309 )                | (18,303 )               |
| Total loans held for investment, net  | 1,695,094                | 1,609,141               |
| Premises and equipment, net   | 36,683                   | 30,399                  |
| Goodwill  | 25,673                   | 26,008                  |
| Bank-owned life insurance   | 26,276                   | 23,566                  |
| Deferred income tax assets, net   | 11,224                   | 8,827                   |
| Accrued interest receivable   | 8,766                    | 7,594                   |
| Other intangibles   | 3,523                    | 3,854                   |
| Other real estate owned   | 2,985                    | 994                     |
| Other assets  | 12,829                   | 9,832                   |
| Total assets  | \$2,212,853              | \$2,123,529             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                          |                         |
| Deposits:   |                          |                         |
| Non-interest bearing deposits   | \$677,379                | \$641,124               |
| Interest bearing deposits   | 1,194,553                | 1,173,508               |
| Total deposits  | 1,871,932                | 1,814,632               |
| Short-term borrowings   | 42,000                   | 40,000                  |
| Accrued interest payable  | 424                      | 353                     |
| Other liabilities   | 18,865                   | 11,126                  |
| Total liabilities   | 1,933,221                | 1,866,111               |
| 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; 18,719,496 and 18,511,797 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively | 187                      | 185                     |

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|  |             |             |
|--|-------------|-------------|
| Additional paid-in capital                 | 86,098      | 84,532      |
| Retained earnings                          | 199,161     | 174,804     |
| Accumulated other comprehensive loss       | (5,814 )    | (2,103 )    |
| Total shareholders' equity                 | 279,632     | 257,418     |
| Total liabilities and shareholders' equity | \$2,212,853 | \$2,123,529 |

See accompanying notes to the unaudited consolidated financial statements.

## PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

| (Dollars in thousands, except share and per share data) | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2018                                | 2017       | 2018                               | 2017       |
| <b>Interest income</b>                                  |                                     |            |                                    |            |
| Interest and fees on loans                              | \$27,420                            | \$18,843   | \$80,276                           | \$53,610   |
| Interest and dividends on investments                   | 1,679                               | 1,820      | 5,018                              | 5,327      |
| Total interest income                                   | 29,099                              | 20,663     | 85,294                             | 58,937     |
| Interest expense  | 1,917                               | 754        | 5,190                              | 2,269      |
| Net interest income                                     | 27,182                              | 19,909     | 80,104                             | 56,668     |
| Provision for loan losses                               | 1,925                               | 900        | 5,450                              | 2,000      |
| Net interest income after provision for loan losses     | 25,257                              | 19,009     | 74,654                             | 54,668     |
| <b>Non-interest income</b>                              |                                     |            |                                    |            |
| Mortgage banking  | 1,668                               | 1,686      | 4,811                              | 5,625      |
| Card processing   | 826                                 | 704        | 2,347                              | 1,991      |
| Service charges on deposit accounts                     | 737                                 | 636        | 2,114                              | 1,750      |
| Net gain (loss) on sale of investment securities        | -                                   | (486 )     | 336                                | (499 )     |
| Other   | 563                                 | 500        | 1,970                              | 1,602      |
| Total non-interest income                               | 3,794                               | 3,040      | 11,578                             | 10,469     |
| <b>Non-interest expense</b>                             |                                     |            |                                    |            |
| Salaries and employee benefits                          | 9,885                               | 8,813      | 30,504                             | 24,542     |
| Occupancy, equipment and depreciation                   | 1,476                               | 1,164      | 4,430                              | 3,369      |
| Data processing   | 890                                 | 650        | 2,823                              | 1,986      |
| Marketing and advertising                               | 342                                 | 343        | 1,109                              | 954        |
| FDIC premiums   | 239                                 | 135        | 867                                | 391        |
| Acquisition-related costs                               | (118 )                              | 484        | 232                                | 660        |
| Other   | 2,566                               | 1,525      | 7,186                              | 4,961      |
| Total non-interest expense                              | 15,280                              | 13,114     | 47,151                             | 36,863     |
| Income before income tax expense                        | 13,771                              | 8,935      | 39,081                             | 28,274     |
| Income tax expense                                      | 3,288                               | 2,697      | 9,127                              | 9,021      |
| Net income  | \$10,483                            | \$6,238    | \$29,954                           | \$19,253   |
| <b>Earnings per common share:</b>                       |                                     |            |                                    |            |
| Basic   | \$0.56                              | \$0.35     | \$1.60                             | \$1.07     |
| Diluted   | \$0.55                              | \$0.34     | \$1.58                             | \$1.05     |
| <b>Weighted average common shares outstanding:</b>      |                                     |            |                                    |            |
| Basic   | 18,713,410                          | 17,976,066 | 18,664,339                         | 17,933,010 |
| Diluted   | 19,010,600                          | 18,396,664 | 18,979,405                         | 18,355,136 |

See accompanying notes to the unaudited consolidated financial statements.



## PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Dollars in thousands)  | Three Months                   |         | Nine Months                    |          |
|---|--------------------------------|---------|--------------------------------|----------|
|   | Ended<br>September 30,<br>2018 | 2017    | Ended<br>September 30,<br>2018 | 2017     |
| Net income  | \$10,483                       | \$6,238 | \$29,954                       | \$19,253 |
| Other comprehensive income / (loss)   |                                |         |                                |          |
| Unrealized holding (losses)/gains on securities available-for-sale                | (1,161 )                       | 349     | (4,948 )                       | 787      |
| Income tax benefit/(expense)  | 290                            | (133 )  | 1,237                          | (301 )   |
| Unrealized holding (losses)/gains on securities available-for-sale,<br>net of tax | (871 )                         | 216     | (3,711 )                       | 486      |
| Total comprehensive income  | \$9,612                        | \$6,454 | \$26,243                       | \$19,739 |

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 and per share data) | Common     |        | Additional      | Retained   | Accumulated                       | Total      |
|---|------------|--------|-----------------|------------|-----------------------------------|------------|
|   | Shares     | Amount | Paid-in Capital | Earnings   | Other Comprehensive Income (Loss) |            |
| Balance as of January 1, 2017                           | 17,819,538 | \$ 178 | \$ 68,657       | \$ 160,692 | \$ (1,010)                        | \$ 228,517 |
| Comprehensive income                                    | -          | -      | -               | 19,253     | 486                               | 19,739     |
| Cash dividends (\$0.25 per share)                       | -          | -      | -               | (4,483)    | -                                 | (4,483)    |
| Share-based compensation                                | -          | -      | 382             | -          | -                                 | 382        |
| Exercise of stock options                               | 203,113    | 2      | 1,268           | -          | -                                 | 1,270      |
| Balance as of September 30, 2017                        | 18,022,651 | \$ 180 | \$ 70,307       | \$ 175,462 | \$ (524)                          | \$ 245,425 |
| Balance as of January 1, 2018                           | 18,511,797 | \$ 185 | \$ 84,532       | \$ 174,804 | \$ (2,103)                        | \$ 257,418 |
| Comprehensive income                                    | -          | -      | -               | 29,954     | (3,711)                           | 26,243     |
| Cash dividends (\$0.30 per share)                       | -          | -      | -               | (5,597)    | -                                 | (5,597)    |
| Share-based compensation                                | -          | -      | 683             | -          | -                                 | 683        |
| Exercise of stock options                               | 207,699    | 2      | 883             | -          | -                                 | 885        |
| Balance as of September 30, 2018                        | 18,719,496 | \$ 187 | \$ 86,098       | \$ 199,161 | \$ (5,814)                        | \$ 279,632 |

See accompanying notes to the unaudited consolidated financial statements.

## PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in thousands)   | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2018                               | 2017      |
| <b>Cash flows from operating activities:</b>   |                                    |           |
| Net income   | \$29,954                           | \$19,253  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                    |           |
| Provision for loan losses  | 5,450                              | 2,000     |
| Depreciation and amortization  | 2,401                              | 1,926     |
| Deferred income taxes  | (1,160 )                           | (736 )    |
| Net amortization of securities discounts and premiums                                    | 1,991                              | 2,188     |
| Increase in cash surrender value of bank-owned life insurance                            | (460 )                             | (382 )    |
| Share-based compensation   | 683                                | 382       |
| Gain on sale of loans held for sale  | (3,099 )                           | (4,061 )  |
| Originations of loans held for sale  | (162,308)                          | (172,397) |
| Proceeds from sale of loans held for sale  | 167,811                            | 186,542   |
| <b>Net changes in:</b>   |                                    |           |
| Accrued interest receivable  | (1,172 )                           | (629 )    |
| Other assets   | (2,546 )                           | (1,071 )  |
| Accrued interest payable   | 71                                 | (46 )     |
| Other liabilities  | 7,739                              | 3,612     |
| Net cash provided by operating activities  | 45,355                             | 36,581    |
| <b>Cash flows from investing activities:</b>   |                                    |           |
| Net change in loans held for investment  | (93,643 )                          | (97,227 ) |
| Purchase of available-for-sale securities  | (30,832 )                          | (24,599 ) |
| Purchase of held-to-maturity securities  | -                                  | (12,198 ) |
| Proceeds from maturities/sales of available-for-sale securities                          | 32,504                             | 132,578   |
| Proceeds from maturities of held-to-maturity securities                                  | 6,930                              | 9,323     |
| Purchase of bank-owned life insurance  | (2,250 )                           | -         |
| Purchase of premises and equipment   | (8,659 )                           | (6,137 )  |
| Proceeds from sale of other real estate owned, net of improvements                       | 438                                | 270       |
| Net change of non-marketable equity securities   | (525 )                             | (132 )    |
| Net cash (used in) provided by investing activities                                      | (96,037 )                          | 1,878     |
| <b>Cash flows from financing activities:</b>   |                                    |           |
| Net increase in deposits   | 57,300                             | 103,107   |
| Proceeds related to exercise of stock options  | 885                                | 1,270     |
| Net change in short-term borrowings  | 2,000                              | 574       |
| Cash dividends paid  | (5,597 )                           | (4,483 )  |
| Net cash provided by financing activities  | 54,588                             | 100,468   |
| Net change in cash and cash equivalents  | 3,906                              | 138,927   |
| Cash and cash equivalents, beginning of period   | 51,027                             | 67,938    |
| Cash and cash equivalents, end of period   | \$54,933                           | \$206,865 |
| <b>Supplemental disclosures of cash flow information:</b>                                |                                    |           |
| Cash paid for interest   | \$5,119                            | \$2,315   |

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|  |            |          |
|--|------------|----------|
| Income taxes paid  | \$11,032   | \$10,724 |
| Supplemental disclosures of non-cash investing transactions: |            |          |
| Reclassifications from loans to other real estate owned      | \$2,985    | \$425    |
| Unrealized (losses) / gains on securities available-for-sale | \$(4,948 ) | \$787    |
| Measurement period adjustment to goodwill                    | \$(335 )   | \$-      |

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

Nature of operations and basis of consolidation — People's Utah Bancorp, Inc. ("PUB" or the "Company") is a Utah corporation headquartered in American Fork, Utah. The Company operates all business activities through its wholly-owned banking subsidiary, People's Intermountain Bank ("PIB" or the "Bank"), which was organized in 1913. The Bank is a Utah state chartered bank. The Bank operates under the jurisdiction of the Utah Department of Financial Institutions, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is not a member of the Federal Reserve System; however, PUB is operated as a bank holding company under the Federal Bank Holding Company Act of 1956 and is the sole shareholder of the Bank. Both PUB and the Bank are subject to periodic examination by applicable federal and state regulatory agencies and file periodic reports and other information with the agencies.

PIB is a community bank that provides highly personalized retail and commercial banking products and services to small and medium sized businesses and individuals. Products and services are offered primarily through 26 retail branches located throughout Utah and southern Idaho. PIB has three banking divisions, Bank of American Fork, Lewiston State Bank, and People's Town & Country Bank; a leasing division, GrowthFunding Equipment Finance; and a mortgage division, People's Intermountain Bank Mortgage. The Bank offers a full range of short-term to long-term commercial, personal and mortgage loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and accounts receivable), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans to finance automobiles, home improvements, education, and personal investments. The Bank also offers mortgage loans secured by personal residences. The Bank offers a full range of deposit services typically available in most financial institutions, including checking accounts, savings accounts, and time deposits. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental entities.

The interim condensed 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 condensed 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, 2017, which are included in the Company's 2017 Form 10-K. Operating results for the three months and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, 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 include 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”).

## Note 1 — Basis of Presentation – Continued

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

| (Dollars in thousands, except share and per share data) | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | September 30,      |            | September 30,     |            |
|   | 2018               | 2017       | 2018              | 2017       |
| <b>Numerator</b>  |                    |            |                   |            |
| Net income  | \$10,483           | \$6,238    | \$29,954          | \$19,253   |
| <b>Denominator</b>                                      |                    |            |                   |            |
| Weighted-average number of common shares outstanding    | 18,713,410         | 17,976,066 | 18,664,339        | 17,933,010 |
| Incremental shares assumed for stock options and RSUs   | 297,190            | 420,598    | 315,066           | 422,126    |
| Weighted-average number of dilutive shares outstanding  | 19,010,600         | 18,396,664 | 18,979,405        | 18,355,136 |
| Basic earnings per common share                         | \$0.56             | \$0.35     | \$1.60            | \$1.07     |
| Diluted earnings per common share                       | \$0.55             | \$0.34     | \$1.58            | \$1.05     |

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 Accounting Standards Codification™ (“ASC”) is the Financial Accounting Standards Board’s (“FASB”) officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities. Periodically, the FASB will issue Accounting Standard Updates (“ASU”) to its ASC. Rules and interpretive releases of the SEC under the authority of the federal securities laws are also sources of authoritative GAAP for us as an SEC registrant. All other accounting literature is non-authoritative.

In March 2017, FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The ASU requires entities to amortize the premium on certain purchased callable debt securities to the earliest call date, which more closely aligns the amortization period of premiums and discounts to expectations incorporated in the market prices. Entities will no longer recognize a loss in earnings upon the debtor's exercise of a call on a purchased debt security held at a premium. The ASU does not require any accounting change for debt securities held at a discount; therefore the discount will continue to be amortized as an adjustment of yield over the contractual life of the investment. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted for all entities. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal

years. The Company is in the process of identifying required changes to the loan loss estimation models and processes and evaluating the impact of this new guidance. Once adopted, we expect our allowance for loan losses to increase. However, until our evaluation is complete, the magnitude of the increase will be unknown.

In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)." The guidance in this ASU requires most leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. This ASU is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption. The Company will compile an inventory of all leased assets to determine the impact of ASU 2016-02 on its financial condition and results of operations. Once adopted, we expect to report higher assets and liabilities on our Consolidated Balance Sheets as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, which currently are not reflected in our Consolidated Balance Sheets. We do not expect the guidance to have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Changes in Shareholders' Equity.

Note 1 — Basis of Presentation – Continued

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606)”, which defers the effective date of Accounting Standard Update ASU No. 2014-09 one year. ASU No. 2014-09 created Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. ASU No. 2015-14 is effective for interim and annual periods beginning after December 15, 2017. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company adopted this standard on January 1, 2018 using the full retrospective method.

A significant amount of the Company’s revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. Revenue streams reported as deposit fees and other service charges, which include transaction based deposit fees, and interchange fees on credit and debit cards, are within the scope of Topic 606. The Company completed its assessment of revenue streams and associated incremental costs of contracts affected by the standard. The Company’s adoption of this standard did not change the timing or the amount of revenue recognized in prior periods. However, the presentation of certain costs associated with card processing will now be offset against card processing revenue in non-interest income. The change in presentation resulted in \$1.8 million of expenses for the nine months ended September 30, 2018 being netted against card processing income and reported in non-interest income instead of as payment and card processing expenses in non-interest expense. In addition, to conform to the current period presentation, \$1.6 million of card processing related expenses for the nine months ended September 30, 2017, were reclassified from payment and card processing expense in non-interest expense to being netted against card processing revenue in non-interest income. The Company elected to apply the practical expedient and therefore does not disclose information about remaining performance obligations that have an original expected term of one year or less and allows the Company to expense costs related to obtaining a contract as incurred when the amortization period would have been one year or less.

The following table presents the impact of adopting of the new revenue standard on our Statements of Income for the nine months ended September 30, 2018 and 2017:

|   | Nine Months Ended<br>September 30, 2018 |                   |  | Nine Months Ended<br>September 30, 2017 |                   |  |
|---|---|-------------------|--|---|-------------------|--|
|   | Balance                                 |                   |  | Balance                                 |                   |  |
|   | without<br>Adoption<br>of               | Effect<br>of      |  | without<br>Adoption<br>of               | Effect<br>of      |  |
| (Dollars in thousands, except share and per share data) | As<br>Reported                          | ASC 606<br>Change |  | As<br>Reported                          | ASC 606<br>Change |  |



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|                                     |         |          |           |         |          |           |
|-------------------------------------|---------|----------|-----------|---------|----------|-----------|
| Non-interest income                 |         |          |           |         |          |           |
| Card Processing                     | \$2,347 | \$ 4,177 | \$(1,830) | \$1,991 | \$ 3,579 | \$(1,588) |
| Service charges on deposit accounts | 2,114   | 2,114    | -         | 1,750   | 1,750    | -         |
| Non-interest Expense                |         |          |           |         |          |           |
| Card Processing                     | \$-     | \$ 1,830 | \$(1,830) | \$-     | \$ 1,588 | \$(1,588) |

Note 2 — Investment Securities

Amortized cost and estimated fair value of investment securities available-for-sale are summarized as follows:

| (Dollars in thousands)               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses<br>Less Than<br>12 Months | 12<br>or<br>Longer<br>Months | Fair<br>Value |
|--------------------------------------|-------------------|------------------------------|---|------------------------------|---------------|
| <b>As of September 30, 2018</b>      |                   |                              |   |                              |               |
| U.S. Government-sponsored securities | \$ 48,954         | \$ -                         | \$(418 )  | \$(561 )                     | \$ 47,975     |
| Municipal securities                 | 11,341            | 68                           | (66 )   | (41 )                        | 11,302        |
| Mortgage-backed securities           | 197,478           | 19                           | (2,615)   | (3,914)                      | 190,968       |
| Corporate securities                 | 5,000             | -                            | (6 )  | (218 )                       | 4,776         |
|                                      | \$ 262,773        | \$ 87                        | \$(3,105)   | \$(4,734)                    | \$ 255,021    |
| <b>As of December 31, 2017</b>       |                   |                              |   |                              |               |
| U.S. Government-sponsored securities | \$ 48,950         | \$ 13                        | \$(6 )  | \$(453 )                     | \$ 48,504     |
| Municipal securities                 | 13,310            | 184                          | (22 )   | (18 )                        | 13,454        |
| Mortgage-backed securities           | 198,100           | 71                           | (1,145)   | (1,764)                      | 195,262       |
| Corporate securities                 | 5,500             | 573                          | -   | (237 )                       | 5,836         |
|                                      | \$ 265,860        | \$ 841                       | \$(1,173)   | \$(2,472)                    | \$ 263,056    |

Amortized cost and estimated fair value of investment securities held-to-maturity are as follows:

| (Dollars in thousands)          | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses<br>Less Than<br>12 Months | 12<br>or<br>Longer<br>Months | Fair<br>Value |
|---------------------------------|-------------------|------------------------------|---|------------------------------|---------------|
| <b>As of September 30, 2018</b> |                   |                              |   |                              |               |
| Municipal securities            | \$ 67,148         | \$ 10                        | \$(656)   | \$(452 )                     | \$ 66,050     |
| <b>As of December 31, 2017</b>  |                   |                              |   |                              |               |
| Municipal securities            | \$ 74,654         | \$ 167                       | \$(293)   | \$(227 )                     | \$ 74,301     |

Note 2 — Investment Securities – continued

At September 30, 2018 and December 31, 2017, the gross unrealized losses and the fair value for securities available-for-sale and held-to-maturity was as follows:

| (Dollars in thousands)               | September 30, 2018        |                   |                   |                   |            |                   |
|--------------------------------------|---------------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                                      | Less Than 12 Months       |                   | 12 Months or More |                   | Total      |                   |
|                                      | Fair Value                | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>Available-for-Sale</b>            |                           |                   |                   |                   |            |                   |
| U.S. Government-sponsored securities | \$ 14,537                 | \$ (418 )         | \$ 33,437         | \$ (561 )         | \$ 47,974  | \$ (979 )         |
| Municipal securities                 | 4,319                     | (66 )             | 1,558             | (41 )             | 5,877      | (107 )            |
| Mortgage-backed securities           | 90,052                    | (2,615 )          | 99,170            | (3,914 )          | 189,222    | (6,529 )          |
| Corporate securities                 | 1,994                     | (6 )              | 2,782             | (218 )            | 4,776      | (224 )            |
|                                      | \$ 110,902                | \$ (3,105 )       | \$ 136,947        | \$ (4,734 )       | \$ 247,849 | \$ (7,839 )       |
| <b>Held-to Maturity</b>              |                           |                   |                   |                   |            |                   |
| Municipal securities                 | \$ 42,342                 | \$ (656 )         | \$ 16,359         | \$ (452 )         | \$ 58,701  | \$ (1,108 )       |
| <b>December 31, 2017</b>             |                           |                   |                   |                   |            |                   |
| (Dollars in thousands)               | Less Than 12 Months       |                   | 12 Months or More |                   | Total      |                   |
|                                      | Fair Value                | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
|                                      | <b>Available-for-Sale</b> |                   |                   |                   |            |                   |
| U.S. Government-sponsored securities | \$ 5,087                  | \$ (6 )           | \$ 33,543         | \$ (453 )         | \$ 38,630  | \$ (459 )         |
| Municipal securities                 | 3,523                     | (22 )             | 830               | (18 )             | 4,353      | (40 )             |
| Mortgage-backed securities           | 112,878                   | (1,145 )          | 72,859            | (1,764 )          | 185,737    | (2,909 )          |
| Corporate securities                 | -                         | -                 | 4,763             | (237 )            | 4,763      | (237 )            |
|                                      | \$ 121,488                | \$ (1,173 )       | \$ 111,995        | \$ (2,472 )       | \$ 233,483 | \$ (3,645 )       |
| <b>Held-to Maturity</b>              |                           |                   |                   |                   |            |                   |
| Municipal securities                 | \$ 39,380                 | \$ (293 )         | \$ 10,389         | \$ (227 )         | \$ 49,769  | \$ (520 )         |

The amortized cost and estimated fair value of investment securities that are available-for-sale and held-to-maturity at September 30, 2018, by contractual maturity, are as follows:

| (Dollars in thousands)             | Available-For-Sale |            | Held-To-Maturity |            |
|------------------------------------|--------------------|------------|------------------|------------|
|                                    | Amortized Cost     | Fair Value | Amortized Cost   | Fair Value |
| <b>Securities maturing in:</b>     |                    |            |                  |            |
| One year or less                   | \$ 13,314          | \$ 13,181  | \$ 9,876         | \$ 9,851   |
| After one year through five years  | 64,991             | 63,569     | 37,334           | 36,900     |
| After five years through ten years | 49,367             | 47,589     | 14,859           | 14,360     |
| After ten years                    | 135,101            | 130,682    | 5,079            | 4,939      |
|                                    | \$ 262,773         | \$ 255,021 | \$ 67,148        | \$ 66,050  |

Actual maturities may differ from contractual maturities because issuers may have the right to call obligations with or without penalties and other securities may experience pre-payments.

As of September 30, 2018, the Company held 336 investment securities with fair value less than amortized cost compared to 304 at December 31, 2017. 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 2 — Investment Securities – continued

The Company had sales of available-for-sale securities totaling \$500,000 during the nine months ended September 30, 2018, which resulted in a net gain of \$336,000 compared with \$126.2 million during the nine months ended September 30, 2017, which resulted in a net loss of \$486,000. There were no available-for-sale securities in a nonaccrual status at September 30, 2018 or December 31, 2017.

The Company had no sales of held-to-maturity securities during the nine months ended September 30, 2018, compared to \$204,000 during the nine months ended September 30, 2017, which resulted in a net loss of \$13,000. The company had no held-to-maturity securities in a nonaccrual status at September 30, 2018 or December 31, 2017.

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

|                                      | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--------------------------------------|--------------------------|-------------------------|
| (Dollars in thousands)               |                          |                         |
| Loans held for investment:           |                          |                         |
| Commercial real estate loans:        |                          |                         |
| Real estate term                     | \$856,247                | \$784,148               |
| Construction and land development    | 382,254                  | 369,590                 |
| Total commercial real estate loans   | 1,238,501                | 1,153,738               |
| Commercial and industrial loans      | 314,395                  | 294,085                 |
| Consumer loans:                      |                          |                         |
| Residential and home equity          | 153,406                  | 158,591                 |
| Consumer and other                   | 16,597                   | 25,591                  |
| Total consumer loans                 | 170,003                  | 184,182                 |
| Total gross loans                    | 1,722,899                | 1,632,005               |
| Net deferred loan fees               | (4,496 )                 | (4,561 )                |
| Total loans held for investment      | 1,718,403                | 1,627,444               |
| Allowance for loan losses            | (23,309 )                | (18,303 )               |
| Total loans held for investment, net | \$1,695,094              | \$1,609,141             |

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

|                                       | Three Months Ended September 30, 2018 |   |                                 |                                      |                          |          |
|---------------------------------------|---------------------------------------|---|---------------------------------|--------------------------------------|--------------------------|----------|
|                                       | Real<br>Estate<br>Term                | Construction<br>and Land<br>Development | Commercial<br>and<br>Industrial | Residential<br>and<br>Home<br>Equity | Consumer<br>and<br>Other | Total    |
| (Dollars in thousands)                |                                       |   |                                 |                                      |                          |          |
| Balance at beginning of period        | \$9,028                               | \$ 6,789                                | \$ 5,780                        | \$ 659                               | \$ 52                    | \$22,308 |
| Additions: Provisions for loan losses | 469                                   | 892                                     | 455                             | 14                                   | 95                       | 1,925    |

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| Deductions:                         |         |          |          |        |        |          |
|-------------------------------------|---------|----------|----------|--------|--------|----------|
| Gross loan charge-offs              | (294 )  | -        | (945 )   | -      | (105 ) | (1,344 ) |
| Recoveries                          | 46      | 6        | 312      | 2      | 54     | 420      |
| Net loan (charge-offs) / recoveries | (248 )  | 6        | (633 )   | 2      | (51 )  | (924 )   |
| Balance at end of period            | \$9,249 | \$ 7,687 | \$ 5,602 | \$ 675 | \$ 96  | \$23,309 |

## Note 3 — Loans and Allowance for Loan Losses – Continued

| (Dollars in thousands)                | Three Months Ended September 30, 2017 |                                   |                           |                             |                    |          |
|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------|-----------------------------|--------------------|----------|
|                                       | Real Estate Term                      | Construction and Land Development | Commercial and Industrial | Residential and Home Equity | Consumer and Other | Total    |
| Balance at beginning of period        | \$7,157                               | \$ 5,077                          | \$ 4,489                  | \$ 503                      | \$ 45              | \$17,271 |
| Additions: Provisions for loan losses | (303 )                                | 409                               | 770                       | (44 )                       | 68                 | 900      |
| Deductions:                           |                                       |                                   |                           |                             |                    |          |
| Gross loan charge-offs                | -                                     | -                                 | (621 )                    | -                           | (46 )              | (667 )   |
| Recoveries                            | 23                                    | 2                                 | 46                        | 7                           | 27                 | 105      |
| Net loan (charge-offs) / recoveries   | 23                                    | 2                                 | (575 )                    | 7                           | (19 )              | (562 )   |
| Balance at end of period              | \$6,877                               | \$ 5,488                          | \$ 4,684                  | \$ 466                      | \$ 94              | \$17,609 |

| (Dollars in thousands)                | Nine Months Ended September 30, 2018 |                                   |                           |                             |                    |          |
|---------------------------------------|--------------------------------------|-----------------------------------|---------------------------|-----------------------------|--------------------|----------|
|                                       | Real Estate Term                     | Construction and Land Development | Commercial and Industrial | Residential and Home Equity | Consumer and Other | Total    |
| Balance at beginning of period        | \$6,706                              | \$ 6,309                          | \$ 4,314                  | \$ 815                      | \$ 159             | \$18,303 |
| Additions: Provisions for loan losses | 2,779                                | 1,301                             | 1,522                     | (223 )                      | 71                 | 5,450    |
| Deductions:                           |                                      |                                   |                           |                             |                    |          |
| Gross loan charge-offs                | (294 )                               | -                                 | (1,235 )                  | -                           | (277 )             | (1,806 ) |
| Recoveries                            | 58                                   | 77                                | 1,001                     | 83                          | 143                | 1,362    |
| Net loan (charge-offs) / recoveries   | (236 )                               | 77                                | (234 )                    | 83                          | (134 )             | (444 )   |
| Balance at end of period              | \$9,249                              | \$ 7,687                          | \$ 5,602                  | \$ 675                      | \$ 96              | \$23,309 |

| (Dollars in thousands)                | Nine Months Ended September 30, 2017 |                                   |                           |                             |                    |          |
|---------------------------------------|--------------------------------------|-----------------------------------|---------------------------|-----------------------------|--------------------|----------|
|                                       | Real Estate Term                     | Construction and Land Development | Commercial and Industrial | Residential and Home Equity | Consumer and Other | Total    |
| Balance at beginning of period        | \$6,770                              | \$ 5,449                          | \$ 3,718                  | \$ 617                      | \$ 161             | \$16,715 |
| Additions: Provisions for loan losses | 253                                  | (42 )                             | 1,736                     | 40                          | 13                 | 2,000    |
| Deductions:                           |                                      |                                   |                           |                             |                    |          |
| Gross loan charge-offs                | (350 )                               | -                                 | (893 )                    | (338 )                      | (159 )             | (1,740 ) |
| Recoveries                            | 204                                  | 81                                | 123                       | 147                         | 79                 | 634      |
| Net loan (charge-offs) / recoveries   | (146 )                               | 81                                | (770 )                    | (191 )                      | (80 )              | (1,106 ) |
| Balance at end of period              | \$6,877                              | \$ 5,488                          | \$ 4,684                  | \$ 466                      | \$ 94              | \$17,609 |

## Note 3 — Loans and Allowance for Loan Losses – Continued

Non-accrual loans are summarized as follows:

| (Dollars in thousands)   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| <b>Non-accrual loans, not troubled debt restructured:</b>      |                          |                         |
| Real estate term   | \$ 310                   | \$ -                    |
| Construction and land development                              | 98                       | -                       |
| Commercial and industrial                                      | 1,455                    | 223                     |
| Residential and home equity                                    | -                        | -                       |
| Consumer and other   | 5                        | -                       |
| <b>Total non-accrual loans, not troubled debt restructured</b> | <b>1,868</b>             | <b>223</b>              |
| <b>Troubled debt restructured loans, non-accrual:</b>          |                          |                         |
| Real estate term   | 1,495                    | -                       |
| Construction and land development                              | -                        | -                       |
| Commercial and industrial                                      | 169                      | -                       |
| Residential and home equity                                    | -                        | -                       |
| Consumer and other   | -                        | -                       |
| <b>Total troubled debt restructured loans, non-accrual</b>     | <b>1,664</b>             | <b>-</b>                |
| <b>Total non-accrual loans</b>                                 | <b>\$ 3,532</b>          | <b>\$ 223</b>           |

Troubled debt restructured loans are summarized as follows:

| (Dollars in thousands)                        | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| Accruing troubled debt restructured loans     | \$ 2,423                 | \$ 3,307                |
| Non-accrual troubled debt restructured loans  | 1,664                    | -                       |
| <b>Total troubled debt restructured loans</b> | <b>\$ 4,087</b>          | <b>\$ 3,307</b>         |

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.

Loans totaling \$4.1 million were classified as TDR’s during the nine months ended September 30, 2018. No new TDRs occurred during the nine months ended September 30, 2018. In addition, there were no TDRs which incurred a payment default within twelve months of the restructure date during the nine-month periods ended September 30, 2018 and 2017.



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

| (Dollars in thousands)              | September 30, 2018 |                              |                            |                 |                      | Purchased          |                    |
|-------------------------------------|--------------------|------------------------------|----------------------------|-----------------|----------------------|--------------------|--------------------|
|                                     | Current            | 30-89<br>Days<br>Past<br>Due | 90+<br>Days<br>Past<br>Due | Non-<br>accrual | Total<br>Past<br>Due | Credit<br>Impaired | Total<br>Loans     |
| <b>Commercial real estate:</b>      |                    |                              |                            |                 |                      |                    |                    |
| Real estate term                    | \$850,094          | \$1,040                      | \$ -                       | \$1,805         | \$2,845              | \$ 3,308           | \$856,247          |
| Construction and land development   | 380,306            | 1,517                        | -                          | 98              | 1,615                | 333                | 382,254            |
| <b>Total commercial real estate</b> | <b>1,230,400</b>   | <b>2,557</b>                 | <b>-</b>                   | <b>1,903</b>    | <b>4,460</b>         | <b>3,641</b>       | <b>1,238,501</b>   |
| Commercial and industrial           | 307,873            | 2,346                        | -                          | 1,624           | 3,970                | 2,552              | 314,395            |
| <b>Consumer:</b>                    |                    |                              |                            |                 |                      |                    |                    |
| Residential and home equity         | 152,518            | 888                          | -                          | -               | 888                  | -                  | 153,406            |
| Consumer and other                  | 16,355             | 220                          | 17                         | 5               | 242                  | -                  | 16,597             |
| <b>Total consumer</b>               | <b>168,873</b>     | <b>1,108</b>                 | <b>17</b>                  | <b>5</b>        | <b>1,130</b>         | <b>-</b>           | <b>170,003</b>     |
| <b>Total gross loans</b>            | <b>\$1,707,146</b> | <b>\$6,011</b>               | <b>\$ 17</b>               | <b>\$3,532</b>  | <b>\$9,560</b>       | <b>\$ 6,193</b>    | <b>\$1,722,899</b> |

## Note 3 — Loans and Allowance for Loan Losses – Continued

| (Dollars in thousands)            | December 31, 2017 |                           |                      |                 | Total<br>Past Due | Purchased          |                |
|-----------------------------------|-------------------|---------------------------|----------------------|-----------------|-------------------|--------------------|----------------|
|                                   | Current           | 30-89<br>Days<br>Past Due | 90+ Days<br>Past Due | Non-<br>accrual |                   | Credit<br>Impaired | Total<br>Loans |
| <b>Commercial real estate:</b>    |                   |                           |                      |                 |                   |                    |                |
| Real estate term                  | \$777,746         | \$2,243                   | \$ -                 | \$ -            | \$2,243           | \$ 4,159           | \$784,148      |
| Construction and land development | 361,847           | 7,095                     | -                    | -               | 7,095             | 648                | 369,590        |
| Total commercial real estate      | 1,139,593         | 9,338                     | -                    | -               | 9,338             | 4,807              | 1,153,738      |
| Commercial and industrial         | 285,785           | 4,210                     | -                    | 223             | 4,433             | 3,867              | 294,085        |
| <b>Consumer:</b>                  |                   |                           |                      |                 |                   |                    |                |
| Residential and home equity       | 156,379           | 2,212                     | -                    | -               | 2,212             | -                  | 158,591        |
| Consumer and other                | 25,307            | 283                       | 1                    | -               | 284               | -                  | 25,591         |
| Total consumer                    | 181,686           | 2,495                     | 1                    | -               | 2,496             | -                  | 184,182        |
| Total gross loans                 | \$1,607,064       | \$16,043                  | \$ 1                 | \$ 223          | \$16,267          | \$ 8,674           | \$1,632,005    |

## 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.

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

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| (Dollars in thousands)            | September 30, 2018 |                    |             |          | Total<br>Loans | Total<br>Allowance |
|-----------------------------------|--------------------|--------------------|-------------|----------|----------------|--------------------|
|                                   | Pass               | Special<br>Mention | Substandard | Doubtful |                |                    |
| <b>Commercial real estate:</b>    |                    |                    |             |          |                |                    |
| Real estate term                  | \$827,297          | \$17,896           | \$ 11,054   | \$ -     | \$856,247      | \$ 9,249           |
| Construction and land development | 378,895            | 1,596              | 1,763       | -        | 382,254        | 7,687              |
| Total commercial real estate      | 1,206,192          | 19,492             | 12,817      | -        | 1,238,501      | 16,936             |
| Commercial and industrial         | 295,243            | 6,186              | 12,966      | -        | 314,395        | 5,602              |
| <b>Consumer loans:</b>            |                    |                    |             |          |                |                    |
| Residential and home equity       | 149,310            | 1,701              | 2,395       | -        | 153,406        | 675                |
| Consumer and other                | 16,543             | 27                 | 27          | -        | 16,597         | 96                 |
| Total consumer                    | 165,853            | 1,728              | 2,422       | -        | 170,003        | 771                |
| Total                             | \$1,667,288        | \$27,406           | \$ 28,205   | \$ -     | \$1,722,899    | \$ 23,309          |

Note 3 — Loans and Allowance for Loan Losses – Continued

| (Dollars in thousands)            | December 31, 2017 |                    |             |          | Total<br>Loans | Total<br>Allowance |
|-----------------------------------|-------------------|--------------------|-------------|----------|----------------|--------------------|
|                                   | Pass              | Special<br>Mention | Substandard | Doubtful |                |                    |
| <b>Commercial real estate:</b>    |                   |                    |             |          |                |                    |
| Real estate term                  | \$758,575         | \$13,055           | \$12,518    | \$-      | \$784,148      | \$6,706            |
| Construction and land development | 358,766           | 7,227              | 3,597       | -        | 369,590        | 6,309              |
| Total commercial real estate      | 1,117,341         | 20,282             | 16,115      | -        | 1,153,738      | 13,015             |
| Commercial and industrial         | 274,535           | 13,464             | 6,086       | -        | 294,085        | 4,314              |
| <b>Consumer loans:</b>            |                   |                    |             |          |                |                    |
| Residential and home equity       | 152,753           | 3,913              | 1,925       | -        | 158,591        | 815                |
| Consumer and other                | 25,461            | 45                 | 72          | 13       | 25,591         | 159                |
| Total consumer                    | 178,214           | 3,958              | 1,997       | 13       | 184,182        | 974                |
| Total                             | \$1,570,090       | \$37,704           | \$24,198    | \$13     | \$1,632,005    | \$18,303           |

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

| (Dollars in thousands)                | September 30, 2018     |   |                                 |                                      |                          |             |
|---------------------------------------|------------------------|---|---------------------------------|--------------------------------------|--------------------------|-------------|
|                                       | Real<br>Estate<br>Term | Construction<br>and Land<br>Development | Commercial<br>and<br>Industrial | Residential<br>and<br>Home<br>Equity | Consumer<br>and<br>Other | Total       |
| <b>Allowance for loan losses:</b>     |                        |   |                                 |                                      |                          |             |
| Individually evaluated for impairment | \$-                    | \$-                                     | \$279                           | \$-                                  | \$-                      | \$279       |
| Collectively evaluated for impairment | 9,249                  | 7,687                                   | 5,323                           | 675                                  | 96                       | 23,030      |
| Purchased credit-impaired loans       | -                      | -                                       | -                               | -                                    | -                        | -           |
| Total                                 | \$9,249                | \$7,687                                 | \$5,602                         | \$675                                | \$96                     | \$23,309    |
| <b>Outstanding loan balances:</b>     |                        |   |                                 |                                      |                          |             |
| Individually evaluated for impairment | \$4,355                | \$1,441                                 | \$11,564                        | \$2,112                              | \$-                      | \$19,472    |
| Collectively evaluated for impairment | 848,584                | 380,480                                 | 300,279                         | 151,294                              | 16,597                   | 1,697,234   |
| Purchased credit-impaired loans       | 3,308                  | 333                                     | 2,552                           | -                                    | -                        | 6,193       |
| Total gross loans                     | \$856,247              | \$382,254                               | \$314,395                       | \$153,406                            | \$16,597                 | \$1,722,899 |

| (Dollars in thousands)                | December 31, 2017      |   |                                 |                                      |                          |        |
|---------------------------------------|------------------------|---|---------------------------------|--------------------------------------|--------------------------|--------|
|                                       | Real<br>Estate<br>Term | Construction<br>and Land<br>Development | Commercial<br>and<br>Industrial | Residential<br>and<br>Home<br>Equity | Consumer<br>and<br>Other | Total  |
| <b>Allowance for loan losses:</b>     |                        |   |                                 |                                      |                          |        |
| Individually evaluated for impairment | \$-                    | \$3                                     | \$41                            | \$101                                | \$-                      | \$145  |
|                                       | 6,706                  | 6,306                                   | 4,273                           | 714                                  | 159                      | 18,158 |

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|                                       |           |            |            |            |           |             |
|---------------------------------------|-----------|------------|------------|------------|-----------|-------------|
| Collectively evaluated for impairment |           |            |            |            |           |             |
| Purchased credit-impaired loans       | -         | -          | -          | -          | -         | -           |
| Total                                 | \$6,706   | \$ 6,309   | \$ 4,314   | \$ 815     | \$ 159    | \$18,303    |
| Outstanding loan balances:            |           |            |            |            |           |             |
| Individually evaluated for impairment | \$6,191   | \$ 2,568   | \$ 2,044   | \$ 1,150   | \$ -      | \$11,953    |
| Collectively evaluated for impairment | 773,798   | 366,374    | 288,174    | 157,441    | 25,591    | 1,611,378   |
| Purchased credit-impaired loans       | 4,159     | 648        | 3,867      | -          | -         | 8,674       |
| Total gross loans                     | \$784,148 | \$ 369,590 | \$ 294,085 | \$ 158,591 | \$ 25,591 | \$1,632,005 |

Note 3 — Loans and Allowance for Loan Losses – Continued

Information on impaired loans, excluding Purchased Credit Impaired (“PCI”) loans, is summarized as follows:

| (Dollars in thousands)            | September 30, 2018             |                         |                   |                                 |                      |
|-----------------------------------|--------------------------------|-------------------------|-------------------|---------------------------------|----------------------|
|                                   | Unpaid<br>Principal<br>Balance | Recorded Investment     |                   | Total<br>Recorded<br>Investment | Related<br>Allowance |
|                                   |                                | With<br>No<br>Allowance | With<br>Allowance |                                 |                      |
| <b>Commercial real estate:</b>    |                                |                         |                   |                                 |                      |
| Real estate term                  | \$7,607                        | \$4,355                 | \$ -              | \$ 4,355                        | \$ -                 |
| Construction and land development | 2,194                          | 1,441                   | -                 | 1,441                           | -                    |
| Total commercial real estate      | 9,801                          | 5,796                   | -                 | 5,796                           | -                    |
| Commercial and industrial         | 14,523                         | 9,723                   | 1,841             | 11,564                          | 279                  |
| <b>Consumer loans:</b>            |                                |                         |                   |                                 |                      |
| Residential and home equity       | 2,112                          | 2,112                   | -                 | 2,112                           | -                    |
| Consumer and other                | -                              | -                       | -                 | -                               | -                    |
| Total consumer                    | 2,112                          | 2,112                   | -                 | 2,112                           | -                    |
| Total                             | \$26,436                       | \$17,631                | \$ 1,841          | \$ 19,472                       | \$ 279               |

| (Dollars in thousands)            | December 31, 2017              |                         |                   |                                 |                      |
|-----------------------------------|--------------------------------|-------------------------|-------------------|---------------------------------|----------------------|
|                                   | Unpaid<br>Principal<br>Balance | Recorded Investment     |                   | Total<br>Recorded<br>Investment | Related<br>Allowance |
|                                   |                                | With<br>No<br>Allowance | With<br>Allowance |                                 |                      |
| <b>Commercial real estate:</b>    |                                |                         |                   |                                 |                      |
| Real estate term                  | \$7,090                        | \$6,191                 | \$ -              | \$ 6,191                        | \$ -                 |
| Construction and land development | 3,485                          | 2,372                   | 196               | 2,568                           | 3                    |
| Total commercial real estate      | 10,575                         | 8,563                   | 196               | 8,759                           | 3                    |
| Commercial and industrial         | 6,204                          | 1,276                   | 768               | 2,044                           | 41                   |
| <b>Consumer loans:</b>            |                                |                         |                   |                                 |                      |
| Residential and home equity       | 1,150                          | 229                     | 921               | 1,150                           | 101                  |
| Consumer and other                | -                              | -                       | -                 | -                               | -                    |
| Total consumer                    | 1,150                          | 229                     | 921               | 1,150                           | 101                  |
| Total                             | \$17,929                       | \$10,068                | \$ 1,885          | \$ 11,953                       | \$ 145               |

The interest income recognized on impaired loans was as follows:

| Three Months Ended |                    |
|--------------------|--------------------|
| September 30, 2018 | September 30, 2017 |
| Average Interest   | Average Interest   |

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| (Dollars in thousands)            | Recorded Income |             | Recorded Income |             |
|-----------------------------------|-----------------|-------------|-----------------|-------------|
|                                   | Investmen       | Recognition | Investmen       | Recognition |
| Commercial real estate:           |                 |             |                 |             |
| Real estate term                  | \$10,127        | \$ 111      | \$6,648         | \$ 100      |
| Construction and land development | 1,043           | 16          | 1,880           | 73          |
| Total commercial real estate      | 11,170          | 127         | 8,528           | 173         |
| Commercial and industrial         | 10,049          | 140         | 4,659           | 103         |
| Consumer loans:                   |                 |             |                 |             |
| Residential and home equity       | 2,728           | 33          | 1,052           | 26          |
| Consumer and other                | -               | -           | -               | -           |
| Total consumer                    | 2,728           | 33          | 1,052           | 26          |
| Total                             | \$23,947        | \$ 300      | \$14,239        | \$ 302      |

18

## Note 3 — Loans and Allowance for Loan Losses – Continued

| (Dollars in thousands)            | Nine Months Ended  |             | September 30, 2017 |             |
|-----------------------------------|--------------------|-------------|--------------------|-------------|
|                                   | September 30, 2018 |             | Average Interest   |             |
|                                   | Recorded Income    |             | Recorded Income    |             |
|                                   | Investmen          | Recognition | Investmen          | Recognition |
| <b>Commercial real estate:</b>    |                    |             |                    |             |
| Real estate term                  | \$8,366            | \$ 257      | \$5,765            | \$ 118      |
| Construction and land development | 1,716              | 90          | 2,397              | 104         |
| Total commercial real estate      | 10,082             | 347         | 8,162              | 222         |
| Commercial and industrial         | 7,198              | 268         | 4,464              | 148         |
| <b>Consumer loans:</b>            |                    |             |                    |             |
| Residential and home equity       | 2,175              | 76          | 1,054              | 37          |
| Consumer and other                | -                  | -           | -                  | -           |
| Total consumer                    | 2,175              | 76          | 1,054              | 37          |
| Total                             | \$19,455           | \$ 691      | \$13,680           | \$ 407      |

Purchased credit-impaired loans and purchased non-credit-impaired loans. Purchased loans, including loans acquired in business combinations, are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired (PCI) or purchased non-credit-impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The outstanding contractual unpaid principal balance of PCI loans, excluding acquisition accounting adjustments, was \$9.2 million at September 30, 2018 and \$12.4 million at December 31, 2017. The carrying balance of PCI loans was \$6.2 million at September 30, 2018 and \$8.7 million at December 31, 2017.

The following table presents the changes in the accretable yield for PCI loans for the nine months ended September 30, 2018, and 2017:

| (Dollars in thousands)                          | Nine Months   |               |
|---|---------------|---------------|
|   | Ended         |               |
|   | September 30, | September 30, |
|   | 2018          | 2017          |
| Balance, beginning of period                    | \$8,536       | \$573         |
| Accretion to interest income                    | (2,165)       | (38)          |
| Reclassification from non-accretable difference | 189           | 9             |
| Balance, end of period                          | \$6,560       | \$544         |

As of September 30, 2018 and December 31, 2017, the non-accretable difference between the contractually required payments and cash flows expected to be collected were \$3.0 million and \$3.7 million, respectively.



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 \$4.3 million and \$3.4 million as of September 30, 2018, and December 31, 2017, respectively. Available lines of credit for loans and credit cards to affiliates were approximately \$1.3 million and \$330,000 as of September 30, 2018, and December 31, 2017, respectively. Deposits from affiliates were \$8.8 million and \$7.1 million as of September 30, 2018 and December 31, 2017, respectively.

## Note 4 — 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:

| (Dollars in thousands)   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| Commitments to extend credit, including unsecured  |                          |                         |
| commitments of \$17,912 and \$13,625 as of September 30,<br>2018 and December 31, 2017, respectively     | \$ 582,174               | \$ 637,029              |
| Stand-by letters of credit and bond commitments, including   |                          |                         |
| unsecured commitments of \$474 and \$440 as of<br>September 30, 2018 and December 31, 2017, respectively | 26,013                   | 27,943                  |
| Unused credit card lines, all unsecured  | 25,096                   | 24,949                  |

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 5 — Fair Value

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, not a forced liquidation or distressed sale). GAAP establishes a consistent framework for measuring fair value and disclosure requirements about fair value measurements. Among other things, the standard requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical instruments. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Observable inputs other than Level 1 including quoted prices in active markets for similar instruments, quoted prices in less active markets for identical or similar instruments, 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; also includes observable inputs from non-binding single dealer quotes not corroborated by observable market data. In developing Level 3 measurements, management incorporates whatever market data might be available and uses discounted cash flow models where appropriate. These calculations include projections of future cash flows, including appropriate default and loss assumptions, and market based discount rates.

Note 5 — Fair Value - Continued

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize at a future date. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

The following methods were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amount of these items is a reasonable estimate of their fair value.

Securities: The estimated fair values of investment securities are priced using current active market quotes, if available, which are considered Level 1 measurements. For most of the portfolio, matrix pricing based on the securities' relationship to other benchmark quoted prices is used to establish the fair value. These measurements are considered Level 2.

Non-marketable securities: The fair value is based upon the redemption value of the stock, which equates to its carrying value.

Loans Held for Sale: The carrying amount of these items is a reasonable estimate of their fair value.

Loans held for investment: 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 fair value approximated carrying value because of their floating rate or expected maturity characteristics.

Bank-owned life insurance: The fair value of BOLI policies owned is based on the various insurance contracts' cash surrender value.

Deposits: The carrying amount of deposits with no stated maturity, such as savings and checking accounts, is a reasonable estimate of their fair value. The market value of certificates of deposit is based upon the discounted value of contractual cash flows. The discount rate is determined using the rates currently offered on comparable instruments.

Short-term borrowings: Short-term borrowing are overnight advances with the FHLB and their carrying amount is considered a reasonable approximation of their fair value.

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2018 and December 31, 2017:

| (Dollars in thousands) | Level | September 30, 2018 |                      | December 31, 2017 |                      |
|------------------------|-------|--------------------|----------------------|-------------------|----------------------|
|                        |       | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |

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| Financial Assets:                        |   |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
| Cash and cash equivalents                | 1 | \$54,933    | \$54,933    | \$51,027    | \$51,027    |
| Investment securities available-for-sale | 2 | 255,021     | 255,021     | 263,056     | 263,056     |
| Investment securities held-to-maturity   | 2 | 67,148      | 66,050      | 74,654      | 74,301      |
| Non-marketable securities                | 2 | 4,231       | 4,231       | 3,706       | 3,706       |
| Loans held for sale                      | 2 | 8,467       | 8,467       | 10,871      | 10,871      |
| Loans held for investment                | 3 | 1,695,094   | 1,692,440   | 1,609,141   | 1,607,388   |
| Bank-owned life insurance                | 1 | 26,276      | 26,276      | 23,566      | 23,566      |
| Financial Liabilities:                   |   |             |             |             |             |
| Total deposits                           | 2 | \$1,871,932 | \$1,580,894 | \$1,814,632 | \$1,596,966 |
| Short-term borrowings                    | 2 | 42,000      | 42,000      | 40,000      | 40,000      |

## Note 5 — Fair Value - Continued

Assets measured on a recurring and non-recurring basis are as follows:

| (Dollars in thousands)                   | Level<br>1 | Level 2   | Level<br>3 | Total     |
|--|------------|-----------|------------|-----------|
| As of September 30, 2018                 |            |           |            |           |
| Fair valued on a recurring basis:        |            |           |            |           |
| Investment securities available-for-sale | \$ -       | \$255,021 | \$-        | \$255,021 |
| Fair valued on a non-recurring basis:    |            |           |            |           |
| Impaired loans                           | -          | -         | 1,562      | 1,562     |
| As of December 31, 2017                  |            |           |            |           |
| Fair valued on a recurring basis:        |            |           |            |           |
| Investment securities available-for-sale | \$ -       | \$263,056 | \$-        | \$263,056 |
| Fair valued on a non-recurring basis:    |            |           |            |           |
| Impaired loans                           | -          | -         | 1,740      | 1,740     |

## Note 6 — Income Taxes

Income tax expense was \$3.3 million and \$2.7 million for the three months ended September 30, 2018 and 2017, respectively. The Company's effective tax rate for the third quarter of 2018 was 23.9% compared with 30.2% in the third quarter of 2017. The tax rate in the third quarter of 2018 is lower than the same quarter in 2017 due primarily to the reduction in the federal corporate tax rate to a flat rate of 21%, the reduction of the Utah state corporate tax rate to 4.95% as well as tax benefits related to tax-deductible stock compensation expense.

## Note 7 — Regulatory Capital Matters

The consolidated Tier 1 Leverage ratio increased to 11.90% as of September 30, 2018 from 11.46% at December 31, 2017. Federal Reserve Board Regulations require maintenance of certain minimum reserve balances based on certain average deposits, which, as of September 30, 2018 and December 31, 2017, were \$16.3 million and \$19.0 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 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, 2018, the Company granted options for the purchase of 33,382 common shares, which have a weighted average exercise price of \$32.31 per share and a weighted average fair value as of the date of grant of \$3.58 per share. Additionally, the Company granted 32,128 restricted stock units (“RSU”) at a weighted-average fair value of \$31.03 per unit. The options and RSU’s generally vest over periods from one to three years. The Company recorded share-based compensation expense of \$683,000 and \$382,000 for the nine months ended September 30, 2018 and 2017, respectively.

Note 9 — Acquisition Related Measurement Period Adjustments

During the nine months ended September 30, 2018, the Company made acquisition related measurement period adjustments of \$335,000. Changes to initially estimated fair values from a business combination are recognized as an adjustment to goodwill over the measurement period, which cannot exceed one year from the acquisition date. The adjustments to goodwill related to changes in the preliminary goodwill recorded for the acquisition of Town & Country Bank and were related to loan valuations.

## 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 Condensed Consolidated Financial Statements alone. The discussion should be read in conjunction with the Unaudited Condensed 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. 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, 2017 ("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;
- ability to raise liquidity, either with deposits or other funding sources, to support our growth in assets;
- risks associated with the integration of current and future acquisitions.
- 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;
- risks associated with cyber security.
- 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, 2017.

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.

23

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## Overview

People's Utah Bancorp ("PUB") is the holding company for People's Intermountain Bank. People's Intermountain Bank ("Bank", "PIB") is a full-service community bank providing loans, deposit and cash management services to individuals and businesses. Our primary customers are small to medium sized businesses that require highly personalized commercial banking products and services. People's Intermountain Bank has 26 branch locations in three banking divisions, Bank of American Fork, Lewiston State Bank, and People's Town & Country Bank; a leasing division, GrowthFunding Equipment Finance; and a mortgage division, People's Intermountain Bank Mortgage. The Bank has been serving communities in Utah and southern Idaho for more than 100 years.

Our recent loan growth is the result of mergers and acquisitions as well as organic growth that we believe was generated by our seasoned relationship managers and supporting associates who provide outstanding service and quick responsiveness to our customers. The primary source of funding for our asset growth has been the generation of core deposits, which we raised through acquisitions as well as from our existing branch system.

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. 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 by the sum of net interest income and non-interest income.

## Mergers & Acquisitions

Utah Branches from Banner Bank — On October 6, 2017, we completed our acquisition of \$257 million in loans and seven Utah branch locations with \$160 million in low-cost core deposits from Banner Corporation's subsidiary Banner Bank. The Bank paid a deposit premium of \$13.8 million based on average deposits at closing. The seven branch locations in Utah include Salt Lake City, Provo, South Jordan, Woods Cross, Orem, Salem, and Springville. The Woods Cross and Orem branches were consolidated into our existing Bank of American Fork Bountiful and Orem branches, respectively. We are operating these acquired branches under the name of Bank of American Fork, a division of PIB.

Town & Country Bank — On November 13, 2017, we completed the merger of Town & Country Bank located in St. George, Utah, including the acquisition of \$117 million in loans and the assumption of \$124 million in deposits. We consolidated our existing St. George branch and Town & Country's branch into one branch. Under the terms of the merger, each outstanding Town & Country common share converted into the right to receive 0.2917 PUB common shares and \$4.23 per common share in cash, including \$2.0 million of cash held in escrow that is subject to indemnification claims. Town & Country shareholders also received an additional cash distribution of \$1.68 per common share in cash. A total of 466,546 PUB common shares were issued in this transaction. We operate this branch under the name of People's Town & Country Bank, a division of PIB.

## Non-GAAP Financial Measures

In addition to financial results presented in accordance with generally accepted accounting principles ("GAAP"), this Management's Discussion & Analysis contains certain non-GAAP financial measures. We have presented these non-GAAP financial measures because we believe that they provide useful and comparative information to assess trends in our core operations and facilitates the comparison of our financial performance with the performance of our peers and the comparative years presented. We have excluded acquisition related costs, net gains and losses on the sale of certain securities, and the write-down of our deferred income tax assets due to the reduction in the Federal corporate income tax rate to derive non-GAAP financial information related to the company's core operations. The Company believes this non-GAAP financial information is useful in understanding the Company's core financial performance.

However, these non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. For a reconciliation of these non-GAAP financial measures, see the tables below. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled non-GAAP measures as calculated by other companies.



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|                                   |          |          |          |          |           |
|-----------------------------------|----------|----------|----------|----------|-----------|
| securities                        |          |          |          |          |           |
| Exclude acquisition-related costs | (118 )   | 1        | 484      | 232      | 660       |
| Exclude tax related benefit       | 28       | 79       | (293 )   | 24       | (370 )    |
| Write down of deferred income tax |          |          |          |          |           |
| assets (DTA)                      | -        | -        | -        | -        | -         |
| Net income (non-GAAP)             | \$10,393 | \$10,214 | \$ 6,915 | \$29,877 | \$ 20,042 |

25

(NG) Non-GAAP Financial Measures

In addition to financial results presented in accordance with GAAP, this schedule contains certain non-GAAP financial measures. Management has presented these non-GAAP financial measures because it believes that they provide useful and comparative information to assess trends in core operations and facilitate the comparison of our financial performance with the performance of our peers.

| (Dollars in thousands)   | Three Months Ended |               |                    | Nine Months Ended  |                    |  |
|--|--------------------|---------------|--------------------|--------------------|--------------------|--|
|  | September 30, 2018 | June 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |  |
| Acquisition Accounting Impact on Net Interest Margin                     | 2018               | 2018          | 2017               | 2018               | 2017               |  |
| Net interest income (GAAP)   | \$27,182           | \$26,978      | \$19,909           | \$80,104           | \$56,668           |  |
| Exclude discount accretion (premium amortization) on purchased loans     | (222 )             | (777 )        | (20 )              | (2,165 )           | (38 )              |  |
| Exclude premium amortization on acquired certificates of deposit ("CD")  | (35 )              | (35 )         | (69 )              | (106 )             | (207 )             |  |
| Net interest income before acquisition accounting impact (Non-GAAP)      | \$26,925           | \$26,166      | \$19,820           | \$77,833           | \$56,423           |  |
| Average earning assets (GAAP)  | \$2,054,261        | \$2,058,125   | \$1,657,085        | \$2,043,295        | \$1,619,351        |  |
| Exclude average net loan discount on acquired loans                      | 9,549              | 10,146        | 844                | 10,531             | 858                |  |
| Average earning assets before acquired loan discount (Non-GAAP)          | \$2,063,810        | \$2,068,271   | \$1,657,929        | \$2,053,826        | \$1,620,209        |  |
| Net interest margin ("NIM") (GAAP)                                       | 5.25 %             | 5.26 %        | 4.77 %             | 5.24 %             | 4.68 %             |  |
| Exclude impact on NIM from discount accretion                            | -0.04 %            | -0.15 %       | 0.00 %             | -0.14 %            | 0.00 %             |  |
| Exclude impact on NIM from CD premium amortization                       | -0.01 %            | -0.01 %       | -0.02 %            | -0.01 %            | -0.02 %            |  |
| Net interest margin before acquisition accounting adjustments (Non-GAAP) | 5.20 %             | 5.10 %        | 4.75 %             | 5.09 %             | 4.66 %             |  |

| (Dollars in thousands)                    | Three Months Ended |               |                    | Nine Months Ended  |                    |
|---|--------------------|---------------|--------------------|--------------------|--------------------|
|   | September 30, 2018 | June 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Additional Non-GAAP Financial Information |                    |               |                    |                    |                    |

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|  |        |        |         |         |         |
|--|--------|--------|---------|---------|---------|
| Diluted earnings per share (GAAP)                    | \$0.55 | \$0.55 | \$ 0.34 | \$ 1.58 | \$ 1.05 |
| Diluted earnings per share (Non-GAAP)                | \$0.55 | \$0.54 | \$ 0.38 | \$1.57  | \$ 1.09 |
| Efficiency ratio (GAAP)                              | 49.33% | 50.97% | 57.14 % | 51.43%  | 54.91 % |
| Efficiency ratio (Non-GAAP)                          | 49.71% | 51.52% | 53.89 % | 51.36%  | 53.53 % |
| Non-interest income to average assets (GAAP)         | 0.69 % | 0.75 % | 0.69 %  | 0.71 %  | 0.82 %  |
| Non-interest income to average assets<br>(Non-GAAP)  | 0.69 % | 0.69 % | 0.80 %  | 0.69 %  | 0.86 %  |
| Non-interest expense to average<br>assets (GAAP)     | 2.78 % | 2.91 % | 2.98 %  | 2.91 %  | 2.89 %  |
| Non-interest expense to average assets<br>(Non-GAAP) | 2.80 % | 2.91 % | 2.87 %  | 2.90 %  | 2.84 %  |
| Return on average assets (GAAP)                      | 1.91 % | 1.93 % | 1.42 %  | 1.85 %  | 1.51 %  |
| Return on average assets (Non-GAAP)                  | 1.89 % | 1.88 % | 1.57 %  | 1.84 %  | 1.57 %  |
| Return on average equity (GAAP)                      | 14.97% | 15.60% | 10.14 % | 14.85%  | 10.80 % |
| Return on average equity (Non-GAAP)                  | 14.84% | 15.22% | 11.24 % | 14.82%  | 11.24 % |

## Selected Financial Information

You should read the selected financial information data set forth below in conjunction with our historical consolidated financial statements and related notes.

|  | September<br>30,<br>2018 | June<br>30,<br>2018 | December<br>31,<br>2017 | September<br>30,<br>2017 |
|--|--------------------------|---------------------|-------------------------|--------------------------|
| (Dollars in thousands, except share data)              |                          |                     |                         |                          |
| <b>Selected Balance Sheet Information:</b>             |                          |                     |                         |                          |
| Book value per share                                   | \$ 14.94                 | \$ 14.54            | \$ 13.91                | \$ 13.62                 |
| Tangible book value per share                          | \$ 13.38                 | \$ 12.97            | \$ 12.29                | \$ 13.59                 |
| Non-performing loans to total loans                    | 0.34 %                   | 0.51 %              | 0.18 %                  | 0.34 %                   |
| Non-performing assets to total assets                  | 0.40 %                   | 0.40 %              | 0.18 %                  | 0.25 %                   |
| Allowance for loan losses to loans held for investment | 1.36 %                   | 1.32 %              | 1.12 %                  | 1.45 %                   |
| Loans to Deposits                                      | 91.01 %                  | 94.32 %             | 89.27 %                 | 79.09 %                  |

**Asset Quality Data:**

|                       |          |          |          |          |
|-----------------------|----------|----------|----------|----------|
| Non-performing loans  | \$ 5,830 | \$ 8,649 | \$ 2,899 | \$ 4,141 |
| Non-performing assets | 8,815    | 8,649    | 3,893    | 4,466    |

**Capital Ratios:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Tier 1 leverage capital <sup>(1)</sup>                   | 11.90 % | 11.48 % | 11.46 % | 14.07 % |
| Total risk-based capital <sup>(1)</sup>                  | 15.46 % | 15.22 % | 14.67 % | 20.35 % |
| Average equity to average assets                         | 12.76 % | 12.36 % | 13.58 % | 13.98 % |
| Tangible common equity to tangible assets <sup>(3)</sup> | 11.47 % | 11.36 % | 10.87 % | 13.69 % |

|  | Three Months Ended       |                     |                          | Nine Months Ended        |                          |
|--|--------------------------|---------------------|--------------------------|--------------------------|--------------------------|
|  | September<br>30,<br>2018 | June<br>30,<br>2018 | September<br>30,<br>2017 | September<br>30,<br>2018 | September<br>30,<br>2017 |
| <b>Selected Financial Information:</b>       |                          |                     |                          |                          |                          |
| Basic earnings per share                     | \$ 0.56                  | \$ 0.56             | \$ 0.35                  | \$ 1.60                  | \$ 1.07                  |
| Diluted earnings per share                   | \$ 0.55                  | \$ 0.55             | \$ 0.34                  | \$ 1.58                  | \$ 1.05                  |
| Net interest margin <sup>(2)</sup>           | 5.25 %                   | 5.26 %              | 4.77 %                   | 5.24 %                   | 4.68 %                   |
| Efficiency ratio                             | 49.33 %                  | 50.97 %             | 57.14 %                  | 51.43 %                  | 54.91 %                  |
| Non-interest income to average assets        | 0.69 %                   | 0.75 %              | 0.69 %                   | 0.71 %                   | 0.82 %                   |
| Non-interest expense to average assets       | 2.78 %                   | 2.91 %              | 2.98 %                   | 2.91 %                   | 2.89 %                   |
| Return on average assets                     | 1.91 %                   | 1.93 %              | 1.42 %                   | 1.85 %                   | 1.51 %                   |
| Return on average equity                     | 14.97 %                  | 15.60 %             | 10.14 %                  | 14.85 %                  | 10.80 %                  |
| Net charge-offs / (recoveries)               | 924                      | (102 )              | 562                      | 444                      | 1,106                    |
| Annualized net charge-offs / (recoveries) to |                          |                     |                          |                          |                          |
| average loans                                | 0.21 %                   | -0.02 %             | 0.18 %                   | 0.03 %                   | 0.13 %                   |

<sup>(1)</sup>Tier 1 leverage capital and Total risk-based capital as of September 30, 2018 are estimates.



(2) Net interest margin is defined as net interest income divided by average earning assets.

(3) Represents the sum of total shareholders' equity less intangible assets all divided by the sum of total assets less intangible assets. Intangible assets were \$29.2 million, \$29.3 million, and \$509,000 at September 30, 2018, June 30, 2018, and September 30, 2017, respectively.

## 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, 2017 |                    |         |   |
|--|--------------------|--------------------|---------|---|--------------------|--------------------|---------|---|
|  | September 30, 2018 |                    | Average |   | September 30, 2017 |                    | Average |   |
| (Dollars in thousands, except footnotes)     | Average            | Interest           | Yield/  |   | Average            | Interest           | Yield/  |   |
|  | Balance            | Income/<br>Expense | Rate    | % | Balance            | Income/<br>Expense | Rate    | % |
| <b>ASSETS</b>                                |                    |                    |         |   |                    |                    |         |   |
| Interest earning deposits in other banks and |                    |                    |         |   |                    |                    |         |   |
| federal funds sold                           | \$ 12,426          | \$ 57              | 1.84    | % | \$ 87,981          | \$ 283             | 1.28    | % |
| Securities: <sup>(1)</sup>                   |                    |                    |         |   |                    |                    |         |   |
| Taxable securities                           | 243,754            | 1,180              | 1.92    | % | 260,941            | 1,116              | 1.70    | % |
| Non-taxable securities <sup>(2)</sup>        | 74,857             | 348                | 1.84    | % | 89,001             | 414                | 1.85    | % |
| Total securities                             | 318,611            | 1,528              | 1.90    | % | 349,942            | 1,530              | 1.73    | % |
| Loans <sup>(3)</sup>                         |                    |                    |         |   |                    |                    |         |   |
| Real estate term                             | 899,715            | 13,043             | 5.75    | % | 628,113            | 8,818              | 5.57    | % |
| Construction and land development            | 376,142            | 7,329              | 7.73    | % | 268,896            | 5,404              | 7.97    | % |
| Commercial and industrial                    | 315,534            | 5,268              | 6.62    | % | 220,795            | 3,412              | 6.13    | % |
| Residential and home equity                  | 107,436            | 1,508              | 5.57    | % | 83,295             | 935                | 4.46    | % |
| Consumer and other                           | 19,876             | 272                | 5.42    | % | 16,104             | 273                | 6.73    | % |
| Total loans                                  | 1,718,703          | 27,420             | 6.33    | % | 1,217,203          | 18,842             | 6.14    | % |
| Non-marketable equity securities             | 4,521              | 94                 | 8.25    | % | 1,959              | 8                  | 1.62    | % |
| Total interest earning assets                | 2,054,261          | 29,099             | 5.62    | % | 1,657,085          | 20,663             | 4.95    | % |
| Allowance for loan losses                    | (22,469 )          |                    |         |   | (17,437 )          |                    |         |   |
| Non-interest earning assets                  | 146,665            |                    |         |   | 106,406            |                    |         |   |
| Total average assets                         | \$ 2,178,457       |                    |         |   | \$ 1,746,054       |                    |         |   |
| <b>LIABILITIES AND SHAREHOLDERS'</b>         |                    |                    |         |   |                    |                    |         |   |
| <b>EQUITY</b>                                |                    |                    |         |   |                    |                    |         |   |
| Interest bearing deposits:                   |                    |                    |         |   |                    |                    |         |   |
| Demand and savings accounts                  | \$ 746,957         | \$ 699             | 0.37    | % | \$ 673,789         | \$ 451             | 0.27    | % |
| Money market accounts                        | 237,450            | 445                | 0.74    | % | 166,862            | 95                 | 0.23    | % |

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|  |             |          |      |   |             |          |      |   |
|--|-------------|----------|------|---|-------------|----------|------|---|
| Certificates of deposit                            | 182,105     | 493      | 1.08 | % | 148,129     | 206      | 0.55 | % |
| Total interest bearing deposits                    | 1,166,512   | 1,637    | 0.56 | % | 988,780     | 752      | 0.30 | % |
| Short-term borrowings                              | 49,427      | 280      | 2.25 | % | 3,583       | 2        | 0.19 | % |
| Total interest bearing liabilities                 | 1,215,939   | 1,917    | 0.63 | % | 992,363     | 754      | 0.30 | % |
| Non-interest bearing deposits                      | 667,896     |          |      |   | 495,719     |          |      |   |
| Total funding                                      | 1,883,835   | 1,917    | 0.40 | % | 1,488,082   | 754      | 0.20 | % |
| Other non-interest bearing liabilities             | 16,735      |          |      |   | 13,921      |          |      |   |
| Shareholders' equity                               | 277,887     |          |      |   | 244,051     |          |      |   |
| Total average liabilities and shareholders' equity | \$2,178,457 |          |      |   | \$1,746,054 |          |      |   |
| Net interest income                                |             | \$27,182 |      |   |             | \$19,909 |      |   |
| Interest rate spread                               |             |          | 4.99 | % |             |          | 4.65 | % |
| Net interest margin                                |             |          | 5.25 | % |             |          | 4.77 | % |

<sup>(1)</sup>Excludes average unrealized losses of \$6.6 million and \$602,000 for the three months ended September 30, 2018 and 2017, respectively.

28

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(2) Does not include tax effect on tax-exempt investment security income of \$116,000 and \$223,000 for the three months ended September 30, 2018 and 2017, respectively.

(3) Loan interest income includes loan fees of \$1.8 million and \$1.6 million for the three months ended September 30, 2018 and 2017.

| (Dollars in thousands, except footnotes)     | Nine Months Ended<br>September 30, 2018 |                                |                           | September 30, 2017 |                                |                           |
|--|---|--------------------------------|---------------------------|--------------------|--------------------------------|---------------------------|
|  | Average<br>Balance                      | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |
| <b>ASSETS</b>                                |   |                                |                           |                    |                                |                           |
| Interest earning deposits in other banks and |   |                                |                           |                    |                                |                           |
| federal funds sold                           | \$ 13,802                               | \$ 166                         | 1.61 %                    | \$ 50,314          | \$ 418                         | 1.11 %                    |
| Securities: <sup>(1)</sup>                   |   |                                |                           |                    |                                |                           |
| Taxable securities                           | 245,957                                 | 3,587                          | 1.95 %                    | 298,335            | 3,625                          | 1.62 %                    |
| Non-taxable securities <sup>(2)</sup>        | 79,080                                  | 1,098                          | 1.86 %                    | 91,606             | 1,268                          | 1.85 %                    |
| Total securities                             | 325,037                                 | 4,685                          | 1.93 %                    | 389,941            | 4,893                          | 1.68 %                    |
| Loans <sup>(3)</sup>                         |   |                                |                           |                    |                                |                           |
| Real estate term                             | 886,275                                 | 38,066                         | 5.74 %                    | 612,344            | 25,393                         | 5.54 %                    |
| Construction and land development            | 370,602                                 | 21,507                         | 7.76 %                    | 247,966            | 14,464                         | 7.80 %                    |
| Commercial and industrial                    | 315,736                                 | 15,640                         | 6.62 %                    | 216,803            | 9,901                          | 6.11 %                    |
| Residential and home equity                  | 106,523                                 | 4,224                          | 5.30 %                    | 82,755             | 3,067                          | 4.95 %                    |
| Consumer and other                           | 19,225                                  | 839                            | 5.83 %                    | 17,195             | 785                            | 6.11 %                    |
| Total loans                                  | 1,698,361                               | 80,276                         | 6.32 %                    | 1,177,063          | 53,610                         | 6.09 %                    |
| Non-marketable equity securities             | 6,095                                   | 167                            | 3.67 %                    | 2,033              | 16                             | 1.04 %                    |
| Total interest earning assets                | 2,043,295                               | 85,294                         | 5.58 %                    | 1,619,351          | 58,937                         | 4.87 %                    |
| Allowance for loan losses                    | (20,766 )                               |                                |                           | (16,957 )          |                                |                           |
| Non-interest earning assets                  | 144,195                                 |                                |                           | 101,826            |                                |                           |
| Total average assets                         | \$ 2,166,724                            |                                |                           | \$ 1,704,220       |                                |                           |
| <b>LIABILITIES AND SHAREHOLDERS'</b>         |   |                                |                           |                    |                                |                           |
| <b>EQUITY</b>                                |   |                                |                           |                    |                                |                           |
| Interest bearing deposits:                   |   |                                |                           |                    |                                |                           |
| Demand and savings accounts                  | \$ 732,912                              | \$ 1,642                       | 0.30 %                    | \$ 664,664         | \$ 1,327                       | 0.27 %                    |
| Money market accounts                        | 223,193                                 | 778                            | 0.47 %                    | 169,752            | 273                            | 0.22 %                    |
| Certificates of deposit                      | 189,133                                 | 1,420                          | 1.00 %                    | 152,109            | 638                            | 0.56 %                    |
| Total interest bearing deposits              | 1,145,238                               | 3,840                          | 0.45 %                    | 986,525            | 2,238                          | 0.30 %                    |
| Short-term borrowings                        | 92,570                                  | 1,350                          | 1.95 %                    | 6,416              | 31                             | 0.64 %                    |
| Total interest bearing liabilities           | 1,237,808                               | 5,190                          | 0.56 %                    | 992,941            | 2,269                          | 0.31 %                    |
| Non-interest bearing deposits                | 646,419                                 |                                |                           | 460,674            |                                |                           |
| Total funding                                | 1,884,227                               | 5,190                          | 0.37 %                    | 1,453,615          | 2,269                          | 0.21 %                    |
| Other non-interest bearing liabilities       | 12,883                                  |                                |                           | 12,200             |                                |                           |
| Shareholders' equity                         | 269,614                                 |                                |                           | 238,405            |                                |                           |
| Total average liabilities and shareholders'  | \$ 2,166,724                            |                                |                           | \$ 1,704,220       |                                |                           |

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| equity               |  |           |   |           |   |
|----------------------|--|-----------|---|-----------|---|
| Net interest income  |  | \$ 80,104 |   | \$ 56,668 |   |
| Interest rate spread |  | 5.02      | % | 4.56      | % |
| Net interest margin  |  | 5.24      | % | 4.68      | % |

- (1) Excludes average unrealized losses of \$5.7 million and \$1.0 million for the nine months ended September 30, 2018 and 2017, respectively.
- (2) Does not include tax effect on tax-exempt investment security income of \$366,000 and \$683,000 for the nine months ended September 30, 2018 and 2017, respectively.
- (3) Loan interest income includes loan fees of \$5.1 million and \$4.7 million for the nine months ended September 30, 2018 and 2017.

Rate/Volume Analysis. The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates. For purposes of this table, the change in interest due to both volume and rate has been allocated to change due to volume and rate in proportion to the relationship of absolute dollar amounts of change in each.

| (Dollars in thousands)                   | Three Months Ended<br>September 30,<br>2018 vs. 2017 |             |                | Nine Months Ended<br>September 30,<br>2018 vs. 2017 |                |                 |
|--|--|-------------|----------------|---|----------------|-----------------|
|  | Increase (Decrease) Due<br>to:                       |             |                | Increase (Decrease) Due to:                         |                |                 |
|  | Volume   | Rate        | Net            | Volume  | Rate           | Net             |
| <b>Interest income:</b>                  |  |             |                |   |                |                 |
| Interest earning deposits in other banks |  |             |                |   |                |                 |
| and federal funds sold                   | \$ (314 )  | \$ 88       | \$ (226 )      | \$ (388 )   | \$ 136         | \$ (252 )       |
| Taxable securities                       | (77 )  | 141         | 64             | (696 )  | 658            | (38 )           |
| Non-taxable securities                   | (66 )  | -           | (66 )          | (174 )  | 4              | (170 )          |
| <b>Total securities</b>                  | <b>(143 )</b>  | <b>141</b>  | <b>(2 )</b>    | <b>(870 )</b>                                       | <b>662</b>     | <b>(208 )</b>   |
| <b>Loans</b>                             |  |             |                |   |                |                 |
| Real estate term                         | 3,929  | 296         | 4,225          | 11,736  | 937            | 12,673          |
| Construction and land development        | 2,094  | (169)       | 1,925          | 7,117   | (74 )          | 7,043           |
| Commercial and industrial                | 1,563  | 293         | 1,856          | 4,841   | 898            | 5,739           |
| Residential and home equity              | 308  | 265         | 573            | 930   | 227            | 1,157           |
| Consumer and other                       | 57   | (58 )       | (1 )           | 90  | (36 )          | 54              |
| <b>Total Loans</b>                       | <b>7,951</b>   | <b>627</b>  | <b>8,578</b>   | <b>24,714</b>                                       | <b>1,952</b>   | <b>26,666</b>   |
| Non-marketable equity securities         | 21   | 65          | 86             | 67  | 84             | 151             |
| <b>Total interest income</b>             | <b>7,515</b>   | <b>921</b>  | <b>8,436</b>   | <b>23,523</b>                                       | <b>2,834</b>   | <b>26,357</b>   |
| <b>Interest expense:</b>                 |  |             |                |   |                |                 |
| Demand and savings accounts              | 53   | 195         | 248            | 144   | 171            | 315             |
| Money market accounts                    | 55   | 295         | 350            | 107   | 398            | 505             |
| Certificates of deposit                  | 56   | 231         | 287            | 184   | 598            | 782             |
| Short-term borrowings                    | 152  | 126         | 278            | 1,144   | 175            | 1,319           |
| <b>Total interest expense</b>            | <b>316</b>   | <b>847</b>  | <b>1,163</b>   | <b>1,579</b>  | <b>1,342</b>   | <b>2,921</b>    |
| <b>Net interest income</b>               | <b>\$7,199</b>                                       | <b>\$74</b> | <b>\$7,273</b> | <b>\$21,944</b>                                     | <b>\$1,492</b> | <b>\$23,436</b> |

Net interest income increased \$7.3 million to \$27.2 million for the three months ended September 30, 2018 compared with \$19.9 million for the same period of 2017. The increase is primarily the result of average interest earning assets increasing \$397 million, and yields on interest earning assets increasing 67 basis points for the same comparable period to 5.62% for the three months ended September 30, 2018. The increase in average interest earning assets was the result of both organic growth and the acquisition of the seven Utah branches of Banner Bank and the merger of Town & Country Bank. Higher yields on interest earning assets was primarily the result of yields on loans increasing 19 basis points to 6.33% for the same comparable period and the percentage of average loans to total average interest earning assets increasing to 83.7% for the three months ended September 30, 2018 compared with 73.5% for the same period of 2017.

Total cost of interest bearing liabilities increased 33 basis points to 0.63% for the third quarter of 2018 and is the result of interest bearing deposits increasing 26 basis points to 0.56% and a \$45.8 million increase in average short-term borrowing at a borrowing rate of 2.25% during the third quarter of 2018 compared with the same period a year earlier. The Company expects the increase in cost of interest bearing deposits to accelerate over the next several quarters as financial institutions increase their competitive deposit pricing.

Net interest margins increased 48 basis points to 5.25% for the third quarter of 2018 compared with the same period a year earlier. Acquisition accounting adjustments, including the accretion of loan discounts and amortization of certificate of deposits premiums, added 5 basis points to the net interest margin in the third quarter of 2018.

Net interest income increased \$23.4 million to \$80.1 million for the nine months ended September 30, 2018 compared with \$56.7 million for the same period of 2017. The increase is primarily the result of average interest earning assets increasing \$424 million, and yields on interest earning assets increasing 71 basis points for the same comparable period to 5.58% for the nine months ended September 30, 2018. The increase in average interest earning assets was the result of both organic growth and the acquisition of the seven Utah branches of Banner Bank and the merger of Town & Country Bank. Higher yields on interest earning assets was primarily the result of yields on loans increasing 23 basis points to 6.32% for the same comparable period and the percentage of average loans to total average interest earning assets increasing to 83.1% for the nine months ended September 30, 2018 compared with 72.7% for the same period of 2017.

Total cost of interest bearing liabilities increased 25 basis points to 0.56% for the nine months ended September 30, 2018, and is the result of an \$86.2 million increase in average short-term borrowing at a borrowing rate of 1.95% during the nine months ended September 30, 2018, and the cost of interest bearing deposits increasing 15 basis points to 0.45% for the nine months ended September 30, 2018, compared with the same period a year earlier. The Company expects the increase in cost of interest bearing deposits to accelerate over the next several quarters as financial institutions increase their competitive deposit pricing.

Net interest margins increased 56 basis points to 5.24% for the nine months ended September 30, 2018, compared with the same period a year earlier. Acquisition accounting adjustments, including the accretion of loan discounts and amortization of certificate of deposits premiums, added 15 basis points to the net interest margin in the nine months ended September 30, 2018.

#### Financial Overview for the Three Months Ended September 30, 2018 and 2017

| (Dollars in thousands)                              | Three Months Ended |                    | \$ Better /<br>(Worse) | % Better /<br>(Worse) |   |
|---|--------------------|--------------------|------------------------|-----------------------|---|
|   | September 30, 2018 | September 30, 2017 |                        |                       |   |
| Interest income                                     | \$29,099           | \$ 20,663          | \$8,436                | 40.8                  | % |
| Interest expense                                    | 1,917              | 754                | (1,163)                | -154.2                | % |
| Net interest income                                 | 27,182             | 19,909             | 7,273                  | 36.5                  | % |
| Provision for loan losses                           | 1,925              | 900                | (1,025)                | -113.9                | % |
| Net interest income after provision for loan losses | 25,257             | 19,009             | 6,248                  | 32.9                  | % |
| Non-interest income                                 | 3,794              | 3,040              | 754                    | 24.8                  | % |
| Non-interest expense                                | 15,280             | 13,114             | (2,166)                | -16.5                 | % |
| Income before income tax expense                    | 13,771             | 8,935              | 4,836                  | 54.1                  | % |
| Income tax expense                                  | 3,288              | 2,697              | (591)                  | -21.9                 | % |
| Net income  | \$10,483           | \$ 6,238           | \$4,245                | 68.1                  | % |

Net Income. Net income increased \$4.2 million to \$10.5 million for the three months ended September 30, 2018, compared with \$6.2 million for the three months ended September 30, 2017. This was primarily attributable to an



increase in net interest income of \$7.3 million, and an increase in non-interest income of \$0.8 million, offset by an increase in non-interest expense of \$2.2 million, an increase in provision for loan losses of \$1.0 million, and an increase in income tax expense of \$0.6 million.

Net Interest Income and Net Interest Margin. The increase in net interest income for the three months ended September 30, 2018 compared with the same quarter in 2017 was primarily driven by interest earned on a higher average loan volume attributable to both organic growth and our two acquisition transactions in 2017. Interest expense in the three months ended September 30, 2018 increased from the same period in 2017 due to an increase in average short-term borrowings and deposits outstanding, and an increase in the cost of short-term borrowings and deposits.

The yield on our average interest earning assets was 5.62% for the three months ended September 30, 2018 compared with 4.95% for the same period of 2017. The cost of total funding increased in the three months ended September 30, 2018 to 0.40% from 0.20% in the comparable quarter in 2017.

Provision for Loan Losses. The provision for loan losses in each period is a charge against earnings in that period. The provision is that amount required to maintain the allowance for loan losses at a level that, in management's judgment, is adequate to absorb loan losses inherent in the loan portfolio.

Provision for loan losses was \$1.9 million for the three months ended September 30, 2018 compared with \$0.9 million for the same period of 2017. The increase in provision for loan losses is due primarily to the increase in allowance for loan losses to loans held for investment, excluding specific reserves, offset by a \$1.3 million decrease in specific reserves on classified loans. The Company incurred net charge-offs of \$0.9 million in the third quarter of 2018 compared with net charge-offs of \$0.6 million in the third quarter of 2017.

Non-interest Income. The following table presents, for the periods indicated, the major categories of non-interest income:

| (Dollars in thousands)                           | Three Months Ended |                    | \$ Better / (Worse) | % Better / (Worse) |
|--|--------------------|--------------------|---------------------|--------------------|
|  | September 30, 2018 | September 30, 2017 |                     |                    |
| Mortgage banking                                 | \$1,668            | \$ 1,686           | \$ (18 )            | -1.1 %             |
| Card processing                                  | 826                | 704                | 122                 | 17.3 %             |
| Service charges on deposit accounts              | 737                | 636                | 101                 | 15.9 %             |
| Net gain (loss) on sale of investment securities | -                  | (486 )             | 486                 | 100.0 %            |
| Other  | 563                | 500                | 63                  | 12.6 %             |
| Total non-interest income                        | \$3,794            | \$ 3,040           | \$ 754              | 24.8 %             |

Noninterest income was \$3.8 million for the third quarter of 2018 compared with \$3.0 million the same period a year ago. The increase was primarily due to a loss on sale of securities in the same period a year ago; an increase in card processing fees and service charges on deposit accounts, offset by lower mortgage banking income.

Non-interest Expense. The following table presents, for the periods indicated, the major categories of non-interest expense:

| (Dollars in thousands)                | Three Months Ended |                    | \$ Better / (Worse) | % Better / (Worse) |
|---------------------------------------|--------------------|--------------------|---------------------|--------------------|
|                                       | September 30, 2018 | September 30, 2017 |                     |                    |
| Salaries and employee benefits        | \$9,885            | \$ 8,813           | \$(1,072 )          | -12.2 %            |
| Occupancy, equipment and depreciation | 1,476              | 1,164              | (312 )              | -26.8 %            |
| Data processing                       | 890                | 650                | (240 )              | -36.9 %            |
| Marketing and advertising             | 342                | 343                | 1                   | 0.3 %              |
| FDIC premiums                         | 239                | 135                | (104 )              | -77.0 %            |
| Acquisition-related costs             | (118 )             | 484                | 602                 | 124.4 %            |
| Other                                 | 2,566              | 1,525              | (1,041 )            | -68.3 %            |
| Total non-interest expense            | \$15,280           | \$ 13,114          | \$(2,166 )          | -16.5 %            |

Non-interest expense was \$15.3 million for the three months ended September 30, 2018 compared with \$13.1 million for the same period of 2017. Non-interest expense for the three months ended September 30, 2018 increased as a

result of \$1.1 million of higher salaries and employee benefits, primarily from the addition of employees retained from the acquisition of the seven Utah branches of Banner Bank and the merger of Town & Country Bank, and \$0.3 million of higher occupancy, equipment and depreciation costs associated with the net increase of five branches from these transactions, and \$0.2 million in higher data processing costs associated with an increase in total accounts from both organic growth and acquisition transactions. The Company's efficiency ratio was 49.33% for the three months ended September 30, 2018 compared with 57.14% for the same period of 2017.

**Income Tax Expense.** We recorded income tax expense of \$3.3 million for the three months ended September 30, 2018 compared with \$2.7 million for the same period in 2017. The effective tax rate for the three months ended September 30, 2018 was 23.9% compared with 30.2% in the corresponding three months of 2017. The tax rate for the three months ended September 30, 2018 is lower than the same quarter in 2017 as a result of the reduction in the federal corporate tax rate to a flat rate of 21%, the reduction of the Utah state corporate tax rate to 4.95% as well as tax benefits related to tax-deductible stock compensation expense.

Financial Overview for the Nine Months Ended September 30, 2018 and 2017

| (Dollars in thousands)                              | Nine Months Ended  |                    |                     |                    |
|---|--------------------|--------------------|---------------------|--------------------|
|   | September 30, 2018 | September 30, 2017 | \$ Better / (Worse) | % Better / (Worse) |
| Interest income                                     | \$85,294           | \$ 58,937          | \$26,357            | 44.7 %             |
| Interest expense                                    | 5,190              | 2,269              | (2,921 )            | -128.7 %           |
| Net interest income                                 | 80,104             | 56,668             | 23,436              | 41.4 %             |
| Provision for loan losses                           | 5,450              | 2,000              | (3,450 )            | -172.5 %           |
| Net interest income after provision for loan losses | 74,654             | 54,668             | 19,986              | 36.6 %             |
| Non-interest income                                 | 11,578             | 10,469             | 1,109               | 10.6 %             |
| Non-interest expense                                | 47,151             | 36,863             | (10,288 )           | -27.9 %            |
| Income before income tax expense                    | 39,081             | 28,274             | 10,807              | 38.2 %             |
| Income tax expense                                  | 9,127              | 9,021              | (106 )              | -1.2 %             |
| Net income  | \$29,954           | \$ 19,253          | \$ 10,701           | 55.6 %             |

**Net Income.** Net income increased \$10.7 million to \$30.0 million for the nine months ended September 30, 2018, compared with \$19.3 million for the nine months ended September 30, 2017. This was primarily attributable to an increase in net interest income of \$23.4 million, and an increase in non-interest income of \$1.1 million, offset by an increase in non-interest expense of \$10.3 million, an increase in provision for loan losses of \$3.5 million, and an increase in income tax expense of \$0.1 million.

**Net Interest Income and Net Interest Margin.** The increase in net interest income for the nine months ended September 30, 2018 compared with the same period in 2017 was primarily driven by interest earned on a higher average loan volume attributable to both organic growth and our two acquisition transactions in 2017. Interest expense in the nine months ended September 30, 2018 increased from the same period in 2017 due to an increase in average short-term borrowings and deposits outstanding, and an increase in the cost of short-term borrowings and deposits.

The yield on our average interest earning assets was 5.58% for the nine months ended September 30, 2018 compared with 4.87% for the same period of 2017. The cost of total funding increased in the nine months ended September 30, 2018 to 0.37% from 0.21% in the comparable period in 2017.

**Provision for Loan Losses.** The provision for loan losses in each period is a charge against earnings in that period. The provision is that amount required to maintain the allowance for loan losses at a level that, in management's judgment, is adequate to absorb loan losses inherent in the loan portfolio.

Provision for loan losses was \$5.5 million for the nine months ended September 30, 2018 compared with \$2.0 million for the same period of 2017. The increase in provision for loan losses is due primarily to the increase in allowance for loan losses to loans held for investment, excluding specific reserves, offset by a \$0.3 million decrease in specific reserves on classified loans. The Company incurred net charge-offs of \$0.4 million in the nine months ended September 30, 2018 compared with net charge-offs of \$1.1 million in the comparable period in 2017.

**Non-interest Income.** The following table presents, for the periods indicated, the major categories of non-interest income:

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| (Dollars in thousands)                           | Nine Months Ended  |                    | \$ Better /<br>(Worse) | % Better /<br>(Worse) |
|--|--------------------|--------------------|------------------------|-----------------------|
|  | September 30, 2018 | September 30, 2017 |                        |                       |
| Mortgage banking                                 | \$4,811            | \$ 5,625           | \$ (814 )              | -14.5 %               |
| Card processing                                  | 2,347              | 1,991              | 356                    | 17.9 %                |
| Service charges on deposit accounts              | 2,114              | 1,750              | 364                    | 20.8 %                |
| Net gain (loss) on sale of investment securities | 336                | (499 )             | 835                    | 167.3 %               |
| Other  | 1,970              | 1,602              | 368                    | 23.0 %                |
| Total non-interest income                        | \$11,578           | \$ 10,469          | \$ 1,109               | 10.6 %                |

Noninterest income was \$11.6 million for the nine months ended September 30, 2018 compared with \$10.5 million the same period a year ago. The increase was primarily due to gain on sale of securities compared with a loss from the same period a year ago, an increase in card processing fees and service charges on deposit accounts, offset by lower mortgage banking income.

Non-interest Expense. The following table presents, for the periods indicated, the major categories of non-interest expense:

| (Dollars in thousands)                | Nine Months Ended  |                    | %                   |                  |
|---------------------------------------|--------------------|--------------------|---------------------|------------------|
|                                       | September 30, 2018 | September 30, 2017 | \$ Better / (Worse) | Better / (Worse) |
| Salaries and employee benefits        | \$30,504           | \$24,542           | \$(5,962)           | -24.3%           |
| Occupancy, equipment and depreciation | 4,430              | 3,369              | (1,061)             | -31.5%           |
| Data processing                       | 2,823              | 1,986              | (837)               | -42.1%           |
| Marketing and advertising             | 1,109              | 954                | (155)               | -16.2%           |
| FDIC premiums                         | 867                | 391                | (476)               | -121.7%          |
| Acquisition-related costs             | 232                | 660                | 428                 | 64.8%            |
| Other                                 | 7,186              | 4,961              | (2,225)             | -44.8%           |
| Total non-interest expense            | \$47,151           | \$36,863           | \$(10,288)          | -27.9%           |

Non-interest expense was \$47.2 million for the nine months ended September 30, 2018 compared with \$36.9 million for the same period of 2017. Non-interest expense for the nine months ended September 30, 2018 increased as a result of \$6.0 million of higher salaries and employee benefits primarily from the addition of employees retained from the acquisition of the seven Utah branches of Banner Bank and the merger of Town & Country Bank, and \$1.1 million of higher occupancy, equipment and depreciation costs associated with the net increase of five branches from these transactions, and \$0.8 million in higher data processing costs associated with an increase in total accounts from both organic growth and acquisition transactions. The Company's efficiency ratio was 51.43% for the nine months ended September 30, 2018 compared with 54.91% for the same period of 2017.

Income Tax Expense. We recorded an income tax expense of \$9.1 million for the nine months ended September 30, 2018 compared with \$9.0 million for the same period in 2017. The effective tax rate for the nine months ended September 30, 2018 was 23.4% compared with 31.9% in the corresponding nine months of 2017. The tax rate for the nine months ended September 30, 2018 is lower than the same period in 2017 as a result of the reduction in the federal corporate tax rate to a flat rate of 21%, the reduction of the Utah state corporate tax rate to 4.95% as well as tax benefits related to tax-deductible stock compensation expense.

#### Financial Condition

Total assets were \$2.21 billion at September 30, 2018, a 4.2% increase compared with December 31, 2017. Total loans held for investment were \$1.72 billion at September 30, 2018, an increase of 5.6% from December 31, 2017. Total deposits were \$1.87 billion at September 30, 2018, an increase of 3.2% compared with December 31, 2017.

Loans

The following table sets forth information regarding the composition of the loan portfolio at the end of each of the periods presented.

|                                      | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--------------------------------------|--------------------------|-------------------------|
| (Dollars in thousands)               |                          |                         |
| Loans held for sale                  | \$8,467                  | \$10,871                |
| Loans held for investment:           |                          |                         |
| Commercial real estate loans:        |                          |                         |
| Real estate term                     | \$856,247                | \$784,148               |
| Construction and land development    | 382,254                  | 369,590                 |
| Total commercial real estate loans   | 1,238,501                | 1,153,738               |
| Commercial and industrial loans      | 314,395                  | 294,085                 |
| Consumer loans:                      |                          |                         |
| Residential and home equity          | 153,406                  | 158,591                 |
| Consumer and other                   | 16,597                   | 25,591                  |
| Total consumer loans                 | 170,003                  | 184,182                 |
| Total gross loans                    | 1,722,899                | 1,632,005               |
| Net deferred loan fees               | (4,496 )                 | (4,561 )                |
| Total loans held for investment      | 1,718,403                | 1,627,444               |
| Allowance for loan losses            | (23,309 )                | (18,303 )               |
| Total loans held for investment, net | \$1,695,094              | \$1,609,141             |

|   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| (Percentage of total loans held for investment) |                          |                         |
| Loans held for investment:                      |                          |                         |
| Commercial real estate loans:                   |                          |                         |
| Real estate term                                | 49.7 %                   | 48.1 %                  |
| Construction and land development               | 22.2 %                   | 22.6 %                  |
| Total commercial real estate loans              | 71.9 %                   | 70.7 %                  |
| Commercial and industrial loans                 | 18.2 %                   | 18.0 %                  |
| Consumer loans:                                 |                          |                         |
| Residential and home equity                     | 8.9 %                    | 9.7 %                   |
| Consumer and other                              | 1.0 %                    | 1.6 %                   |
| Total consumer loans                            | 9.9 %                    | 11.3 %                  |
| Total loans held for investment                 | 100.0 %                  | 100.0 %                 |

We originate certain residential mortgage loans for sale to investors that are carried at cost. Due to the short period held, generally less than 90 days, we consider the carrying value of these loans held for sale to be the approximate fair value.

The following table shows the amounts of outstanding loans, which, based on remaining scheduled repayments of principal, were due in one year or less, more than one year through five years, and more than five years. Lines of credit or other loans having no stated maturity and no stated schedule of repayments are reported as due in one year or

less. In the table below, loans are classified as real estate related if they are collateralized by real estate. The tables also present, for loans with maturities over one year, an analysis with respect to fixed interest rate loans and adjustable interest rate loans.

35

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Contractual maturities at September 30, 2018 were as follows:

|                                       | Maturity               |                                 |                        | Total        | Rate Structure for<br>Loans Maturing Over<br>One Year |                    |
|---------------------------------------|------------------------|---------------------------------|------------------------|--------------|---|--------------------|
|                                       | One<br>Year<br>or Less | One<br>through<br>Five<br>Years | After<br>Five<br>Years |              | Fixed<br>Rate   | Adjustable<br>Rate |
| (Dollars in thousands)                |                        |                                 |                        |              |   |                    |
| Loans held for investment:            |                        |                                 |                        |              |   |                    |
| Commercial real estate loans:         |                        |                                 |                        |              |   |                    |
| Real estate term                      | \$ 112,491             | \$ 182,793                      | \$ 560,963             | \$ 856,247   | \$ 99,966   | \$ 643,790         |
| Construction and land development     | 311,276                | 39,799                          | 31,179                 | 382,254      | 16,629  | 54,349             |
| Total commercial real estate loans    | 423,767                | 222,592                         | 592,142                | 1,238,501    | 116,595   | 698,139            |
| Commercial and industrial loans       | 124,471                | 147,358                         | 42,566                 | 314,395      | 103,234   | 86,690             |
| Consumer loans:                       |                        |                                 |                        |              |   |                    |
| Residential and home equity           | 15,430                 | 34,643                          | 103,333                | 153,406      | 17,718  | 120,258            |
| Consumer and other                    | 6,770                  | 7,547                           | 2,280                  | 16,597       | 9,395   | 432                |
| Total consumer loans                  | 22,200                 | 42,190                          | 105,613                | 170,003      | 27,113  | 120,690            |
| Total gross loans held for investment | \$ 570,438             | (1) \$ 412,140                  | \$ 740,321             | \$ 1,722,899 | \$ 246,942  | \$ 905,519 (1)     |

(1) The sum of adjustable rate loans maturing after one year and total loans maturing within one year is \$1.5 billion or 85.7% of total loans at September 30, 2018.

Concentrations. As of September 30, 2018, in management's judgment, a concentration of loans existed in real estate related loans. At that date, real estate related loans comprised 80.8% of total loans held for investment, of which 49.7% are real estate term loans, 22.2% are construction and land development loans, and 8.9% are residential and home equity loans. We require collateral on real estate lending arrangements and typically maintain loan-to-value ratios of up to 80%, except for some residential construction loans of up to 95% loan-to-value provided the loan includes pre-approved long-term financing. Our concentration in commercial and industrial loans has increased to 18.2% at September 30, 2018 from 18.0% at December 31, 2017.

Non-Performing Assets. Loans are placed on non-accrual status when they become 90 days or more past due or at such earlier time as management determines timely recognition of interest to be in doubt. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, collection efforts, and the borrower's financial condition, that the borrower will be unable to make payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received, or payment is considered certain. Loans may be returned to accrual status when all delinquent interest and principal amounts contractually due are brought current and future payments are reasonably assured.

The following non-performing assets table summarizes the loans for which the accrual of interest has been discontinued and loans more than 90 days past due and still accruing interest, including those non-accrual loans that are troubled-debt restructured loans, and OREO:

| (Dollars in thousands)   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| <b>Non-accrual loans, not troubled-debt restructured</b>       |                          |                         |
| Real estate term   | \$ 310                   | \$ -                    |
| Construction and land development                              | 98                       | -                       |
| Commercial and industrial                                      | 1,455                    | 223                     |
| Residential and home equity                                    | -                        | -                       |
| Consumer and other   | 5                        | -                       |
| <b>Total non-accrual, not troubled-debt restructured loans</b> | <b>1,868</b>             | <b>223</b>              |
| <b>Troubled-debt restructured loans non-accrual</b>            |                          |                         |
| Real estate term   | 1,495                    | -                       |
| Construction and land development                              | -                        | -                       |
| Commercial and industrial                                      | 169                      | -                       |
| Residential and home equity                                    | -                        | -                       |
| Consumer and other   | -                        | -                       |
| <b>Total troubled-debt restructured, non-accrual loans</b>     | <b>1,664</b>             | <b>-</b>                |
| <b>Total non-accrual loans <sup>(1)</sup></b>                  | <b>3,532</b>             | <b>223</b>              |
| Accruing loans past due 90 days or more                        | 17                       | 1                       |
| <b>Total non-performing loans (NPL)</b>                        | <b>3,549</b>             | <b>224</b>              |
| <b>OREO</b>  | <b>2,985</b>             | <b>994</b>              |
| <b>Total non-performing assets (NPA) <sup>(2)</sup></b>        | <b>\$ 6,534</b>          | <b>\$ 1,218</b>         |
| <b>Accruing troubled debt restructured loans</b>               | <b>\$ 2,423</b>          | <b>\$ 3,307</b>         |
| <b>Non-accrual troubled debt restructured loans</b>            | <b>1,664</b>             | <b>-</b>                |
| <b>Total troubled debt restructured loans</b>                  | <b>\$ 4,087</b>          | <b>\$ 3,307</b>         |

<sup>(1)</sup>We estimate that approximately \$212,000 and \$185,000 of interest income would have been recognized on loans accounted for on a non-accrual basis for the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively, had such loans performed pursuant to contractual terms.

<sup>(2)</sup> Non-performing assets as of September 30, 2018 and December 31, 2017 have not been reduced by U.S. government guarantees of \$340,000 and \$16,000, respectively.

**Impaired Loans.** Impaired loans are loans for which it is probable that we will be unable to collect all principal and interest payments due according to the contractual terms of the loan agreement. We measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, if the loan is collateral-dependent.

In determining whether or not a loan is impaired, we consider payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Loans for which an insignificant shortfall in amount of payments is anticipated, but where we expect to collect all amounts due, are not considered impaired.

Troubled-debt Restructured Loans. A restructured loan is considered a troubled debt restructured loan, or TDR, if we, for economic or legal reasons related to the debtor's financial difficulties, grant a concession in terms or a below-market interest rate to the debtor that we would not otherwise consider. TDR loans were \$4.1 million and \$3.3 million at September 30, 2018 and December 31, 2017, respectively. Our TDR loans are considered impaired loans of which \$1.66 million at September 30, 2018, are designated as non-accrual. We had no non-accrual TDR loans at December 31, 2017.

Each restructured debt is separately negotiated with the borrower and includes terms and conditions that reflect the borrower's prospective ability to service the debt as modified.

OREO Properties. OREO represents real property taken either through foreclosure or through a deed in lieu thereof from the borrower. All OREO properties are recorded by us at amounts equal to or less than the fair market value of the properties based on current independent appraisals reduced by estimated selling costs. The following table provides a summary of the changes in the OREO balance:

|                              | Nine Months<br>Ended<br>September |             |
|------------------------------|-----------------------------------|-------------|
| (Dollars in thousands)       | 30,<br>2018                       | 30,<br>2017 |
| Balance, beginning of period | \$994                             | \$ 245      |
| Additions                    | 2,985                             | 425         |
| Write-downs                  | -                                 | (100 )      |
| Sales                        | (994 )                            | (245 )      |
| Balance, end of period       | \$2,985                           | \$ 325      |

#### Allowance for Loan Losses

We maintain an adequate allowance for loan losses, or ALLL, based on a comprehensive methodology that assesses the losses inherent in the loan portfolio. Our ALLL is based on a continuing review of loans which includes consideration of actual loss experience, changes in the size and character of the portfolio, identification of individual problem situations which may affect the borrower's ability to repay, evaluations of the prevailing and anticipated economic conditions, and other qualitative factors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Our ALLL is increased by charges to income and decreased by charge-offs (net of recoveries). While we use available information to recognize losses on loans, changes in economic conditions may necessitate revision of the estimate in future years.

The ALLL consists of specific and general components. The specific component relates to loans determined to be impaired that are individually evaluated for impairment. For impaired loans individually evaluated, an allowance is established when the discounted cash flows, or the fair value of the collateral if the loans are collateral-dependent, of the impaired loan are lower than the carrying value of the loan. The general component covers all loans not individually evaluated for impairment and is based on historical loss experience adjusted for qualitative factors. Various qualitative factors are considered including changes to underwriting policies, loan concentrations, volume and mix of loans, size and complexity of individual credits, locations of credits and new market areas, changes in local and national economic conditions, and trends in past due, non-accrual and classified loan balances.

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The following table sets forth the activity in our allowance for loan losses for the periods indicated:

| (Dollars in thousands)                                 | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| <b>Allowance for loan losses:</b>                      |                    |                    |                    |                    |
| Beginning balance                                      | \$22,308           | \$17,271           | \$18,303           | \$16,715           |
| <b>Loans charged off:</b>                              |                    |                    |                    |                    |
| Real estate term                                       | (294 )             | -                  | (294 )             | (350 )             |
| Construction and land development                      | -                  | -                  | -                  | -                  |
| Commercial and industrial                              | (945 )             | (621 )             | (1,235 )           | (893 )             |
| Residential and home equity                            | -                  | -                  | -                  | (338 )             |
| Consumer and other                                     | (105 )             | (46 )              | (277 )             | (159 )             |
| <b>Total charge-offs</b>                               | <b>(1,344 )</b>    | <b>(667 )</b>      | <b>(1,806 )</b>    | <b>(1,740 )</b>    |
| <b>Recoveries:</b>                                     |                    |                    |                    |                    |
| Real estate term                                       | 46                 | 23                 | 58                 | 204                |
| Construction and land development                      | 6                  | 2                  | 77                 | 81                 |
| Commercial and industrial                              | 312                | 46                 | 1,001              | 123                |
| Residential and home equity                            | 2                  | 7                  | 83                 | 147                |
| Consumer and other                                     | 54                 | 27                 | 143                | 79                 |
| <b>Total recoveries</b>                                | <b>420</b>         | <b>105</b>         | <b>1,362</b>       | <b>634</b>         |
| Net loan (charge-offs) recoveries                      | (924 )             | (562 )             | (444 )             | (1,106 )           |
| Provision for loan losses                              | 1,925              | 900                | 5,450              | 2,000              |
| <b>Ending balance</b>                                  | <b>\$23,309</b>    | <b>\$17,609</b>    | <b>\$23,309</b>    | <b>\$17,609</b>    |
| Loans held for investment                              | \$1,718,403        | \$1,215,573        | \$1,718,403        | \$1,215,573        |
| Average loans  | 1,718,703          | 1,217,203          | 1,698,361          | 1,177,063          |
| <b>Selected ratios:</b>                                |                    |                    |                    |                    |
| Net loan charge-offs (recoveries) to average loans     | 0.21               | % 0.18             | % 0.03             | % 0.13             |
| Provision for loan losses to average loans             | 0.44               | % 0.29             | % 0.43             | % 0.23             |
| Allowance for loan losses to loans held for investment | 1.36               | % 1.45             | % 1.36             | % 1.45             |

The allowance for loan losses to loans held for investment was 1.36% at September 30, 2018 compared with 1.45% at September 30, 2017. In accordance with acquisition accounting, loans acquired from the Utah branches of Banner Bank and Town & Country Bank were recorded at their estimated fair value, which resulted in a net discount to the loans' contractual amounts, a portion of which reflects a discount for possible credit losses. Credit discounts are included in the determination of fair value, and as a result, no allowance for loan and lease losses is recorded for acquired loans at the acquisition date. The discount recorded on the acquired loans is not reflected in the allowance for loan losses or related allowance coverage ratios. Remaining discounts on acquired loans were \$9.5 million at September 30, 2018. The allowance for loan losses is also adjusted based on changes to the underlying loan portfolio, changes to our historical loss rates, and adjustments to qualitative ALLL factors due to changes in current conditions.

Our construction and land development portfolio reflects borrower concentration risk, and also carries the enhanced risks encountered with construction loans generally. Construction and land development loans are generally more risky than permanent mortgage loans because they are dependent upon the borrower's ability to generate cash to

service the loan, and the value of the collateral depends on project completion when market conditions may have changed. Our commercial real estate loans are a mixture of new and seasoned properties, retail, office, warehouse, and some industrial properties. Loans on properties are usually underwritten at a loan to value ratio of up to 75% with a minimum debt coverage ratio of 1.25 times.

We allocate our allowance for loan losses by assigning general percentages to our major loan categories (construction and land development, commercial real estate term, residential real estate, C&I and consumer), assigning specific percentages to each category of loans graded in accordance with the guidelines established by our regulatory agencies, and making specific allocations to impaired loans when factors are present requiring a greater reserve than would be required using the assigned risk rating allocation, which is typically based on a review of appraisals or other collateral analysis.

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The following table indicates management's allocation of the ALLL in each category to total loans as of each of the following dates:

| (Dollars in thousands)             | September<br>30,<br>2018 | December<br>31,<br>2017 |
|------------------------------------|--------------------------|-------------------------|
| Commercial real estate loans:      |                          |                         |
| Real estate term                   | \$ 9,249                 | \$ 6,706                |
| Construction and land development  | 7,687                    | 6,309                   |
| Total commercial real estate loans | 16,936                   | 13,015                  |
| Commercial and industrial loans    | 5,602                    | 4,314                   |
| Consumer loans:                    |                          |                         |
| Residential and home equity        | 675                      | 815                     |
| Consumer and other                 | 96                       | 159                     |
| Total consumer loans               | 771                      | 974                     |
| Total                              | \$ 23,309                | \$ 18,303               |

### Investments

Investment securities were \$322.2 million at September 30, 2018 and \$337.7 million at December 31, 2017. Our portfolio of investment securities is comprised of both available-for-sale securities and securities that we intend to hold to maturity. At September 30, 2018, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

The carrying value of our portfolio of investment securities was as follows:

| (Dollars in thousands)                        | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| Available-for-sale securities: (Fair Value)   |                          |                         |
| U.S. Government agencies                      | \$ 47,975                | \$ 48,504               |
| Municipal securities                          | 11,302                   | 13,454                  |
| Mortgage-backed securities                    | 190,968                  | 195,262                 |
| Corporate securities                          | 4,776                    | 5,836                   |
| Total   | 255,021                  | 263,056                 |
| Held-to-maturity securities: (Amortized Cost) |                          |                         |
| Municipal securities                          | 67,148                   | 74,654                  |
| Total investment securities                   | \$ 322,169               | \$ 337,710              |

The following table shows the amortized cost for maturities of investment securities and the weighted average yields of such securities, including the benefit of tax-exempt securities:

Investment securities maturities as of September 30, 2018:

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| (Dollars in thousands)         | Within One Year |        | After One but within Five Years |        | After Five but within Ten Years |        | After Ten Years |        | Total     |        |
|--------------------------------|-----------------|--------|---------------------------------|--------|---------------------------------|--------|-----------------|--------|-----------|--------|
|                                | Amount          | Yield  | Amount                          | Yield  | Amount                          | Yield  | Amount          | Yield  | Amount    | Yield  |
| Available-for-sale securities: |                 |        |                                 |        |                                 |        |                 |        |           |        |
| U.S. Government agencies       | \$10,999        | 1.15 % | \$37,955                        | 1.74 % | \$-                             | 0.00 % | \$-             | 0.00 % | \$48,954  | 1.61 % |
| Municipal securities           | 2,315           | 3.54 % | 5,173                           | 2.85 % | 3,853                           | 2.14 % | -               | 0.00 % | 11,341    | 2.75 % |
| Mortgage-backed securities     | -               | 0.00 % | 19,863                          | 1.42 % | 42,514                          | 1.75 % | 135,101         | 2.42 % | 197,478   | 2.17 % |
| Other securities               | -               | 0.00 % | 2,000                           | 3.34 % | 3,000                           | 2.65 % | -               | 0.00 % | 5,000     | 2.92 % |
| Total                          | 13,314          | 1.57 % | 64,991                          | 1.78 % | 49,367                          | 1.83 % | 135,101         | 2.42 % | 262,773   | 2.11 % |
| Held-to-maturity securities:   |                 |        |                                 |        |                                 |        |                 |        |           |        |
| Municipal securities           | 9,876           | 1.40 % | 37,334                          | 1.69 % | 14,859                          | 1.98 % | 5,079           | 2.45 % | 67,148    | 1.77 % |
| Total investment securities    | \$23,190        | 1.50 % | \$102,325                       | 1.75 % | \$64,226                        | 1.87 % | \$140,180       | 2.42 % | \$329,921 | 2.04 % |

40



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

We evaluate securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

## Deposits

Total deposits were \$1.87 billion at September 30, 2018 and \$1.81 billion at December 31, 2017. The increase in total deposits is attributed primarily to organic growth as a result of enhanced deposit pricing. Non-interest bearing demand deposits were \$677.4 million, or 36.2% of total deposits at September 30, 2018 compared with \$641.1 million, or 35.3% of total deposits at December 31, 2017. Interest bearing deposits are comprised of interest bearing DDA accounts, money market accounts, regular savings accounts, certificates of deposit of under \$250,000, and certificates of deposit of \$250,000 or more.

The following table shows the average amount and average rate paid on the categories of deposits for each of the periods presented:

| (Dollars in thousands)  | Nine Months Ended<br>September 30, 2018 |                 |   | Nine Months Ended<br>September 30, 2017 |                 |   |
|---|---|-----------------|---|---|-----------------|---|
|   | Average<br>Balance                      | Average<br>Rate | % | Average<br>Balance                      | Average<br>Rate | % |
| Non-interest bearing deposits                                 | \$646,419                               | 0.00            | % | \$460,674                               | 0.00            | % |
| Interest bearing deposits:                                    |   |                 |   |   |                 |   |
| Interest bearing demand and savings                           | 732,912                                 | 0.26            | % | 664,664                                 | 0.27            | % |
| Money market  | 223,193                                 | 0.31            | % | 169,752                                 | 0.21            | % |
| Certificates of deposit less than \$250,000                   | 153,312                                 | 0.90            | % | 126,648                                 | 0.46            | % |
| Certificates of deposit greater than or<br>equal to \$250,000 | 35,821                                  | 1.46            | % | 25,461                                  | 1.06            | % |
| Total interest bearing deposits                               | 1,145,238                               | 0.39            | % | 986,525                                 | 0.30            | % |
| Total   | \$1,791,657                             | 0.25            | % | \$1,447,199                             | 0.21            | % |

Additionally, the following table shows the maturities of CDs of \$250,000 or more:

| (Dollars in thousands)                       | September<br>30,<br>2018 |
|--|--------------------------|
| Due in three months or less                  | \$ -                     |
| Due in over three months through six months  | 4,518                    |
| Due in over six months through twelve months | 4,110                    |

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|                           |           |
|---------------------------|-----------|
| Due in over twelve months | 27,191    |
| Total                     | \$ 35,819 |

Deposits are gathered from individuals, partnerships and corporations in our market areas. The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. We expect that deposit cost will continue to increase in future quarters.

#### Shareholders' Equity

Shareholders' equity totaled \$279.6 million at September 30, 2018, an increase of \$22.2 million or 8.6% since December 31, 2017. The increase in shareholders' equity for the nine months ended September 30, 2018 was primarily due to an increase of \$1.6 million in additional paid in capital from exercises of stock options, share-based compensation, and net income of \$30.0 million for the period less dividends paid of \$5.6 million.

Dividends of \$0.30 per share were declared during the nine months ended September 30, 2018 representing 18.7% of the net income for the same period. We announced a quarterly dividend of \$0.11 per share on October 24, 2018, payable on November 13, 2018 for shareholders' of record on November 6, 2018. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions, and regulatory considerations.

### Capital Resources

We are subject to risk-based capital adequacy guidelines related to the adoption of U.S. Basel III Capital Rules. Specifically, the rules impose, among other requirements, new minimum capital requirements including a Tier 1 leverage capital ratio of 4.0%, a common equity Tier 1 risk-based capital ratio of 4.5%, a Tier 1 risk-based capital ratio of 6% and a total risk-based capital ratio of 8%.

The following table sets forth our capital ratios.

|                               | Basel III<br>Regulatory<br>Requirements -<br>Well<br>Capitalized<br>(Greater than<br>or<br>Equal to Stated<br>Percentage) |   | PUB<br>Actual as<br>of<br>September<br>30,<br>2018 | Actual as of<br>December 31,<br>2017 | Actual as of<br>September<br>30,<br>2017 |
|-------------------------------|---|---|--|--------------------------------------|--|
| Common equity tier 1 capital  | 6.50  | % | 14.21 %  | 13.51 %                              | 19.07 %                                  |
| Tier 1 risk-based capital     | 8.00  | % | 14.21 %  | 13.51 %                              | 19.07 %                                  |
| Total risk-based capital      | 10.00   | % | 15.46 %  | 14.67 %                              | 20.35 %                                  |
| Tier 1 leverage capital ratio | 5.00  | % | 11.90 %  | 11.46 %                              | 14.07 %                                  |

PUB and the Bank were well-capitalized at September 30, 2018, December 31, 2017 and September 30, 2017 for federal regulatory purposes.

### Off-Balance Sheet Arrangements

The following table sets forth our off-balance sheet lending commitments as of September 30, 2018:

|  | Total<br>Amounts<br>Committed | Payments Due by Period |                          |                           |                        |
|--|-------------------------------|------------------------|--------------------------|---------------------------|------------------------|
|  |                               | Less than<br>One Year  | One to<br>Three<br>Years | Three to<br>Five<br>Years | After<br>Five<br>Years |
| Other Commitments (Dollars in thousands) |                               |                        |                          |                           |                        |
| Commitments to extend credit             | \$ 582,174                    | \$ 364,032             | \$ 118,305               | \$ 17,759                 | \$ 82,078              |

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|                           |            |            |            |           |           |
|---------------------------|------------|------------|------------|-----------|-----------|
| Standby letters of credit | 26,013     | 26,013     | -          | -         | -         |
| Credit cards              | 25,096     | 25,096     | -          | -         | -         |
| Total                     | \$ 633,283 | \$ 415,141 | \$ 118,305 | \$ 17,759 | \$ 82,078 |

Contractual Obligations

The following table sets forth our significant contractual obligations as of September 30, 2018:

| Contractual Obligations (Dollars in thousands) | Total        | Payments Due by Period |                          |                           |                        |
|--|--------------|------------------------|--------------------------|---------------------------|------------------------|
|  |              | Less than<br>One Year  | One to<br>Three<br>Years | Three to<br>Five<br>Years | After<br>Five<br>Years |
| Time certificates of deposit                   | \$ 181,417   | \$ 93,626              | \$ 47,184                | \$ 34,997                 | \$ 5,610               |
| Deposits without stated maturity               | 1,690,515    | 1,690,515              | -                        | -                         | -                      |
| Short-term borrowings                          | 42,000       | 42,000                 | -                        | -                         | -                      |
| Total  | \$ 1,913,932 | \$ 1,826,141           | \$ 47,184                | \$ 34,997                 | \$ 5,610               |

42

## Liquidity

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash borrowing lines, federal funds and available-for-sale securities, is a result of our operating, investing and financing activities and related cash flows. In order to ensure funds are available at all times, we devote resources to projecting on a monthly basis the amount of funds that will be required and we maintain relationships with a diversified customer base so funds are accessible. Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets. We have borrowing lines at a correspondent bank totaling \$25.0 million. We also have a current borrowing line with the FHLB, totaling \$522.0 million at September 30, 2018, which is secured by various real estate loans pledged as collateral totaling \$621.7 million and investment securities of \$138.5 million. Additionally, we have a borrowing line with the Federal Reserve Bank of \$24.0 million, which is secured by \$24.9 million of investment securities.

We believe our liquid assets are adequate to meet our cash flow needs for loan funding and deposit cash withdrawal for the next 60 to 90 days. At September 30, 2018, we had approximately \$142.3 million in net liquid assets comprised of \$54.9 million in cash and cash equivalents, including interest bearing deposits of \$23.0 million and federal funds sold of \$4.7 million, \$255.0 million in available-for-sale investment securities and \$8.5 million in loans held for sale, less \$176.1 million of available-for-sale securities pledged as collateral for short-term borrowings.

On a long-term basis, our liquidity will be met by changing the relative distribution of our asset portfolios by reducing our investment or loan volumes, or selling or encumbering assets. Further, we will increase liquidity by soliciting higher levels of deposit accounts through promotional activities and/or borrowing from our correspondent banks as well as the FHLB. At the current time, our long-term liquidity needs primarily relate to funds required to support loan originations and commitments, deposit withdrawals and pending acquisitions. All of these needs can currently be met by cash flows from investment payments and maturities, and investment sales if the need arises.

Our liquidity is comprised of three primary classifications: cash flows from or used in operating activities; cash flows from or used in investing activities; and cash flows from or used in financing activities.

Net cash provided by or used in operating activities has consisted primarily of net income adjusted for certain non-cash income and expense items such as the loan loss provision, depreciation and amortization, amortization of investment discount and premiums, share based compensation, changes in the value of bank owned life insurance and other gains and losses.

Our primary investing activities are the origination of real estate, commercial and consumer loans and purchases and sales of investment securities. At September 30, 2018, we had outstanding loan commitments of \$582.2 million, credit card commitments of \$25.1 million and outstanding letters of credit of \$26.0 million. We anticipate that we will have sufficient funds available to meet current loan commitments.

Net cash provided from financing activities for the nine months ended September 30, 2018 was \$54.6 million, principally from increases in short-term borrowings offset by a decrease in deposit balances and dividends paid to shareholders during the period.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's assessment of market risk at September 30, 2018 indicates there have been no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as required by Exchange Act Rules 240.13a-15(b) and 15d-14(a)) at September 30, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

##### Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the nine months ended September 30, 2018, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit

Number Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002
- 101 The following financial information from People's Utah Bancorp Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 is formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Income, (iii) the Unaudited Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 9, 2018

PEOPLE'S UTAH BANCORP

/s/ Len E. Williams  
Len E. Williams  
President and Chief Executive Officer

(Principal Executive Officer)

/s/ Mark K. Olson  
Mark K. Olson  
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)