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People's Utah Bancorp  
Form 10-K  
March 15, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

OR

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	87-0622021
( State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
1 East Main Street	

American Fork, UT	84003
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (801) 642-3998

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Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value \$0.01 Per Share; Common stock traded on the NASDAQ stock market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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 every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark 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 check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on June 30, 2018, was \$553,024,809.

The number of shares of Registrant's Common Stock outstanding as of February 28, 2019 was 18,795,044.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 22, 2019, are incorporated by reference into Part III of this Report.



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## PART I

### Item 1. Business

#### Organizational Structure

People's Utah Bancorp ("PUB" or the "Company") is a Utah registered bank holding company organized in 1998. As a Utah registered bank holding company, PUB is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System and by the Utah Department of Financial Institutions ("UDFI"). 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 subject to primary regulation, supervision and examination by the Federal Deposit Insurance Corporation ("FDIC") and by the UDFI.

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; and a mortgage division, People's Intermountain Bank Mortgage.

#### Market Area

Most of the major business and economic activity in Utah is located in the counties where our Bank branches are located. Over 75% of Utah's population is concentrated along Interstate 15, specifically within Davis, Weber, Salt Lake and Utah Counties. The next largest population centers in the state are in Washington and Cache Counties. These six counties make up approximately 85% of Utah's population. Utah has grown considerably over the past several years and provides several other benefits to the Company:

- Utah is ranked first in the Nation for economic outlook from ALEC-Laffer State Economic Competitiveness Index, 2018;
- According to the 2019 Economic Report to the Governor (Utah), Utah is ranked first in the Nation for economic diversity;
- Utah ranked first in the Nation for personal income growth between July 2017, and June 2018, according to the Pew Charitable Trust in July 2018;
- According to a U.S. Census Bureau report in May 2018, Utah is the fastest growing State in terms of housing units;
- According to CNBC, Utah has ranked in the top 10 States for Business since 2007; and
- Utah is one of the fastest growing states in the United States in terms of population, ranking third in percentage growth according to the U.S. Census Bureau for the period between July 1, 2017 and July 1, 2018.

We have successfully executed our growth initiatives to-date through organic growth and strategic merger and acquisition opportunities. In 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 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 operate these acquired branches under the name of Bank of American Fork, a division of PIB.

In 2017, we also 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. We operate this branch under the name of People's Town & Country Bank, a division of PIB.



## Competition

The banking and financial services business in our market areas is highly competitive. We compete for loans, deposits and customers with other commercial banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other non-bank financial services providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than we can offer.

The competition for deposit and loan products is strong and directly affects the pricing of those products and the terms we offer to our customers. Price competition for deposits may adversely affect our ability to generate low-cost core deposits in our primary markets sufficient to fund our asset growth. As a result, we may seek alternative funding through borrowings and we may need to price our deposit products more aggressively, which would result in an increase in our costs of funding and a reduction in our net interest margin. Both our deposit base and overall market share have increased. However, several larger banks have also grown their respective deposit market share in our markets. We believe aggressive marketing and advertising, branch expansion, expanded delivery channels, and more attractive rates offered by larger bank competitors have allowed larger banks to continue to increase their overall market share. Technological innovation has also contributed to greater competition in the overall financial services sector.

The market share of PUB and our largest competitors in Utah as of June 30, 2018, ranked by deposit market share, as reported by S&P Global Market Intelligence is as follows:

Largest Competitor	Number of Branches	Deposit Market Share
Zions Bancorp.	98	28.20 %
JPMorgan Chase & Co.	51	23.10 %
Wells Fargo & Co.	104	20.70 %
KeyCorp	32	6.90 %
U.S Bancorp	68	4.30 %
People's Utah Bancorp	25	2.90 %
BOU Bancorp	17	2.00 %
Cache Valley Banking Co.	15	1.70 %

## Our Business Activities

We believe that in order to be competitive with larger financial institutions it is imperative that we provide superior customer service. Key elements to superior customer service include having seasoned relationship managers who understand our customers' financial needs, provide direct access to decision makers, offer the products and services our customers want, give unparalleled responsiveness to our customers' needs, and offer technology solutions that make it easier for our customers to transact with us.

We provide banking services to small to medium sized businesses and individuals in our primary markets including Utah, Salt Lake, Davis, Cache, and Washington Counties. Our business customers are involved in a variety of industries including residential and commercial construction and development, manufacturing, distribution and other services. We also provide a broad range of banking services and products to individuals, including residential

mortgage lending, personal checking and savings accounts and other consumer banking products, including electronic banking.

#### Lending

We offer a variety of lending products including commercial real estate, construction and development, commercial and industrial (“C&I”), multifamily residential, single family residential, home equity lines, equipment finance, and other consumer loans. We have established portfolio thresholds for each of our lending categories and regularly monitor and evaluate the diversification of our portfolio. From time to time, we purchase and sell non-consumer loan participations to or from other banks. Loan participations purchased by us have been underwritten using our standard and customary underwriting criteria.



Our customers are generally comprised of the following groups:

- Real estate developers and contractors in need of land, construction and permanent financing for commercial and residential developments;
- Small to medium sized businesses in need of secured and unsecured lines of credit through SBA financing or conventional C&I term loans and lines of credit, equipment financing, or owner occupied commercial real estate loans;
- Individuals in need of residential mortgage and consumer loan products; and
- Professionals and professional firms, such as medical, architectural, engineering, and insurance and financial firms, in need of operating facilities.

#### Real Estate

We are focused on commercial and residential real estate lending throughout a project's life-cycle, including acquisition and development loans, construction loans, and permanent, long-term mortgage financing.

**Construction, Acquisition and Development Loans.** Our construction loan portfolio consists of single-family residential properties, multifamily properties and commercial projects. Construction lending entails significant additional risks compared with residential mortgage lending. Construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Construction loans also involve additional risks since funds are advanced while the property is under construction, and has uncertain value prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and whether related loan-to-value ratios will be sufficient to compensate for fluctuations in the real estate market to minimize the risk of loss. Maturities for construction loans generally range from six to 12 months for residential property and from 12 to 18 months for commercial and multifamily properties.

Our development loans are secured by the properties being platted and developed. Lending on raw land carries a significant risk of a change in market conditions during the development process. Our borrowers' projects generally range from small plats of two to six lots to subdivisions with up to 40 lots. We occasionally consider development loans for larger projects. During the development process, we fund costs for site clearing, grading, and infrastructure, including utilities and roads. Lot release minimum prices are agreed upon at loan closing. Repayment of the development loan is generally structured to require net sale proceeds from lot sales or a minimum of 125% of the bank's per-lot exposure. We target most development loans to be paid off at no more than 80% of total development sales. Loan-to-value ratios on development loans typically range from 55% to 70%, depending on the financial strength and experience of the developer. Most development loans have maturities of 12 to 24 months.

**Commercial Real Estate Loans.** We also originate mortgages for commercial real estate properties. These loans are primarily secured by commercial real estate, including office, retail, warehouse, industrial, and other non-residential properties. The majority of these loans have maturities generally ranging from three to 10 years.

Commercial real estate lending entails significant additional risk compared with the residential mortgage lending. Commercial mortgage loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the repayment of loans secured by income-producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent than is the case with residential mortgage loans, to adverse conditions in the commercial real estate market or in the general economy. Our commercial real estate loan underwriting criteria requires an examination of debt service coverage ratios, the borrowers' creditworthiness and prior credit history and reputation, and we generally require personal guarantees or endorsements with respect to these loans. In the loan underwriting process, we also carefully consider the location of the property serving as collateral, as well as the tenants occupying the property.



Loan-to-value ratios for non-owner occupied commercial mortgage loans generally do not exceed 75%. We permit loan-to-value ratios of up to 75% if the property is owner-occupied and the borrower has strong liquidity, net worth, and cash flow. We have been active in both the construction lending and permanent financing of our commercial real estate portfolio. Construction and raw land loans are short-term in nature and generally do not exceed 18 months. Permanent commitments are primarily restricted to no greater than 10 year maturities with rate adjustment periods every three to five years when fixed commitments exist.

**Residential Mortgage Loans.** Our residential mortgage loans consist of residential first and second mortgage loans, residential construction loans and home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers. Second mortgage loans and home equity lines of credit are used for home improvements, education and other personal expenditures. We make mortgage loans with a variety of terms, including fixed, floating and variable interest rates and a variety of loan maturities. We sell substantially all of the first lien residential mortgage loans that we originate to larger financial institutions. We provide loan servicing for Fannie Mae and Freddie Mac mortgage loans.

Residential mortgage loans generally are made on the basis of the borrowers' ability to repay the loan from the borrower's salary and other income and are secured by residential real estate, the value of which is generally readily ascertainable. These loans are made consistent with our appraisal and real estate lending policies, which detail maximum loan-to-value ratios and maturities. Home equity lines of credit secured by owner-occupied property generally are made with a loan-to-value ratio of up to 80%, including the first mortgage, if applicable.

#### Commercial and Industrial:

**Commercial and Industrial Loans.** We make C&I loans to qualified businesses in our market area. Our commercial lending portfolio consists primarily of C&I loans for the financing of accounts receivable, inventory, property, plant and equipment. We also offer loans guaranteed by the SBA.

C&I loans typically are made on the basis of the borrower's ability to repay the loan from the cash flow from its business and are secured by business assets with less easily determinable or achievable value, such as accounts receivable, equipment and inventory. Lines of credit typically have a 12 month commitment with a variable rate and are secured by the asset that is being financed. In cases of larger commitments, a borrowing base certificate is required to determine eligible collateral and advance parameters. Term loans seldom exceed 84 months, but in no case exceed the depreciable life of the tangible asset being financed. C&I loans generally include personal guarantees as additional support.

To manage these risks, our policy is to secure commercial loans with both the assets of the borrowing business and other collateral and guarantees that may be available. In addition, we actively monitor certain measures of the borrower, including advance rate, cash flow, leverage, collateral value and other appropriate credit factors.

#### Consumer Loans

**Consumer Loans.** Our consumer loans consist primarily of installment loans made to individuals for personal, family and household purposes. The specific types of consumer loans we make include home equity loans, home improvement loans, automobile loans, debt consolidation loans and general consumer lending.

Consumer loans may entail greater risk than real estate loans, particularly in the case of consumer loans that are unsecured, such as lines of credit, or secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining

deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. A loan may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loan, such as a bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral.

Our policy for consumer loans is to accept moderate risk while minimizing losses, primarily through a careful credit and financial analysis of the borrower. In evaluating consumer loans, we require our lending officers to review the borrower's level and stability of income, past credit history, amount of debt currently outstanding and the impact of these factors on the ability of the borrower to repay the loan in a timely manner. In addition, we require our banking officers to maintain an appropriate margin between the loan amount and collateral value.

We also issue credit cards to certain customers. In determining to whom we will issue credit cards, we evaluate the borrower's level and stability of income, past credit history and other factors. Finally, we make additional loans that are not classified in one of the above categories. In making such loans, we attempt to ensure that the borrower meets our loan underwriting standards.

#### SBA Loans

We have been an SBA Preferred Lender since 2002. As a Preferred Lender, we can approve a loan within the authority delegated to us by the SBA and are not required to go through the SBA directly on a per loan basis.

SBA loans fall into two categories (i) loans originated under the SBA's 7(a) Program, or SBA 7(a) Loans, and (ii) loans originated under the SBA's 504 Program or SBA 504 Loans. Through SBA 7(a) Loans, funds can be utilized to purchase or construct real property; however, we primarily use the 7(a) Program for working capital, inventory, or equipment loans, which are included in our C&I loans. SBA 504 loans typically do not have an SBA guaranty, but rather, a low 50% loan to value ratio due to the assistance of the 504 program. SBA 504 loans are generally classified as commercial real estate, however, on occasion, a 504 loan will be used to finance long lived equipment. Our SBA lending program, and portions of our real estate lending, are dependent on the continual funding and programs of certain federal agencies or quasi-government corporations, including the SBA.

#### Loan Underwriting and Credit Policies

Our Credit Department establishes our lending policies, which are approved by the Board of Directors. These lending policies are reviewed at least annually and evaluated from time to time by senior lending management. Key elements of our current policies are debt service coverage, balance sheet analysis, monitoring concentration levels and maintaining strict approval and underwriting procedures.

**Debt Service Coverage.** Our risk management philosophy is to extend credit only when an applicant has proven cash flow to service the proposed debt. Additionally, it is generally necessary for the applicant to demonstrate an independent secondary source of repayment.

**Balance Sheet Analysis.** Additional repayment support, such as liquidity, working capital, and sufficient equity is found on the balance sheet. For this reason, the balance sheets of our borrowers are analyzed in the underwriting process.

**Monitor Concentration Levels.** We have established maximum concentrations for each loan type and regularly monitor and evaluate the diversification of our loan portfolio. We have significant concentration in real estate loans.

**Loans to One Borrower.** In addition to the maximum concentration for loan types, state banking law generally limits the aggregate extensions of credit that a bank may make to a single borrower. Under Utah law, the aggregate extensions of credit that a bank may make to a single borrower generally may not exceed 15% of the bank's Tier 1 capital.

Approval and Underwriting Procedures. All loan requests must be approved under specified approval guidelines. Credit approval authority has four levels, as listed below from lowest to highest level. Management believes the current authority levels are appropriate to ensure overall credit quality, while ensuring we are able to respond in a timely manner to lending opportunities. Any conditions placed on loans in the approval process must be satisfied before our credit administration will release loan documentation for execution. Our credit administration works independently of loan production and has full responsibility for all loan disbursements.

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Bank Lending Authorities:

**Individual Authorities** — Branch Managers typically have credit approval authority to loan up to \$350,000 for secured loans provided there are no exceptions to loan policy. Within this authority, there are typically sub-limits for unsecured loans, equipment secured, accounts receivable and inventory secured loans, and other types of loans.

**PIB Regional Loan Committee** — The PIB Regional Loan Committee meets as needed, and consists of Senior Vice President — Regional Managers, and is chaired by a Senior Credit Administration Officer. The committee has credit approval authority to approve real estate secured loans up to \$4.0 million, Accounts Receivable & Inventory secured loans up to \$2.5 million, and unsecured loans up to \$500,000.

**PIB Loan Committee** — The PIB Loan Committee generally meets twice a week; and consists of the Chief Credit Officer, Chief Executive Officer, Chief Lending Officer, a Senior Credit Administration Officer, and the President/Chief Operations Officer. This committee has unlimited credit approval authority for secured loans and unsecured loans, subject to ratification by the Board Loan Committee for real estate secured loan total aggregate debt relationships over \$9.0 million and non-real estate secured loan total aggregate debt relationships over \$6.5 million. If a credit decision requires immediate attention, a Senior Committee (consisting of a quorum of three members of either the PIB Regional or PIB Loan Committee, with a minimum of one being from the PIB Loan Committee) has the same approval authority as the PIB Loan Committee.

**Board Loan Committee** — The Board Loan Committee is comprised of six directors, with five committee members required for a quorum. All real estate secured loans and/or aggregate real estate loan secured relationships of \$9.0 million and above or total aggregate non-real estate secured debt relationships exceeding \$6.5 million require the approval of this committee. The committee meets weekly to approve loans approved by the PIB Loan Committee. This committee has approval authority up to our legal lending limit, which was approximately \$47.7 million as of December 31, 2018.

**Loan Grading and Loan Review.** We seek to quantify the risk in our lending portfolio by maintaining a loan grading system consisting of nine different categories (Grades 1-9). The grading system is used to determine, in part, the provision for loan losses. The first five grades in the system are considered satisfactory. The other four grades range from a “Special Mention” category to a “Loss” category.

The originating loan officer initially assigns a grade to each credit as part of the loan approval process. Such grade may be changed as a loan application moves through the approval process. In addition to any dollar limitations that may require higher credit approval authority, each loan that is graded “Substandard” or worse requires prior approval of the Bank’s senior lending officers.

The grade on each individual loan is subject to review from time to time, and may be changed if warranted. The Bank’s senior lending officers monthly review a “Watch List” of loans that are over 60 days past due or graded 6 or higher. Additionally, changes in the grade for a loan may occur through any of the following means:

- review of loans on the monthly Watch List;
- specific changes in loan grades by the loan officer, upon receiving new information that adversely impacts the borrower’s credit standing or other perceived credit risks;
- random reviews of the loan portfolio conducted by senior lending officers;
- loan reviews conducted by an outside loan reviewer and the internal loan reviewer;
- bank regulatory examinations; and
- monthly action plans submitted to the Chief Credit Officer by the responsible lending officers for each credit on the Watch List.

**Special Mention** — Generally acceptable asset quality, but frequent and thorough monitoring is required as temporary credit weaknesses may extend beyond financial into managerial and demographic issues. Borrowers may have strained cash flow and less than anticipated performance. Borrowers may have possible management weaknesses, perhaps demonstrated by an irregular flow of adequate or timely performance information required to support the credit. Borrowers may have a plausible plan to correct problems in the near future without material uncertainties. Borrowers may lack reserve capacity, so their risk rating will generally either improve or decline in a relatively short time frame since results of corrective actions should be apparent within six months or less. These loans exhibit an increasing reliance on collateral for repayment.

**Loan Delinquencies.** When a borrower fails to make a committed payment, we attempt to cure the deficiency by contacting the borrower to seek payment. Habitual delinquencies and loans delinquent 60 days or more are reviewed by the Chief Credit Officer regularly for possible changes in grading. Our Special Asset Committee meets quarterly to review classified assets. The Special Asset Committee is comprised of executive officers of the Bank.

**Classified Assets.** Federal regulations require that each insured bank classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, examiners have authority to identify problem assets, and, if appropriate, reclassify them.

**Substandard** — Unacceptable business credit; asset is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Though no loss is envisioned, the outlook is sufficiently uncertain to preclude ruling out the possibility; some liquidation of assets may be necessary as a corrective measure. Assets in this category may demonstrate performance problems such as cash flow deterioration trends including current or long-term debt service deficiencies with no immediate relief; borrower's inability to adjust to prolonged and unfavorable industry or economic trends; management character and/or effectiveness have become suspect.

**Doubtful** — Undesirable credit with loss potential. An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. At the point where a loss is identified, all or that portion deemed a loss is immediately classified as "Loss" and charged off.

**Loss** — Total loss is expected. An uncollectible asset or one of such little value that it does not warrant classification as an active, earning asset. Such an asset may, however, have recovery or salvage value, but not to the point of deferring full write-off, even though some recovery may occur in the future. Our policy is to charge off such assets as a loss during the accounting period in which they were identified. These assets have been determined to have identifiable, uncollectible components. Typically, a partial charge-off of the loss will have occurred, and the balance remaining would be reflective of management's best estimate of collectability.

#### Our Investment Activities

Our investment strategy is designed to be complementary to and interactive with our cash position; borrowed funds; quality, maturity, stability and earnings of loans; nature and stability of deposits; capital and tax planning. Investment securities consist primarily of U.S. Agency issues, mortgage-backed securities, and municipal bonds. In addition, for liquidity purposes, we use Federal Funds Sold, which is temporary overnight sales of excess funds to correspondent banks. Our securities portfolio is managed in accordance with guidelines set by our investment policy. Specific day-to-day transactions affecting the securities portfolio are managed by the finance department of the Bank.





Our general objectives with respect to our investment portfolio are to:

- provide liquidity necessary to meet cyclical and long-term changes in the mix of assets and liabilities;
- achieve an acceptable asset/liability gap position based on our separate policy related to asset and liability management that provides guidance for how investments are to be used to manage asset and liability gaps;
- maintain collateral for pledging requirements;
- manage interest rate risk;
- provide a suitable balance of quality and diversification to our assets; and
- provide a stable flow of dependable earnings.

Deposit Products and Other Sources of Funds

Our primary sources of funds for use in our lending and investing activities consist of:

- deposits;
- maturities and principal and interest payments on loans and securities; and
- other short-term borrowings.

We closely monitor rates and terms of competing sources of funds and utilize those sources we believe to be the most cost-effective, consistent with our asset and liability management policies.

An important balance sheet component affecting our net interest margin is the composition and cost of our deposit base. We can improve our net interest margin to the extent that growth in deposits can be focused in the less volatile and somewhat more traditional core deposits, or total deposits less CDs greater than \$250,000, commonly referred to as Jumbo CDs. We attempt to price our deposit products competitively with other financial institutions in our marketplace to promote deposit growth and satisfy our liquidity requirements and offer a variety of deposit products to satisfy our customers' needs.

We provide a wide array of deposit products. We have historically relied upon, and expect to continue to rely upon, deposits to satisfy our needs for sources of funds. We offer regular checking, rewards checking, savings, and money market deposit accounts. We also offer fixed-rate, fixed maturity retail CDs ranging in terms from 30 days to six years, individual retirement accounts and Jumbo CDs. The primary sources of deposits are small and medium sized businesses and individuals within our target market. All deposits are insured by the FDIC up to the maximum amount permitted by law. We have a service fee schedule, which we believe is competitive with other financial institutions in our market, covering, among others, maintenance fees on checking accounts, per item processing fees on checking accounts, returned check charges and other similar fees.

We have a rewards checking deposit product named "MyRate" Checking. This product allows a customer to earn a premium interest rate by meeting certain account requirements, including a minimum monthly amount of electronic transfers and debit card usage and receipt of electronic account statements. Although the rate paid is higher, the overall net costs on this product are lower.

We intend to continue our efforts to attract deposits from our business lending relationships in order to reduce our cost of funds and improve our net interest margin. Also, we believe that we have the ability to attract sufficient additional funding by re-pricing the yields on our CDs to meet loan demands during times that growth in core deposits differs from loan demand. To fund loan demand, we have also utilized funding from two programs offered by Promontory Interfinancial Network called Certificate of Deposit Registry Service or CDARS and Insured Cash Sweep or ICS. This relationship allows the Bank to utilize a national network of banks to offer deposit insurance coverage for large depositors. This protection occurs in deposit increments of less than \$250,000 per participating bank to ensure that both principal and interest are eligible for full FDIC insurance.

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In addition to our traditional marketing methods, we attract new customers and deposits by:

- expanding long-term business customer relationships, including referrals from our customers; and
- deploying personnel to work new leads with loan officers and branch managers to obtain new business customers.

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**Other Borrowings.** We may occasionally use our overnight credit to support liquidity needs created by seasonal deposit flows, to temporarily satisfy funding needs from increased loan demand, and for other short-term purposes. We have an unsecured line of credit with a regional correspondent financial institution pursuant to which we can borrow funds generally on an overnight basis. The correspondent financial institution may impose collateral requirements or terminate the line of credit at any time. We have the collateral capacity to borrow from the Federal Reserve. We can also borrow from the Federal Home Loan Bank (“FHLB”) pursuant to an existing commitment based on the value of the collateral pledged which generally consists of certain real estate loans and investment securities. (Refer to Note 6 – Short-term Borrowings in the Audited Financial Statements under Item 8 for additional information).

#### Other Products and Services

We offer a variety of other products and services, including:

• **Mobile and Internet Banking.** We believe there is a strong demand for mobile and Internet banking. These services allow both consumer and business customers to access detailed account information and manage their accounts, including on-line balance transfers and bill payment. These services enable our customers to conduct their banking business and monitor their bank accounts from remote locations at any time. We believe our mobile and Internet banking services are invaluable in attracting and retaining customers and we encourage customers to consider us for all their banking and financial needs.

• **Automatic Teller Machines, or ATMs.** We provide ATM services at all of our branches and offer ATM fee reimbursement to our customers, allowing them to use certain ATM networks nationwide without paying a per transaction fee. Each checking and deposit account has a monthly reimbursement limit. Our ATMs provide for cash withdrawals, balance transfers and inquiries, and check or cash deposits.

• **Treasury Management Services.** We offer cash management systems and services to assist our business customers with their day-to-day funds management. These services include the ability to originate electronic payments and withdrawals, create wire transfers, and request stop payments.

• **Remote Deposit Capture.** Branded “ExpressDeposit” and “Merchant Check Capture”, this product allows businesses to send their deposits electronically to the Bank, which allows us to reach a larger group of business customers that are not close to one of our physical locations. We believe this product gives us an edge in gaining new customers and it contributes to the growth of our deposits. We primarily target professional service companies, preferably with multiple offices including real estate offices, attorneys, doctors, dentists and accountants.

• **Bill Pay.** We offer a user-friendly bill payment product that was designed to meet our customers’ needs. This payment system allows our customers to pay bills electronically or by check. Customers can also utilize the bill presentment feature or future date their bills for a time period such as a vacation when they may not be accessible at the time their bills are due.

• **Other Products.** We offer other banking-related specialized products and services to our customers, such as cashier’s checks, money orders, credit and debit cards, and safe deposit services.

#### Risk Management

We are committed to effectively identifying and managing our overall enterprise risk exposure. We have identified credit risk, including loan concentrations, interest rate risk, liquidity risk, and operational risk, including cyber related risks as the areas that could materially and adversely affect our business, financial condition, results of operations, or business prospects. In order to mitigate and actively manage these areas of risk, we have established sound procedures and committed experienced personnel to this effort.

We have focused our risk management in the following areas:

• Our Board established the Enterprise Risk Oversight Committee to monitor enterprise risks of the Company;  
• Our Enterprise Risk Management Committee assesses enterprise risks and takes appropriate action to mitigate such risks, if necessary;

- We have a dedicated enterprise risk management team that actively monitors enterprise risks.

- Our credit department is staffed to maintain all credit policies and procedures, loan documentation, disbursement of loan proceeds, and manages the integrity of the credit risk rating system;
- Our finance department is staffed with experienced personnel to manage interest rate and liquidity risk;
- Our operations departments include staff experienced in compliance with banking regulations and in information technology and related security issues;
- Our legal and compliance departments coordinate efforts regarding legal and compliance matters, and;
- Our internal audit department reports its independent audit findings directly to our Board's Audit and Compliance Committee.

The FDIC has given guidance recommending that if the sum of (i) certain categories of commercial real estate, or CRE, loans and (ii) acquisition, development and construction, or ADC, loans exceeds 300% of total risk-based capital, or if ADC loans exceed 100% of total risk based capital, heightened risk management practices should be employed to mitigate risk. Our concentration in ADC loans is cyclical and tends to increase in the second and third quarters of each year as demand for ADC loans increases. An increase in ADC loan concentration could cause our ratio for ADC loans to increase and even exceed the FDIC's guideline. We have exceeded these guidance ratios at times in the past and may do so in the future. We actively monitor and believe that we effectively manage our CRE and ADC loan concentrations. If we exceed the FDIC's guidelines and do not effectively manage the risk of our CRE and ADC loans, we may be subject to regulatory scrutiny including a requirement to raise additional capital, reduce our loan concentrations or undertake other remedial actions.

## Employees

We refer to our employees as "associates." We had a total of 459 full-time equivalent associates as of December 31, 2018. Our associates are not represented by a labor organization, and we are not aware of any activity to seek such organization. The Company and the Bank provide their associates with a comprehensive benefit program, including health, dental and vision insurance, life and accident insurance, long-term disability coverage, vacation and sick leave, 401(k) plan, Employee Stock Ownership Plan ("ESOP") and a stock-based compensation plan. The Company considers its associate relations to be excellent. See Note 11 in the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" for information regarding associate benefit plans and profit sharing.

## Website Access

Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the Company's website ([www.peoplesutah.com](http://www.peoplesutah.com)) as soon as reasonably practicable after the Company has filed the material with, or furnished it to, the United States Securities and Exchange Commission ("SEC"). Copies can also be obtained by accessing the SEC's website ([www.sec.gov](http://www.sec.gov)).

## Supervision and Regulation

The following is a general summary of the material aspects of certain statutes and regulations that are applicable to us. These summary descriptions are not complete, and you should refer to the full text of the statutes, regulations, and formal and informal interpretive guidance for more information. Currently applicable statutes and regulations are subject to change, and additional statutes, regulations, and corresponding interpretative guidance may be adopted. We are unable to predict these future changes or the effects, if any, that these changes could have on our business or our revenues.

## General

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As a Utah registered bank holding company, PUB is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System and by the UDFI. In addition, as a Utah state-chartered bank that is not a member of the Federal Reserve, the Bank is subject to primary regulation, supervision and examination by the FDIC and by the UDFI. Supervision, regulation, and examination of PUB and the Bank by the regulatory agencies are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund (“DIF”), rather than for holders of our capital stock.

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Banking and other financial services statutes, regulations and policies are continually under review by Congress, state legislatures and federal and state regulatory agencies. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance applicable to PUB and the Bank. Any change in the statutes, regulations or regulatory policies applicable to PUB and the Bank, including changes in their interpretation or implementation, could have a material effect on its business or organization.

Both the scope of the laws and regulations and the intensity of the supervision to which PUB and the Bank are subject have increased in recent years in response to the financial crisis, as well as other factors, such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and its implementing regulations, most of which are now in place.

While PUB and the Bank will likely remain subject to extensive regulation and supervision, the regulatory environment has entered a period of rebalancing of the post financial crisis framework. For example, on May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “EGRRCPA”) was signed into law. Among other regulatory changes, the EGRRCPA amended various sections of the Dodd-Frank Act. The EGRRCPA includes a number of provisions, which are favorable to bank holding companies with total consolidated assets of less than \$10 billion, such as the Company, and also makes changes to consumer mortgage and credit reporting regulations and to the authorities of the agencies that regulate the financial industry. Because a number of the provisions included in the EGRRCPA require the federal banking agencies to undertake notice and comment rulemaking, it will likely take some time before these provisions are fully implemented.

#### Holding Company Regulation

##### Permitted Activities

Under the federal Bank Holding Company Act (“BHCA”), a bank holding company is generally permitted to engage in, or acquire, direct or indirect control of more than five percent of any class of the voting shares of any company that is not a bank or bank holding company and that is engaged in certain enumerated activities that are related to banking. While the Federal Reserve has treated those activities as acceptable in the past for other bank holding companies, the Federal Reserve in the future may not allow us to conduct any or all of these activities. The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of those activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company’s continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

##### Acquisitions Subject to Prior Regulatory Approval

The BHCA requires the prior approval of the Federal Reserve for a bank holding company to acquire substantially all the assets of a bank or to acquire direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, bank holding company or savings association, or to increase any such non-majority ownership or control of any bank, bank holding company or savings association, or to merge or consolidate with any bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider a number of factors, including the effect of the acquisition on competition, financial condition and future prospects (including current and projected capital ratios and levels); the competence, experience and integrity of management and its record of compliance with laws and regulations; the convenience and needs of the communities to be served (including the acquiring institution’s record of compliance under the Community Reinvestment Act (“CRA”)); the effectiveness of the acquiring institution in combating money laundering activities; and the extent to which the transaction would result in greater or more concentrated risks to the stability of the United States banking or financial



system. In addition, approval of interstate transactions requires that the acquirer satisfies regulatory standards for well-capitalized and well-managed institutions.

### Bank Holding Company Obligations to Bank Subsidiaries

Under current law and Federal Reserve policy, a bank holding company is expected to act as a source of financial and managerial strength to its depository institution subsidiaries and to maintain resources adequate to support such subsidiaries, which could require PUB to commit resources to support the Bank in situations where additional investments in a bank may not otherwise be warranted. A bank holding company may be required to contribute additional capital to its subsidiaries in the form of capital notes or other instruments that qualify as capital under applicable regulatory rules. Any such loan from a holding company to a subsidiary bank is likely to be unsecured and subordinated to the bank's depositors and perhaps to other creditors of the bank. If PUB were to enter bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee and entitled to a priority of payment. Under the Federal Deposit Insurance Act, or FDIA, under certain circumstances, we may be responsible for the liabilities of the Bank and may be responsible for damages to the FDIC.

### Restrictions on Bank Holding Company Dividends

The Federal Reserve's policy regarding dividends is that a bank holding company should not declare or pay a cash dividend which would impose undue pressure on the capital of any bank subsidiary or which would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Should an insured depository institution controlled by a bank holding company be "significantly undercapitalized" under the applicable federal bank capital ratios, or if the bank subsidiary is "undercapitalized" and has failed to submit an acceptable capital restoration plan or has materially failed to implement such a plan, banking regulators (in the case of the Bank, the FDIC and the UDFI) may choose to require prior Federal Reserve approval for any capital distribution by the bank holding company. In addition, since we are a legal entity separate and distinct from the Bank and do not conduct stand-alone operations, an ability to pay dividends depends on the ability of the Bank to pay dividends to us and the FDIC and the UDFI may, under certain circumstances, prohibit the payment of dividends to us from the Bank as described below in "Bank Regulation—Bank Dividends."

### Capital Regulations – U.S. Basel III Capital Rules

In July 2013, federal banking regulators, including the Federal Reserve and the FDIC, adopted the U.S. Basel III Capital Rules, implementing many aspects of the Basel III Capital Standards. The U.S. Basel III Capital Rules impose higher risk-based capital and leverage requirements than those previously in place. In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a capital conservation buffer on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 Capital and total capital). The capital conservation buffer will be phased in incrementally over time, becoming fully effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. The U.S. Basel III Capital Rules also increase the risk weight for certain assets, meaning that more capital must be held against such assets. For example, commercial real estate loans that do not meet certain new underwriting requirements must be risk-weighted at 150% rather than the current 100%.

Additionally, the Basel III Capital Standards provide for the deduction of three categories of assets: (i) deferred tax assets arising from temporary differences that cannot be realized through net operating loss carrybacks (net of related valuation allowances and of deferred tax liabilities); (ii) mortgage-servicing assets (net of associated deferred tax liabilities); and (iii) investments in more than 10% of the issued and outstanding common shares of unconsolidated financial institutions (net of associated deferred tax liabilities). Accumulated other comprehensive income (“AOCI”) is presumptively included in Common Equity Tier 1 Capital and often would operate to reduce this category of capital. The U.S. Basel III Capital Rules provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI. We opted out of this treatment.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms, which standards are commonly referred to as Basel IV. Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including the recalibration of the risk weights and the introduction of new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

For a detailed discussion of PUB and the Bank's actual capital ratios and capital adequacy, see "Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 9 – Regulatory Capital Matters" in "Item 8. Financial Statements and Supplementary Data."

### Bank Regulation

The Bank is a Utah state-chartered commercial bank, and is subject to supervision and regulation by the UDFI and the FDIC. The UDFI and the FDIC supervise and regulate all areas of the Bank's operations, including, without limitation, the making of loans, deposit operations, the conduct of the Bank's corporate affairs, the satisfaction of capital-adequacy requirements, the payment of dividends, and the establishment or closing of banking offices. The UDFI and the FDIC periodically examine the Bank's operations and financial condition and compliance with federal consumer-protection laws. In addition, the Bank's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

### Capital Adequacy

See "Holding Company Regulation—Capital Regulations" above.

### Capitalization Levels and Prompt Corrective Action

Federal law and regulations establish a capital-based regulatory scheme designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." To qualify as a "well capitalized" institution, a bank must have a leverage ratio of no less than 5.0%, a common equity to Tier 1 Capital ratio of no less than 6.5%, a Tier 1 Capital ratio of no less than 8.0%, and a total risk-based capital ratio of no less than 10.0%, and a bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. Generally, a financial institution must be "well capitalized" before the Federal Reserve will approve an application by a bank holding company to acquire a bank or merge with a bank holding company, and the FDIC applies the same requirement in approving bank merger applications. As of December 31, 2018, the Bank met these capital levels.

Immediately upon becoming undercapitalized, a depository institution becomes subject to the provisions of Section 38 of the Federal Deposit Insurance Act, or the FDIA, which, among other things: (i) restricts payment of capital distributions and management fees; (ii) requires that the FDIC monitor the condition of the institution and its efforts to restore its capital; (iii) requires submission of a capital restoration plan; (iv) restricts the growth of the institution's assets; and (v) requires prior approval of certain expansion proposals. Bank holding companies controlling depository institutions can be called upon to increase the depository institution's capital and to partially guarantee the institution's performance under their capital restoration plans. The appropriate federal banking agency for an undercapitalized

institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the FDIC's Deposit Insurance Fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (i) requiring the institution to raise additional capital; (ii) restricting transactions with affiliates; (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; (iv) requiring the institution to change and improve its management; (v) prohibiting the acceptance of deposits from correspondent banks; (vi) requiring prior Federal Reserve approval for any capital distribution by a bank holding company controlling the institution; and (vii) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

As of December 31, 2018, the Bank exceeded the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy to be classified as “well capitalized.” Rapid growth, poor loan portfolio performance, poor earnings performance, or a combination of these or other factors, could change the Bank’s capital position in a relatively short period of time, making additional capital infusions necessary. It should be noted that the minimum ratios referred to above in this section are merely guidelines, and the bank regulators possess the discretionary authority to require higher capital ratios.

#### Bank Reserves

The Federal Reserve requires all depository institutions, even if not members of the Federal Reserve, to maintain reserves against some deposit accounts. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements. An institution may borrow from the Federal Reserve Bank “discount window” as a secondary source of funds, provided that the institution meets the Federal Reserve Bank’s credit standards.

#### Bank Dividends

Utah law places restrictions on the declaration of dividends by Utah state-chartered banks to their shareholders. This may decrease any amount available for the payment of dividends in a particular period if the surplus funds for the Bank fail to comply with this limitation. The FDIC and the UDFI may, under certain circumstances, prohibit the payment of dividends to PUB from the Bank. Utah corporate law also requires that dividends can only be paid out of funds legally available therefor.

#### Limitations on Brokered Deposits

Applicable rules regarding capital requirements under the FDIC’s prompt corrective action regulations limit the ability of banks to raise funds that meet the definition of “brokered deposits” under that regulation. To avoid the applicability of this limitation, the Bank must maintain the status of a “well capitalized” institution.

#### Insurance of Accounts and Other Assessments

FDIC deposit insurance is critical to the continued operation of the Bank. The Bank pays deposit insurance assessments to the FDIC’s Deposit Insurance Fund, which is determined through a risk-based assessment system. The Bank’s deposit accounts are currently insured by the Deposit Insurance Fund, generally up to a maximum of \$250,000 per separately insured depositor. The Bank pays assessments to the FDIC for such deposit insurance. Under the current assessment system, the FDIC assigns an institution to a risk category based on the institution’s most recent supervisory and capital evaluations, which are designed to measure risk. Under the Federal Deposit Insurance Act, the FDIC may terminate a bank’s deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, agreement or condition imposed by the FDIC.

#### Restrictions on Transactions with Affiliates

The Bank is subject to sections 23A and 23B of the Federal Reserve Act, or FRA, and the Federal Reserve’s implementing Regulation W. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the Bank. Accordingly, certain asset transactions and contracts, between PUB, the Bank and any non-bank subsidiaries are subject to a number of restrictions. All such transactions, as well as contracts entered into between the Bank and affiliates, must be on terms that are no less favorable to the Bank than those that would be available from non-affiliated third parties.

Loans to Insiders

Loans to executive officers, directors or principal shareholders are subject to restrictions under Sections 22(g) and 22(h) of the FRA and the Federal Reserve's implementing Regulation O (collectively, "Reg. O"). From time to time, the Bank makes loans to executive officers, directors and principal shareholders on terms permitted by Reg. O. We believe the Bank is in compliance with Reg. O and, therefore, we believe we are in compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). All loans from the Bank to executive officers, directors or principal shareholders are made in the ordinary course of business, are of a type generally made available to the public and are on market terms no more favorable than those offered to persons not related to the Bank, except for the waiver of certain loan fees and a minor reduction in certain loan interest rates as part of a benefit program as allowed by Reg. O.

### Change in Control

Subject to certain exceptions, the BHCA and the Change in Bank Control Act require prior approval from the Federal Reserve and/or the FDIC for any person or company to acquire “control” of a bank or a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities, and in general is presumed to exist if a person acquires 10 percent or more, but less than 25%, of any class of voting securities. In certain cases, a company may also be presumed to have control under the BHCA if it acquires 5% or more of any class of voting securities. Control may also be deemed to exist where a person or company is found to hold “controlling influence” over a bank or bank holding company.

### Community Reinvestment Act

The CRA and its implementing regulations are intended to encourage banks to help meet the credit needs of their service areas, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The prudential bank regulatory agencies are required to assign and make public a rating of a bank’s performance under the CRA as either “outstanding,” “satisfactory,” “needs to improve,” or “substantial noncompliance.” The federal banking agencies consider a bank’s CRA rating when a bank submits an application to establish banking centers, merge, or acquire the assets and assume the liabilities of another bank. In the case of a bank holding company, the CRA performance record of all banks involved in the merger or acquisition are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other financial holding company. A less-than-satisfactory rating can substantially delay, block or impose conditions on the transaction. In its last CRA examination, the Bank received a rating of “satisfactory.”

In April 2018, the United States Department of Treasury issued a memorandum to the Federal banking regulators with recommended changes to the CRA’s implementing regulations to reduce their complexity and associated burden on banks. Leaders of the federal banking agencies recently have indicated their support for revising the CRA regulatory framework, and on August 28, 2018, the Office of the Comptroller of the Currency (“OCC”) issued an advance notice of proposed rulemaking to solicit ideas for building a new CRA framework. While the OCC does not have supervisory authority over PUB or the Bank, the OCC has stated that it hopes to build the new CRA framework jointly with the Federal Reserve and FDIC.

### Interstate Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Riegle-Neal Act”) provides that adequately capitalized and managed bank holding companies are permitted to acquire banks in any state. In addition, banks are permitted to establish branches in any state if that state permits the establishment of the branch by a state bank chartered in that state, although setting up a branch remains subject to applicable regulatory approval and adherence to applicable legal requirements.

### Anti-Money Laundering and Economic Sanctions

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”) provides the federal government with additional powers to address terrorist threats. This has been implemented through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, or the BSA, the USA PATRIOT Act imposed new requirements that obligate financial institutions, such as banks, to take certain steps to monitor and control the risks associated with money laundering and terrorist financing.



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Among other requirements, the USA PATRIOT Act and implementing regulations require banks to establish anti-money laundering programs that include, at a minimum:

- internal policies, procedures and controls designed to implement and maintain the bank's compliance with all of the requirements of the USA PATRIOT Act, the BSA and related laws and regulations;
- systems and procedures for monitoring and reporting of suspicious transactions and activities;

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- a designated compliance officer;
- employee training;
- an independent audit function to test the anti-money laundering program;
- procedures to verify the identity of each customer upon the opening of accounts; and
- heightened due diligence policies, procedures and controls applicable to certain foreign accounts and relationships.

Additionally, the USA PATRIOT Act requires each financial institution to develop a customer identification program, or CIP, as part of its anti-money laundering program. The key components of the CIP are identification, verification, government list comparison, notice and record retention. The purpose of the CIP is to enable the financial institution to determine the true identity and anticipated account activity of each customer. To make this determination, among other things, the financial institution must collect certain information from customers at the time they enter into the customer relationship with the financial institution. This information must be verified within a reasonable time through documentary and non-documentary methods. Furthermore, all customers must be screened against any CIP-related government lists of known or suspected terrorists. Financial institutions are also required to comply with various reporting and recordkeeping requirements. The Federal Reserve and the FDIC consider an applicant's effectiveness in combating money laundering, among other factors, in connection with an application to approve a bank merger or acquisition of control of a bank or bank holding company.

Likewise, the Office of Foreign Assets Control, or OFAC, is responsible for helping to ensure that U.S. entities do not engage in transactions with the subjects of U.S. sanctions, as defined by various Executive Orders, laws, regulations, treaties, and related interpretations. OFAC assembles and provides lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify appropriate authorities.

The Bank has adopted policies, procedures and controls to comply with the BSA, the USA PATRIOT Act and OFAC regulations.

#### Regulatory Enforcement Authority

Federal and state banking laws grant substantial enforcement powers to federal and state banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and "institution-affiliated parties," such as management, employees and agents. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. When issued by a banking regulator, cease and desist and similar orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A bank may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions determined to be appropriate by the ordering regulatory agency.

#### Loan Concentrations

The FDIC has issued guidance recommending that if certain categories of commercial real estate ("CRE") loans and acquisition, development and construction ("ADC") loans exceed certain thresholds, then heightened risk management practices should be employed to mitigate risk. As of December 31, 2018, our ADC loans to Tier 2 capital were 113.2%, which exceeded the threshold set by the FDIC. We have exceeded these thresholds at times in the past and may do so again in the future. If we exceed the thresholds and do not manage the risk of our CRE and ADC loans, we may be subject to regulatory scrutiny, such as a requirement to raise additional capital, reduce our loan concentrations or undertake other remedial actions.



### Federal Home Loan Bank System

The Bank is a member of and owns stock in the Federal Home Loan Bank of Des Moines.

### Privacy and Data Security

Federal and state law contains extensive consumer privacy protection provisions. Under the Gramm–Leach–Bliley Act, also known as the Financial Services Modernization Act of 1999 (“GLBA”), federal banking regulators adopted rules limiting the ability of financial institutions to disclose non-public information about consumers to non-affiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The GLBA also directed federal regulators to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying customers in the event of a security breach.

Other federal and state laws and regulations impact the Company’s and the Bank’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers.

Like other lenders, the Bank uses credit bureau data in its underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act (the “FCRA”), and the FCRA also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on the Company and the Bank.

### Cybersecurity

The federal banking regulators, as well as the SEC and related self-regulatory organizations, regularly issue guidance regarding cybersecurity that is intended to enhance cybersecurity risk management among financial institutions. A financial institution is expected to establish lines of defense and to ensure that its risk management processes also address the risk posed by potential threats to the institution. A financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyberattack. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations if the institution or its critical service providers fall victim to a cyberattack.

To control cyber-security risk, we maintain active information security programs that are designed to conform with Federal Financial Institutions Examination Council (“FFIEC”) guidance. These information security programs are aligned with our operational risks and are overseen by executive management, and the Board. These programs involve the assessment of risks, continual monitoring and review of threats, the evaluation of the effectiveness of controls to mitigate risks, and review of incident response plans for each identified threat. We also utilize appropriate cybersecurity insurance that controls against certain losses, expenses, and damages associated with cybersecurity risk.

Further, we recognize our role in the overall industry, and have adopted a comprehensive National Institute of Standards and Technology’s Cyber Security Framework. We also fully participate in the federally recognized financial sector information sharing organization structure, known as the Financial Services Information Sharing and Analysis Center. Digital technology is constantly evolving, and new and unforeseen threats and actions by others may disrupt operations or result in losses beyond our risk control thresholds. Although we invest substantial time and resources to manage and reduce cybersecurity risk, it is not possible to completely eliminate this risk.

We believe that effective management of operational risk, defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events, plays a major role in both the level and the stability of our profitability. Our Enterprise Risk Management department oversees an enterprise-wide framework intended to identify, assess, control, monitor, and report on operational risks. These processes support our goals to minimize future operational losses and strengthen our performance by maintaining sufficient capital to absorb operational losses that are incurred.

## Consumer Laws and Regulations

The Bank is also subject to a number of other federal and state consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth below is not exhaustive, these laws and regulations include the Truth-in-Lending Act, the Truth-in-Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act, the FRCA, the Fair Debt Collection Practices Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair and Accurate Credit Transactions Act, the Servicemembers Civil Relief Act, the Military Lending Act, and the Real Estate Settlement Procedures Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with consumers when offering consumer financial products and services.

Rulemaking authority for most federal consumer-financial-protection laws rests with the Consumer Financial Protection Bureau (“CFPB”). The CFPB also has broad authority to prohibit unfair, deceptive or abusive acts or practices, or UDAAP, and to investigate and penalize financial institutions that violate this prohibition. While the statutory language of the Dodd-Frank Act sets forth the standards for acts and practices that violate the prohibition on UDAAP, certain aspects of these standards are untested, and thus it is currently not possible to predict how the CFPB will exercise this authority.

The Dodd-Frank Act also authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower’s ability to repay. The rules also impose both underwriting standards and limits on the terms, including pricing, of such loans. In 2014, the CFPB adopted regulations that combine mortgage disclosures required by the Real Estate Settlement Procedures Act and its implementing Regulation X, and the Truth-in-Lending Act and its implementing Regulation Z. This new disclosure scheme required mortgage lenders such as the Bank to substantially revise their loan-origination and disclosure systems in order to comply with the new regulations. The Bank has implemented necessary modifications in order to meet these requirements. Portions of a significant expansion of the Home Mortgage Disclosure Act and its implementing Regulation C took effect in 2018.

## Other Dodd-Frank Act Reforms

### Volcker Rule

The Volcker Rule prohibits insured depository institutions, such as the Bank, and their affiliates, such as PUB, from (i) engaging in “proprietary trading,” and (ii) investing in or sponsoring certain types of funds, or covered funds, in each case subject to certain limited exceptions. The final rules impose significant compliance and reporting obligations on banking entities.

In May 2018, the five federal agencies with rulemaking authority with respect to the Volcker Rule released a proposal to revise the Volcker Rule. The proposal would tailor the Volcker Rule’s compliance requirements to the amount of a firm’s trading activity, revise the definition of trading account, clarify certain key provisions in the Volcker Rule, and modify the information companies are required to provide the federal agencies. If adopted, the proposed changes to the definition of a trading account would likely expand the scope of investing and trading activities subject to the Volcker Rule’s restrictions.

PUB is reviewing the scope of any compliance program that may be required but is of the view that the impact of the Volcker Rule will not be material to its business operations.

## Executive Compensation and Corporate Governance

The Dodd-Frank Act requires public companies to include, at least once every three years, a separate non-binding “say-on-pay” vote in their proxy statement by which shareholders may vote on the compensation of the public company’s named executive officers. In addition, if such public companies are involved in a merger, acquisition, or consolidation, or if they propose to sell or dispose of all or substantially all of their assets, shareholders have a right to an advisory vote on any golden parachute arrangements in connection with such transaction. Other provisions of the act may impact our corporate governance. In addition, the act requires the SEC to adopt rules requiring all exchange-traded companies to adopt claw-back policies for incentive compensation paid to executive officers in the event of accounting restatements based on material non-compliance with financial reporting requirements. We are an “Emerging Growth Company” under the JOBS Act and therefore subject to reduced disclosure requirements related to executive compensation.

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### Future Legislative and Regulatory Developments

Various legislative acts are from time to time enacted by Congress or by the Utah Legislature. Additionally, regulatory agencies frequently modify or create new regulations and guidance. Such acts and modifications or new regulation and guidance may change the environment in which PUB and the Bank operate in substantial and unpredictable ways. We cannot determine the ultimate impact that potential legislation, if enacted, or implementing regulations and guidance with respect thereto, would have upon PUB's or the Bank's financial condition or results of operations.

### State Corporate Law Restrictions

As Utah corporations, PUB and the Bank are subject to certain limitations and restrictions under applicable Utah corporate law. For example, state law restrictions in Utah include limitations and restrictions relating to indemnification of directors; distributions to shareholders; transactions involving directors, officers, or interested shareholders; maintenance of books, records, and minutes; and observance of certain corporate formalities.

### Effects of Government Monetary Policy

Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the Federal Government, particularly the Federal Reserve. The Federal Reserve can and does implement national monetary policy for such purposes as curbing inflation, combating recession, and facilitating the national debt. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

## Item 1A. Risk Factors

An investment in the Company's common shares involves certain risks. The following is a discussion of the most significant risks and uncertainties that may affect the Company's business, financial condition and future results.

### Risks Relating to Our Business and Market

As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

Our businesses and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a



material adverse effect on our business, financial condition and results of operations.

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A substantial majority of our loans and operations are in Utah, Salt Lake, Davis, Cache and Washington Counties, and therefore our business is particularly vulnerable to a downturn in the local economies of those counties.

Unlike larger financial institutions that are more geographically diversified, our business is concentrated primarily in the state of Utah. As of December 31, 2018, approximately 81.4% of our loans were secured by real estate, the substantial majority of which are located in Utah, Salt Lake, Davis, Cache and Washington counties. If the local economy and particularly the real estate market declines, the rates of delinquencies, defaults, foreclosures, bankruptcies and losses in our loan portfolio would likely increase. This risk increases for our variable rate loans which represent 79.0% of our loans. As a result of this lack of diversification in our loan portfolio, a downturn in the local economy generally and real estate market specifically could significantly reduce our profitability and growth and adversely affect our financial condition.

A large portion of our loan portfolio is tied to the real estate market and we may be negatively impacted by downturns in that market.

The majority of loans in our loan portfolio are real estate related, including loans for construction and land development projects and for the purchase, improvement or refinancing of residential and commercial real estate. A downturn in the real estate market could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the property collateralizing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

As of December 31, 2018, 19.3% of our loan portfolio consisted of real estate construction, and acquisition and land development loans, which generally have a higher degree of risk than long-term financing of existing properties because repayment depends on the completion of the project and usually on the sale of the property. In addition, these loans are often "interest-only loans," which normally require only the payment of interest accrued prior to maturity. Interest-only loans carry greater risk than principal and interest loans because no principal is paid prior to maturity. This risk is particularly apparent during periods of rising interest rates and declining real estate values. If there is a significant decline in the real estate market due to a material increase in interest rates or for other reasons, many of these loans could default and result in foreclosure. Moreover, most of these loans are for projects located in our primary market area. If we are forced to foreclose on a project prior to completion, we may not be able to recover the entire unpaid portion of the loan or we may be required to fund additional money to complete the project or hold the property for an indeterminate period of time. Any of these outcomes may result in losses and reduce our earnings.

The FDIC has given guidance recommending that if the sum of (i) certain categories of CRE, loans and (ii) ADC, loans exceeds 300% of total risk-based capital, or if ADC loans exceed 100% of total risk-based capital, heightened risk management practices should be employed to mitigate risk. As of December 31, 2018, our ratio for the sum of CRE and ADC loans was 256.5% and our ratio for ADC loans was 113.2%. Our concentration in ADC loans is cyclical and tends to increase in the second and third quarters of each year as demand for ADC loans increases. An increase in ADC loan concentration could cause our ratio for ADC loans to increase and even exceed the FDIC's guideline. We have exceeded these guidance ratios at times in the past and may do so in the future. We actively monitor and believe that we effectively manage our CRE and ADC loan concentrations. If we exceed the FDIC's guidelines and do not effectively manage the risk of our CRE and ADC loans, we may be subject to regulatory scrutiny including a requirement to raise additional capital, reduce our loan concentrations or undertake other remedial actions.

## Edgar Filing: People's Utah Bancorp - Form 10-K

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially and adversely affect our performance.

Our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining associates who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected by the actions of our associates or otherwise, our business and, therefore, our operating results may be materially and adversely affected.

We could suffer material credit losses if we do not appropriately manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of non-payment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. Changes in the economy can cause the assumptions that we made at origination to change and can cause borrowers to be unable to make payments on their loans, and significant changes in collateral values can cause us to be unable to collect the full value of loans we make. There is no assurance that our credit risk monitoring and loan approval procedures are or will be adequate or will reduce the inherent risks associated with lending. Our credit personnel, and policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of our loan portfolio. Any failure to manage such credit risks may materially adversely affect our business, financial condition and results of operations.

The small to medium sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair their ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We focus our business development and marketing strategy primarily on small to medium sized businesses. Small to medium sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small to medium sized business often depends on the management skills, talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact Utah and small to medium sized businesses are adversely affected or our borrowers are otherwise affected by adverse business conditions, our business, financial condition and results of operations could be adversely affected.

If we are not able to maintain our past levels of growth, our future prospects and competitive position could be diminished and our profitability could be reduced.

We may not be able to sustain our growth at the rate we have enjoyed during the past several years. Our growth over the past several years has been driven primarily by a strong residential housing and commercial real estate market in our market areas and our ability to identify attractive expansion opportunities. A downturn in local economic market conditions, particularly in the real estate market, a failure to attract and retain high performing associates, heightened competition from other financial services providers, and an inability to attract additional core deposits and lending customers, among other factors, could limit our ability to grow as rapidly as we have in the past and as such have a negative effect on our business, financial condition and results of operations.

If we are unable to manage our growth effectively, we may incur higher than anticipated costs and our ability to execute our growth strategy could be impaired.

We expect to continue to grow our assets and deposits by increasing our product and service offerings and expanding our operations through new branches and possibly acquisitions. Our ability to manage growth successfully will depend on our ability to:

- identify suitable markets for expansion;
- attract and retain qualified management;
- attract funding to support additional growth;
- maintain asset quality and cost controls;
- maintain adequate regulatory capital and profitability to support our lending activities; and

find attractive acquisition candidates and successfully acquire and integrate the acquisitions in an efficient manner.

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If we do not manage our growth effectively, we may be unable to realize the benefit from the investments in technology, infrastructure, and personnel that we have made to support our expansion. In addition, we may incur higher costs and realize less revenue growth than we expect, which would reduce our earnings and diminish our future prospects, and we may not be able to continue to implement our business strategy and successfully conduct our operations. Risks associated with failing to maintain effective financial and operational controls as we grow, such as maintaining appropriate loan underwriting procedures, determining adequate allowances for loan losses and complying with regulatory accounting requirements, including increased loan losses, reduced earnings and potential regulatory penalties and restrictions on growth, all could have a negative effect on our business, financial condition and results of operations.

We may grow through mergers or acquisitions, which strategy may not be successful or, if successful, may produce risks in successfully integrating and managing the merged companies or acquisition and may dilute our shareholders.

As part of our growth strategy, we may pursue mergers and acquisitions of banks and nonbank financial services companies within and outside of our principal market area. Although we regularly identify and explore specific acquisition opportunities as part of our ongoing business practices, we may not find a suitable merger or acquisition opportunity. Mergers and acquisitions involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the operations, technologies, existing contracts, accounting processes and personnel of the target and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers of the target company;
  - diversion of financial and management resources from existing operations;
  - the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- entering new markets or areas in which we have limited or no experience;
- potential loss of key associates and customers from either our business or the target's business;
- assumption of unanticipated problems or latent liabilities of the target; and
- inability to generate sufficient revenue to offset acquisition costs.

Mergers and acquisitions also frequently result in the recording of goodwill and other intangible assets, which are subject to potential impairments in the future and could harm our financial results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing shareholders may be diluted, which could affect the market price of our common shares. As a result, if we fail to properly evaluate mergers, acquisitions or investments, we may not achieve the anticipated benefits of any such merger or acquisition, and we may incur costs in excess of what we anticipate. The failure to successfully evaluate and execute mergers, acquisitions or investments or otherwise adequately address these risks could materially harm our business, financial condition and results of operations.

On October 6, 2017, we completed the acquisition of \$257 million in loans and seven Utah branch locations with approximately \$160 million in deposits from Banner Bank ("Banner"). On November 13, 2017, we completed the acquisition of Town & Country Bank, Inc. ("T&C"), located in St. George, Utah. We have successfully integrated the operation of the acquired branches into our existing operations, including, among other things, the integration of information systems and personnel policies and practices.

Our allowance for loan losses may not be adequate to cover actual losses.

A significant source of risk arises from the possibility that we could sustain losses due to loan defaults and non-performance on loans. We maintain an allowance for loan losses in accordance with accounting principles generally accepted in the United States to provide for such defaults and other non-performance. As of December 31,

2018, our allowance for loan losses (“ALLL”) as a percentage of loans held for investment was 1.50%. 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 expected credit losses. Credit discounts are included in the determination of fair value, and as a result, no allowance for loan 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. The determination of the appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control. In addition, our underwriting policies, adherence to credit monitoring processes, and risk management systems and controls may not prevent unexpected losses. Our allowance for loan losses may not be adequate to cover actual loan losses. Moreover, any increase in our allowance for loan losses will adversely affect our earnings.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 will be effective January 1, 2020, and will substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The standard replaces existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost. Upon adoption of ASU 2016-13, companies must recognize credit losses on these assets equal to management’s estimate of credit losses over the full remaining expected life. Companies must consider all relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. In December 2018, the Federal Reserve, OCC and FDIC released a final rule to revise their regulatory capital rules to address this upcoming change to the treatment of credit expense and allowances. The final rule provides an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. The standard is likely to have a potential materially, negative impact to the level of allowance held by us and our overall capital position after adoption in 2020 as regulatory agencies have limited the amount of ALLL that may be included in regulatory capital calculations. The Company is developing new procedures for determining an allowance for credit losses relating to held to maturity investment securities. In addition, the current accounting policy and procedures for other-than-temporary impairment on available for sale investment securities will be replaced with an allowance approach. However, we are still evaluating the overall impact adopting this new accounting standard will have on both our financial condition and regulatory capital position. It is also highly likely that PUB’s ongoing reported earnings and lending activities will be negatively impacted in periods following adoption.

Our financial and accounting estimates and risk management framework rely on analytical forecasting and models.

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. Some of our tools and metrics for managing risk are based upon our use of observed historical market behavior. We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating such models will be adversely affected due to the inadequacy of that information. Moreover, our models may fail to predict future risk exposures if the information used in the model is incorrect, obsolete or not sufficiently comparable to actual events as they occur. We seek to incorporate appropriate historical data in our models, but the range of market values and behaviors reflected in any period of historical data is not at all times predictive of future developments in any particular period and the period of data we incorporate into our models may turn out to be inappropriate for the future period being modeled. In such case, our ability to manage risk would be limited and our risk exposure and losses could be significantly greater than our models indicated. In addition, if existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Finally, information we provide to our regulators based on poorly designed or implemented models could also be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our stockholders, could be affected adversely due to their perception that the quality of the models used to generate the



relevant information is insufficient.

We may have difficulty attracting additional necessary personnel, which may divert resources and limit our ability to successfully expand our operations.

Our business plan includes, and is dependent upon, our hiring and retaining highly qualified and motivated associates at every level. We expect to experience substantial competition in identifying, hiring and retaining top-quality associates. If we are unable to hire and retain qualified associates, we may be unable to successfully execute our business strategy and manage our growth.

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The unexpected loss of key officers would materially and adversely affect our ability to execute our business strategy, and diminish our future prospects.

Our success to date and our prospects for success in the future are substantially dependent on our senior management team. The loss of key members of our senior management team could materially and adversely affect our ability to successfully implement our business plan and, as a result, our future prospects. The loss of senior management without qualified successors who can execute our strategy would also have an adverse impact on us.

Our profitability depends on interest rates generally, and we may be adversely affected by changes in market interest rates.

Our profitability depends in substantial part on our net interest income. Our net interest income depends on many factors that are partly or completely outside of our control, including competition, federal economic, monetary and fiscal policies, and economic conditions generally. Our net interest income will be adversely affected if market interest rates change so that the interest we pay on deposits and borrowings increases faster than the interest we earn on loans and investments. In addition, an increase in interest rates could adversely affect borrowers' ability to pay the principal or interest on existing loans or reduce their desire to borrow more money. This may lead to an increase in our non-performing assets, a decrease in loan originations, or a reduction in the value of and income from our loans, any of which could have a material and negative effect on our results of operations. Fluctuations in market rates and other market disruptions are neither predictable nor controllable and may adversely affect our financial condition and earnings.

The ratio of variable to fixed-rate loans in our loan portfolio, the ratio of short-term (maturing at a given time within 12 months) to long-term loans, and the ratio of our demand, money market and savings deposits to CDs (and their time periods), are the primary factors affecting the sensitivity of our net interest income to changes in market interest rates. The composition of our rate-sensitive assets or liabilities is subject to change and could result in a more unbalanced position that would cause market rate changes to have a greater impact on our earnings. In periods of rising interest rates, commercial and consumer demand for new lending and re-financings decreases, this in turn adversely impacts our lending activities.

Our funding sources may prove insufficient to provide liquidity, replace deposits and support our future growth.

We rely on customer deposits, advances from the FHLB, the Federal Reserve System and lines of credit at other financial institutions to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, we may not be able to replace such funds in the future if our financial condition, the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

FHLB borrowings and other current sources of liquidity may not be available or, if available, sufficient to provide adequate funding for operations. Furthermore, our own actions could result in a loss of adequate funding. For example, our availability at the FHLB could be reduced if we are deemed to have poor documentation or processes. Accordingly, we may seek additional higher-cost debt in the future to achieve our long term business objectives. Additional borrowings, if sought, may not be available to us or, if available, may not be available on favorable terms. If additional financing sources are unavailable or are not available on reasonable terms, our growth and future prospects could be adversely affected.

We may be adversely affected by the lack of soundness of other financial institutions or market utilities.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial institutions or market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions.

Impairment of investment securities could require charges to earnings, which would negatively impact our results of operations.

We maintain a significant amount of our assets in investment securities, and must periodically test our investment securities for impairment in value. In assessing whether the impairment of investment securities is other-than-temporary, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. If we conclude that impairment of investment securities is required, we could be required to incur charges to earnings, which would result in a negative impact on our results of operations. The impact of these impairment matters could have a material adverse effect on our business, results of operations, and financial condition.

We face strong competition from banks, credit unions and other financial services providers that offer banking services, which may limit our ability to attract and retain banking customers.

Competition in the banking industry generally, and in our geographic market specifically, is strong. Competitors include banks, as well as other financial services providers, such as savings and loan institutions, consumer finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include several larger national and regional financial institutions whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs, offer a wider array of banking services and conduct extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of a broader customer base than us. Larger competitors may also be able to offer better lending and deposit rates to customers, and could increase their competition as we become a public company and our growth becomes more visible. Moreover, larger competitors may not be as vulnerable as we are to downturns in the local economy and real estate market since they have a broader geographic area and their loan portfolio is more diversified. While our deposit base has increased, several larger banks have grown their deposit market share in our markets faster than we have resulting in a declining relative deposit market share for us in our existing markets. We believe our declining relative market share in deposits has resulted primarily from aggressive marketing and advertising, branch expansion, expanded delivery channels and more attractive rates offered by larger bank competitors. We also compete against community banks, credit unions and non-bank financial services companies that have strong local ties. These smaller institutions are likely to cater to the same small to medium sized businesses that we target. Additionally, financial technology companies (“Fintech”) have developed technology which allows customers to obtain loans via the internet in an expeditious manner and could become competitors to us. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios and our results of operations and financial condition may otherwise be adversely affected. Ultimately, we may be unable to compete successfully against current and future competitors.

Cyber-attacks or other security breaches could have a material adverse effect on our business.

In the normal course of business, we collect, process, and retain sensitive and confidential information regarding our customers. We also have arrangements in place with other third parties through whom we share and receive information about their customers who are or may become our customers. Although we devote significant resources and management focus to ensuring the integrity of our systems through information security and business continuity programs, our facilities and systems, and those of third party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors or other similar events.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks that are designed to disrupt key business services, such as customer-facing websites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with credit and debit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and our processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. While we regularly conduct security assessments on these third parties, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

The access by unauthorized persons to, or the improper disclosure by us, of confidential information regarding our customers or our own proprietary information, software, methodologies, and business secrets could result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services, which could have a material adverse effect on our business, financial condition or results of operations. In addition, recently there have been a number of well-publicized attacks or breaches affecting others in our industry that have heightened concern by consumers generally about the security of using credit and debit cards, which have caused some consumers, including our customers, to use our credit and debit cards less in favor of alternative methods of payment and has led to increased regulatory focus on, and potentially new regulations relating to, these matters. Further cyber-attacks or other breaches in the future, whether affecting us or others, could intensify consumer concern and regulatory focus and result in reduced use of our cards and increased costs, all of which could have a material adverse effect on our business. To the extent we are involved in any future cyber-attacks or other breaches, our brand and reputation could be affected, and this could also have a material adverse effect on our business, financial condition or results of operations. If we experience a cyber-attack, our insurance coverage may not cover all of our losses, and furthermore, we may experience a loss of reputation.

Our risk management framework may not be effective in mitigating risks and losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk of loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

We are subject to certain operating risks, related to customer or employee fraud which could harm our reputation and business.

Employee error and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee error and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee error could also subject us to financial claims for negligence. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured, excess insurance coverage is denied or not available, it could have a material adverse effect on our business, financial condition and results of operations.

If we need additional capital in the future to continue our growth, we may not be able to obtain it on terms that are favorable.

We may need to raise additional capital in the future to support our continued growth and to maintain our capital levels. Our ability to raise capital through the sale of additional securities will depend primarily upon our financial condition and the condition of financial markets at that time. Accordingly, we may not be able to obtain additional capital in the amounts or on terms satisfactory to us. Our growth may be constrained if we are unable to raise additional capital as needed.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

Approximately 81.4% of our outstanding loan portfolio was secured by real estate as of December 31, 2018. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

We rely on our information technology and telecommunications systems and third party servicers, and the failure of these systems could adversely affect our business.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third party servicers. Our primary banking and accounting systems are third party software platforms operated on an in-house basis; however, we outsource certain of our information technology systems including our electronic funds transfer, or EFT, ATM and debit card processing, credit and debit card and transaction processing, and our online Internet bill payment and banking services. We rely on these systems to process new and renewal loans, provide customer service, facilitate collections and share data across our organization. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans and provide customer service or compromise our ability to collect loan payments in a timely manner. In addition, our ability to adopt new information technology and technological products needed to meet our customers' banking needs may be limited if our third party servicers are slow to adopt or choose not to adopt such new technology and products. Such a failure to provide this technology and products to our customers could result in a loss of customers, which would negatively impact our business and results of operations.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. In deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to U.S. generally accepted accounting principles, or GAAP, and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other auditors' reports, with respect to the business and financial condition of our customers. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, inaccurate or fraudulent information.

Risks Related to Our Regulatory Environment



We are subject to regulation, which increases the cost and expense of regulatory compliance and therefore reduces our net income and may restrict our growth and ability to acquire other financial institutions.

As a bank holding company under federal law, we are subject to regulation under the BHCA, and the examination and reporting requirements of the Federal Reserve. In addition to supervising and examining us, the Federal Reserve, through its adoption of regulations implementing the BHCA, places certain restrictions on the activities that are deemed permissible for bank holding companies to engage in. Changes in the number or scope of permissible activities could have an adverse effect on our ability to realize our strategic goals.

As a Utah state-chartered bank that is not a member of the Federal Reserve System, the Bank is separately subject to regulation by both the FDIC and the UDFI. The FDIC and UDFI regulate numerous aspects of the Bank's operations, including adequate capital and financial condition, permissible types and amounts of extensions of credit and investments, permissible non-banking activities and restrictions on dividend payments. The Bank undergoes periodic examinations by the FDIC and UDFI. Following such examinations, the Bank may be required, among other things, to change its respective asset valuations or the amounts of required loan loss allowances or to restrict its respective operations, as well as increase its respective capital levels, which could adversely affect our results of operations.

Supervision, regulation, and examination of PUB and the Bank by the bank regulatory agencies are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund of the FDIC, rather than holders of our common shares.

We may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with applicable laws and regulations. This allocation of resources, as well as any failure to comply with applicable requirements, may negatively impact our results of operations and financial condition.

Changes in laws, government regulation and monetary policy may have a material effect on our results of operations.

Financial institutions have been the subject of significant legislative and regulatory changes and may be the subject of further significant legislation or regulation in the future, none of which is within our control. This may result in repeals of, or amendments to, existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements and other government policies. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations, including those with respect to federal and state taxation, may cause our results of operations to differ materially. In addition, the costs and burden of compliance could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects the Bank's credit conditions, as well as for the Bank's depositors and borrowers, particularly as implemented through the Federal Reserve, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us, the Bank and the Bank's depositors and borrowers, and therefore on our results of operations.

The continuing enactment, potential repeal or amendment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material effect on our operations.

In 2010, the Dodd-Frank Act was adopted, which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are, or may include:

- increases in regulatory capital requirements and additional restrictions on the types of instruments that may satisfy such requirements;
- creation of new government regulatory agencies (particularly the CFPB, which develops and enforces rules for bank and non-bank providers of consumer financial products);
- changes to deposit insurance assessments;
- regulation of debit interchange fees we earn;
- changes in retail banking regulations, including potential limitations on certain fees we may charge;
- changes in regulation of consumer mortgage loan origination and risk retention; and
- changes in corporate governance requirements for public companies.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.



Some provisions of the Dodd-Frank Act have not been completely implemented. In addition, while PUB and the Bank will likely remain subject to extensive regulation and supervision, including as a result of the Dodd-Frank Act, the regulatory environment has entered a period of rebalancing of the post financial crisis framework. For example, on May 24, 2018, the EGRRCPA was signed into law. Among other regulatory changes, the EGRRCPA amended various sections of the Dodd-Frank Act. The EGRRCPA includes a number of provisions which are favorable to bank holding companies with total consolidated assets of less than \$10 billion, such as the Company, and also makes changes to consumer mortgage and credit reporting regulations and to the authorities of the agencies that regulate the financial industry. Because a number of the provisions included in the EGRRCPA require the federal banking agencies to undertake notice and comment rulemaking, it will likely take some time before these provisions are fully implemented and we do not know how these will ultimately impact us. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to investors in our common shares.

New and future rulemaking by the CFPB and other regulators, as well as enforcement of existing consumer protection laws, may have a material effect on our operations and operating costs.

The CFPB has the authority to implement and enforce a variety of existing federal consumer protection statutes and to issue new regulations but, with respect to institutions of our size, does not have primary examination and enforcement authority with respect to such laws and regulations. The authority to examine depository institutions with \$10 billion or less in assets, such as the Bank, for compliance with federal consumer laws remains largely with our primary federal regulator, the FDIC. However, the CFPB may participate in examinations of smaller institutions on a “sampling basis” and may refer potential enforcement actions against such institutions to their primary regulators. In some cases, regulators such as the Federal Trade Commission, or FTC, and the Department of Justice also retain certain rulemaking or enforcement authority, and we also remain subject to certain state consumer protection laws. As an independent bureau within the Federal Reserve, the CFPB may impose requirements more severe than the previous bank regulatory agencies. The CFPB has placed significant emphasis on consumer complaint management and has established a public consumer complaint database to encourage consumers to file complaints they may have against financial institutions. We are expected to monitor and respond to these complaints, including those that we deem frivolous, and doing so may require management to reallocate resources away from more profitable endeavors.

The CFPB has a number of significant rules which impact nearly every aspect of the lifecycle of a residential mortgage. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new “reasonable ability to repay” test and identify whether a loan meets a new definition for a “qualified mortgage”; (ii) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower’s principal residence; (iii) comply with additional restrictions on mortgage loan originator compensation; and (iv) comply with new disclosure requirements and standards for appraisals and escrow accounts maintained for “higher priced mortgage loans”. These rules create operational and strategic challenges for us, as we are both a mortgage originator and a servicer. For example, business models for cost, pricing, delivery, compensation, and risk management will need to be re-evaluated and potentially revised, perhaps substantially.

We are subject to stringent capital requirements.

Pursuant to the Dodd-Frank Act, the federal banking agencies adopted final rules, or the U.S. Basel III Capital Rules, to update their general risk-based capital and leverage capital requirements to incorporate agreements reflected in the Third Basel Accord adopted by the Basel Committee on Banking Supervision, or Basel III Capital Standards, as well as the requirements of the Dodd-Frank Act. The U.S. Basel III Capital Rules are described in more detail in

“Supervision and Regulation — Basel III.” In addition, in December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms, which standards are commonly referred to as Basel IV. Among other things, these standards revise the Basel Committee’s standardized approach for credit risk (including the recalibration of the risk weights and the introduction of new capital requirements for certain “unconditionally cancellable commitments,” such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators

The failure to meet the established capital requirements could result in one or more of our regulators placing limitations or conditions on our activities or restricting the commencement of new activities, and such failure could subject us to a variety of enforcement remedies available to the federal regulatory authorities, including limiting our ability to pay dividends, issuing a directive to increase our capital and terminating our FDIC deposit insurance. FDIC deposit insurance is critical to the continued operation of the Bank.

Our ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed or on terms acceptable to us. If we fail to meet these capital and other regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected. Higher capital levels could also lower our return on equity.

Our failure to meet applicable regulatory capital requirements, or to maintain appropriate capital levels in general, could affect customer and investor confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common shares, our ability to make acquisitions, and our business, results of operations and financial condition, generally.

We may be required to contribute capital or assets to the Bank that could otherwise be invested or deployed more profitably elsewhere.

Federal law and regulatory policy impose a number of obligations on bank holding companies that are designed to reduce potential loss exposure to the depositors of insured depository subsidiaries and to the FDIC's deposit insurance fund. For example, a bank holding company is required to serve as a source of financial strength to its FDIC-insured depository subsidiaries and to commit financial resources to support such institutions where it might not do so otherwise, even if we would not ordinarily do so and even if such contribution is to our detriment or the detriment of our shareholders. These situations include guaranteeing the compliance of an "undercapitalized" bank with its obligations under a capital restoration plan, as described further in this prospectus.

A capital injection into the Bank may be required at times when we do not have the resources to provide it at the holding company level, and therefore we may be required to issue common shares or debt to obtain the required capital. Issuing additional common shares would dilute our current shareholders' percentage of ownership and could cause the price of our common shares to decline. If we are required to issue debt, and in the event of a bankruptcy by PUB, the bankruptcy trustee would assume any commitment by us to a federal bank regulatory agency to maintain the capital of the Bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of PUB's general unsecured creditors, including the holders of any note obligations. Thus, any borrowing that must be done by PUB in order to make the required capital injection becomes more difficult and expensive and would adversely impact our cash flows, financial condition, results of operations and prospects. Pursuant to applicable laws and regulations, the liabilities of the Bank could harm us. Under the FDIA, we may, under certain circumstances, be responsible for liabilities of the Bank and may be responsible for damages to the FDIC.

Banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could materially and adversely affect us.

The UDFI, the FDIC, and the Federal Reserve periodically conduct examinations of our business, including compliance with laws and regulations. Accommodating such examinations may require management to reallocate resources, which would otherwise be used in the day-to-day operation of other aspects of our business. If, as a result

of an examination, the UDFI or a federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of our operations had become unsatisfactory, or that we or our management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against us, our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. FDIC deposit insurance is critical to the continued operation of the Bank. If we become subject to such regulatory actions, our business operations could be materially and adversely affected.

We face a risk of non-compliance and enforcement actions with respect to the Bank Secrecy Act and other anti-money laundering statutes and regulations.

Like all U.S. financial institutions, we are subject to monitoring requirements under federal law, including anti-money laundering, or AML, and BSA matters. Since September 11, 2001, banking regulators have intensified their focus on AML and BSA compliance requirements, particularly the AML provisions of the USA PATRIOT Act. There is also increased scrutiny of compliance with the rules enforced by the U.S. Treasury Department's OFAC, which involve sanctions for dealing with certain persons or countries. While the Bank has adopted policies, procedures and controls to comply with the BSA, other AML statutes and regulations and OFAC regulations, this aggressive supervision and examination and increased likelihood of enforcement actions may increase our operating costs, which could negatively affect our results of operations and reputation.

We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose non-discriminatory lending requirements on financial institutions. The FDIC, the Department of Justice, the CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the CRA, and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the GLBA which, among other things: (i) imposes certain limitations on our ability to share non-public personal information about our customers with non-affiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with non-affiliated third parties (with certain exceptions) and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the FTC, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher



compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

We may be unable to, or choose not to, pay dividends on our common shares.

We have declared an annual cash dividend for over 50 years. We began declaring quarterly cash dividends in 2015 with the dividend being declared after the end of each quarter. Our ability to pay dividends depends on the following factors, among others:

- PUB is a legal entity separate and distinct from the Bank and does not conduct stand-alone operations, which means that the Bank must first pay dividends to PUB; the FDIC, the UDFI and Utah state law may, under certain circumstances, prohibit the payment of dividends to PUB from the Bank;
- the Federal Reserve policy requires bank holding companies to pay cash dividends on common shares only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition; and
- our Board of Directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is necessary or appropriate in light of our business plan and objectives.

Such a failure to pay dividends may negatively impact your investment.

The price of our common shares may fluctuate significantly and our stock may have low trading volumes which may make it difficult for you to resell common shares owned by you at times or prices you find attractive.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. The markets may produce downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our common shares may fluctuate and cause significant price variations to occur. This may make it difficult for you to resell common shares owned by you at times or at prices you find attractive. The low trading volume in our common shares on the NASDAQ Capital Market means that our shares may have less liquidity than other publicly traded companies. We cannot ensure that the volume of trading in our common shares or the price of our common shares will be maintained or will increase in the future.

The impacts of recent tax reform are not yet fully known, and these and other tax regulations could be subject to potential legislative, administrative, or judicial changes or interpretations.

The tax reform bill enacted on December 22, 2017 has had, and is expected to continue to have, far-reaching and significant effects on our Company, our customers and the U.S. economy. The tax reform bill lowered the corporate federal statutory tax rate and eliminated or limited certain federal corporate deductions. It is too early to evaluate all of the potential consequences of the tax reform bill, but such consequences could include lower commercial customer borrowings, either due to the increase in cash flows as a result of the reduction in the corporate statutory tax rate or the utilization by businesses in certain sectors of alternative non-debt financing and/or early retirement of existing debt. Further, there can be no assurance that any benefits realized by us as a result of the reduction in the corporate federal statutory tax rate will ultimately result in increased net income, whether due to decreased loan yields as a result of competition or to other factors. Uncertainty also exists related to state and other taxing jurisdictions' response to federal tax reform, which will continue to be monitored and evaluated. Federal income tax treatment of corporations may be further clarified and modified by other legislative, administrative or judicial changes or interpretations at any time. Any such changes could adversely affect us.

Item 1B – Unresolved Staff Comments

None

Item 2 – Properties

We conduct our business through our executive office, located in American Fork, Utah. We conduct our business through our 26 full service retail branches in Utah, Salt Lake, Davis, Cache and Washington Counties in Utah and in Preston, Idaho. We also have a mortgage banking center and an information technology and operations center. We own all of our facilities except for six branch properties, which are leased. We also sublease portions of one of our buildings to other tenants under short-term lease arrangements. We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms, and none of the leases is with an affiliate. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

Item 3 – Legal Proceedings

There are no material pending legal proceedings to which we or our subsidiaries are a party or to which any of our properties are subject. There are no material proceedings known to us to be contemplated by any governmental authority. We are involved in a variety of litigation matters in the ordinary course of our business and anticipate that we will become involved in new litigation matters from time to time in the future.

Item 4 – Mine Safety Disclosures

Not Applicable.

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PART II

Item 5 – Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company’s shares trade on the NASDAQ Capital Market under the symbol “PUB”. As of February 28, 2019, there were approximately 1,965 shareholders of record for the Company’s common shares.

The following table summarizes the Company’s dividends declared per quarter for the periods indicated:

	Years Ended December 31,	
	2018	2017
First quarter	\$0.09	\$0.08
Second quarter	0.10	0.08
Third quarter	0.11	0.09
Fourth quarter	0.11	0.09
Total	\$0.41	\$0.34

Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations. Information regarding the regulation considerations is set forth under the heading “Supervision and Regulation” in “Item 1. Business”.

Unregistered securities

The Company did not have any unregistered securities that were sold during the year ended December 31, 2018.

Issuer stock purchases

The Company made no stock repurchases during 2018 and 2017.

Stock performance graphs

The following graphs compare the yearly cumulative total return of the Company's common stock over the period since our initial public offering on June 11, 2015 with the yearly cumulative total return on the stocks included in 1) the Russell 2000 Index; and 2) the SNL Bank Index comprised of banks and bank holding companies with total assets between \$1 billion and \$5 billion. The stock performance graph is based upon an initial investment of \$100 on June 11, 2015 and computed assuming the reinvestment of dividends at the frequency with which dividends were paid.

Item 6 – Selected Financial Data

You should read the selected financial data set forth below in conjunction with our historical consolidated financial statements and related notes and with “Item 7– Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included elsewhere in this annual report on Form 10-K.

(Dollars in thousands)	As of December 31,				
	2018	2017	2016	2015	2014
<b>Selected Balance Sheet Information:</b>					
Cash and cash equivalents	\$48,547	\$51,027	\$67,938	\$42,349	\$47,702
Investment securities	346,426	337,710	409,121	398,618	330,839
Total loans held for investment	1,678,902	1,627,444	1,119,877	1,047,975	940,457
Total assets	2,184,294	2,123,529	1,665,981	1,555,982	1,367,125
Total deposits	1,877,055	1,814,632	1,425,074	1,309,185	1,199,233
Shareholders’ equity	290,162	257,418	228,517	209,408	157,659
<b>Average balances:</b>					
Average earning assets	2,046,851	1,700,790	1,521,594	1,391,108	1,250,156
Average assets	2,172,153	1,787,810	1,598,198	1,468,942	1,331,291
Average shareholders' equity	273,601	242,759	221,044	186,889	152,788
Book value per share	15.49	13.91	12.82	11.92	10.68
Tangible book value per share <sup>(1)</sup>	13.94	12.29	12.79	11.88	10.63
Non-performing assets to total assets	0.21	% 0.18	% 0.34	% 0.51	% 0.70
Loans held for investment to deposits	89.44	% 89.68	% 78.58	% 80.05	% 78.42

(Dollars in thousands except footnotes)	Years Ended December 31,				
	2018	2017	2016	2015	2014
<b>Summary Income Statement Information:</b>					
Interest income	\$115,352	\$83,980	\$72,755	\$64,601	\$58,203
Interest expense	7,174	3,342	2,874	2,961	3,260
Net interest income	108,178	80,638	69,881	61,640	54,943
Provision for loan losses	8,625	2,750	900	1,000	1,700
Net interest income after provision for loan losses	99,553	77,888	68,981	60,640	53,243
Non-interest income	15,129	14,394	14,610	13,987	13,105
Non-interest expense	61,996	55,959	46,708	44,751	43,197
Income before income tax expense	52,686	36,323	36,883	29,876	23,151
Income tax expense	12,054	16,477	13,273	10,262	8,246
Net income	\$40,632	\$19,846	\$23,610	\$19,614	\$14,905

<b>Selected financial ratios:</b>					
Basic earnings per share	\$2.18	\$1.10	\$1.33	\$1.21	\$1.02
Diluted earnings per share	2.14	1.08	1.30	1.17	0.98
Cash dividends per common share <sup>(4)</sup>	0.41	0.34	0.29	0.18	0.22
Dividend ratio <sup>(4)</sup>	18.84	% 30.77	% 21.77	% 15.22	% 21.76
Net interest margin <sup>(2)</sup>	5.29	% 4.74	% 4.59	% 4.43	% 4.39

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Non-interest income to average assets	0.70	%	0.81	%	0.91	%	0.95	%	0.98	%
Non-interest expense to average assets	2.85	%	3.13	%	2.92	%	3.05	%	3.24	%
Efficiency ratio	50.28	%	58.88	%	55.28	%	59.17	%	63.48	%
Return on average assets	1.87	%	1.11	%	1.48	%	1.34	%	1.12	%
Return on average equity	14.85	%	8.18	%	10.68	%	10.49	%	9.76	%
Net charge-offs (recoveries) to average loans	0.10	%	0.09	%	-0.02	%	0.06	%	0.11	%
Capital Ratios:										
Tier 1 leverage capital	12.27	%	11.46	%	13.71	%	13.42	%	11.32	%
Total risk-based capital	16.36	%	14.67	%	20.19	%	19.02	%	16.01	%
Average equity to average assets	12.60	%	13.58	%	13.83	%	12.72	%	11.48	%
Tangible common equity to tangible assets <sup>(3)</sup>	12.11	%	10.87	%	13.69	%	13.42	%	11.48	%

- (1) Represents the sum of total shareholders' equity less intangible assets all divided by common shares outstanding. Intangible assets were \$29.1 million, \$29.9 million, \$581,000, \$679,000, and \$776,000 at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.
- (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.
- (4) Dividends per common share for 2015 do not include a dividend on fourth quarter of 2015 earnings of \$0.07 per share which was declared and paid subsequent to December 31, 2015. Total dividends declared on 2015 earnings were \$0.25 per share or a dividend yield of 21.52%.



Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to provide a comprehensive review of People’s Utah Bancorp’s (“Company”, “PUB”) operating results and financial condition. The information contained in this section should be read in conjunction with Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements in this Form 10-K.

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K may contain certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, (“Securities Act”), and section 21E of the Securities Exchange Act of 1934, as amended, (“Exchange Act”). These forward-looking statements reflect our current views and are not historical facts. These statements may include statements regarding projected performance for periods following the date of this report. 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 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 final 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 forward-looking statements 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 and other parts of this annual report on Form 10-K 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 annual report on Form 10-K:

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

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.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in “Item 1A. Risk Factors.” Please take into account that forward-looking statements speak only as of the date of this Annual Report on Form 10-K (or documents incorporated by reference, if applicable). The Company does not undertake any obligation to publicly correct or update any forward-looking statement if it later

becomes aware that actual results are likely to differ materially from those expressed in such forward-looking statement.

## Overview

PUB is the holding company for People's Intermountain Bank ("Bank, "PIB"). 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; 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.

We believe our recent loan growth is the result of mergers and acquisitions, as well as organic growth 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.

## Critical Accounting Policies

Our financial statements are prepared in accordance with GAAP. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established detailed policies and control procedures intended to ensure that valuation methods are well-controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The application of these policies has a significant impact on the Company's consolidated financial statements and financial results could differ materially if different judgments or estimates were to be applied. In the opinion of management, the accompanying Consolidated Statements of Financial Condition and related Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows reflect all adjustments (which include reclassification and normal recurring adjustments) that are necessary for a fair presentation in conformity with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Our significant accounting policies are described in detail in Note 1, Summary of Significant Accounting Policies in "Item 8. Financial Statements and Supplemental Data."

Use of Estimates — The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates the estimates used. Estimates are based upon historical experience, current economic conditions and other factors that management considers reasonable under the circumstances and the actual results may differ from these estimates under different assumptions. The allowance for loan losses, the valuation of real estate acquired through foreclosure, deferred income taxes, share-based compensation, and fair values of financial instruments are estimates which are particularly subject to change.

**Allowance for Loan and Lease Losses** — The allowance for loan losses represents our estimate of probable losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries.

We evaluate our allowance for loan losses quarterly based on a number of quantitative and qualitative factors, including levels and trends of past due and non-accrual loans, asset classifications, loan grades, change in volume and mix of loans, collateral value, historical loss experience, size and complexity of individual credits, loan concentrations and economic conditions. Allowance for loan losses is provided on both a specific and general basis. Specific allowances are provided for impaired credits for which the expected/anticipated loss is measurable. General valuation allowances are based on a portfolio segmentation based on risk grading, with a further evaluation of various quantitative and qualitative factors noted above.

We believe that the level of ALLL as of December 31, 2018 and 2017, were adequate to absorb losses inherent in the loan portfolio.

**Investment Securities** — GAAP requires that investment securities available for sale be carried at fair value which is based on quoted market prices or if quoted market prices are not available, fair values are extrapolated from the quoted prices of similar instruments. Management utilizes the services of a reputable third party vendor to assist with the determination of estimated fair values. Unrealized holding gains and losses on securities classified as available for sale are excluded from earnings and are reported net of tax as accumulated other comprehensive income (“AOCI”), a component of shareholders’ equity, until realized.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and our intent and ability to retain our investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term “other than temporary” is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary and we do not intend to sell the security or it is more likely than not that we will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that we will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

**Business Combinations** — Business combinations are accounted for using the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed, both tangible and intangible, and consideration exchanged are recorded at fair value on the acquisition date. The excess purchase consideration over fair value of net assets acquired is recorded as goodwill. Expenses resulting from a business combination are expensed as incurred. Changes in deferred tax asset valuation allowances related to acquired tax uncertainties are recognized in net income after the measurement period.

**Acquired Loans** — Purchased loans, including loans acquired in business combinations, are recorded at fair value on the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on 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 non-accretable difference on PCI loans is not accreted to interest income. The accounting for PCI loans

is periodically updated for changes in cash flow expectations, and reflected in interest income over the life of the loans as accretable yield. Any subsequent decreases in expected cash flows attributable to credit deterioration are recognized by recording a provision for loan losses.

For purchased non-credit-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loans. Any subsequent deterioration in credit quality is recognized by recording a provision for loan losses.

**Goodwill** — Goodwill represents the excess of the purchase considerations paid over the fair value of the assets acquired, net of the fair values of liabilities assumed in a business combination and is not amortized but is reviewed annually, or more frequently as current circumstances and conditions warrant, for impairment. An assessment of qualitative factors is completed to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative analysis concludes that further analysis is required, then a quantitative impairment test would be completed. The quantitative goodwill impairment compares the reporting unit's estimated fair values, including goodwill, to its carrying amount. If the carrying amount exceeds its reporting unit's fair value, then an impairment loss would be recognized as a charge to earnings, but is limited by the amount of goodwill allocated to that reporting unit.

**Other Intangible Assets** — Other intangible assets consists primarily of core deposit intangibles (“CDI”), which are amounts recorded in business combinations or deposit purchase transactions related to the value of transaction-related deposits and the value of the customer relationships associated with the deposits. Core deposit intangibles are amortized over the estimated useful life of such deposits. These assets are reviewed at least annually for events or circumstances that could impact their recoverability. These events could include loss of the underlying core deposits, increased competition or adverse changes in the economy. To the extent other identifiable intangible assets are deemed unrecoverable, impairment losses are recorded in other non-interest expense to reduce the carrying amount of the assets.

**Mortgage and Other Servicing Rights** — Mortgage and other servicing rights are recognized as separate assets when rights are acquired through purchase of such rights or through the sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For loans sold, the value of the servicing rights are estimated and capitalized. Fair value is based on market prices for comparable servicing rights contracts. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

**Income Taxes** — We file income taxes on a consolidated basis with our subsidiaries and allocate income tax expense (benefit) based on each entity's proportionate share of the consolidated provision for income taxes. Deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is “more likely than not” that all or a portion of the deferred income tax asset will not be realized. “More likely than not” is defined as greater than a 50% probability. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

Only tax positions that meet the more-likely-than-not recognition threshold are recognized. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits are classified as income tax expense in the consolidated statements of income.

Share-Based Compensation — We recognize compensation expense in an amount equal to the fair value of all share-based payments which consist of stock options and restricted stock units (“RSU”) granted to directors and associates. The fair value of each stock option is estimated on the date of grant and amortized over the service period using a Black-Scholes based option valuation model that requires the use of assumptions to estimate the grant date fair value. The estimates are based on assumptions of the expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. The calculation of the fair value of share-based payments is by nature inexact, and represents management’s best estimate of the grant date’s fair value of the share-based payments. RSUs are valued at the fair value of the common shares at the date of grant and amortized over the vesting period.



### Impact of Recently Issued Accounting Standards

New authoritative accounting guidance from the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) that has either been issued or is effective during 2018 or 2017 and may possibly have a material impact on the Company includes amendments to:

- ✦ FASB ASC Topic 220, Balance Sheet;
- ✦ FASB ASC Subtopic 310-20, Nonrefundable Fees and Other Costs;
- ✦ FASB ASC Topic 326, Financial Statements-Credit Losses;
- ✦ FASB ASC Topic 606, Revenue from Contracts with Customers;
- ✦ FASB ASC Topic 820, Fair Value Measurement;
- ✦ FASB ASC Subtopic 825-10, Overall Financial Instruments; and
- ✦ FASB ASC Topic 842, Leases.

For additional information on the topics and the impact on the Company see Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data.”

### 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 it provides 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 losses on the sale of securities to increase our liquidity position for the acquisition of the Utah branches of Banner Bank, and the write-down of our deferred income tax assets due to the reduction in the Federal corporate income tax rate from revenues, non-interest income, and other earnings information, as we believe these items are not part of our core operations.

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. See “Financial Overview for the Years Ended December 31, 2018 and 2017” for more detailed information about our financial performance.

Non-GAAP Financial Measures

(Dollars in thousands)	Years Ended December 31,		
	2018	2017	2016
<b>Revenue from Core Operations</b>			
Net interest income (GAAP)	\$108,178	\$80,638	\$69,881
Total non-interest income	15,129	14,394	14,610
Total GAAP revenues	123,307	95,032	84,491
Exclude net (gain) loss on sale of investment securities	(336 )	499	91
Revenue from core operations (non-GAAP)	\$122,971	\$95,531	\$84,582
<b>Non-interest Income from Core Operations</b>			
Total non-interest income (GAAP)	\$15,129	\$14,394	\$14,610
Exclude net (gain) loss on sale of investment securities	(336 )	499	91
Non-interest income from core operations (non-GAAP)	\$14,793	\$14,893	\$14,701
<b>Non-interest Expense from Core Operations</b>			
Total non-interest expense (GAAP)	\$61,996	\$55,959	\$46,708
Exclude acquisition-related costs	(232 )	(4,784 )	-
Non-interest expense from core operations (non-GAAP)	\$61,764	\$51,175	\$46,708
<b>Net Income from Core Operations</b>			
Net income (GAAP)	\$40,632	\$19,846	\$23,610
Exclude net (gain) loss on sale of investment securities	(336 )	499	91
Exclude acquisition-related costs	232	4,784	-
Exclude tax related benefit	24	(1,709 )	(33 )
Write down of deferred income tax assets (DTA)	-	4,729	