

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-37416

PEOPLE'S UTAH BANCORP

(Exact name of registrant as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	87-0622021 (IRS Employer Identification No.)
---	--

1 East Main Street, American Fork, Utah (Address of principal executive offices)	84003 (Zip Code)
---	---------------------

(801) 642-3998

Registrant's telephone number, including area code

Not Applicable

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

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

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

Large accelerated filer

Accelerated filer

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
Item 1 – Financial Statements	
<u>Unaudited Consolidated Balance Sheets</u>	3
<u>Unaudited Consolidated Statements of Income</u>	4
<u>Unaudited Consolidated Statements of Comprehensive Income</u>	5
<u>Unaudited Consolidated Statements of Changes in Shareholders’ Equity</u>	6
<u>Unaudited Consolidated Statements of Cash Flows</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3 – Quantitative and Qualitative Disclosure about Market Risk</u>	40
<u>Item 4 – Controls and Procedures</u>	40
PART II. OTHER INFORMATION	
<u>Item 1 – Legal Proceedings</u>	40
<u>Item 1A – Risk Factors</u>	40
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 3 – Defaults upon Senior Securities</u>	40
<u>Item 4 – Mine Safety Disclosures</u>	40
<u>Item 5 – Other Information</u>	41
<u>Item 6 – Exhibits</u>	41
<u>Signatures</u>	42

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

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

and 17,567,154 shares issued and outstanding as of September 30, 2016

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

Supplemental disclosures of cash flow information:

Cash paid for interest	\$1,915	\$2,032
Income taxes paid	9,163	\$7,380

Supplemental disclosures of non-cash transactions:

Reclassifications from loans to other real estate owned	\$237	\$-
Unrealized gains on securities available for sale	\$2,125	\$799

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

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

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

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

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

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

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

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 — Basis of Presentation – Continued

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

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

Note 2 — Investment Securities

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

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

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

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 — Investment Securities – continued

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

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

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

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

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

Non-accrual loans are summarized as follows:

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

Troubled debt restructured loans are summarized as follows:

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

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

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

(in thousands)	September 30, 2016				Total Past Due	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual		
Commercial real estate:						
Real estate term	\$574,515	\$640	\$ —	\$ 3,307	\$3,947	\$578,462
Construction and land development	234,000	598	—	752	1,350	235,350
Total commercial real estate	808,515	1,238	—	4,059	5,297	813,812
Commercial and industrial	204,327	494	—	622	1,116	205,443
Consumer:						
Residential and home equity	74,953	466	—	152	618	75,571
Consumer and other	14,765	226	2	69	297	15,062
Total consumer	89,718	692	2	221	915	90,633
Total gross loans	\$1,102,560	\$2,424	\$ 2	\$ 4,902	\$7,328	\$1,109,888
(in thousands)	December 31, 2015				Total Past Due	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual		
Commercial real estate:						
Real estate term	\$567,886	\$5,804	\$ —	\$ 4,114	\$9,918	\$577,804
Construction and land development	170,495	7,784	—	1,385	9,169	179,664
Total commercial real estate	738,381	13,588	—	5,499	19,087	757,468
Commercial and industrial	205,765	1,315	—	1,197	2,512	208,277
Consumer:						
Residential and home equity	69,950	588	—	631	1,219	71,169
Consumer and other	14,596	258	3	88	349	14,945
Total consumer	84,546	846	3	719	1,568	86,114
Total gross loans	\$1,028,692	\$15,749	\$ 3	\$ 7,415	\$23,167	\$1,051,859

Credit Quality Indicators:

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

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

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

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

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

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

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

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

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

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

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

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

Information on impaired loans is summarized as follows:

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

December 31, 2015
Recorded Investment

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Concluded

The interest income recognized on impaired loans was as follows:

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

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

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

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

Note 4 — Income Taxes

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 — Commitments and Contingencies

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

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

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

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

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

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

Note 6 — Regulatory Capital Matters

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

Note 7 — Shareholders' Equity

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Note 9 — Fair Value

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

Level Quoted prices in active markets for identical assets or liabilities.

1

Level Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in
2 less active markets, or other observable inputs that can be corroborated by observable market data.

Level Unobservable inputs supported by little or no market activity for financial instruments whose value is
3 determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 — Fair Value – Continued

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

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

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

Assets measured at fair value are summarized as follows:

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 — Fair Value – Continued

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

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

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

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

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

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

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

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

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

disclosure requirements. Therefore, the fair value amounts shown in the table do not, by themselves, represent the underlying value of the Company as a whole.

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

circumstances after the date of this Form 10-Q.

21

Overview

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

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

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

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

Key Factors in Evaluating Our Financial Condition and Results of Operations

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

Return on average equity;

- Return on average assets;

Asset quality;

Asset growth;

Capital and liquidity;

Net interest margin; and

Operating efficiency.

The chart below shows these key financial measures:

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

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

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

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

additional equity of \$34.9 million from our IPO. Future returns on average equity may be impacted by the additional equity from the IPO.

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

- (2) Calculated on a fully tax equivalent basis using an assumed tax rate of 35%, which includes federal tax benefits relating to income earned on municipal securities totaling \$207,000 and \$215,000 for the three months ended September 30, 2016 and 2015, respectively.
- (3) Loan interest income includes loan fees of \$1.6 million and \$1.4 million for the three months ended September 30, 2016 and 2015, respectively.
- (4) Average loans do not include average non-accrual loans of \$5.1 million and \$9.1 million for the three months ended September 30, 2016 and 2015, respectively, which are included in non-interest earning assets.
- (5) Net interest margin is computed by dividing net interest income (tax-equivalent) by average interest earning assets.

Edgar Filing: People's Utah Bancorp - Form 10-Q

(Dollars in thousands, except footnotes)	Nine Months Ended September 30, 2016			September 30, 2015		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Interest earning deposits in other banks and federal funds sold	\$31,990	\$112	0.47 %	\$62,228	\$114	0.24 %
Securities: ⁽¹⁾						
Taxable securities	278,746	3,196	1.53 %	247,586	2,863	1.55 %
Non-taxable securities ⁽²⁾	90,063	1,918	2.84 %	78,799	1,832	3.11 %
Loans ⁽³⁾⁽⁴⁾	1,088,091	49,147	6.03 %	972,541	43,250	5.95 %
Non-marketable equity securities	2,208	8	0.48 %	2,185	3	0.18 %
Total interest earning assets	1,491,098	\$54,381	4.87 %	1,363,339	\$48,062	4.71 %
Allowance for loan losses	(15,878)			(15,381)		
Non-interest earning assets	97,941			89,764		
Total average assets	\$1,573,161			\$1,437,722		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing deposits:						
Demand and savings accounts	\$595,333	\$1,249	0.28 %	\$549,385	\$1,147	0.28 %
Money market accounts	146,035	258	0.24 %	142,493	241	0.23 %
Certificates of deposit, under \$100,000	96,057	238	0.33 %	107,630	338	0.42 %
Certificates of deposit, \$100,000 and over	74,889	378	0.67 %	84,182	501	0.80 %
Total interest bearing deposits	912,314	2,123	0.31 %	883,690	2,227	0.34 %
Short-term borrowings	15,006	39	0.35 %	2,149	3	0.19 %
Total interest bearing liabilities	927,320	\$2,162	0.31 %	885,839	\$2,230	0.34 %
Other non-interest bearing liabilities	427,083			372,501		
Shareholders' equity	218,758			179,382		
Total average liabilities and shareholders' equity	\$1,573,161			\$1,437,722		
Net interest income (tax-equivalent)		\$52,219			\$45,832	
Interest rate spread (tax-equivalent)			4.56 %			4.38 %
Net interest margin (tax-equivalent) ⁽⁵⁾			4.68 %			4.49 %

⁽¹⁾Excludes average unrealized gains of \$1.4 million and \$1.8 million for the nine months ended September 30, 2016 and 2015, respectively, which are included in non-interest earning assets.

⁽²⁾Calculated on a fully tax equivalent basis using an assumed tax rate of 35%, which includes federal tax benefits relating to income earned on municipal securities totaling \$671,000 and \$641,000 for the nine months ended September 30, 2016 and 2015, respectively.

⁽³⁾Loan interest income includes loan fees of \$4.4 million and \$3.5 million for the nine months ended September 30, 2016 and 2015, respectively.

⁽⁴⁾Average loans do not include average non-accrual loans of \$5.6 million and \$7.8 million for the nine months ended September 30, 2016 and 2015, respectively, which are included in non-interest earning assets.

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

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

(in thousands)	Three Months Ended September 30, 2016 vs. 2015			Nine Months Ended September 30, 2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease) Due to:		
	Due to: Volume	Rate	Net	Due to: Volume	Rate	Net
Interest income:						
Interest earning deposits in other banks and federal funds sold	\$(15)	\$40	\$25	\$(73)	\$71	\$(2)
Taxable securities	49	(12)	37	357	(24)	333
Non-taxable securities ⁽¹⁾	19	(45)	(26)	248	(162)	86
Loans	1,761	20	1,781	5,210	688	5,898
Federal Home Loan Bank stock	-	3	3	-	5	5
Total interest income (tax-equivalent)	1,814	6	1,820	5,742	578	6,320
Interest expense:						
Demand and savings accounts	43	(2)	41	96	5	101
Money market accounts	(1)	(2)	(3)	6	11	17
Certificates of deposit, under \$100,000	(9)	(18)	(27)	(34)	(66)	(100)
Certificates of deposit, \$100,000 and over	(12)	(20)	(32)	(52)	(71)	(123)
Short-term borrowings	-	-	-	31	5	36
Total interest expense	21	(42)	(21)	47	(116)	(69)
Net interest income (tax-equivalent)	\$1,793	\$48	\$1,841	\$5,695	\$694	\$6,389

⁽¹⁾Tax equivalent income calculated on a fully tax-equivalent basis using an assumed tax rate of 35%.

Net interest income (tax-equivalent) increased \$1.8 million for the three months ended September 30, 2016 compared to the same period in 2015. The increase in interest income was primarily driven by increased organic loan volumes. Additional increases in interest income from slightly higher loan yields were offset by lower average rates on investment securities. Additionally, interest expense also decreased for the three months ended September 30, 2016 compared to the same period in 2015 due principally to lower deposit interest rates.

Net interest income (tax-equivalent) increased \$6.4 million for the nine months ended September 30, 2016 compared to the same period in 2015. The increase in interest income was primarily driven by increased organic loan volumes and higher loan yields, offset by lower average rates on investment securities. Additionally, interest expense also decreased for the nine months ended September 30, 2016 compared to the same period in 2015 due primarily from lower deposit interest rates.

Financial Overview for the Three Months Ended September 30, 2016 and 2015

(in thousands)	Three Months Ended		\$	%	
	September 30, 2016	September 30, 2015			
Interest income	\$18,347	\$16,519	\$1,828	11.1	%
Interest expense	710	730	(20)	-2.7	%
Net interest income	17,637	15,789	1,848	11.7	%
Provision for loan losses	325	200	125	62.5	%
Net interest income after provision for loan losses	17,312	15,589	1,723	11.1	%
Non-interest income	4,386	3,965	421	10.6	%
Non-interest expense	11,902	11,444	458	4.0	%
Income before income tax expense	9,796	8,110	1,686	20.8	%
Income tax expense	3,548	2,844	704	24.8	%
Net income	\$6,248	\$5,266	\$982	18.6	%

Net Income. Our net income grew by \$982,000 or 18.6% to \$6.2 million for the quarter ended September 30, 2016 as compared to \$5.3 million for the same quarter in 2015. This was attributable principally to an increase in net interest income of \$1.8 million, higher non-interest income of \$421,000, and offset by an increase of \$125,000 in provision for loan losses, \$458,000 in non-interest expenses and \$704,000 of higher income tax expense.

Net Interest Income and Net Interest Margin. The increase in net interest income for the quarter ended September 30, 2016 compared to the same quarter in 2015 was primarily driven by interest earned on a higher volume in average loans attributable to organic growth. An increase in interest income from slightly higher loan yields was offset by a decrease from lower yields on investment securities. Interest expense in the quarter ended September 30, 2016 decreased from the same period in 2015 due to lower rates paid on deposits. Construction and land development loans (“C & D loans”) are our highest yielding assets within our earning asset mix and represents 21.2% of gross loans as of September 30, 2016. If C & D loan activity declines as a percentage of earning asset mix in future quarters, the net interest margin could decline from current levels.

The tax-equivalent yield on our average interest earning assets was 4.84% for the quarter ended September 30, 2016 compared to 4.70% for the comparable quarter in 2015. The cost of funding our earning assets declined in the quarter ended September 30, 2016 to 0.30% from 0.33% in the comparable quarter in 2015 because of lower rates paid on deposits and accretion of fair value adjustments to certificates of deposit.

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

The provision for loan losses for the quarters ended September 30, 2016 and 2015 was \$325,000 and \$200,000, respectively. We have experienced net charge-offs of \$296,000 in the current quarter compared to \$328,000 in the comparable quarter in 2015. The provision for loan losses in both periods was primarily due to the impact of the charge-offs and relative increases in loan balances.

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

(in thousands)	Three Months Ended		\$	%	
	September 30,	September 30,			
Service charges on deposit accounts	\$582	\$ 613	\$ (31)	-5.1	%
Card processing	1,129	1,079	50	4.6	%
Mortgage banking	2,244	1,841	403	21.9	%
Other operating	431	432	(1)	-0.2	%
Total non-interest income	\$4,386	\$ 3,965	\$ 421	10.6	%

The increase in total non-interest income during the quarter ended September 30, 2016 compared to the same quarter in 2015 was primarily influenced by higher mortgage banking income from higher mortgage volumes, offset by lower service charges on deposit accounts primarily due to a reduced volume of processed and returned items in the third quarter of 2016.

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

(in thousands)	Three Months Ended		\$	%	
	September 30, 2016	September 30, 2015			
Salaries and employee benefits	\$7,674	\$ 7,323	\$ 351	4.8	%
Occupancy, equipment and depreciation	1,101	969	132	13.6	%
Data processing	665	729	(64)	-8.8	%
FDIC premiums	124	186	(62)	-33.3	%
Card processing	509	512	(3)	-0.6	%
Marketing and advertising	301	279	22	7.9	%
Other	1,528	1,446	82	5.7	%
Total non-interest expense	\$11,902	\$ 11,444	\$ 458	4.0	%

Non-interest expense for the third quarter of 2016 increased \$458,000 compared to the comparable period in 2015, primarily due to higher salaries and benefits of \$0.4 million and various other expenses of \$0.1 million, including expenses related primarily to higher occupancy, marketing and other costs, and offset by lower data processing and lower rates on FDIC premiums. During the third quarter of 2016 we received an infrequent health insurance premium refund of \$345,000 related to a prior year. The increase in salaries and benefits is primarily due to annual salary increases, higher variable compensation costs, higher payroll tax and medical benefits (net of the insurance refund) to support our balance sheet and income growth.

Provision for Income Taxes. We recorded a tax provision of \$3.5 million for the third quarter ended September 30, 2016 compared to \$2.8 million for the same period in 2015. The effective tax rate for the third quarter of 2016 was 36.2% compared to 35.1% in the corresponding third quarter of 2015. The tax rate in 2016 is higher than 2015 due primarily to a one-time tax credit of approximately \$400,000 in 2015.

Financial Overview for the Nine Months Ended September 30, 2016 and 2015

(in thousands)	Nine Months Ended		\$	%	
	September 30, 2016	September 30, 2015			
Interest income	\$53,710	\$ 47,421	\$ 6,289	13.3	%
Interest expense	2,162	2,230	(68)	-3.0	%
Net interest income	51,548	45,191	6,357	14.1	%
Provision for loan losses	750	800	(50)	-6.3	%
Net interest income after provision for loan losses	50,798	44,391	6,407	14.4	%
Non-interest income	12,547	12,252	295	2.4	%
Non-interest expense	36,437	34,146	2,291	6.7	%
Income before income tax expense	26,908	22,497	4,411	19.6	%

Edgar Filing: People's Utah Bancorp - Form 10-Q

Income tax expense	9,840	7,769	2,071	26.7	%
Net income	\$17,068	\$14,728	\$2,340	15.9	%

Net Income. Our net income grew by \$2.3 million or 15.9% to \$17.1 million for the nine months ended September 30, 2016 as compared to \$14.7 million for the same period in 2015. This was attributable principally to an increase in net interest income of \$6.4 million, higher non-interest income of \$295,000, a slightly lower loan loss provision expense of \$50,000, offset by an increase of \$2.3 million in non-interest expenses and \$2.1 million of higher income tax expense.

Net Interest Income and Net Interest Margin. The increase in net interest income for the nine months ended September 30, 2016 compared to the same period in 2015 was primarily driven by interest earned on a higher volume in average loans attributable to internal growth, which contributed to a higher mix of loans in our earning assets portfolio. An increase in interest income from higher loan yields was offset by a decrease from lower yields on investment securities. Interest expense in the nine months ended September 30, 2016 declined from the same period in 2015 due to lower rates paid on deposits.

The tax-equivalent yield on our average interest earning assets was 4.87% for the nine months ended September 30, 2016 compared to 4.71% for the comparable quarter in 2015. The cost of funding our earning assets declined in the nine months ended

September 30, 2016 to 0.31% from 0.34% in the comparable period in 2015 because of lower rates paid on deposits and accretion of fair value adjustments to certificates of deposit.

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

The provision for loan losses for the nine months ended September 30, 2016 and 2015 was \$750,000 and \$800,000, respectively. We have experienced improving credit quality in our loan portfolio and experienced net charge-offs of \$126,000 and \$424,000 during the nine months ended September 30, 2016 and 2015, respectively. The provision for loan losses in both periods was primarily due to the impact of the charge-offs and relative increases in loan balances.

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

(in thousands)	Nine Months Ended		\$	%	
	September 30, 2016	September 30, 2015			
Service charges on deposit accounts	\$1,626	1,870	\$ (244)	-13.0	%
Card processing	3,296	3,147	149	4.7	%
Mortgage banking	6,269	5,638	631	11.2	%
Other operating	1,356	1,597	(241)	-15.1	%
Total non-interest income	\$12,547	\$12,252	\$ 295	2.4	%

The increase in total non-interest income during the nine months ended September 30, 2016 compared to the same period in 2015 was primarily influenced by higher mortgage banking income from higher mortgage volumes, higher card processing fees, offset by lower service charges on deposit accounts primarily due to reduced volume of processed and returned items in the nine months ended September 30, 2016. The nine months ended September 30, 2015 included a gain of approximately \$330,000 on the sale of other foreclosed assets during the period.

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

(in thousands)	Nine Months Ended		\$	%	
	September 30, 2016	September 30, 2015			
Salaries and employee benefits	\$23,517	21,825	\$ 1,692	7.8	%
Occupancy, equipment and depreciation	3,165	2,914	251	8.6	%
Data processing	2,112	2,020	92	4.6	%
FDIC premiums	507	564	(57)	-10.1	%
Card processing	1,648	1,516	132	8.7	%
Marketing and advertising	760	656	104	15.9	%

Edgar Filing: People's Utah Bancorp - Form 10-Q

Other	4,728	4,651	77	1.7	%
Total non-interest expense	\$36,437	\$ 34,146	\$ 2,291	6.7	%

Non-interest expense for the nine months ended 2016 increased \$2.3 million compared to the comparable period in 2015, primarily due to higher salaries and benefits of \$1.7 million and various other expenses of \$0.6 million, including expenses related primarily to higher occupancy, card processing, marketing and other expenses. During the third quarter of 2016 we received an infrequent health insurance premium refund of \$345,000 related to a prior year. The increase in salaries and benefits during the year-to-date period in 2016 is primarily from annual salary increases, higher variable compensation costs, higher payroll tax and medical benefits (net of the insurance refund) and new hires related to the expansion of our leasing division to support our balance sheet and income growth.

Provision for Income Taxes. We recorded a tax provision of \$9.8 million for the nine months ended September 30, 2016 compared to \$7.8 million for the same period in 2015. The effective tax rate for the first nine months of 2016 was 36.6% compared to 34.5% in the comparable period of 2015. The tax rate in 2016 is higher than 2015 due primarily to a one-time tax credit of approximately \$400,000 in 2015 and due to adjustments in the expected recoverability of certain tax credits in 2016.

Financial Condition

Our total assets as of September 30, 2016 were \$1.65 billion, a 6.3% increase compared to December 31, 2015. Our total loans held for investment as of September 30, 2016 were \$1.11 billion, an increase of 5.5% from December 31, 2015. Total deposits as of September 30, 2016 were \$1.41 billion, an increase of 7.8% compared to December 31, 2015. We had approximately \$25 million in Federal Home Loan Bank borrowings as of December 31, 2015, which was paid down during the second quarter of 2016.

Loans

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

	September 30, 2016	December 31, 2015
(Dollars in thousands)		
Loans held for sale	\$ 15,178	\$ 17,947
Loans held for investment:		
Commercial real estate loans:		
Real estate term	578,462	577,804
Construction and land development	235,350	179,664
Total commercial real estate loans	813,812	757,468
Commercial and industrial	205,443	208,277
Consumer loans:		
Residential and home equity	75,571	71,169
Consumer and other	15,062	14,945
Total consumer loans	90,633	86,114
Total gross loans	1,109,888	1,051,859
Net deferred loan fees	(4,490)	(3,884)
Allowance for loan losses	(16,181)	(15,557)
Loans held for investment, net	1,089,217	1,032,418
Total loans, net	\$ 1,104,395	\$ 1,050,365

	September 30, 2016	December 31, 2015
(Percentage of total loans held for investment)		
Loans held for investment:		
Commercial real estate loans:		
Real estate term	52.1 %	54.9 %
Construction and land development	21.2 %	17.1 %
Total commercial real estate loans	73.3 %	72.0 %
Commercial and industrial	18.5 %	19.8 %

Edgar Filing: People's Utah Bancorp - Form 10-Q

Consumer loans:				
Residential and home equity	6.8	%	6.8	%
Consumer and other	1.4	%	1.4	%
Total consumer loans	8.2	%	8.2	%
Total loans held for investment	100.0	%	100.0	%

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

The following tables show the amounts of outstanding loans, which, based on remaining scheduled repayments of principal, were due in one year or less, more than one year through five years, and more than five years. Lines of credit or other loans having no stated maturity and no stated schedule of repayments are reported as due in one year or less. In the table below, loans are classified as real estate related if they are collateralized by real estate. The tables also present, for loans with maturities over one year, an analysis with respect to fixed interest rate loans and adjustable interest rate loans.

Contractual maturities as of September 30, 2016 are as follows:

(in thousands)	Maturity			Total	Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	After Five Years		Fixed Rate	Adjustable Rate
Loans held for investment:						
Commercial real estate loans:						
Real estate term	\$56,243	\$234,768	\$287,451	\$578,462	\$159,509	\$362,710
Construction and land development	205,662	26,263	3,425	235,350	18,210	11,478
Total commercial real estate loans	261,905	261,031	290,876	813,812	177,719	374,188
Commercial and industrial	85,937	90,304	29,202	205,443	80,683	38,823
Consumer loans:						
Residential and home equity	13,320	22,536	39,715	75,571	10,969	51,282
Consumer and other	6,444	7,233	1,385	15,062	8,151	467
Total consumer loans	19,764	29,769	41,100	90,633	19,120	51,749
Total gross loans held for investment	\$367,606 ⁽¹⁾	\$381,104	\$361,178	\$1,109,888	\$277,522	\$464,760 ⁽¹⁾

⁽¹⁾The sum of adjustable rate loans maturing after one year and total loans maturing within one year is \$832 million or 75.0% of total loans at September 30, 2016.

Concentrations. As of September 30, 2016, in management's judgment, a concentration of loans existed in real estate related loans. At that date, real estate related loans comprised 80.1% of total loans held for investment, of which commercial real estate represents 52.1%, 21.2% are construction and land development loans, and 6.8% are residential and home equity loans. We require collateral on real estate lending arrangements and typically maintain loan-to-value ratios of up to 80%, except for some residential construction loans of up to 95% loan-to-value provided the loan includes pre-approved long-term financing. Although our concentration in commercial and industrial loans has decreased primarily from paydowns to 18.5% as of September 30, 2016 from 19.8% as of December 31, 2015, we have been changing our loan portfolio mix since 2011 resulting in an increase in our concentration of commercial and industrial loans from 15.1% as of December 31, 2011.

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

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

(Dollars in thousands)	September 30, 2016	December 31, 2015		
Non-accrual loans, not troubled-debt restructured				
Real estate term	\$ 2,483	\$ 2,961		
Construction and land development	85	56		
Commercial and industrial	605	1,176		
Residential and home equity	152	631		
Consumer and other	69	88		
Total non-accrual, not troubled-debt restructured loans	3,394	4,912		
Troubled-debt restructured loans non-accrual				
Real estate term	824	1,153		
Construction and land development	667	1,329		
Commercial and industrial	17	21		
Residential and home equity	—	—		
Consumer and other	—	—		
Total troubled-debt restructured, non-accrual loans	1,508	2,503		
Total non-accrual loans ⁽¹⁾	4,902	7,415		
Accruing loans past due 90 days or more	2	3		
Total non-performing loans (NPL)	4,904	7,418		
OREO	407	568		
Total non-performing assets (NPA) ⁽²⁾	\$ 5,311	\$ 7,986		
Accruing troubled debt restructured loans	\$ 6,006	\$ 7,049		
Non-accrual troubled debt restructured loans	1,508	2,503		
Total troubled debt restructured loans	\$ 7,514	\$ 9,552		
Selected ratios:				
NPL to total loans	0.45	%	0.72	%
NPA to total assets	0.32	%	0.51	%

⁽¹⁾ We estimate that approximately \$272,000 and \$453,000 of interest income would have been recognized on loans accounted for on a non-accrual basis for the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively, had such loans performed pursuant to contractual terms.

⁽²⁾ Non-performing assets as of September 30, 2016 and December 31, 2015 have not been reduced by U.S. government guarantees of \$16,000 and \$437,000, respectively.

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

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

of the shortfall in relation to the principal and interest owed. Loans for which an insignificant shortfall in amount of payments is anticipated, but where we expect to collect all amounts due, are not considered impaired.

Troubled-debt Restructured Loans. A restructured loan is considered a troubled debt restructured loan, or TDR, if we, for economic or legal reasons related to the debtor's financial difficulties, grant a concession in terms or a below-market interest rate to the debtor that we would not otherwise consider. We had TDR loans of \$7.5 million and \$9.6 million as of September 30, 2016 and December 31, 2015, respectively. Our TDR loans are considered impaired loans of which \$1.5 million and \$2.5 million as of September 30, 2016 and December 31, 2015, respectively, are designated as non-accrual.

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

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

(in thousands)	Nine Months Ended	
	September 30, 2016	September 30, 2015
Balance, beginning of period	\$568	\$ 1,673
Additions	237	11
Write-downs	(53)	—
Sales	(345)	(1,065)
Balance, end of period	\$407	\$ 619

Allowance for Loan Losses

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

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

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Allowance for loan losses:				
Beginning balance	\$ 16,152	\$ 15,655	\$ 15,557	\$ 15,151
Loans charged off:				
Real estate term	—	(1)	—	(2)
Construction and land development	—	(151)	—	(396)
Commercial and industrial	(558)	(201)	(630)	(235)
Residential and home equity	—	—	—	—
Consumer and other	(57)	(53)	(177)	(174)
Total	(615)	(406)	(807)	(807)
Recoveries:				
Real estate term	3	5	12	74
Construction and land development	148	2	194	38
Commercial and industrial	81	31	189	147
Residential and home equity	8	16	89	63
Consumer and other	79	24	197	61
Total	319	78	681	383
Net loan recoveries (charge offs)	(296)	(328)	(126)	(424)
Provision for loan losses	325	200	750	800
Ending balance	\$ 16,181	\$ 15,527	\$ 16,181	\$ 15,527
Gross loans including loans held for sale	\$ 1,125,066	\$ 1,006,895	\$ 1,125,066	\$ 1,006,895
Average loans	1,106,695	991,198	1,088,091	972,541
Non-performing loans	4,904	9,383	4,904	9,383
Selected ratios:				
Net charge-offs (recoveries) to average loans	0.11	% 0.13	% 0.02	% 0.06
Provision for loan losses to average loans	0.12	% 0.08	% 0.09	% 0.11
Allowance for loan losses to loans outstanding at end of period	1.44	% 1.54	% 1.44	% 1.54

The decrease in ALLL as a percentage of total loans from 2015 to 2016 is attributable to overall improvement in the credit quality of the underlying loan portfolio.

Our construction and land development portfolio reflects some borrower concentration risk, and also carries the enhanced risks encountered with construction loans generally. We also finance contractors on a speculative basis. Construction and land development loans are generally more risky than permanent mortgage loans because they are dependent upon the borrower's ability to generate cash to service the loan, and the value of the collateral depends on project completion when market conditions may have changed.

Our commercial real estate loans are a mixture of new and seasoned properties, retail, office, warehouse, and some industrial properties. Loans on properties are usually underwritten at a loan to value ratio of up to 75% with a minimum debt coverage ratio of 1.25 times.

Our loan portfolio does not include any significant concentrations in oil and gas related businesses.

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

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

(in thousands)	September 30, 2016	December 31, 2015
Commercial real estate loans:		
Real estate term	\$ 6,446	\$ 6,783
Construction and land development	5,286	3,984
Total commercial real estate loans	11,732	10,767
Commercial and industrial	3,702	3,941
Consumer loans:		
Residential and home equity	612	603
Consumer and other	135	246
Total consumer loans	747	849
Total	\$ 16,181	\$ 15,557

(Percentage of total loans held for investment)	September 30, 2016	December 31, 2015
Commercial real estate loans:		
Real estate term	52.1	% 54.9
Construction and land development	21.2	% 17.1
Total commercial real estate loans	73.3	% 72.0
Commercial and industrial	18.5	% 19.8
Consumer loans:		
Residential and home equity	6.8	% 6.8
Consumer and other	1.4	% 1.4
Total consumer loans	8.2	% 8.2
Total	100.0	% 100.0

Investments

The carrying value of our investment securities totaled \$387.6 million as of September 30, 2016 and \$398.6 million as of December 31, 2015. Our portfolio of investment securities is comprised of both available-for-sale securities and securities that we intend to hold to maturity. As of September 30, 2016, we held no investment securities from any issuer which totaled over 10% of our shareholders' equity.

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

(in thousands)	September 30, 2016	December 31, 2015
Available for sale securities:		
U.S. Government agencies	\$ 117,262	\$ 103,990
Municipal securities	29,199	37,730
Mortgage-backed securities	170,059	181,386
Corporate securities	9,576	9,630
Total	326,096	332,736
Held to maturity securities:		
Municipal securities	59,239	63,650
Other securities	2,232	2,232
Total	61,471	65,882
Total investment securities	\$ 387,567	\$ 398,618

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

Investment securities maturities as of September 30, 2016:

(Dollars in thousands)	Within One Year		After One but within Five Years		After Five but within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale securities:										
U.S. Government agencies	\$11,292	0.85 %	\$105,949	1.08 %	\$-	0.00 %	\$-	0.00 %	\$117,241	1.06 %
Municipal securities	9,763	3.76 %	12,079	4.28 %	5,651	3.50 %	986	3.64 %	28,479	3.92 %
Mortgage-backed securities	-	0.00 %	2,758	1.57 %	61,708	1.49 %	104,317	1.82 %	168,783	1.70 %
Other securities	-	0.00 %	3,000	1.71 %	4,000	1.79 %	3,000	4.00 %	10,000	2.43 %
Total	21,055	2.20 %	123,786	1.42 %	71,359	1.67 %	108,303	1.90 %	324,503	1.68 %
Held to maturity securities:										
Municipal securities	8,535	2.29 %	39,850	2.29 %	10,854	2.78 %	-	0.00 %	59,239	2.38 %
Other securities	2,232	1.04 %	-	0.00 %	-	0.00 %	-	0.00 %	2,232	1.04 %
Total	10,767	2.03 %	39,850	2.29 %	10,854	2.78 %	-	0.00 %	61,471	2.33 %
Total investment securities	\$31,822	2.14 %	\$163,636	1.63 %	\$82,213	1.81 %	\$108,303	1.90 %	\$385,974	1.79 %

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

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

Deposits

Total deposits were \$1.41 billion as of September 30, 2016 and \$1.31 billion as of December 31, 2015. The increase in total deposits is attributed primarily to our growth in existing markets and entering into new markets. Non-interest bearing demand deposits were \$464.6 million, or 32.9% of total deposits as of September 30, 2016 compared to 31.2% as of December 31, 2015. Interest bearing deposits are comprised of money market accounts, regular savings accounts, certificates of deposit of under \$100,000 and certificates of deposit of \$100,000 or more.

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

Edgar Filing: People's Utah Bancorp - Form 10-Q

(Dollars in thousands)	Year to Date September 30, 2016			Year Ended December 31, 2015		
	Average Balance	Average Rate		Average Balance	Average Rate	
Non-interest bearing deposits	\$414,922	0.00	%	\$379,468	0.00	%
Interest bearing deposits:						
Interest bearing demand and savings	595,333	0.28	%	557,917	0.28	%
Money market	146,035	0.24	%	143,766	0.23	%
Certificates of deposit under \$100,000	96,057	0.33	%	105,780	0.41	%
Certificates of deposit \$100,000 and over	74,889	0.67	%	82,653	0.78	%
Total interest bearing deposits	912,314	0.31	%	890,116	0.33	%
Total	\$1,327,236			\$1,269,584		

Additionally, the following table shows the maturities of CDs of \$100,000 or more:

(in thousands)	September 30, 2016
Due in three months or less	\$ 10,586
Due in over three months through six months	11,034
Due in over six months through twelve months	17,114
Due in over twelve months	39,276
Total	\$ 78,010

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

Shareholders' Equity

As of September 30, 2016, our shareholders' equity totaled \$225.2 million, an increase of \$15.7 million or 7.5% since December 31, 2015. The increase in shareholders' equity for the nine month period ended September 30, 2016 was primarily due to net income of \$17.1 million for the period less dividends declared of \$3.7 million, and the increase of \$1.3 million in accumulated other comprehensive income.

We began paying quarterly dividends in 2015 with the dividend being declared after the end of each quarter. Dividends of \$0.21 per share were declared during the nine months ended September 30, 2016 representing 21.8% of the net income for the same period. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

Capital Resources

Since January 2015, we have been subject to new risk-based capital adequacy guidelines related to the adoption of U.S. Basel III Capital Rules which impose higher risk-based capital and leverage requirements than those previously in place. Specifically, the rules impose, among other requirements, new minimum capital requirements including a Tier 1 leverage capital ratio of 4.0%, a new common equity Tier 1 risk-based capital ratio of 4.5%, a Tier 1 risk-based capital ratio of 6% and a total risk-based capital ratio of 8%. Since we only have common equity, our common equity Tier 1 risk-based capital ratio and our Tier 1 risk-based capital ratio are the same. Therefore, we only disclose our Tier 1 risk-based capital ratio since it has a higher required ratio for minimum and well-capitalized banks.

The following table sets forth our capital ratios.

Basel III Regulatory Requirements - Well Capitalized (Greater than or Equal to	PUB Actual as of September 30,	Actual as of December 31,	Actual as of September 30,
---	--	------------------------------	----------------------------------

Edgar Filing: People's Utah Bancorp - Form 10-Q

	Percentage)	2016	2015	2015
Tier 1 leverage capital ratio	NA	13.93%	13.42 %	13.71 %
Tier 1 risk-based capital	8.00 %	18.77%	17.76 %	18.30 %
Total risk-based capital	10.00 %	20.04%	19.02 %	19.56 %

PUB and the Bank were well-capitalized as of September 30, 2016, December 31, 2015 and September 30, 2015 for federal regulatory purposes.

Off-Balance Sheet Arrangements

The following table sets forth our off-balance sheet lending commitments as of September 30, 2016:

	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than One Year	One to Three Years	Three to Five Years	After Five Years
Other Commitments (in thousands)					
Commitments to extend credit	\$ 481,566	\$ 340,438	\$ 84,431	\$ 9,365	\$ 47,332
Standby letters of credit	33,322	33,322	-	-	-
Credit cards	26,488	26,488	-	-	-
Total	\$ 541,376	\$ 400,248	\$ 84,431	\$ 9,365	\$ 47,332

Contractual Obligations

The following table sets forth our significant contractual obligations as of September 30, 2016:

Contractual Obligations (in thousands)	Total	Payments Due by Period			
		Less than One Year	One to Three Years	Three to Five Years	After Five Years
Time certificates of deposit	\$ 163,679	\$ 89,606	\$ 48,105	\$ 22,058	\$ 3,910
Deposits without stated maturity	1,248,160	1,248,160	-	-	-
Short-term borrowings	3,188	3,188	-	-	-
Total	\$ 1,415,027	\$ 1,340,954	\$ 48,105	\$ 22,058	\$ 3,910

We have a \$1.2 million commitment related to a contract to build a new branch in Preston, Idaho which we expect to have completed by the second quarter of 2017.

Liquidity

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash borrowing lines, federal funds and available-for-sale securities, is a result of our operating, investing and financing activities and related cash flows. In order to ensure funds are available at all times, we devote resources to projecting on a monthly basis the amount of funds that will be required and we maintain relationships with a diversified customer base so funds are accessible. Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets. We have borrowing lines at a correspondent bank totaling \$25.0 million. We also have a current borrowing line with the FHLB, totaling \$319.3 million as of September 30, 2016, which are secured by various real estate loans pledged as collateral totaling \$481.9 million. Additionally, we have a borrowing line with the Federal Reserve Bank of \$24.2 million which is secured by \$24.6 million of investment securities.

We believe our liquid assets are adequate to meet our cash flow needs for loan funding and deposit cash withdrawal for the next 60 to 90 days. As of September 30, 2016, we had approximately \$399.4 million in net liquid assets comprised of \$98.0 million in cash and cash equivalents, including interest bearing deposits of \$67.9 million and

federal funds sold of \$0.3 million, \$326.1 million in available-for-sale securities and \$15.2 million in loans held for sale, less \$39.9 million pledged as collateral for short-term borrowings. We monitor liquidity measured by a liquidity ratio defined as cash and cash equivalents plus unpledged investment securities divided by total liabilities. Our liquidity ratio was 31.19% as of September 30, 2016 compared to 29.91% as of December 31, 2015.

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

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

Net cash provided by or used in operating activities has consisted primarily of net income adjusted for certain non-cash income and expense items such as the loan loss provision, investment and other amortization and depreciation.

Our primary investing activities are the origination of real estate, commercial and consumer loans and purchases and sales of investment securities. As of September 30, 2016 we had outstanding loan commitments of \$481.6 million, credit card commitments of \$26.5 million and outstanding letters of credit of \$33.3 million. We anticipate that we will have sufficient funds available to meet current loan commitments.

Net cash provided from financing activities for the nine months ended September 30, 2016 was \$75.6 million, principally from increases in deposit balances, net of approximately \$25 million in outstanding borrowings during the period.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's assessment of market risk as of September 30, 2016 indicates there have been no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as required by Exchange Act Rules 240.13a-15(b) and 15d-14(a)) as of September 30, 2016. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter 2016, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

Use of Proceeds from Initial Public Offering – On June 11, 2015 the SEC declared effective our registration statement on Form S-1 (Registration No. 333-203518) registering common shares of the Company. On June 16, 2015, the Company completed the initial public offering of 2,657,000 common shares. Additionally, 218,000 common shares were sold by certain selling shareholders. The Company received net proceeds of \$34.9 million from the offering, after deducting the underwriting discounts and offering expenses. The Company did not receive any proceeds from the sale of shares by the selling shareholders.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on June 11, 2015 pursuant to Rule 424(b).

Item 3. Defaults upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit
Number

Description

- | | |
|------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002 |
| 101 | The following financial information from People's Utah Bancorp Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 is formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 10, 2016

PEOPLE'S UTAH BANCORP

/s/ Richard T. Beard
Richard T. Beard
President and Chief Executive Officer

(Principal Executive Officer)

/s/ Wolfgang T.N. Muelleck
Wolfgang T.N. Muelleck
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)