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People's Utah Bancorp
Form 10-Q
August 08, 2017

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 June 30, 2017

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.)
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1 East Main Street, American Fork, Utah (Address of principal executive offices)	84003 (Zip Code)
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(801) 642-3998

Registrant's telephone number, including area code

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

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

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

Yes No

The number of shares of Registrant’s common stock outstanding on July 31, 2017 was 17,958,487. No preferred shares are issued or outstanding.

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PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$28,315	\$26,524
Interest bearing deposits	26,027	37,958
Federal funds sold	3,093	3,456
Total cash and cash equivalents	57,435	67,938
Investment securities:		
Available-for-sale, at fair value	325,172	335,609
Held-to-maturity, at historical cost	77,394	73,512
Total investment securities	402,566	409,121
Non-marketable equity securities	1,959	1,827
Loans held for sale	7,655	20,826
Loans:		
Loans held for investment	1,201,391	1,119,877
Less allowance for loan losses	(17,271)	(16,715)
Total loans held for investment, net	1,184,120	1,103,162
Premises and equipment, net	23,551	21,926
Bank-owned life insurance	19,970	19,714
Deferred income tax assets	9,845	9,799
Accrued interest receivable	5,616	5,557
Other real estate owned	468	245
Other assets	5,190	5,866
Total assets	\$1,718,375	\$1,665,981
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	\$465,988	\$443,100
Interest bearing deposits	995,064	981,974
Total deposits	1,461,052	1,425,074
Short-term borrowings	3,302	3,199
Accrued interest payable	269	305
Other liabilities	13,850	8,886
Total liabilities	1,478,473	1,437,464
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; 17,948,347 and 17,819,538 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	179	178

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Additional paid-in capital	69,623	68,657
Retained earnings	170,840	160,692
Accumulated other comprehensive loss	(740)	(1,010)
Total shareholders' equity	239,902	228,517
Total liabilities and shareholders' equity	\$1,718,375	\$1,665,981

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		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Interest income				
Interest and fees on loans	\$17,928	\$16,420	\$34,781	\$32,271
Interest and dividends on investments	1,802	1,489	3,507	3,092
Total interest income	19,730	17,909	38,288	35,363
Interest expense	749	698	1,515	1,452
Net interest income	18,981	17,211	36,773	33,911
Provision for loan losses	900	225	1,100	425
Net interest income after provision for loan losses	18,081	16,986	35,673	33,486
Non-interest income				
Mortgage banking	1,960	2,277	3,939	4,025
Card processing	1,208	1,136	2,332	2,167
Service charges on deposit accounts	578	531	1,114	1,044
Other operating	602	454	1,088	925
Total non-interest income	4,348	4,398	8,473	8,161
Non-interest expense				
Salaries and employee benefits	7,762	7,959	15,729	15,843
Occupancy, equipment and depreciation	1,088	1,076	2,205	2,064
Data processing	661	740	1,336	1,447
Card processing	516	549	1,045	1,139
Marketing and advertising	349	290	611	459
FDIC premiums	130	188	256	383
Other	1,845	1,598	3,625	3,200
Total non-interest expense	12,351	12,400	24,807	24,535
Income before income tax expense	10,078	8,984	19,339	17,112
Income tax expense	3,584	3,407	6,324	6,292
Net income	\$6,494	\$5,577	\$13,015	\$10,820
Earnings per common share:				
Basic	\$0.37	\$0.31	\$0.73	\$0.61
Diluted	\$0.35	\$0.31	\$0.71	\$0.60
Weighted average common shares outstanding:				
Basic	17,937,926	17,738,182	17,911,125	17,685,235
Diluted	18,351,531	18,173,034	18,334,028	18,148,713

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	2017	2016
Net income	\$6,494	\$5,577	\$13,015	\$10,820
Other comprehensive income				
Unrealized holding gains on securities available-for-sale	375	675	438	2,904
Tax effect	(143)	(258)	(168)	(1,110)
Unrealized holding gains on securities available-for-sale, net of tax	232	417	270	1,794
Total comprehensive income	\$6,726	\$5,994	\$13,285	\$12,614

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, 2016	17,567,154	\$ 176	\$ 67,338	\$ 142,223	\$ (329)	\$ 209,408
Comprehensive income	—	—	—	10,820	1,794	12,614
Cash dividends (\$0.14 per share)	—	—	—	(2,475)	—	(2,475)
Share-based compensation	—	—	252	—	—	252
Exercise of stock options	185,666	2	646	—	—	648
Balance as of June 30, 2016	17,752,820	\$ 178	\$ 68,236	\$ 150,568	\$ 1,465	\$ 220,447
Balance as of January 1, 2017	17,819,538	\$ 178	\$ 68,657	\$ 160,692	\$ (1,010)	\$ 228,517
Comprehensive income	—	—	—	13,015	270	13,285
Cash dividends (\$0.16 per share)	—	—	—	(2,867)	—	(2,867)
Share-based compensation	—	—	218	—	—	218
Exercise of stock options	128,809	1	748	—	—	749
Balance as of June 30, 2017	17,948,347	\$ 179	\$ 69,623	\$ 170,840	\$ (740)	\$ 239,902

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended	
	June 30,	2016
	2017	
Cash flows from operating activities:		
Net income	\$13,015	\$10,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,100	425
Depreciation and amortization	1,267	1,290
Deferred income taxes	(214)	—
Net amortization of securities discounts and premiums	1,501	1,512
Increase in cash surrender value of bank owned life insurance	(256)	(278)
Share based compensation	218	252
Other	(159)	26
Gain on sale of loans held for sale	(2,838)	(3,033)
Originations of loans held for sale	(115,621)	(123,895)
Proceeds from sale of loans held for sale	131,630	132,960
Net changes in:		
Accrued interest receivable	(59)	181
Other assets	676	554
Accrued interest payable	(36)	(11)
Other liabilities	4,964	3,177
Net cash provided by operating activities	35,188	23,980
Cash flows from investing activities:		
Net change in loans held for investment	(82,558)	(47,920)
Purchase of available-for-sale securities	(24,599)	(12,997)
Purchase of held-to-maturity securities	(12,198)	—
Proceeds from maturities/sales of available-for-sale securities	34,350	66,721
Proceeds from maturities of held-to-maturity securities	7,939	4,143
Purchase of premises and equipment	(2,758)	(1,302)
Proceeds from sale of other real estate owned, net of improvements	302	133
Purchase of non-marketable equity securities	(2,368)	(2,663)
Proceeds from sale of non-marketable equity securities	2,236	3,080
Net cash (used in) provided by investing activities	(79,654)	9,195
Cash flows from financing activities:		
Net increase in non-interest bearing deposits	22,888	21,487
Net increase in interest bearing deposits	13,090	15,691
Proceeds related to exercise of stock options	749	648
Net change in short-term borrowings	103	(24,349)
Cash dividends paid	(2,867)	(2,475)
Net cash provided by financing activities	33,963	11,002
Net change in cash and cash equivalents	(10,503)	44,177
Cash and cash equivalents, beginning of period	67,938	42,349
Cash and cash equivalents, end of period	\$57,435	\$86,526

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Supplemental disclosures of cash flow information:

Cash paid for interest	\$1,551	\$1,285
Income taxes paid	\$6,217	\$5,610

Supplemental disclosures of non-cash transactions:

Reclassifications from loans to other real estate owned	\$468	\$237
Unrealized gains on securities available-for-sale	\$438	\$2,904

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"), an equipment leasing division dba GrowthFunding Equipment Finance and a mortgage division dba People's Intermountain Bank Mortgage. BAF and LSB have over 100 years of history and 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, 2016, which are included in the Company's 2016 Form 10-K. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017, or any other period.

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

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

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

(Dollars in thousands, except share and per share data)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Numerator				
Net income	\$6,494	\$5,577	\$13,015	\$10,820

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Denominator

Weighted-average number of common shares outstanding	17,937,926	17,738,182	17,911,125	17,685,235
Incremental shares assumed for stock options and RSUs	413,605	434,852	422,903	463,478
Weighted-average number of dilutive shares outstanding	18,351,531	18,173,034	18,334,028	18,148,713
Basic earnings per common share	\$0.37	\$0.31	\$0.73	\$0.61
Diluted earnings per common share	\$0.35	\$0.31	\$0.71	\$0.60

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

In June 2016, FASB amended FASB ASC Topic 326, Financial Instruments - Credit Losses. The amendments in this Update replace the current incurred loss model with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of these amendments to the Company's financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. The ALLL is a material estimate of the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the ALLL at adoption date. The Company is anticipating a significant change in the processes and procedures to calculate the ALLL, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The Company will also develop new procedures for determining an allowance for credit losses relating to held-to-maturity investment securities. In addition, the current accounting policy and procedures for other-than-temporary impairment on available-for-sale investment securities will be replaced with an allowance approach. The Company is expecting to begin developing and implementing processes and procedures during the next two years to ensure it is fully compliant with the amendments at adoption date. For additional information on the ALLL see Note 3

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (“ASU 2016-09”) which addresses certain aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of awards on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016 and for interim periods within such periods. Early application is permitted. The Company implemented ASU 2016-09 during the annual reporting period of 2016.

Note 2 — Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 12 Months	12 or Longer Months	
As of June 30, 2017					
U.S. Government-sponsored securities	\$ 117,202	\$ 151	\$(544)	\$(35)	\$ 116,774
Municipal securities	18,117	385	(27)	—	18,475
Mortgage-backed securities	181,051	767	(1,096)	(604)	180,118
Corporate securities	10,000	55	—	(250)	9,805
	\$ 326,370	\$ 1,358	\$(1,667)	\$(889)	\$ 325,172
As of December 31, 2016					
U.S. Government-sponsored securities	\$ 119,202	\$ 71	\$(669)	\$(1)	\$ 118,603
Municipal securities	25,176	401	(58)	—	25,519
Mortgage-backed securities	182,867	679	(1,111)	(614)	181,821
Corporate securities	10,000	28	(32)	(330)	9,666
	\$ 337,245	\$ 1,179	\$(1,870)	\$(945)	\$ 335,609

Note 2 — Investment Securities – continued

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months or Longer	Fair Value
As of June 30, 2017				
Municipal securities	\$ 77,394	\$ 505	\$(177)	\$ (13) \$77,709
As of December 31, 2016				
Municipal securities	\$ 73,512	\$ 105	\$(579)	\$ (38) \$73,000

The amortized cost and estimated fair value of investment securities that are available-for-sale and held-to-maturity at June 30, 2017, by contractual maturity, are as follows:

(Dollars in thousands)	Available-for-sale Amortized Cost	Available-for-sale Fair Value	Held-to-maturity Amortized Cost	Held-to-maturity Fair Value
Securities maturing in:				
One year or less	\$26,252	\$26,265	\$7,774	\$7,774
After one year through five years	102,578	102,260	45,458	45,636
After five years through ten years	89,162	88,789	17,132	17,246
After ten years	108,378	107,858	7,030	7,053
	\$326,370	\$325,172	\$77,394	\$77,709

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

As of June 30, 2017 and December 31, 2016, the Company held 254 and 302 investment securities, respectively, with fair value 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:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Loans held for investment:		
Commercial real estate loans:		
Real estate term	\$643,756	\$582,029
Construction and land development	251,741	240,120
Total commercial real estate loans	895,497	822,149
Commercial and industrial loans	221,901	213,260
Consumer loans:		
Residential and home equity	73,791	72,959
Consumer and other	14,936	15,678
Total consumer loans	88,727	88,637
Total gross loans	1,206,125	1,124,046
Less:		
Net deferred loan fees	(4,734)	(4,169)
Total loans held for investment	1,201,391	1,119,877
Less: allowance for loan losses	(17,271)	(16,715)
Total loans held for investment, net	\$1,184,120	\$1,103,162

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

(Dollars in thousands)	Three Months Ended June 30, 2017					
	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	\$7,149	\$ 4,683	\$ 4,222	\$ 529	\$ 61	\$16,644
Additions: Provisions for loan losses	181	394	342	(28)	11	900
Deductions:						
Gross loan charge-offs	(350)	—	(114)	—	(48)	(512)
Recoveries	177	—	39	2	21	239
Net loan charge-offs	(173)	—	(75)	2	(27)	(273)
Balance at end of period	\$7,157	\$ 5,077	\$ 4,489	\$ 503	\$ 45	\$17,271

Three Months Ended June 30, 2016
Real Construction Commercial Residential Consumer

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(Dollars in thousands)	Estate Term	and Land Development	and Industrial	and Home Equity	and Other	Total
Balance at beginning of period	\$6,692	\$ 4,344	\$ 3,921	\$ 595	\$ 171	\$15,723
Additions: Provisions for loan losses	172	351	(224)	(44)	(30)	225
Deductions:						
Gross loan charge-offs	—	—	—	—	(56)	(56)
Recoveries	5	30	71	77	77	260
Net loan charge-offs	5	30	71	77	21	204
Balance at end of period	\$6,869	\$ 4,725	\$ 3,768	\$ 628	\$ 162	\$16,152

Note 3 — Loans and Allowance for Loan Losses – Continued

(Dollars in thousands)	Six Months Ended June 30, 2017					
	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	\$6,770	\$ 5,449	\$ 3,718	\$ 617	\$ 161	\$16,715
Additions: Provisions for loan losses	556	(451)	966	84	(55)	1,100
Deductions:						
Gross loan charge-offs	(350)	—	(272)	(338)	(113)	(1,073)
Recoveries	181	79	77	140	52	529
Net loan charge-offs	(169)	79	(195)	(198)	(61)	(544)
Balance at end of period	\$7,157	\$ 5,077	\$ 4,489	\$ 503	\$ 45	\$17,271

(Dollars in thousands)	Six Months Ended June 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	77	695	(209)	(56)	(82)	425
Deductions:						