# PEOPLE'S UTAH BANCORP

2017 | ANNUAL REPORT

## LETTER TO SHAREHOLDERS

Dear Shareholders:

As we begin our 105th year as an independent community bank, we are pleased with the progress we have made in providing value for our stakeholders by delivering on our vision of being the most-distinguished provider of financial services in the markets where we operate. 2017 was a transformational year for us as we successfully completed the acquisition, conversion, and integration of the seven Utah Banner Bank branches and Town & Country Bank, located in St. George, Utah. The branches acquired from Banner Bank are strategically located in strong growth markets in Utah, including Salt Lake City, South Jordan, Provo, Orem, Woods Cross, Salem, and Springville. We consolidated the Woods Cross and Orem branches into our existing Bank of American Fork Bountiful and Orem branches, which significantly increased the size of these two existing locations. We also consolidated our St. George branch with the Town & Country Bank facility, which significantly increased the size of this combined location as well. These transactions brought with them an incredible group of new associates who share our vision, values, work ethic, and commitment to our customers. We are excited to have these associates as a part of our team.

These in-market transactions strengthen our standing as the largest community bank in Utah and bolster our market presence along the I-15 corridor in the Intermountain West Region. With over $2.1 billion in assets, we are the second largest Utah based bank, with our nearest community bank competitor approximately half our size. We are now the largest community bank in Salt Lake County. We have a physical presence in downtown Salt Lake City, where we are operating one of the two Salt Lake County commercial banking centers we acquired in the Banner transaction. Our market share increased in Utah County, where we continue to be the third largest bank and the largest community bank. We remain the second largest community bank in Cache County and the fourth largest bank. We increased our market position in Washington County to be the fourth largest Utah based bank and the third largest community bank in the market. We remain the sixth largest bank in Utah and have improved our overall market position.

These transactions provide our existing customers with the added convenience and service of five new branch locations. It gives our new customers the opportunity to enjoy outstanding personalized service and the commitment of an over 100 year-old, Utah based community bank with 25 locations from the southern border of Utah to Southeastern Idaho. These transactions allowed us to further deploy our solid capital base and to strategically grow our company.

We are fortunate to be operating in one of the strongest economic markets in the country. Utah's unemployment rate is 3.2%, versus the national rate of 4.1%. Utah had the third fastest population growth in the nation in 2017. Job growth was 2.9% year-over-year, versus 1.4% nationally. And Utah had the nation's second highest personal income growth.

Our communities matter to us and we are committed to our Utah and Idaho markets. In 2017, we donated thousands of hours and tens of thousands of dollars to charitable organizations in the communities we serve. These organizations include schools, libraries, nonprofits, sports teams, arts and music groups, cities, and youth organizations. We believe success is not only reflected in the value we create for our shareholders but also in the efforts we make to give back to the communities we serve.

## The Year in Review

PUB's theme for 2017 was growth. We achieved strong organic growth in both loans and deposits, as well as from the two acquisition transactions. Our net income was impacted by two large, non-recurring items. We recorded $4.8 million in non-recurring acquisition related costs for the two acquisitions. In addition, we recorded one-time income tax expense of $4.7 million related to the re-measurement of our deferred income tax assets related to the reduction in the Federal corporate income tax rate. Excluding these two large, non-recurring items and the loss on sale of investment securities sold to raise liquidity to fund the acquisition of the Utah branches of Banner Bank, we derived non-GAAP financial information related to the Company's core operations. We believe this non-GAAP financial information is useful in understanding our core financial performance. The following financial highlights include these non-GAAP financial measures:

- Total deposits grew $390 million, or 27.3%, to $1.8 billion year-over-year;
- Loans held for investment grew $508 million, or 45.3% to $1.6 billion year-over-year;
- Net-interest margin widened 33 bps to 4.76% year-over-year;
- Efficiency ratio improved to 54.60% in 2017, compared with 56.41% in 2016;
- Earnings per diluted common share increased 17.7% to $1.53 in 2017, compared with $1.30 in 2016;
- Return on average assets increased to 1.57% in 2017, compared with 1.48% in 2016; and
- Return on average equity increased to 11.60% in 2017, compared with 10.68% in 2016.

As we look forward to 2018, we believe that we can continue to grow our business organically and diversify our loan portfolio, particularly with our larger footprint. We are excited about our prospects in the Salt Lake City market with our two Commercial Banking Centers located in downtown Salt Lake City and South Jordan, which are focused on expanding and further diversifying our loan base with a focus on commercial and industrial lending activities. We plan to focus on increasing our overall franchise value by continuing to increase our overall low-cost core-deposit base. We will actively continue to evaluate other potential acquisition opportunities, both in Utah and in states contiguous to Utah, particularly along the I-15 corridor.

We sincerely want to wish both Rick Beard and Wolf Muelleck the very best in their retirement and thank them for their years of service and for the successes the Company has achieved as a result of their exceptional vision and leadership. Both gentlemen will continue to give guidance to the Company as they serve on our board of directors.

We appreciate all the many stakeholders who contributed to our success in 2017. We thank our team of outstanding associates who live our core values each day, share in our vision, gave great effort in executing our two acquisition transactions, and provide outstanding service to our clients. We thank our clients for their business and loyalty. It is an honor to work with them. We deeply appreciate their confidence and trust. We appreciate the men and women who are involved in our communities, and value the opportunity to work with them to improve our local quality of life. And finally, we thank you, our shareholders. We are grateful for the continued confidence that you place in People's Utah Bancorp. We are committed to continue building value for all of our stakeholders in the years ahead.

Sincerely,

Len E. Williams
President and Chief Executive Officer

Paul R. Gunther
Chairman of the Board

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2017 or**

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

**Commission file number 001-37416**

# PEOPLE'S UTAH BANCORP
**(Exact name of registrant as specified in its charter)**

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

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

**Securities registered pursuant to Section 12(b) of the Act:**

| Common shares, $0.01 par value per share | NASDAQ Capital Market |
|---|---|
| (Title of each class) | (Name of each exchange on which registered) |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes No ☒

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

Indicate by check mark whether the registrant has submitted electronically 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 check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | ☐ | | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | (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 aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at June 30, 2017 (the last business day of the most recent second quarter), was $390,218,372 (based on the price at which common equity was last sold as quoted on the NASDAQ Capital Market at the close of business on that date).

The number of the Registrant's common shares outstanding on February 28, 2018 was 18,635,609. No preferred shares are issued or outstanding.

**Documents incorporated by Reference**

Portions of the 2018 Annual Meeting Proxy Statement related to the shareholder meeting scheduled for May 23, 2018 are incorporated by reference into Part III of this Form 10-K.

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| PART I | | |
| Item 1 | Business | 3 |
| Item 1A | Risk Factors | 21 |
| Item 1B | Unresolved Staff Comments | 36 |
| Item 2 | Properties | 36 |
| Item 3 | Legal Proceedings | 36 |
| Item 4 | Mine Safety Disclosures | 36 |
| PART II | | |
| Item 5 | Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 37 |
| Item 6 | Selected Financial Data | 39 |
| Item 7 | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 40 |
| Item 7A | Quantitative and Qualitative Disclosure about Market Risk | 61 |
| Item 8 | Financial Statements and Supplementary Data | 64 |
| | Report of Independent Registered Public Accounting Firm | 66 |
| | Consolidated Balance Sheets | 68 |
| | Consolidated Statements of Income | 69 |
| | Consolidated Statements of Comprehensive Income | 70 |
| | Consolidated Statements of Changes in Shareholders’ Equity | 71 |
| | Consolidated Statements of Cash Flows | 72 |
| | Notes to Audited Consolidated Financial Statements | 73 |
| Item 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosures | 108 |
| Item 9A | Controls and Procedures | 108 |
| Item 9B | Other Information | 108 |
| PART III | | |
| Item 10 | Directors, Executive Officers and Corporate Governance | 109 |
| Item 11 | Executive Compensation | 109 |
| Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 109 |
| Item 13 | Certain Relationships and Related Transactions, and Director Independence | 109 |
| Item 14 | Principal Accounting Fees and Services | 109 |
| PART IV | | |
| Item 15 | Exhibits, Financial Statement Schedules | 110 |
| SIGNATURES | | 112 |

## PART I

### Item 1. Business

### Organizational Structure

People's Utah Bancorp ("PUB" or the "Company") is a Utah registered bank holding company organized in 1998. As a Utah registered bank holding company, PUB is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System and by the Utah Department of Financial Institutions ("UDFI"). The Company operates all business activities through its wholly-owned banking subsidiary, People's Intermountain Bank ("PIB" or the "Bank"), which was organized in 1913. The Bank is a Utah State chartered bank subject to primary regulation, supervision and examination by the Federal Deposit Insurance Corporation ("FDIC") and by the UDFI.

PIB is a community bank that provides highly personalized retail and commercial banking products and services to small and medium sized businesses and individuals. Products and services are offered primarily through 25 retail branches located throughout Utah and southern Idaho. PIB has three banking divisions, Bank of American Fork, Lewiston State Bank, and People's Town & Country Bank; a leasing division, GrowthFunding Equipment Finance; and a mortgage division, People's Intermountain Bank Mortgage.

### Market Area

Utah is one of the fastest growing states in the United States in terms of population, ranking third in 2017 percentage growth according to the U.S. Census Bureau. Over 75% of Utah's population is concentrated along Interstate 15, specifically within Davis, Weber, Salt Lake and Utah Counties. The next largest population centers in the state are in Washington and Cache Counties. These six counties make up approximately 85% of Utah's population. Most of the major business and economic activity in Utah is located in the counties where our branches are located.

### Recent Developments

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

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

### Competition

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

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

The market share of PUB and our largest competitors in Utah as of June 30, 2017, ranked by deposit market share, as reported by S&P Global Market Intelligence is as follows:

| Largest Competitor | Number of Branches | Deposit Market Share |
|---|---|---|
| Wells Fargo & Co. | 110 | 29.20% |
| Zions Bancorp. | 99 | 25.89% |
| JPMorgan Chase & Co. | 53 | 22.14% |
| KeyCorp | 33 | 5.28% |
| U.S Bancorp | 71 | 3.72% |
| **People's Utah Bancorp** | 25 | **2.69%** |
| BOU Bancorp | 14 | 1.48% |
| Cache Valley Banking Co. | 13 | 1.43% |

## Our Business Activities

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

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

### *Lending*

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

Our customers are generally comprised of the following groups:

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

***Real Estate***

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

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

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

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

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

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

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

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

***Commercial and Industrial:***

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

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

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

*Leasing.* We originate and purchase leases that fit our policies and procedures. These leases are used to purchase equipment essential to the operations of our commercial and industrial customers, which are located throughout the U.S. We have lending officers who have extensive backgrounds in leasing. Leases may be purchased directly from the lease originator or in some cases a loan is made to the originator and the lease secures the loan. We underwrite lease portfolios prior to purchase. Our leasing program is subject to the same general risks as our lending activities, including credit and interest rate risks, and the difficulty of attracting necessary personnel, among others.

Leasing is traditionally based on cash flow lending. Cash flow lending involves lending money to a customer based primarily on the expected cash flow, profitability and enterprise value of a customer rather than on the value of its assets or resale of the collateral for the loan or lease. For some types of leases, the Bank will own and have risk of loss on the leased property and the customer will make rental lease payments over a set lease period. The lease payments are determined, in part, based on the expected residual value of the property at the end of the lease. At the end of the lease, the Bank must sell or re-lease the property to the lessee or a third party. Leases with significant residual values have higher risk than many other types of lending because the economics of the lease also rely on the leased property's value in addition to the other sources of repayment from the lease. We may be unable to re-lease or sell the property within a reasonable timeframe or may experience market price changes in the expected residual value of the leased property over the lease term. If we do not properly manage residual values of the leased property we may not be able to recover our investment.

***Consumer Loans***

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

Consumer loans may entail greater risk than real estate loans, particularly in the case of consumer loans that are unsecured, such as lines of credit, or secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. A loan may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loan, such as a bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral.

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

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

***SBA Loans***

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

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

***Loan Underwriting and Credit Policies:***

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

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

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

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

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

Bank Lending Authorities:

- *Individual Authorities* — Branch Managers typically have credit approval authority to loan up to $350,000 for secured loans provided there are no exceptions to loan policy. Within this authority, there are typically sub-limits for unsecured loans, equipment secured, accounts receivable and inventory secured loans, and other types of loans.
- *PIB Regional Loan Committee* — The PIB Division Regional Loan Committee meets as needed, and consists of Senior Vice President — Regional Managers. The committee has credit approval authority to approve secured loans up to $3.0 million and unsecured loans up to $500,000.
- *LSB Division Loan Committee* -- The LSB Division Loan Committee meets as needed and consists of the LSB President, LSB Senior Vice President – Chief Credit Officer, and other senior lending officers. The committee has credit approval authority to approve secured loans up to $3.0 million and unsecured loans up to $500,000.
- *PIB Loan Committee* — The PIB Loan Committee which generally meets twice a week, and consists of the Executive Vice President — Chief Credit Officer, the Senior Vice President — Loan Administration, the President/Chief Operations Officer and other senior lending officers. The committee has unlimited credit approval authority for secured loans and unsecured loans, subject to ratification by the Board Loan Committee for real estate secured loan total aggregate debt relationships over $6.0 million and non-real estate secured loan total aggregate debt relationships over $2.5 million. If a credit decision requires immediate attention, a Senior Committee (consisting of the Chief Credit Officer, Chief Credit Administration Officer, and one Regional Loan Manager) has the same approval authority as the Loan Committee.
- *Board Loan Committee* — The Board Loan Committee is comprised of seven directors, including our Chairman, Vice Chairman, President and Chief Executive Officer, with five committee members required for a quorum. All real estate secured loans and/or aggregate real estate loan secured relationships of $6.0 million and above or total aggregate non-real estate secured debt relationships exceeding $4.0 million require the approval of this committee. The committee meets weekly to approve loans approved by the Bank's Loan Committee. This committee has approval authority up to our legal lending limit, which was approximately $38.6 million as of December 31, 2017.

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

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

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

- review of loans on the monthly Watch List;
- specific changes in loan grades by the loan officer, upon receiving new information that adversely impacts the borrower's credit standing or other perceived credit risks;
- random reviews of the loan portfolio conducted by senior lending officers;
- loan reviews conducted by an outside loan reviewer and the internal loan reviewer;

- bank regulatory examinations; and
- monthly action plans submitted to the Chief Credit Officer by the responsible lending officers for each credit on the Watch List.

*Special Mention — Grade 6.* Generally acceptable asset quality, but frequent and thorough monitoring is required as temporary credit weaknesses may extend beyond financial into managerial and demographic issues. Borrowers may have strained cash flow and less-than- anticipated performance. Borrowers may have possible management weaknesses, perhaps demonstrated by an irregular flow of adequate or timely performance information required to support the credit. Borrowers may have a plausible plan to correct problems in the near future without material uncertainties. Borrowers may lack reserve capacity, so their risk rating will generally either improve or decline in a relatively short time frame since results of corrective actions should be apparent within 6 months or less. These loans exhibit an increasing reliance on collateral for repayment.

*Loan Delinquencies.* When a borrower fails to make a committed payment, we attempt to cure the deficiency by contacting the borrower to seek payment. Habitual delinquencies and loans delinquent 60 days or more are reviewed by the Chief Credit Officer regularly for possible changes in grading. Trends in loan delinquencies and non-performing loans are reviewed by our Board of Directors at each monthly board meeting. Our Special Asset Department was formed during the recession and meets quarterly to review classified assets. The Special Asset Department is comprised of senior lending officers, PIB President, PUB Chief Executive Officer, other senior officers and selected members of our Board of Directors.

*Classified Assets.* Federal regulations require that each insured bank classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, examiners have authority to identify problem assets, and, if appropriate, reclassify them. We use grades 7 through 9 of our loan grading system to identify potential problem assets.

The following describes grades 7 through 9 of our loan grading system:

- *Substandard — Grade 7*. Unacceptable business credit; asset is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Though no loss is envisioned, the outlook is sufficiently uncertain to preclude ruling out the possibility; some liquidation of assets may be necessary as a corrective measure. Assets in this category may demonstrate performance problems such as cash flow deterioration trends including current or long-term debt service deficiencies with no immediate relief; borrower’s inability to adjust to prolonged and unfavorable industry or economic trends; management character and/or effectiveness have become suspect.
- *Doubtful — Grade 8*. Undesirable credit with loss potential. An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. At the point where a loss is identified, all or that portion deemed a loss is immediately classified as “Loss” and charged off.
- *Loss — Grade 9*. Total loss is expected. An uncollectible asset or one of such little value that it does not warrant classification as an active, earning asset. Such an asset may, however, have recovery or salvage value, but not to the point of deferring full write-off, even though some recovery may occur in the future. Our policy is to charge off such assets as a loss during the accounting period in which they were identified. These assets have been determined to have identifiable, uncollectible components. Typically, a partial charge-off of the loss will have occurred, and the balance remaining would be reflective of management’s best estimate of collectability.

### *Our Investment Activities*

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

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

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

### *Deposit Products and Other Sources of Funds*

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

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

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

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

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

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

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

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

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

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

***Other Products and Services***

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

- *Mobile and Internet Banking.* We believe there is a strong demand for mobile and Internet banking. These services allow both consumer and business customers to access detailed account information and manage their accounts, including on-line balance transfers and bill payment. These services enable our customers to conduct their banking business and monitor their bank accounts from remote locations at any time. We believe our mobile and Internet banking services are invaluable in attracting and retaining customers and we encourage customers to consider us for all their banking and financial needs.
- *Automatic Teller Machines, or ATMs.* We provide ATM services at all of our branches and offer ATM fee reimbursement to our customers, allowing them to use certain ATM networks nationwide without paying a per transaction fee. Each checking and deposit account has a monthly reimbursement limit. Our ATMs provide for cash withdrawals, balance transfers and inquiries, and check or cash deposits.
- *Treasury Management Services.* We offer cash management systems and services to assist our business customers with their day-to-day funds management. This includes the ability to originate electronic payments and withdrawals, create wire transfers, and request stop payments.
- *Remote Deposit Capture.* This product, branded "ExpressDeposit" and "Merchant Check Capture", allows businesses to send their deposits electronically to the Bank, which allows us to reach a larger group of business customers that are not close to one of our physical locations. We believe this product gives us an edge in gaining new customers and it contributes to the growth of our deposits. We primarily target professional service companies, preferably with multiple offices including real estate offices, attorneys, doctors, dentists and accountants.
- *Bill Pay.* We offer a user-friendly bill payment product that was designed to meet our customers' needs. This payment system allows our customers to pay bills electronically or by check. Customers can also utilize the bill presentment feature or future date their bills for a time period such as a vacation when they may not be accessible at the time their bills are due.
- *Other Products.* We offer other banking-related specialized products and services to our customers, such as cashier's checks, money orders, credit and debit cards, and safe deposit services.

## Risk Management

We are committed to maintaining internal controls to manage the risk associated with our growth and concentrations in real estate loans. We have identified credit risk, interest rate risk, liquidity risk, and operational risk as the areas that could have the greatest impact on capital. In order to mitigate and actively manage these areas of risk, we have established sound procedures and committed experienced human resources to this effort.

We have focused our risk management in the following areas:

- Our Board established the Enterprise Risk Management Committee to monitor all material risks of the Company;
- Our executive management committee assesses enterprise risks monthly and takes appropriate action to mitigate such risks, if necessary;
- We have a dedicated enterprise risk management team who actively monitors enterprise risks;
- Our credit department is staffed to maintain all credit policies and procedures, loan documentation, disbursement of loan proceeds and to manage the integrity of the credit risk rating system;
- Our finance department is staffed with experienced personnel to manage interest rate and liquidity risk;
- Our operations administration is managed by PIB's President and Chief Operations Officer and includes staff experienced in compliance with banking regulations and in information technology and related security issues;
- Our Internal Audit Department reports its independent audit findings directly to our Board's Audit and Compliance Committee. This department also performs audits and reviews of loan grades, loan documentation, regulatory compliance and other areas of higher risk profile; and
- Our general counsel coordinates the efforts of our compliance officers with respect to our risk management programs.

We believe that our organization allows management to maintain an accurate understanding of risk levels at all times. With this level of understanding, strategic plans are developed with the risk parameters designed to protect our capital.

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

## Employees

We refer to our employees as "associates." We had a total of 483 full-time equivalent associates as of December 31, 2017. Our associates are not represented by a labor organization, and we are not aware of any activity to seek such organization. The Company and the Bank provide their associates with a comprehensive benefit program, including health, dental and vision insurance, life and accident insurance, long-term disability coverage, vacation and sick leave, 401(k) plan, profit-sharing plan and a stock-based compensation plan. The Company considers its associate relations to be excellent. See Note 11 in the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" for information regarding associate benefit plans and profit sharing.

## Website Access

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

## Supervision and Regulation

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

### *General*

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

*Changes as a Result of the Dodd-Frank Act*

In addition to the framework of regulation and supervision referenced above, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), created the Consumer Financial Protection Bureau ("CFPB"), a federal regulatory agency with broad authority to regulate the offering and provision of financial products and services to consumers. However, the primary authority to examine depository institutions with $10 billion or less in assets, such as the Bank, for compliance with federal consumer-protection laws remains with our Federal regulator, the FDIC, and State regulator, the UDFI.

As a result of the Dodd-Frank Act, the regulatory framework under which PUB and the Bank operate has changed and will continue to change substantially over the next several years. Many of the provisions of the Dodd-Frank Act became effective upon enactment, while others are subject to further study, rulemaking, and the discretion of regulatory bodies. In light of these significant changes and the discretion afforded to federal banking regulators, we cannot fully predict the effect that compliance with the Dodd-Frank Act or any of its implementing regulations will have on our business or on our ability to pursue future business opportunities.

### *Holding Company Regulation*

*Permitted Activities*

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

*Acquisitions Subject to Prior Regulatory Approval*

The BHCA requires the prior approval of the Federal Reserve for a bank holding company to acquire substantially all the assets of a bank or to acquire direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, bank holding company or savings association, or to increase any such non-majority ownership or control of any bank, bank holding company or savings association, or to merge or consolidate with any bank holding company.

*Bank Holding Company Obligations to Bank Subsidiaries*

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

*Restrictions on Bank Holding Company Dividends*

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

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

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

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

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

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

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

***Bank Regulation***

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

*Capital Adequacy*

See "Holding Company Regulation—Capital Regulations" above.

*Capitalization Levels and Prompt Corrective Action*

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

Immediately upon becoming undercapitalized, a depository institution becomes subject to the provisions of Section 38 of the Federal Deposit Insurance Act, or the FDIA, which, among other things: (i) restricts payment of capital distributions and management fees; (ii) require that the FDIC monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restricts the growth of the institution's assets; and (v) require prior approval of certain expansion proposals. Bank holding companies controlling depository institutions can be called upon to increase the depository institution's capital and to partially guarantee the institutions' performance under their capital restoration plans. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the FDIC's Deposit Insurance Fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (i) requiring the institution to raise additional capital; (ii) restricting transactions with affiliates; (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; (iv) requiring the institution to change and improve its management; (v) prohibiting the acceptance of deposits from correspondent banks; (vi) requiring prior Federal Reserve approval for any capital distribution by a bank holding company controlling the institution; and (vii) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

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

*Bank Reserves*

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

*Bank Dividends*

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

*Limitations on Brokered Deposits*

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

*Insurance of Accounts and Other Assessments*

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

*Restrictions on Transactions with Affiliates*

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

*Loans to Insiders*

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

*Change in Control*

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

*Community Reinvestment Act*

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

*Interstate Branching*

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

*Anti-Money Laundering and Economic Sanctions*

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

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

- internal policies, procedures and controls designed to implement and maintain the bank's compliance with all of the requirements of the USA Patriot Act, the BSA and related laws and regulations;
- systems and procedures for monitoring and reporting of suspicious transactions and activities;
- a designated compliance officer;
- employee training;
- an independent audit function to test the anti-money laundering program;
- procedures to verify the identity of each customer upon the opening of accounts; and
- heightened due diligence policies, procedures and controls applicable to certain foreign accounts and relationships.

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

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

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

*Regulatory Enforcement Authority*

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

*Loan Concentrations*

The FDIC has issued guidance recommending that if certain categories of commercial real estate ("CRE") loans and acquisition, development and construction ("ADC") loans exceed certain thresholds, then heightened risk management practices should be employed to mitigate risk. As of December 31, 2017, our ADC loans to Tier 2 capital were 148.9%, which exceeded the threshold set by the FDIC. We have exceeded these thresholds at times in the past and may do so again in the future. If we exceed the thresholds and do not manage the risk of our CRE and ADC loans, we may be subject to regulatory scrutiny, such as a requirement to raise additional capital, reduce our loan concentrations or undertake other remedial actions.

*Federal Home Loan Bank System*

In 2015 the Federal Home Loan Bank of Des Moines and the Federal Home Loan Bank of Seattle completed their merger. As a result, the Bank is now a member of and owns stock in the Federal Home Loan Bank of Des Moines.

***Privacy and Data Security***

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

***Consumer Laws and Regulations***

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

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

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

### ***Other Dodd-Frank Act Reforms***

*Volcker Rule*

The Volcker Rule prohibits insured depository institutions, such as the Bank, and their affiliates, such as PUB, from (i) engaging in "proprietary trading," and (ii) investing in or sponsoring certain types of funds, or covered funds, in each case subject to certain limited exceptions. The final rules impose significant compliance and reporting obligations on banking entities. The Federal Reserve recently extended the conformance period for certain covered funds to July 21, 2017. PUB is reviewing the scope of any compliance program that may be required but is of the view that the impact of the Volcker Rule will not be material to its business operations.

*Executive Compensation and Corporate Governance*

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

### ***Future Legislative and Regulatory Developments***

Various legislative acts are from time to time enacted by Congress or by the Utah Legislature. Additionally, regulatory agencies frequently modify or create new regulations and guidance. Such acts and modifications or new regulation and guidance may change the environment in which PUB and the Bank operate in substantial and unpredictable ways. We cannot determine the ultimate impact that potential legislation, if enacted, or implementing regulations and guidance with respect thereto, would have upon PUB's or the Bank's financial condition or results of operations. Finally, on February 3, 2017, President Trump signed an Executive Order pursuant to which he ordered the Secretary of the Treasury to consult with the heads of the member agencies of the Financial Stability Oversight Council on the extent to which existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements, and other government policies promote certain core principles laid out in the Executive Order. This may result in repeals of or amendments to existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements and other government policies.

### ***State Corporate Law Restrictions***

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

### ***Effects of Government Monetary Policy***

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

## Item 1A. Risk Factors

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

### Risks Relating to Our Business and Market

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

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

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

Unlike larger financial institutions that are more geographically diversified, our business is concentrated primarily in the state of Utah. As of December 31, 2017, approximately 80.4% of our loans were secured by real estate, the substantial majority of which are located in Utah, Salt Lake, Davis, Cache and Washington counties. If the local economy and particularly the real estate market declines, the rates of delinquencies, defaults, foreclosures, bankruptcies and losses in our loan portfolio would likely increase. This risk increases for our variable rate loans which represent 73.0% of our loans. As a result of this lack of diversification in our loan portfolio, a downturn in the local economy generally and real estate market specifically could significantly reduce our profitability and growth and adversely affect our financial condition.

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

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

As of December 31, 2017, 22.6% of our loan portfolio consisted of real estate construction, and acquisition and land development loans, which generally have a higher degree of risk than long-term financing of existing properties because repayment depends on the completion of the project and usually on the sale of the property. In addition, these loans are often "interest-only loans," which normally require only the payment of interest accrued prior to maturity. Interest-only loans carry greater risk than principal and interest loans because no principal is paid prior to maturity. This risk is particularly apparent during periods of rising interest rates and declining real estate values. If there is a significant decline in the real estate market due to a material increase in interest rates or for other reasons, many of these loans could default and result in foreclosure. Moreover, most of these loans are for projects located in our primary market area. If we are forced to foreclose on a project prior to completion, we may not be able to recover the entire unpaid portion of the loan or we may be required to fund additional money to complete the project or hold the property for an indeterminate period of time. Any of these outcomes may result in losses and reduce our earnings.

The FDIC has given guidance recommending that if the sum of (i) certain categories of commercial real estate, or CRE, loans and (ii) acquisition, development and construction, or ADC, loans exceeds 300% of total risk-based capital, or if ADC loans exceed 100% of total risk- based capital, heightened risk management practices should be employed to mitigate risk. As of December 31, 2017, our ratio for the sum of CRE and ADC loans was 273% and our ratio for ADC loans was 149%. Our concentration in ADC loans is cyclical and tends to increase in the second and third quarters of each year as demand for ADC loans increases. An increase in ADC loan concentration could cause our ratio for ADC loans to increase and even exceed the FDIC's guideline. We have exceeded these guidance ratios at times in the past and may do so in the future. We actively monitor and believe that we effectively manage our CRE and ADC loan concentrations. If we exceed the FDIC's guidelines and do not effectively manage the risk of our CRE and ADC loans, we may be subject to regulatory scrutiny including a requirement to raise additional capital, reduce our loan concentrations or undertake other remedial actions.

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

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

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

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

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

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

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

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

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

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

- identify suitable markets for expansion;
- attract and retain qualified management;
- attract funding to support additional growth;
- maintain asset quality and cost controls;
- maintain adequate regulatory capital and profitability to support our lending activities; and
- find attractive acquisition candidates and successfully acquire and integrate the acquisitions in an efficient manner.

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

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

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

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

- assumption of unanticipated problems or latent liabilities of the target; and
- inability to generate sufficient revenue to offset acquisition costs.

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

On October 6, 2017, we completed the acquisition of $257 million in loans and seven Utah branch locations with approximately $160 million in deposits from Banner Bank ("Banner"). Also, on November 13, 2017, we completed the acquisition of Town & Country Bank, Inc. ("T&C"), located in St. George, Utah. Realization of the anticipated synergies from these acquisitions depends on our ability to effectively integrate the operation of the acquired branches into our existing operations, including, among other things, the integration of information systems and personnel policies and practices. In addition to the risks identified above, failure to successfully integrate these acquired branches into our operations could materially harm our business. Further, we may be unable to retain customers of Banner or T&C, which could result in our loss of deposit balances and materially harm our financial condition.

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

A significant source of risk arises from the possibility that we could sustain losses due to loan defaults and non-performance on loans. We maintain an allowance for loan losses in accordance with accounting principles generally accepted in the United States to provide for such defaults and other non-performance. As of December 31, 2017, our allowance for loan losses ("ALLL") as a percentage of loans held for investment was 1.12%. In accordance with acquisition accounting, loans acquired from the Utah branches of Banner Bank and Town & Country Bank were recorded at their estimated fair value, which resulted in a net discount to the loans' contractual amounts, a portion of which reflects a discount for expected credit losses. Credit discounts are included in the determination of fair value, and as a result, no allowance for loan losses is recorded for acquired loans at the acquisition date. The discount recorded on the acquired loans is not reflected in the allowance for loan losses or related allowance coverage ratios. The determination of the appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control. In addition, our underwriting policies, adherence to credit monitoring processes, and risk management systems and controls may not prevent unexpected losses. Our allowance for loan losses may not be adequate to cover actual loan losses. Moreover, any increase in our allowance for loan losses will adversely affect our earnings.

In June 2016, the Financial Accounting Standards Board ("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 anticipates 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 is developing new procedures for determining an allowance for credit losses relating to held-to-maturity investment securities. In addition, the current accounting policy and procedures for other-than-temporary impairment on available-for-sale investment securities will be replaced with an allowance approach. The Company is developing and implementing processes and procedures to ensure it is fully compliant at adoption date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***If third parties infringe upon our intellectual property or if we were to infringe upon the intellectual property of third parties, we may expend significant resources enforcing or defending our rights or suffer competitive injury.***

We rely on a combination of copyright, trademark, trade secret laws and confidentiality provisions to establish and protect our proprietary rights. If we fail to successfully maintain, protect and enforce our intellectual property rights, our competitive position could suffer. Similarly, if we were to infringe on the intellectual property rights of others, our competitive position could suffer. Third parties may challenge, invalidate, circumvent, infringe or misappropriate our intellectual property, or such intellectual property may not be sufficient to permit us to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product or service offerings or other competitive harm. We may also be required to spend significant resources to monitor and police our intellectual property rights. Others, including our competitors may independently develop similar technology, duplicate our products or services or design around our intellectual property, and in such cases we could not assert our intellectual property rights against such parties. Further, our contractual arrangements may not effectively prevent disclosure of our confidential information or provide an adequate remedy in the event of unauthorized disclosure of our confidential or proprietary information. We may have to litigate to enforce or determine the scope and enforceability of our intellectual property rights, trade secrets and know-how, which could be time-consuming and expensive, could cause a diversion of resources and may not prove successful. The loss of intellectual property protection or the inability to obtain rights with respect to third party intellectual property could harm our business and ability to compete. In addition, because of the rapid pace of technological change in our industry, aspects of our business and our products and services rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms or at all.

In some instances, litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products, services or technology infringe or otherwise violate their intellectual property or proprietary rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, services or technology. Any of these third parties could bring an infringement claim against us with respect to our products, services or technology. We may also be subject to third party infringement, misappropriation, breach or other claims with respect to copyright, trademark, license usage or other intellectual property rights. In addition, in recent years, individuals and groups, including patent holding companies, have been purchasing intellectual property assets in order to make claims of infringement and attempt to extract settlements from companies in the banking and financial services industry. Any litigation or claims brought by or against us, whether with or without merit, could result in substantial costs to us and divert the attention of our management, which could harm our business and results of operations. In addition, any intellectual property litigation or claims against us could result in the loss or compromise of our intellectual property and proprietary rights, subject us to significant liabilities, including damage awards, result in an injunction prohibiting us from marketing or selling certain of our services, require us to redesign affected products or services, or require us to seek licenses which may only be available on unfavorable terms, if at all, any of which could harm our business and results of operations.

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

Approximately 80.4% of our outstanding loan portfolio was secured by real estate as of December 31, 2017. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

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

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

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

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

***Our planned growth in our leasing division includes increased risks, including risks related to collateralizing leases, our relative inexperience in this area, and complying with state lending and other requirements with which we are unfamiliar.***

We are growing our equipment lease financing business by originating direct leases on a national level through our GrowthFunding Equipment Finance ("GEF") division. We formed our GEF division in 2016 to increase our leasing portfolio and to diversify our commercial and industrial loan portfolio. GEF is underwriting leases nationwide. These leases are used to purchase equipment essential to the operations of our borrowers/lessees and are secured by the specific equipment financed. Prior to forming GEF, we acquired rental streams of payments on leases from third-party leasing companies. The negotiation and administration of such leases is handled by third-party leasing companies. Because this division is a new line of business to the Bank, we are not certain how quickly a nationwide customer base will accept this business venture. Growing a new line of business requires significant investment in personnel which, if the business is not successful, may not be recovered. While we have hired personnel with experience in leasing, there is no assurance we will be profitable or will be able to properly administer the lease portfolio. Finally, this division is subject to state lending requirements and other laws with which we are unfamiliar, and failure to comply with these requirements and laws could result in significant penalties to the Bank.

Leasing is traditionally based on cash flow lending. Cash flow lending involves lending money based primarily on the expected cash flow, profitability and enterprise value of a business rather than on the value of the assets or resale of the collateral for the loan or lease. When cash flow loans or leases become non-performing, our primary resource to recover some, or all, of the principal of our loan or lease is to liquidate the collateral. If there is a shortfall in the collateral value, the Bank must pursue the corporate or personal guarantors, the sale of the entire company as a going concern, or restructure the company in a way we believe would enable us to generate sufficient cash flow over time to repay our loan or lease. These alternatives may not generate enough proceeds to repay the loan or lease.

For some types of leases, the Bank will own and have risk of loss on the leased property and the customer will make rental lease payments over a set lease period. The lease payments are determined, in part, based on the expected residual value of the property at the end of the lease. At the end of the lease, the Bank must sell or re-lease the property to the lessee or a third party. Leases with significant residual values have higher risk than many other types of lending because the economics of the lease also rely on the leased property's value in addition to the other sources of repayment from the lease. We may be unable to re-lease or sell the property within a reasonable timeframe or may experience market price changes in the expected residual value of the leased property over the lease term. If we do not properly manage residual values of the leased property we may not be able to recover our investment.

**Risks Related to Our Regulatory Environment**

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

As a bank holding company under federal law, we are subject to regulation under the Bank Holding Company Act of 1956, as amended, or the BHCA, and the examination and reporting requirements of the Federal Reserve. In addition to supervising and examining us, the Federal Reserve, through its adoption of regulations implementing the BHCA, places certain restrictions on the activities that are deemed permissible for bank holding companies to engage in. Changes in the number or scope of permissible activities could have an adverse effect on our ability to realize our strategic goals.

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

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

Particularly as a result of new regulations and regulatory agencies under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with applicable laws and regulations. This allocation of resources, as well as any failure to comply with applicable requirements, may negatively impact our results of operations and financial condition.

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

Financial institutions have been the subject of significant legislative and regulatory changes and may be the subject of further significant legislation or regulation in the future, none of which is within our control. For example, on February 3, 2017, President Trump signed an executive order pursuant to which he ordered the Secretary of the Treasury to consult with the heads of the member agencies of the Financial Stability Oversight Council on the extent to which existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements, and other government policies promote certain core principles laid out in the executive order. This may result in repeals of, or amendments to, existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements and other government policies. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations, including those with respect to federal and state taxation, may cause our results of operations to differ materially. In addition, the costs and burden of compliance could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects the Bank's credit conditions, as well as for the Bank's depositors and borrowers, particularly as implemented through the Federal Reserve, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us, the Bank and the Bank's depositors and borrowers, and therefore on our results of operations.

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

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

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

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

Some provisions of the Dodd-Frank Act have not been completely implemented. In addition, President Trump's new administration has discussed the possibility of repealing or amending the Dodd-Frank Act and the February 3, 2017 executive order could lead to such repeals or amendments. The changes resulting from this executive order and the continuing implementation of the Dodd-Frank Act may impact the profitability of our business activities or otherwise adversely affect our business. Failure to comply with the requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to investors in our common shares.

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

The CFPB has the authority to implement and enforce a variety of existing federal consumer protection statutes and to issue new regulations but, with respect to institutions of our size, does not have primary examination and enforcement authority with respect to such laws and regulations. The authority to examine depository institutions with $10.0 billion or less in assets, such as the Bank, for compliance with federal consumer laws remains largely with our primary federal regulator, the FDIC. However, the CFPB may participate in examinations of smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. In some cases, regulators such as the Federal Trade Commission, or FTC, and the Department of Justice also retain certain rulemaking or enforcement authority, and we also remain subject to certain state consumer protection laws. As an independent bureau within the Federal Reserve, the CFPB may impose requirements more severe than the previous bank regulatory agencies. The CFPB has placed significant emphasis on consumer complaint management and has established a public consumer complaint database to encourage consumers to file complaints they may have against financial institutions. We are expected to monitor and respond to these complaints, including those that we deem frivolous, and doing so may require management to reallocate resources away from more profitable endeavors.

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

***As a result of the Dodd-Frank Act and recent rulemaking, we will become subject to more stringent capital requirements.***

Pursuant to the Dodd-Frank Act, the federal banking agencies adopted final rules, or the U.S. Basel III Capital Rules, to update their general risk-based capital and leverage capital requirements to incorporate agreements reflected in the Third Basel Accord adopted by the Basel Committee on Banking Supervision, or Basel III Capital Standards, as well as the requirements of the Dodd-Frank Act. The U.S. Basel III Capital Rules are described in more detail in "Supervision and Regulation — Basel III." While we are continuing to prepare for the impact of the U.S. Basel III Capital Rules, the U.S. Basel III Capital Rules may still have a material impact on our business, financial condition and results of operations. In addition, the failure to meet the established capital requirements could result in one or more of our regulators placing limitations or conditions on our activities or restricting the commencement of new activities, and such failure could subject us to a variety of enforcement remedies available to the federal regulatory authorities, including limiting our ability to pay dividends, issuing a directive to increase our capital and terminating our FDIC deposit insurance. FDIC deposit insurance is critical to the continued operation of the Bank.

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

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

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

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

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

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

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

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

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

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

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

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

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

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

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

**Item 1B – Unresolved Staff Comments**

None

**Item 2 – Properties**

We conduct our business through our executive office, located in American Fork, Utah. We conduct our business through our 25 full-service branch offices in Utah, Salt Lake, Davis, Cache and Washington counties in Utah and in Preston, Idaho. We also have a mortgage banking center and an information technology and operations center. We own all of our facilities except for six branch properties which are leased. We also sublease portions of one of our buildings to other tenants under short-term lease arrangements. We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms, and none of the leases are with our affiliates. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

**Item 3 – Legal Proceedings**

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

**Item 4 – Mine Safety Disclosures**

Not Applicable.

## Part II

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

The Company's shares trade on the NASDAQ Capital Market under the symbol "PUB". As of February 28, 2018, there were approximately 1,856 shareholders of record for the Company's common shares. The market range of high and low sales prices for the Company's common shares for the periods indicated are shown below:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First quarter | $ 27.30 | $ 23.95 | $ 17.46 | $ 14.16 |
| Second quarter | 29.35 | 24.63 | 18.02 | 15.41 |
| Third quarter | 33.60 | 26.00 | 21.28 | 16.18 |
| Fourth quarter | 33.30 | 29.05 | 27.85 | 18.49 |

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

| | Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| First quarter | $ 0.08 | $ 0.07 |
| Second quarter | 0.08 | 0.07 |
| Third quarter | 0.09 | 0.07 |
| Fourth quarter | 0.09 | 0.08 |
| Total | $ 0.34 | $ 0.29 |

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

### Unregistered securities

The following sets forth information regarding unregistered securities that were sold by the Registrant during the year ended December 31, 2017.

On November 13, 2017, we issued 466,546 of PUB common shares to approximately 300 shareholders of Town & Country Bank in connection with the merger of Town & Country Bank into PIB, at an agreed upon value of approximately $16.6 million, including cash as part of the consideration. The issuance of securities described above was made in reliance upon exemptions from federal securities registration under Section 3(a)(10) of the Securities Act, as a transaction in exchange for securities where the terms and conditions of such issuance and exchange were approved after a hearing upon the fairness of such terms and conditions by the State of Utah.

### Use of Proceeds from Initial Public Offering

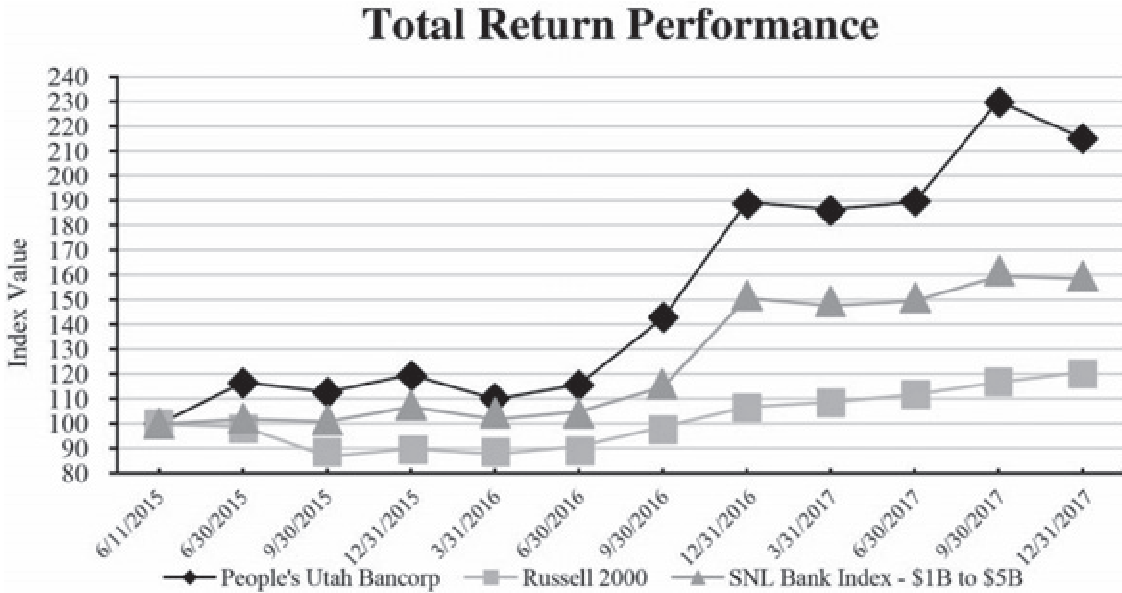
On June 11, 2015, the SEC declared effective our registration statement on Form S-1 registering common shares of the Company. On June 16, 2015, the Company completed the initial public offering ("IPO") of 2,657,000 common shares. Additionally, 218,000 common shares were sold by certain selling shareholders. 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. In 2017, the net proceeds from the IPO were utilized as a capital contribution into PIB in connection with the acquisition of the Utah branches of Banner Bank and the merger of Town & Country Bank into PIB.

### Issuer stock purchases

The Company made no stock repurchases during 2017 and 2016.

**Stock performance graphs**

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



## Item 6 – Selected Financial Data

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

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Selected Balance Sheet Information:** | | | | | |
| Cash and cash equivalents | $ 51,027 | $ 67,938 | $ 42,349 | $ 47,702 | $ 94,406 |
| Investment securities | 337,710 | 409,121 | 398,618 | 330,839 | 320,388 |
| Total loans held for investment | 1,627,444 | 1,119,877 | 1,047,975 | 940,457 | 830,717 |
| Total assets | 2,123,529 | 1,665,981 | 1,555,982 | 1,367,125 | 1,299,190 |
| Total deposits | 1,814,632 | 1,425,074 | 1,309,185 | 1,199,233 | 1,144,314 |
| Shareholders' equity | 257,418 | 228,517 | 209,408 | 157,659 | 143,672 |
| **Average balances:** | | | | | |
| Average earning assets | 1,695,147 | 1,516,139 | 1,391,108 | 1,250,156 | 981,661 |
| Average assets | 1,787,810 | 1,598,198 | 1,468,942 | 1,331,291 | 1,039,561 |
| Average shareholders' equity | 242,759 | 221,044 | 186,889 | 152,788 | 126,453 |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands except footnotes)* | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Summary Income Statement Information:** | | | | | |
| Interest income | $ 83,980 | $ 72,755 | $ 64,601 | $ 58,203 | $ 45,657 |
| Interest expense | 3,342 | 2,874 | 2,961 | 3,260 | 3,337 |
| Net interest income | 80,638 | 69,881 | 61,640 | 54,943 | 42,320 |
| Provision for loan losses | 2,750 | 900 | 1,000 | 1,700 | 1,500 |
| Net interest income after provision for loan losses | 77,888 | 68,981 | 60,640 | 53,243 | 40,820 |
| Non-interest income | 16,560 | 16,788 | 16,004 | 15,241 | 14,271 |
| Non-interest expense | 58,125 | 48,886 | 46,768 | 45,333 | 36,875 |
| Income before income tax expense | 36,323 | 36,883 | 29,876 | 23,151 | 18,216 |
| Income tax expense | 16,477 | 13,273 | 10,262 | 8,246 | 6,338 |
| Net income | $ 19,846 | $ 23,610 | $ 19,614 | $ 14,905 | $ 11,878 |
| | | | | | |
| Basic earnings per share | $ 1.10 | $ 1.33 | $ 1.21 | $ 1.02 | $ 0.92 |
| Diluted earnings per share | 1.08 | 1.30 | 1.17 | 0.98 | 0.89 |
| Book value per share | 13.91 | 12.82 | 11.92 | 10.68 | 9.83 |
| Tangible book value per share [(1)] | 12.29 | 12.79 | 11.88 | 10.63 | 9.75 |
| Cash dividends per common share [(4)] | 0.34 | 0.29 | 0.18 | 0.22 | 0.13 |
| Dividend ratio [(4)] | 30.77% | 21.77% | 15.22% | 21.76% | 14.13% |
| **Selected financial ratios:** | | | | | |
| Net interest margin [(2)] | 4.76% | 4.61% | 4.43% | 4.39% | 4.31% |
| Efficiency ratio | 59.80% | 56.41% | 60.23% | 64.59% | 65.16% |
| Non-interest income to average assets | 0.93% | 1.05% | 1.09% | 1.14% | 1.37% |
| Non-interest expense to average assets | 3.25% | 3.06% | 3.18% | 3.41% | 3.55% |
| Return on average assets | 1.11% | 1.48% | 1.34% | 1.12% | 1.14% |
| Return on average equity | 8.18% | 10.68% | 10.49% | 9.76% | 9.39% |
| Non-performing assets to total assets | 0.18% | 0.34% | 0.51% | 0.70% | 1.61% |
| Loans held for investment to deposits | 89.68% | 78.58% | 80.05% | 78.42% | 72.60% |
| Net charge-offs (recoveries) to average loans | 0.09% | -0.02% | 0.06% | 0.11% | 0.13% |
| **Capital Ratios:** | | | | | |
| Tier 1 leverage capital | 11.46% | 13.71% | 13.42% | 11.32% | 11.06% |
| Total risk-based capital | 14.67% | 20.19% | 19.02% | 16.01% | 16.27% |
| Average equity to average assets | 13.58% | 13.83% | 12.72% | 11.48% | 12.16% |
| Tangible common equity to tangible assets [(3)] | 10.87% | 13.69% | 13.42% | 11.48% | 10.98% |

(1) Represents the sum of total shareholders' equity less intangible assets all divided by common shares outstanding. Intangible assets were $29.9 million, $581,000, $679,000, $776,000 and $1.2 million at December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

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

(3) Represents the sum of total shareholders' equity less intangible assets all divided by the sum of total assets less intangible assets.

(4) Dividends per common share for 2015 do not include a dividend on fourth quarter of 2015 earnings of $0.07 per share which was declared and paid subsequent to December 31, 2015. Total dividends declared on 2015 earnings were $0.25 per share or a dividend yield of 21.52%.

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

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

## FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K may contain certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, ("Securities Act"), and section 21E of the Securities Exchange Act of 1934, as amended, ("Exchange Act"). These forward-looking statements reflect our current views and are not historical facts. These statements may include statements regarding projected performance for periods following the date of this report. These statements can generally be identified by use of phrases such as "believe," "expect," "will," "seek," "should," "anticipate," "estimate," "intend," "plan," "target," "project," "commit" or other words of similar import. Similarly, statements that describe our future financial condition, results of operations, objectives, strategies, plans, goals or future performance and business are also forward-looking statements. Statements that project future final conditions, results of operations and shareholder value are not guarantees of performance and many of the factors that will determine these results and values are beyond our ability to control or predict. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors, including, but not limited to, those described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections and other parts of this annual report on Form 10-K that could cause our actual results to differ materially from those anticipated in these forward-looking statements. The following is a non-exclusive list of factors which could cause our actual results to differ materially from our forward-looking statements in this annual report on Form 10-K:

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

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

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

**Overview**

People's Utah Bancorp ("PUB") is the holding company for People's Intermountain Bank. People's Intermountain Bank ("Bank, "PIB") is a full-service community bank providing loans, deposit and cash management services to individuals and businesses. Our primary customers are small to medium sized businesses that require highly personalized commercial banking products and services. People's Intermountain Bank has 25 branch locations in three banking divisions, Bank of American Fork, Lewiston State Bank, and People's Town & Country Bank; a leasing division, GrowthFunding Equipment Finance; and a mortgage division, People's Intermountain Bank Mortgage. The Bank has been serving communities in Utah and southern Idaho for more than 100 years.

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

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

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

**Mergers & Acquisitions**

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

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

**Critical Accounting Policies**

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

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

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

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

We periodically review the assumptions and formulas by which additions are made to the specific and general valuation allowances for losses in an effort to refine such allowances in light of the current status of the factors described above, although we believe the levels of our ALLL as of December 31, 2017 and 2016 were adequate to absorb losses in the loan portfolio. A decline in local economic, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

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

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and our intent and ability to retain our investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not favorable, or that there is a lack of evidence to support a

realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary and we do not intend to sell the security or it is more likely than not that we will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that we will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

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

*Acquired Loans* — Purchased loans, including loans acquired in business combinations, are recorded at fair value on the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired ("PCI") or purchased non-credit impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. Credit discounts on PCI loans are not accreted to interest income. The accounting for PCI loans is periodically updated for changes in cash flow expectations, and reflected in interest income over the life of the loans as accretable yield. Any subsequent decreases in expected cash flows attributable to credit deterioration are recognized by recording a provision for loan losses.

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

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

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

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

*Income Taxes* — We file income taxes on a consolidated basis with our subsidiaries and allocate income tax expense (benefit) based each entity's proportionate share of the consolidated provision for income taxes. Deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are

adjusted for the effects of changes in tax laws and rates on the date of enactment. The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred income tax asset will not be realized. "More likely than not" is defined as greater than a 50% probability. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

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

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

**Impact of Recently Issued Accounting Standards**

New authoritative accounting guidance from the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") that has either been issued or is effective during 2017 or 2016 and may possibly have a material impact on the Company includes amendments to:

- FASB ASC Topic 220, *Balance Sheet;*
- FASB ASC Subtopic 310-20, *Nonrefundable Fees and Other Costs*;
- FASB ASC Topic 250, *Accounting Changes and Error Corrections;*
- FASB ASC Topic 350, *Goodwill and Other Intangibles;*
- FASB ASC Topic 606, *Revenue from Contracts with Customers;*
- FASB ASC Topic 230, *Statement of Cash Flows;*
- FASB ASC Topic 326, *Financial Statements-Credit Losses*
- FASB ASC Topic 842, *Leases*;
- FASB ASC Subtopic 825-10, *Overall Financial Instruments; and*
- FASB ASC Topic 805, *Business Combinations.*

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

**Non-GAAP Financial Measures**

In addition to financial results presented in accordance with generally accepted accounting principles ("GAAP"), this Management's Discussion & Analysis contains certain non-GAAP financial measures. We have presented these non-GAAP financial measures because we believe that it provides useful and comparative information to assess trends in our core operations and facilitates the comparison of our financial performance with the performance of our peers and the comparative years presented. We have excluded acquisition related costs, net losses on the sale of securities to increase our liquidity position for the acquisition of the Utah branches of Banner Bank, and the write-down of our deferred income tax assets due to the reduction in the Federal corporate income tax rate from revenues, non-interest income, and other earnings information, as we believe these items are not part of our core operations.

However, these non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. For a reconciliation of these non-GAAP financial measures, see the tables below. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled non-GAAP measures as calculated by other companies. See "Financial Overview for the Years Ended December 31, 2017 and 2016" for more detailed information about our financial performance.

**Non-GAAP Financial Measures**

| | Years Ended December 31, | | |
|---|---|---|---|
| *(Dollars in thousands except per share amounts)* | 2017 | 2016 | 2015 |
| **Revenue from Core Operations** | | | |
| Net interest income (GAAP) | $ 80,638 | $ 69,881 | $ 61,640 |
| Total non-interest income | 16,560 | 16,788 | 16,004 |
| Total GAAP revenues | 97,198 | 86,669 | 77,644 |
| Exclude net loss on sale of investment securities | 499 | - | - |
| Revenue from core operations (non-GAAP) | $ 97,697 | $ 86,669 | $ 77,644 |
| **Non-interest Income from Core Operations** | | | |
| Total non-interest income (GAAP) | $ 16,560 | $ 16,788 | $ 16,004 |
| Exclude net loss on sale of investment securities | 499 | - | - |
| Non-interest income from core operations (non-GAAP) | $ 17,059 | $ 16,788 | $ 16,004 |
| **Non-interest Expense from Core Operations** | | | |
| Total non-interest expense (GAAP) | $ 58,125 | $ 48,886 | $ 46,768 |
| Exclude acquisition-related costs | (4,784) | - | - |
| Non-interest expense from core operations (non-GAAP) | $ 53,341 | $ 48,886 | $ 46,768 |
| **Net Income from Core Operations** | | | |
| Net income (GAAP) | $ 19,846 | $ 23,610 | $ 19,614 |
| Exclude net loss on sale of investment securities | 499 | - | - |
| Exclude acquisition-related costs | 4,784 | - | - |
| Exclude tax related benefit | (1,709) | - | - |
| Write down of deferred income tax assets (DTA) | 4,729 | - | - |
| Net income (non-GAAP) | $ 28,149 | $ 23,610 | $ 19,614 |

**Non-GAAP Financial Measures (continued)**

| *(Dollars in thousands except per share amounts)* | Years Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Acquisition Accounting Impact on Net Interest Margin** | | | |
| Net interest income (GAAP) | $ 80,638 | $ 69,881 | $ 61,640 |
| Exclude discount accretion (premium amortization) on purchased loans | $ 5 | $ (570) | $ (307) |
| Exclude premium amortization on acquired certificates of deposit ("CD") | $ (230) | $ (577) | $ (578) |
| Net interest income before acquisition accounting impact (Non-GAAP) | $ 80,413 | $ 68,734 | $ 60,755 |
| Average earning assets (GAAP) | $ 1,695,147 | $ 1,516,139 | $ 1,391,108 |
| Exclude average net loan discount on acquired loans | $ 1,524 | $ 1,296 | $ 1,663 |
| Average earning before acquired loan discount (Non-GAAP) | $ 1,696,671 | $ 1,517,435 | $ 1,392,771 |
| Net interest margin ("NIM") (GAAP) | 4.76% | 4.61% | 4.43% |
| Exclude impact on NIM from discount accretion | 0.00% | -0.04% | -0.04% |
| Exclude impact on NIM from CD premium amortization | -0.02% | -0.04% | -0.02% |
| Net interest margin before acquisition accounting adjustments (Non-GAAP) | 4.74% | 4.53% | 4.37% |
| **Selected Financial Ratios** | | | |
| Diluted earnings per share (GAAP) | $ 1.08 | $ 1.30 | $ 1.21 |
| Diluted earnings per share (non-GAAP) | $ 1.53 | $ 1.30 | $ 1.21 |
| Efficiency ratio (GAAP) | 59.80% | 56.41% | 60.23% |
| Efficiency ratio (non-GAAP) | 54.60% | 56.41% | 60.23% |
| Non-interest income to average assets (GAAP) | 0.93% | 1.05% | 1.09% |
| Non-interest income to average assets (non-GAAP) | 0.95% | 1.05% | 1.09% |
| Non-interest expense to average assets (GAAP) | 3.25% | 3.06% | 3.18% |
| Non-interest expense to average assets (non-GAAP) | 2.98% | 3.06% | 3.18% |
| Return on average assets (GAAP) | 1.11% | 1.48% | 1.34% |
| Return on average assets (non-GAAP) | 1.57% | 1.48% | 1.34% |
| Return on average equity (GAAP) | 8.18% | 10.68% | 10.49% |
| Return on average equity (non-GAAP) | 11.60% | 10.68% | 10.49% |

## 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 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.

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | | 2015 | | |
| *(Dollars in thousands, except footnotes)* | **Average Balance** | **Interest Income/ Expense** | **Average Yield/ Rate** | **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 | $ 51,648 | $ 589 | 1.14% | $ 42,858 | $ 210 | 0.49% | $ 66,071 | $ 163 | 0.25% |
| Securities: [1] | | | | | | | | | |
| Taxable securities | 281,938 | 4,738 | 1.68% | 285,903 | 4,279 | 1.50% | 257,480 | 3,947 | 1.53% |
| Non-taxable securities [2] | 90,060 | 1,663 | 1.85% | 89,647 | 1,655 | 1.85% | 82,211 | 1,626 | 1.98% |
| Loans [3] [4] | 1,269,365 | 76,965 | 6.06% | 1,095,619 | 66,600 | 6.08% | 983,294 | 58,861 | 5.99% |
| Non-marketable equity securities | 2,136 | 25 | 1.17% | 2,112 | 11 | 0.52% | 2,052 | 4 | 0.19% |
| **Total interest earning assets** | 1,695,147 | $ 83,980 | 4.95% | 1,516,139 | $ 72,755 | 4.80% | 1,391,108 | $ 64,601 | 4.64% |
| Allowance for loan losses | (17,220) | | | (16,036) | | | (15,431) | | |
| Non-interest earning assets | 109,883 | | | 98,095 | | | 93,265 | | |
| **Total average assets** | $1,787,810 | | | $1,598,198 | | | $1,468,942 | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | | | |
| Interest bearing deposits: | | | | | | | | | |
| Demand and savings accounts | $ 680,174 | $ 1,783 | 0.26% | $ 607,714 | $ 1,685 | 0.28% | $ 557,917 | $ 1,553 | 0.28% |
| Money market accounts | 183,142 | 433 | 0.24% | 150,028 | 354 | 0.24% | 143,766 | 326 | 0.23% |
| Certificates of deposit | 161,852 | 1,059 | 0.65% | 168,549 | 794 | 0.47% | 188,433 | 1,076 | 0.57% |
| Total interest bearing deposits | 1,025,168 | 3,275 | 0.32% | 926,291 | 2,833 | 0.31% | 890,116 | 2,955 | 0.33% |
| Short-term borrowings | 7,462 | 67 | 0.90% | 12,072 | 41 | 0.34% | 2,607 | 6 | 0.23% |
| **Total interest bearing liabilities** | 1,032,630 | 3,342 | 0.32% | 938,363 | 2,874 | 0.31% | 892,723 | 2,961 | 0.33% |
| Non-interest bearing deposits | 501,761 | | | 426,487 | | | 379,468 | | |
| **Total funding** | 1,534,391 | 3,342 | 0.22% | 1,364,850 | 2,874 | 0.21% | 1,272,191 | 2,961 | 0.23% |
| Other non-interest bearing liabilities | 10,660 | | | 12,304 | | | 9,862 | | |
| Shareholders' equity | 242,759 | | | 221,044 | | | 186,889 | | |
| **Total average liabilities and shareholders' equity** | $1,787,810 | | | $1,598,198 | | | $1,468,942 | | |
| **Net interest income** | | $ 80,638 | | | $ 69,881 | | | $ 61,640 | |
| **Interest rate spread** | | | 4.63% | | | 4.49% | | | 4.31% |
| **Net interest margin [5]** | | | 4.76% | | | 4.61% | | | 4.43% |

(1) Excludes average unrealized gains (losses) of $(1.1) million, $1.2 million and $1.7 million for the years ended December 31, 2017, 2016 and 2015, respectively which are included in non-interest earning assets.

(2) The average yield does not include the federal tax benefits at an assumed rate of 35% related to income earned on tax-exempt municipal securities totaling $896,000, $893,000 and $875,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

(3) Loan interest income includes loan fees of $6.4 million, $6.1 million and $4.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

(4) Average loans do not include average non-accrual loans of $5.6 million, $5.5 million and $8.0 million for years ended December 31, 2017, 2016 and 2015, respectively, which are included in non-interest earning assets.

(5) Net interest margin is computed by dividing net interest income 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.

| | Year Ended December 31, 2017 vs. 2016 | | | Year Ended December 31, 2016 vs. 2015 | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due to: | | | Increase (Decrease) Due to: | | |
| *(Dollars in thousands)* | Volume | Rate | Net | Volume | Rate | Net |
| Interest income: | | | | | | |
| Interest earning deposits in other banks and federal funds sold | $ 51 | $ 328 | $ 379 | $ (72) | $ 119 | $ 47 |
| Taxable securities | (60) | 519 | 459 | 427 | (95) | 332 |
| Non-taxable securities | 8 | - | 8 | 141 | (112) | 29 |
| Loans | 10,535 | (170) | 10,365 | 6,816 | 923 | 7,739 |
| Federal Home Loan Bank stock | - | 14 | 14 | - | 7 | 7 |
| Total interest income | 10,534 | 691 | 11,225 | 7,312 | 842 | 8,154 |
| Interest expense: | | | | | | |
| Demand and savings accounts | 193 | (95) | 98 | 138 | (6) | 132 |
| Money market accounts | 78 | 1 | 79 | 14 | 14 | 28 |
| Certificates of deposit | (33) | 298 | 265 | (106) | (176) | (282) |
| Short-term borrowings | (21) | 47 | 26 | 31 | 4 | 35 |
| Total interest expense | 217 | 251 | 468 | 77 | (164) | (87) |
| Net interest income | $10,317 | $ 440 | $10,757 | $ 7,235 | $ 1,006 | $ 8,241 |

Net interest income increased $10.8 million for the year ended December 31, 2017 compared to the same period in 2016. The increase in interest income was driven by organic loan growth, $362 million of loans purchased from the acquisition of the seven Utah branches of Banner Bank and the merger of Town & Country Bank, and improved loan and investment securities yields, offset by higher cost of funds from interest-bearing deposits.

Net interest income increased $8.2 million for the year ended December 31, 2016 compared to the same period in 2015. The increase in interest income was primarily driven by increased volume on loans and improved loan yields, offset by lower yields on investment securities. Additionally, lower deposit cost of funds offset the additional interest expense resulting from deposit growth.

**Comparison of Results of Operations for the Years Ended December 31, 2017 and 2016**

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | $ Change | % Change |
| Interest income | $ 83,980 | $ 72,755 | $ 11,225 | 15.4% |
| Interest expense | 3,342 | 2,874 | 468 | 16.3% |
| Net interest income | 80,638 | 69,881 | 10,757 | 15.4% |
| Provision for loan losses | 2,750 | 900 | 1,850 | 205.6% |
| Net interest income after provision for loan losses | 77,888 | 68,981 | 8,907 | 12.9% |
| Non-interest income | 16,560 | 16,788 | (228) | (1.4)% |
| Non-interest expense | 58,125 | 48,886 | 9,239 | 18.9% |
| Income before income tax expense | 36,323 | 36,883 | (560) | (1.5)% |
| Income tax expense | 16,477 | 13,273 | 3,204 | 24.1% |
| Net income | $ 19,846 | $ 23,610 | $ (3,764) | (15.9)% |

*Net Income.* Our net income declined by $3.8 million to $19.8 million for the year ended December 31, 2017 compared with $23.6 million for the same period in 2016 due to two large non-recurring items. The Company recorded $4.8 million in non-recurring acquisition-related costs for the acquisition of the seven Utah branches of Banner Bank and the merger of Town & Country Bank. In addition, the Company recorded additional income tax expense of $4.7 million related to the write-down of deferred income tax assets due to the reduction in the Federal corporate income tax rate. The Federal government signed into law the Tax Cuts and Jobs Act (the "Act"), which amended the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individual and businesses. For businesses, the Act reduces the federal corporate tax rate from a maximum of 35% to a flat rate of 21%. The rate reduction was effective January 1, 2018. Consequently, the lower corporate income tax rate reduces the future net tax benefits of timing differences between book and taxable income recorded by the Company as net deferred income tax assets. As a result, the Company re-measured its net deferred income tax assets at the end of 2017.

*Net Interest Income and Net Interest Margin.* Net interest income grew 15.4%, or $10.8 million, to $80.6 million compared with $69.9 million for all of 2016. The increase is primarily the result of average earning assets growing 11.8%, or $179 million, and yields on interest earning assets increasing 15 basis points for the same comparable periods to 4.95% for all of 2017. This contributed to a higher net interest margin of 4.76% for the year ended 2017 compared with 4.61% for all of 2016. The cost of funding our earning assets increased to 0.32% in 2017 from 0.31% in 2016 because of higher rates paid on deposits.

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

The provision for loan losses for the year ended December 31, 2017 was $2.8 million compared with $0.9 million for the same period in 2016. The Company incurred net charge-offs of $1.2 million for the year ended 2017 compared with net recoveries of $0.3 million for all of 2016. The increase in the provision for loan losses in 2017 compared to 2016 is primarily due to growth in total outstanding loans as well as an increase in net charge-offs.

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

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| ***(Dollars in thousands)*** | **2017** | **2016** | **$ Change** | **% Change** |
| Service charges on deposit accounts | $ 2,445 | $ 2,181 | $ 264 | 12.1% |
| Card processing | 4,956 | 4,451 | 505 | 11.3% |
| Mortgage banking | 7,536 | 8,478 | (942) | (11.1)% |
| Net loss on sale of investment securities | (499) | (91) | (408) | 448.4% |
| Other operating | 2,122 | 1,769 | 353 | 20.0% |
| Total non-interest income | $ 16,560 | $ 16,788 | $ (228) | (1.4)% |

Non-interest income was $16.6 million for the year ended December 31, 2017 compared with $16.8 million for all of 2016. The decrease was the result of lower mortgage banking income of $0.9 million and $0.5 million loss on sale of $80.4 million of investment securities, which were sold to raise liquidity to fund the purchase of net assets from the acquisition of the Utah branches of Banner Bank. The decline was offset by higher card processing fees and service charges on deposit accounts. We expect that mortgage banking income will continue to decline in the future as we expect interest rates on mortgage loans to increase, which we anticipate will result in lower mortgage loan originations.

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

| (Dollars in thousands) | Years Ended December 31, 2017 | Years Ended December 31, 2016 | $ Change | % Change |
|---|---|---|---|---|
| Salaries and employee benefits | $ 34,392 | $ 31,441 | $ 2,951 | 9.4% |
| Occupancy, equipment and depreciation | 4,827 | 4,296 | 531 | 12.4% |
| Data processing | 2,798 | 2,866 | (68) | (2.4)% |
| FDIC premiums | 572 | 631 | (59) | (9.4)% |
| Card processing | 2,166 | 2,178 | (12) | (0.6)% |
| Marketing and advertising | 1,381 | 1,044 | 337 | 32.3% |
| Acquisition-related costs | 4,784 | - | 4,784 | NM |
| Other | 7,205 | 6,430 | 775 | 12.1% |
| Total non-interest expense | $ 58,125 | $ 48,886 | $ 9,239 | 18.9% |

For the year ended 2017, noninterest expense was $58.1 million compared with $48.9 million for all of 2016. The increase was primarily due to $4.8 million in non-recurring costs associated with the acquisition of the Utah branches of Banner Bank and merger of Town & Country Bank. In addition, noninterest expense for all of 2017 increased as a result of $3.0 million of higher salaries and employee benefits due to salary increases to existing employees, new employees hired to support the Bank's balance sheet growth, and the addition of employees retained from the acquisition of Utah branches of Banner Bank and the merger of Town & Country Bank, and $0.5 million of higher occupancy, equipment and depreciation costs associated with the net increase of five branches from these transactions

*Income Tax Expense.* We recorded tax provisions of $16.5 million for the year ended December 31, 2017 compared with $13.3 million for the year ended 2016. The increase in income tax expense is due to a $4.7 million write-down on our deferred income tax assets resulting from the re-measurement of such assets due to the reduction in the Federal corporate income tax rate. Excluding the one-time adjustment to the Company's deferred income tax assets related to the write-down of our deferred income tax assets for tax benefits that we're not expected to realize, the effective tax rate for the year ended 2017 was 32.3% compared with 36.0% for the same period a year earlier. The lower effective tax rate in 2017 compared with 2016 is primarily due to tax benefits related to tax-deductible stock compensation expense and adjustments in the expected recoverability of certain tax credits. We expect an effective tax rate, including State income taxes, of 25% for 2018.

**Comparison of Results of Operations for the Years Ended December 31, 2016 and 2015**

| (Dollars in thousands) | Years Ended December 31, 2016 | Years Ended December 31, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Interest income | $ 72,755 | $ 64,601 | $ 8,154 | 12.6% |
| Interest expense | 2,874 | 2,961 | (87) | (2.9)% |
| Net interest income | 69,881 | 61,640 | 8,241 | 13.4% |
| Provision for loan losses | 900 | 1,000 | (100) | (10.0)% |
| Net interest income after provision for loan losses | 68,981 | 60,640 | 8,341 | 13.8% |
| Non-interest income | 16,788 | 16,004 | 784 | 4.9% |
| Non-interest expense | 48,886 | 46,768 | 2,118 | 4.5% |
| Income before income tax expense | 36,883 | 29,876 | 7,007 | 23.5% |
| Income tax expense | 13,273 | 10,262 | 3,011 | 29.3% |
| Net income | $ 23,610 | $ 19,614 | $ 3,996 | 20.4% |

*Net Income.* Our net income grew by $4.0 million to $23.6 million for the year ended December 31, 2016 as compared to $19.6 million for the same period in 2015. This was attributable principally to increases in net interest income of $8.2 million, non-interest income of $0.8 million, and a decline of $0.1 million in provision for loan loss. These increases to net income were offset by an increase of $2.1 million in non-interest expenses and a $3.0 million increase in income tax expense.

*Net Interest Income and Net Interest Margin.* The increase in net interest income for the year ended December 31, 2016 was primarily driven by interest earned on higher average balances in interest-earning assets attributable to internal growth. Interest expense for the year ended December 31, 2016 decreased $87,000 from the same period in 2015 due to lower deposit rates.

The yield on our average interest earning assets was 4.80% for the year ended December 31, 2016 compared to 4.64% for the same period in 2015. This is primarily attributable to a higher loan yield of 6.08% in 2016 compared to 5.99% in 2015 and average loans representing a higher percentage of average earning assets in 2016 compared to 2015.

The cost of funding our earning assets declined from 0.33% in 2015 to 0.31% in 2016 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 the 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 year ended December 31, 2016 was $0.9 million compared to $1.0 million for the same period in 2015. We experienced net loan recoveries in 2016 of $258,000 compared to net loans charged-off of $594,000 in 2015. The decrease in the provision for loan losses in 2016 compared to 2015 is primarily due to net recoveries, lower loss rates experienced based on improvements in the quality of the loan portfolio compared to December 31, 2015, and offset by additional reserves on increases in average loan balances.

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

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| ***(Dollars in thousands)*** | **2016** | **2015** | **$ Change** | **% Change** |
| Service charges on deposit accounts | $ 2,181 | $ 2,449 | $ (268) | (10.9)% |
| Card processing | 4,451 | 4,250 | 201 | 4.7% |
| Mortgage banking | 8,478 | 7,316 | 1,162 | 15.9% |
| Net loss on sale of investment securities | (91) | - | (91) | NM |
| Other operating | 1,769 | 1,989 | (220) | (11.1)% |
| Total non-interest income | $ 16,788 | $ 16,004 | $ 784 | 4.9% |

The increase in total non-interest income during the year ended December 31, 2016 compared to the same period in 2015 was primarily influenced by an increase of 15.9% in mortgage banking income resulting from higher volumes of residential mortgage loans originated and sold during the year. The decrease in service charges on deposit accounts is primarily due to reduced volume of processed and returned items. Other operating income in 2016 has declined from 2015 primarily because of approximately $510,000 of gains on sales of foreclosed assets in 2015 compared to $171,000 in 2016.

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

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| ***(Dollars in thousands)*** | **2016** | **2015** | **$ Change** | **% Change** |
| Salaries and employee benefits | $ 31,441 | $ 29,892 | $ 1,549 | 5.2% |
| Occupancy, equipment and depreciation | 4,296 | 3,953 | 343 | 8.7% |
| Data processing | 2,866 | 2,831 | 35 | 1.2% |
| FDIC premiums | 631 | 754 | (123) | (16.3)% |
| Card processing | 2,178 | 2,017 | 161 | 8.0% |
| Marketing and advertising | 1,044 | 853 | 191 | 22.4% |
| Other | 6,430 | 6,468 | (38) | (0.6)% |
| Total non-interest expense | $ 48,886 | $ 46,768 | $ 2,118 | 4.5% |

Salaries and employee benefits of $31.4 million in the year ended December 31, 2016 represents 64.2% of our total non-interest expense, and increased 5.2% compared to the same period in 2015. This increase primarily resulted from an increase of nine average full-time equivalent new hires, salary increases, and variable compensation costs to support our balance sheet and income growth and an expansion of our leasing division.

Occupancy, equipment and depreciation expenses increased during 2016 primarily because of the loss of a sub lessee's rental income. We also experienced increases in our marketing, advertising, and card processing expenses primarily from expanding our marketing efforts and costs associated with higher card processing income.

*Provision for Income Taxes.* We recorded tax provisions of $13.3 million for the year ended December 31, 2016 compared to $10.3 million for the same period in 2015. Our effective tax rate was approximately 36.0% for 2016 and 34.3% for the same period in 2015. Any difference from the federal statutory rate in either period was primarily due to the non-taxable nature of income from municipal securities and bank-owned life insurance, tax credits and state income taxes. As of December 31, 2016, the Company had an uncertain tax position of $200,000 related to the rehabilitation credit recorded in 2015. This uncertain tax position was resolved in 2017 in the Company's favor.

## Financial Condition

Total assets grew $458 million, or 27.5%, to $2.1 billion at December 31, 2017 compared with $1.7 billion at December 31, 2016. Loans held for investment increased $507 million, or 45.3%, to $1.6 billion at December 31, 2017 compared with $1.1 billion at December 31, 2016. Total deposits increased $390 million, or 27.3%, to $1.81 billion at December 31, 2017 compared with $1.43 billion at December 31, 2016. Total assets acquired in the acquisition of the Utah branches of Banner Bank and the merger of Town & Country Bank were $417 million, which includes total loans acquired net of discounts of $362 million. Total liabilities assumed were $290 million, which includes total deposits assumed net of premiums of $284 million. The remaining increase in total assets, loans held for investment, and deposits was a result of organic growth.

## Loans

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

| | December 31, | | | | |
|---|---|---|---|---|---|
| ***(Dollars in thousands)*** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Loans held for sale | $ 10,871 | $ 20,826 | $ 17,947 | $ 12,272 | $ 13,555 |
| Loans held for investment: | | | | | |
| Commercial real estate loans: | | | | | |
| Real estate term | 784,148 | 582,029 | 577,804 | 521,536 | 455,827 |
| Construction and land development | 369,590 | 240,120 | 179,664 | 155,117 | 136,610 |
| Total commercial real estate loans | 1,153,738 | 822,149 | 757,468 | 676,653 | 592,437 |
| Commercial and industrial | 294,085 | 213,260 | 208,277 | 178,116 | 142,562 |
| Consumer loans: | | | | | |
| Residential and home equity | 158,591 | 72,959 | 71,169 | 73,515 | 82,703 |
| Consumer and other | 25,591 | 15,678 | 14,945 | 15,421 | 15,238 |
| Total consumer loans | 184,182 | 88,637 | 86,114 | 88,936 | 97,941 |
| Gross loans held for investment | 1,632,005 | 1,124,046 | 1,051,859 | 943,705 | 832,940 |
| Net deferred loan fees | (4,561) | (4,169) | (3,884) | (3,248) | (2,223) |
| Loans held for investment | 1,627,444 | 1,119,877 | 1,047,975 | 940,457 | 830,717 |
| Allowance for loan losses | (18,303) | (16,715) | (15,557) | (15,151) | (14,390) |
| Loans held for investment, net | $1,609,141 | $1,103,162 | $1,032,418 | $ 925,306 | $ 816,327 |

| (Percentage of gross loans held for investment) | December 31, 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Loans held for investment: | | | | | |
| Commercial real estate loans: | | | | | |
| Real estate term | 48.1% | 51.7% | 54.9% | 55.3% | 54.7% |
| Construction and land development | 22.6% | 21.4% | 17.1% | 16.4% | 16.4% |
| Total commercial real estate loans | 70.7% | 73.1% | 72.0% | 71.7% | 71.1% |
| Commercial and industrial | 18.0% | 19.0% | 19.8% | 18.9% | 17.1% |
| Consumer loans: | | | | | |
| Residential and home equity | 9.7% | 6.5% | 6.8% | 7.8% | 10.0% |
| Consumer and other | 1.6% | 1.4% | 1.4% | 1.6% | 1.8% |
| Total consumer loans | 11.3% | 7.9% | 8.2% | 9.4% | 11.8% |
| Gross loans held for investment | 100.0% | 100.0% | 100.0% | 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 table shows the amounts of outstanding loans, which, based on remaining scheduled repayments of principal, are 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 December 31, 2017 are as follows:

| | Maturity | | | | Rate Structure for Loans Maturing Over One Year | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | One Year or Less | One through Five Years | After Five Years | Total | Fixed Rate | Adjustable Rate |
| Loans held for investment: | | | | | | |
| Commercial real estate loans: | | | | | | |
| Real estate term | $ 71,228 | $ 229,416 | $ 483,504 | $ 784,148 | $ 125,773 | $ 587,147 |
| Construction and land development | 315,769 | 35,061 | 18,760 | 369,590 | 19,256 | 34,565 |
| Total commercial real estate loans | 386,997 | 264,477 | 502,264 | 1,153,738 | 145,029 | 621,712 |
| Commercial and industrial | 123,066 | 118,093 | 52,926 | 294,085 | 100,445 | 70,574 |
| Consumer loans: | | | | | | |
| Residential and home equity | 23,983 | 33,213 | 101,395 | 158,591 | 20,060 | 114,548 |
| Consumer and other | 13,005 | 9,375 | 3,211 | 25,591 | 9,428 | 3,158 |
| Total consumer loans | 36,988 | 42,588 | 104,606 | 184,182 | 29,488 | 117,706 |
| Gross loans held for investment | $ 547,051 (1) | $ 425,158 | $ 659,796 | $1,632,005 | $ 274,962 | $ 809,992 (1) |

(1) The sum of adjustable rate loans maturing after one year and total loans maturing within one year is $1.36 billion or 83.2% of total loans at December 31, 2017.

*Concentrations.* As of December 31, 2017, in management's judgment, a concentration of loans existed in real estate related loans. As of that date, real estate related loans comprised 80.4% of gross loans held for investment, of which 48.1% are commercial real estate loans, 22.6% are construction and land development loans, and 9.7% are residential and home equity loans. Compared to the concentrations as of December 31, 2016, we experienced a decrease in commercial real estate loans of 2.4%, an increase in construction and land development loans of 1.2% and an increase in residential and home equity loans of 3.2%. We require collateral on real estate lending arrangements and typically maintain loan-to-value ratios of no greater than 80%. Within our real estate term portfolio, our largest concentration is in the category of office space representing $385.2 million or 23.6% of total gross loans held for investment.

*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:

| | December 31, | | | | |
|---|---|---|---|---|---|
| ***(Dollars in thousands, except footnotes)*** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Non-accrual loans, not troubled-debt restructured | | | | | |
| Real estate term | $ 644 | $ 2,386 | $ 2,961 | $ 1,465 | $ 3,943 |
| Construction and land development | 355 | 378 | 56 | 578 | 2,625 |
| Commercial and industrial | 1,578 | 1,211 | 1,176 | 1,787 | 2,147 |
| Residential and home equity | - | 142 | 631 | 428 | 612 |
| Consumer and other | - | 14 | 88 | 63 | 123 |
| Total non-accrual, not troubled-debt restructured loans | 2,577 | 4,131 | 4,912 | 4,321 | 9,450 |
| Troubled-debt restructured loans non-accrual | | | | | |
| Real estate term | - | 808 | 1,153 | 1,106 | 4,801 |
| Construction and land development | 296 | 396 | 1,329 | 933 | 1,417 |
| Commercial and industrial | - | - | 21 | 1,200 | - |
| Residential and home equity | - | - | - | 289 | 1,138 |
| Consumer and other | - | - | - | - | - |
| Total troubled-debt restructured, non-accrual loans | 296 | 1,204 | 2,503 | 3,528 | 7,356 |
| Total non-accrual loans [(1)] | 2,873 | 5,335 | 7,415 | 7,849 | 16,806 |
| Accruing loans past due 90 days or more | 1 | 22 | 3 | 15 | 7 |
| Total non-performing loans (NPL) | 2,874 | 5,357 | 7,418 | 7,864 | 16,813 |
| OREO | 994 | 245 | 568 | 1,673 | 4,092 |
| Total non-performing assets (NPA) [(2)] | $ 3,868 | $ 5,602 | $ 7,986 | $ 9,537 | $ 20,905 |
| | | | | | |
| Accruing troubled debt restructured loans | $ 3,307 | $ 5,572 | $ 7,049 | $ 8,399 | $ 7,393 |
| Non-accrual troubled debt restructured loans | 296 | 1,204 | 2,503 | 3,528 | 7,356 |
| Total troubled debt restructured loans | $ 3,603 | $ 6,776 | $ 9,552 | $ 11,927 | $ 14,749 |
| Selected ratios: | | | | | |
| NPL to total loans held for investment, net | 0.18% | 0.49% | 0.72% | 0.84% | 2.03% |
| NPA to total assets | 0.18% | 0.34% | 0.51% | 0.70% | 1.61% |

(1) We estimate that approximately $185,000 of interest income would have been recognized on loans accounted for on a non-accrual basis for the year ended December 31, 2017 had such loans performed pursuant to contractual terms.

(2) As of December 31, 2017, non-performing assets had not been reduced by U.S. government guarantees of $206,647.

*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 either 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 either loan terms or below-market interest rate to the debtor that we would not otherwise consider. Total outstanding TDR loans were $3.6 million and $6.8 million as of December 31, 2017 and 2016, respectively. TDR loans that are designated as non-accrual were $296,000 and $1.2 million as of December 31, 2017 and 2016, respectively. 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:

| | December 31, | |
|---|---|---|
| ***(Dollars in thousands)*** | **2017** | **2016** |
| Balance, beginning of period | $ 245 | $ 568 |
| Additions | 1,419 | 482 |
| Write-downs | - | (53) |
| Sales | (670) | (752) |
| Balance, end of period | $ 994 | $ 245 |

**Allowance for Loan Losses**

We maintain an adequate allowance for loan losses, or ALLL, based on a comprehensive methodology that assesses the probable 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 general and specific components. The specific component relates to loans determined to be impaired that are individually evaluated for impairment. For loans individually evaluated for impairment, an allowance is established when the carrying value of the loan is higher than discounted cash flows, or the fair value of the collateral if the loan is collateral-dependent. The general component covers all loans not individually evaluated for impairment and are 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.

The following table sets forth the activity in our ALLL for the periods indicated:

| | December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
| Allowance for loan losses: | | | | | |
| Beginning balance | $ 16,715 | $ 15,557 | $ 15,151 | $ 14,390 | $ 13,706 |
| Loans charged off: | | | | | |
| Real estate term | (350) | (17) | (32) | (705) | (270) |
| Construction and land development | - | - | (396) | (26) | (772) |
| Commercial and industrial | (1,098) | (1,511) | (350) | (949) | - |
| Residential and home equity | (359) | (6) | - | (16) | (57) |
| Consumer and other | (231) | (240) | (281) | (356) | (197) |
| Total | (2,038) | (1,774) | (1,059) | (2,052) | (1,296) |
| Recoveries: | | | | | |
| Real estate term | 219 | 621 | 80 | 498 | 45 |
| Construction and land development | 129 | 652 | 46 | 365 | 70 |
| Commercial and industrial | 271 | 441 | 191 | 91 | 133 |
| Residential and home equity | 151 | 92 | 67 | 37 | 35 |
| Consumer and other | 106 | 226 | 81 | 122 | 197 |
| Total | 876 | 2,032 | 465 | 1,113 | 480 |
| Net loan recoveries (charged off) | (1,162) | 258 | (594) | (939) | (816) |
| Provision for loan losses | 2,750 | 900 | 1,000 | 1,700 | 1,500 |
| Ending balance | $ 18,303 | $ 16,715 | $ 15,557 | $ 15,151 | $ 14,390 |
| Gross loans held for investment | $1,632,005 | $1,124,046 | $1,051,859 | $ 943,705 | $ 832,940 |
| Average loans | 1,269,365 | 1,095,619 | 983,294 | 861,785 | 648,025 |
| Non-performing loans | 2,874 | 5,357 | 7,418 | 7,864 | 16,813 |
| Selected ratios: | | | | | |
| Net charge-offs to average loans | 0.09% | -0.02% | 0.06% | 0.11% | 0.13% |
| Provision for loan losses to average loans | 0.22% | 0.08% | 0.10% | 0.20% | 0.23% |
| Allowance for loan losses to gross loans held for investment | 1.12% | 1.49% | 1.48% | 1.61% | 1.73% |

The decrease in ALLL as a percentage of total loans from 2013 to 2016 is attributable to overall improvement in the credit quality of the underlying loan portfolio. The decrease in ALLL as a percentage of total loans in 2017 compared to 2016 is principally related to the accounting for loans acquired in the Banner Utah branch and Town & Country Bank acquisitions. In accordance with GAAP for business combinations, the ALLL originally associated with acquired loans are eliminated and the loans are recorded in loans held for investment at fair value, including an estimation of life of loan credit losses or credit mark.

Our construction and land development portfolio reflects some borrower concentration risk, and also carries 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 generally underwritten at a loan to value ratio of less than 75% with a minimum debt coverage ratio of 1.25 times.

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

The following table indicates management's allocation of the ALLL by loan type as of each of the following dates:

| *(Dollars in thousands)* | December 31, 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Commercial real estate loans: | | | | | |
| Real estate term | $ 6,706 | $ 6,770 | $ 6,783 | $ 5,181 | $ 7,268 |
| Construction and land development | 6,309 | 5,449 | 3,984 | 4,425 | 2,915 |
| Total commercial real estate loans | 13,015 | 12,219 | 10,767 | 9,606 | 10,183 |
| Commercial and industrial | 4,314 | 3,718 | 3,941 | 4,608 | 3,105 |
| Consumer loans: | | | | | |
| Residential and home equity | 815 | 617 | 603 | 671 | 838 |
| Consumer and other | 159 | 161 | 246 | 266 | 264 |
| Total consumer loans | 974 | 778 | 849 | 937 | 1,102 |
| Total | $ 18,303 | $ 16,715 | $ 15,557 | $ 15,151 | $ 14,390 |

**Investments**

The carrying value of our investment securities totaled $337.7 million, $409.1 million and $398.6 million as of December 31, 2017, 2016 and 2015, respectively. The decrease in investment securities in 2017 compared to 2016 is related to the sale of investment securities in connection with the acquisition of the Utah branches of Banner Bank. Our portfolio of investment securities is comprised of both available-for-sale securities and securities that we intend to hold to maturity. As of December 31, 2017, we held no investment securities from any issuer, which totaled over 10% of our shareholders' equity.

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

| *(Dollars in thousands)* | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Available for sale securities: | | | |
| U.S. Government agencies | $ 48,504 | $ 118,603 | $ 103,990 |
| Municipal securities | 13,454 | 25,519 | 37,730 |
| Mortgage-backed securities | 195,262 | 181,821 | 181,386 |
| Corporate securities | 5,836 | 9,666 | 9,630 |
| Total | 263,056 | 335,609 | 332,736 |
| Held to maturity securities: | | | |
| Municipal securities | 74,654 | 73,512 | 63,650 |
| Other securities | - | - | 2,232 |
| Total | 74,654 | 73,512 | 65,882 |
| Total investment securities | $ 337,710 | $ 409,121 | $ 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 at amortized cost as of December 31, 2017:

| (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 | $ - | 0.00% | $ 44,103 | 1.44% | $ 4,847 | 2.46% | $ - | 0.00% | $ 48,950 | 1.54% |
| Municipal securities | 2,969 | 3.63% | 6,202 | 2.85% | 3,848 | 2.08% | 291 | 2.51% | 13,310 | 2.79% |
| Mortgage-backed securities | 4 | 4.06% | 12,930 | 1.77% | 58,706 | 1.70% | 126,460 | 2.34% | 198,100 | 2.12% |
| Other securities | - | 0.00% | - | 0.00% | 5,000 | 3.35% | 500 | 0.00% | 5,500 | 3.35% |
| Total | 2,973 | 3.63% | 63,235 | 1.64% | 72,401 | 1.89% | 127,251 | 2.33% | 265,860 | 2.07% |
| Held to maturity securities: | | | | | | | | | | |
| Municipal securities | 7,554 | 1.27% | 44,502 | 1.64% | 16,266 | 1.97% | 6,332 | 2.33% | 74,654 | 1.73% |
| Other securities | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| Total | 7,554 | 1.27% | 44,502 | 1.64% | 16,266 | 1.97% | 6,332 | 2.33% | 74,654 | 1.73% |
| Total investment securities | $ 10,527 | 1.94% | $107,737 | 1.64% | $ 88,667 | 1.90% | $133,583 | 2.33% | $340,514 | 2.00% |

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 $1.81 billion, $1.43 billion and $1.31 billion as of December 31, 2017, 2016 and 2015, respectively. The increase in total deposits is attributed primarily to the acquisition of the Utah branches of Banner Bank and the merger of Town & Country Bank, our growth in existing markets, and entering into new markets. Non-interest bearing demand deposits increased to $641.1 million, or 35.3% of total deposits as of December 31, 2017, from $443.1 million or 31.1% as of December 31, 2016 and $408.5 million or 31.2% as of December 31, 2015. Interest bearing deposits are comprised of money market accounts, regular savings accounts, and certificates of deposit.

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

| (Dollars in thousands) | Year Ended December 31, 2017 | | Year Ended December 31, 2016 | | Year Ended December 31, 2015 | |
|---|---|---|---|---|---|---|
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Non-interest bearing deposits | $ 501,761 | 0.00% | $ 426,487 | 0.00% | $ 379,468 | 0.00% |
| Interest bearing deposits: | | | | | | |
| Interest bearing demand and savings | 680,174 | 0.26% | 607,714 | 0.28% | 557,917 | 0.28% |
| Money market | 183,142 | 0.24% | 150,028 | 0.24% | 143,766 | 0.23% |
| Certificates of deposit | 161,852 | 0.65% | 168,549 | 0.47% | 188,433 | 0.57% |
| Total interest bearing deposits | 1,025,168 | 0.32% | 926,291 | 0.31% | 890,116 | 0.33% |
| Total average deposits | $1,526,929 | 0.21% | $1,352,778 | 0.21% | $1,269,584 | 0.23% |

Deposits are gathered from individuals and businesses 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. The average rate for interest bearing deposits has increased from 0.31% in 2016 to 0.32% in 2017. In a rising rate environment, it is likely the cost of interest bearing deposits will continue to rise in future periods.

### Shareholders’ Equity

As of December 31, 2017, our shareholders’ equity totaled $257.4 million, an increase of $28.9 million or 12.6%, since December 31, 2016. The increase in shareholders’ equity for the year ended December 31, 2017 resulted primarily from net income of $19.8 million for the year ended December 31, 2017, $14.0 million from the issuance of common shares related to the Town & Country Bank merger, stock options exercised of $1.4 million, less dividends declared during 2017 of $6.1 million.

We began paying quarterly dividends in 2015 with the dividend being declared after the end of each quarter. Dividends declared during 2017 represented a dividend payout ratio of 30.8% of net income for the year ended December 31, 2017. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

### Capital Resources

We are subject to risk-based capital adequacy guidelines related to the adoption of U.S. Basel III Capital Rules 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%, common equity Tier 1 risk-based capital ratio of 4.5%, a Tier 1 risk-based capital ratio of 6.0% and a total risk-based capital ratio of 8.0%.

The following table sets forth our capital ratios.

| | Basel III Regulatory Well Capitalized Requirement | PUB Actual as of December 31, 2017 | PUB Actual as of December 31, 2016 |
|---|---|---|---|
| CET1 risk-based capital ratio | 6.50% | 13.51% | 18.93% |
| Tier 1 risk-based capital | 8.00% | 13.51% | 18.93% |
| Total risk-based capital | 10.00% | 14.67% | 20.19% |
| Tier 1 leverage capital ratio | 5.00% | 11.46% | 13.71% |

PUB and the Bank were well-capitalized as of December 31, 2017 and 2016 for federal regulatory purposes.

### Off-Balance Sheet Arrangements

The following table sets forth our off-balance sheet lending commitments as of December 31, 2017:

| | | Amount of Commitment Expiration Per Period | | | |
|---|---|---|---|---|---|
| Other Commitments (Dollars in thousands) | Total Amounts Committed | Less than One Year | One to Three Years | Three to Five Years | After Five Years |
| Commitments to extend credit | $ 637,029 | $ 434,406 | $ 95,002 | $ 13,520 | $ 94,101 |
| Standby letters of credit | 27,943 | 27,943 | - | - | - |
| Credit cards | 24,949 | 24,949 | - | - | - |
| Operating leases | 3,538 | 729 | 1,311 | 1,240 | 258 |
| Total | $ 693,459 | $ 488,027 | $ 96,313 | $ 14,760 | $ 94,359 |

### Contractual Obligations

The following table sets forth our significant contractual obligations as of December 31, 2017:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| **Contractual Obligations (Dollars in thousands)** | **Total** | **Less than One Year** | **One to Three Years** | **Three to Five Years** | **After Five Years** |
| Time certificates of deposit | $ 205,844 | $ 113,347 | $ 52,257 | $ 32,018 | $ 8,222 |
| Deposits without stated maturity | 1,608,788 | 1,608,788 | - | - | - |
| Short-term borrowings | 40,000 | 40,000 | - | - | - |
| Total | $ 1,854,632 | $ 1,762,135 | $ 52,257 | $ 32,018 | $ 8,222 |

### 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 the following borrowing lines available at December 31, 2017:

| *(Dollars in thousands)* | **Total Credit Line Limit** | **Current Credit Line Available** | **Amount Outstanding** | **Remaining Credit Line Available** | **Value of Collateral Pledged** |
|---|---|---|---|---|---|
| Federal Funds | $ 25,000 | $ 25,000 | $ - | $ 25,000 | $ - |
| Federal Home Loan Bank | 480,203 | 480,203 | 40,000 | $ 440,203 | 664,790 |
| Federal Reserve | 20,780 | 20,780 | - | $ 20,780 | 21,326 |
| | $ 525,983 | $ 525,983 | $ 40,000 | $ 485,983 | $ 686,116 |

We believe our liquid assets and short-term borrowing credit lines are adequate to meet our cash flow needs for loan funding and deposit cash withdrawal for the next 60 to 90 days. We have $182.0 million in investment securities and $504.1 million in loans pledged as collateral on short-term borrowing credit lines. We have the option of either borrowing on our credit lines or selling these investment securities for cash flow needs.

We have outstanding short-term borrowings of $40 million under the credit lines described in the above table as of December 31, 2017. Based on favorable interest rates on our credit lines and our anticipation that the decrease in deposits was short-term, we utilized our credit lines with the Federal Home Loan Bank ("FHLB") to meet our short-term loan funding requirements as of December 31, 2017. Historically, we have had a decline in deposit balances in the fourth quarter and the beginning of the year, with a subsequent increase in deposit balances by the end of the first quarter. 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. We believe we can meet all of these needs 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 & industrial, consumer loans and purchases and sales of investment securities. As of December 31, 2017, we had outstanding loan and credit card commitments of $662.0 million and outstanding letters of credit of $27.9 million. We anticipate that we will have sufficient funds available to meet current loan commitments.

Net cash provided by financing activities has been impacted significantly by higher deposit levels. During the years ended December 31, 2017, 2016 and 2015, deposits increased $389.6 million, $115.9 million and $110.0 million respectively. For the year ended December 31, 2017, $284.1 million of the $389.6 million increase in deposits was related to the acquisition of the Utah Branches of Banner Bank and the merger of Town & Country Bank.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. Management actively monitors and manages our interest rate risk exposure. We do not have any market-risk sensitive instruments entered into for trading purposes. We manage our interest-rate sensitivity by matching the re-pricing opportunities on our earning assets to those on our funding liabilities.

Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited within our guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits, and managing the deployment of our securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by our Asset Liability Management Committee, or ALCO, which is comprised of certain of our executive officers and directors. The ALCO monitors interest rate risk by analyzing the potential impact on net interest income from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. The ALCO manages our balance sheet in part to maintain the potential impact of changes in interest rates on net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed on at least a quarterly basis by the ALCO and our Board of Directors. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net interest income in the event of hypothetical changes in interest rates. If potential changes to net interest income resulting from hypothetical interest rate changes are not within the limits established by our Board of Directors, our Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

*Net Interest Income Simulation.* In order to measure interest rate risk, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using a rising and a falling interest rate scenario and a net interest income forecast using a base market interest rate derived from the current treasury yield curve. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and to the same extent as the change in market rates according to their contracted index. Some loans and investment vehicles include the opportunity of prepayment (embedded options), and accordingly the simulation model uses national indexes to estimate these prepayments and assumes the reinvestment of the proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet grows modestly, but that its structure will remain similar to the structure as of the period presented. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment-rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased or decreased, on an instantaneous and sustained basis, by 100 basis points. As of the periods presented, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Our sensitivity of net interest income as of December 31, 2017 is as follows:

| *(Dollars in thousands)* Interest Rate Scenario | Adjusted Net Interest Income [1] | Percentage Change from Base | Net Interest Margin Percent [1] | Net Interest Margin Change from Base (in basis points) |
|---|---|---|---|---|
| Up 300 basis points | $ 86,734 | 2.92% | 5.07% | 0.44% |
| Up 200 basis points | 85,878 | 1.90% | 4.92% | 0.29% |
| Up 100 basis points | 85,048 | 0.91% | 4.77% | 0.14% |
| BASE | 84,277 | 0.00% | 4.63% | 0.00% |
| Down 100 basis points | 82,769 | (1.79)% | 4.39% | (0.24)% |

(1) These percentages are not comparable to other information discussing the percent of net interest margin since the income simulation does not take into account loan fees.

The ratio of variable to fixed-rate loans in our loan portfolio, the ratio of short-term (maturing at a given time within 12 months) to long-term loans, and the ratio of our demand, money market and savings deposits to CDs (and their time periods), are the primary factors affecting the sensitivity of our net interest income to changes in market interest rates. Our short-term loans are typically priced at prime plus a margin, and our long-term loans are typically priced based on a Federal Home Loan Bank, or FHLB, index for comparable maturities, plus a margin. The composition of our rate-sensitive assets or liabilities is subject to change and could result in a more unbalanced position that would cause market rate changes to have a greater impact on our net interest margin.

*Gap Analysis.* Another way to measure the impact that future changes in interest rates will have on net interest income is through a cumulative gap measure. The gap represents the net position of assets and liabilities subject to re-pricing in specified time periods.

The following table sets forth the distribution of re-pricing opportunities of our interest earning assets and interest bearing liabilities, the interest rate sensitivity gap (that is, interest rate sensitive assets less interest rate sensitive liabilities), cumulative interest earning assets and interest bearing liabilities, the cumulative interest rate sensitivity gap, the ratio of cumulative interest earning assets to cumulative interest bearing liabilities and the cumulative gap as a percentage of total assets and total interest earning assets as of the periods presented. The table also sets forth the time periods during which interest earning assets and interest bearing liabilities will mature or may re-price in accordance with their contractual terms. The interest rate relationships between the re-priceable assets and re-priceable liabilities are not necessarily constant and may be affected by many factors, including the behavior of customers in response to changes in interest rates. This table should, therefore, be used only as a guide as to the possible effect changes in interest rates might have on our net interest margins.

Our gap analysis as of December 31, 2017 is as follows:

| (Dollars in thousands) | Amounts Maturing or Re-pricing in<br>Three Months or Less | Over Three Months to Twelve Months | Over One Year to Three Years | Over Three Years | Non-Sensitive | Total |
|---|---|---|---|---|---|---|
| Interest bearing assets: | | | | | | |
| Cash and due from banks | $ 7,471 | $ - | $ - | $ - | $ - | $ 7,471 |
| Federal funds sold | 1,635 | - | - | - | - | 1,635 |
| Investment securities | 7,842 | 13,013 | 64,783 | 251,499 | 573 | 337,710 |
| Loans | 667,648 | 218,285 | 434,498 | 299,581 | - | 1,620,012 |
| Total interest bearing assets | 684,596 | 231,298 | 499,281 | 551,080 | 573 | 1,966,828 |
| Interest bearing liabilities: | | | | | | |
| Interest bearing demand and savings | 739,439 | - | - | - | - | 739,439 |
| Money market | 230,845 | - | - | - | - | 230,845 |
| Certificates of deposit | 39,556 | 75,929 | 50,247 | 40,111 | - | 205,843 |
| Short-term borrowings | 40,000 | - | - | - | - | 40,000 |
| Total interest bearing liabilities | 1,049,840 | 75,929 | 50,247 | 40,111 | - | 1,216,127 |
| Period gap | $ (365,244) | $ 155,369 | $ 449,034 | $ 510,969 | $ 573 | $ 750,701 |
| | | | | | | |
| Cumulative interest earning assets | $ 684,596 | $ 915,894 | $1,415,175 | $1,966,255 | $1,966,828 | |
| Cumulative interest bearing liabilities | 1,049,840 | 1,125,769 | 1,176,016 | 1,216,127 | 1,216,127 | |
| Cumulative gap | (365,244) | (209,875) | 239,159 | 750,128 | 750,701 | |
| Cumulative interest earning assets to cumulative interest bearing liabilities | 65.21% | 81.36% | 120.34% | 161.68% | 161.73% | |
| Cumulative gap as a percent of: | | | | | | |
| Total assets | (17.20)% | (9.88)% | 11.26% | 35.32% | 35.35% | |
| Interest earning assets | (53.35)% | (22.91)% | 16.90% | 38.15% | 38.17% | |

As of December 31, 2017, we had $915.9 million in assets, and $1.1 billion in liabilities re-pricing within one year. This means that more of our interest rate sensitive liabilities will change to the then-current rate than our interest rate sensitive assets (changes occur due to the instruments being at a variable rate or because the maturity of the instrument requires its replacement at the then current rate). The ratio of interest earning assets to interest bearing liabilities maturing or re-pricing within one year as of December 31, 2017 is 67.79%. This analysis indicates that if interest rates were to increase, the gap would result in a lower net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly while the timing of re-pricing of both the asset and its supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as basis risk, and generally relates to the re-pricing characteristics of short-term funding sources such as certificates of deposit.

Gap analysis has certain limitations. Measuring the volume of re-pricing or maturing assets and liabilities does not always measure the full impact on the portfolio value of equity or net interest income. Gap analysis does not account for rate caps on products, dynamic changes such as increasing prepayment speeds as interest rates decrease, basis risk, embedded options or the benefit of no-rate funding sources. The relation between product rate re-pricing and market rate changes (basis risk) is not the same for all products. The majority of interest earning assets generally re-price along with a movement in market rates, while non-term deposit rates in general move more slowly and usually incorporate only a fraction of the change in market rates. Products categorized as non-rate sensitive, such as our non-interest bearing demand deposits, in the gap analysis behave like long-term fixed rate funding sources. Management uses income simulation, net interest income rate shocks and market value of portfolio equity as its primary interest rate risk management tools.

**Item 8. Financial Statements and Supplemental Data**

Audited consolidated financial statements and related documents required by this item are included in the Annual Report on Form 10-K on the pages indicated:

Management's Report on Internal Controls Over Financial Reporting .......... 65

Reports of Independent Registered Public Accounting Firm .......... 66

Consolidated Balance Sheets as of December 31, 2016 and 2017 .......... 68

Consolidated Statements of Income for the three years ended December 31, 2017, 2016, and 2015 .......... 69

Consolidated Statements of Comprehensive Income for the three years ended December 31, 2017, 2016, and 2015 .......... 70

Consolidated Statements of Changes in Shareholders' Equity for the three years ended December 31, 2017, 2015, and 2015 .......... 71

Consolidated Statements of Changes in Cash Flows for the three years ended December 31, 2017, 2016, and 2015 .......... 72

Notes to Consolidated Financial Statements .......... 73

The following unaudited supplementary data is included in this Annual Report on Form 10-K on the page indicated:

Consolidated Quarterly Financial Data (Unaudited)

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

**To the Board of Directors and Shareholders**

**People's Utah Bancorp**

Management of People's Utah Bancorp is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange act of 1934. The Company's internal control over financial reporting is designed by, or under the supervision of the Company's Chief Executive Officer and Chief Financial Officer and effected by the Company's Board of Directors, Management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in any internal control, no matter how well designed and misstatements due to error or fraud may occur and not be detected, including the possibility of circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

Management assessed the effectiveness of the internal control structure over financial reporting as of December 31, 2017. This assessment was based on criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management believes that the Company's internal control over financial reporting is effective as of December 31, 2017.

Tanner LLC, the independent registered public accounting firm that audited the consolidated financial statements for the year ended December 31, 2017, has issued an attestation report on the Company's internal control over financial reporting. Such attestation report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board as of December 31, 2017 that appears on page 67.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of People's Utah Bancorp:

***Opinion on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of People's Utah Bancorp and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and supplementary data listed in the index (collectively referred to as the "financial statements"). We have also audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

***Basis for Opinion***

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ TANNER LLC

Salt Lake City, Utah
March 15, 2018
We have served as the Company's auditor since 2006

**PEOPLE'S UTAH BANCORP AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| *(Dollars in thousands, except share data)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | $ 36,235 | $ 26,524 |
| Interest bearing deposits | 13,158 | 37,958 |
| Federal funds sold | 1,634 | 3,456 |
| **Total cash and cash equivalents** | 51,027 | 67,938 |
| Investment securities: | | |
| Available for sale, at fair value | 263,056 | 335,609 |
| Held to maturity, at historical cost | 74,654 | 73,512 |
| **Total investment securities** | 337,710 | 409,121 |
| Non-marketable equity securities | 3,706 | 1,827 |
| Loans held for sale | 10,871 | 20,826 |
| Loans: | | |
| Loans held for investment | 1,627,444 | 1,119,877 |
| Allowance for loan losses | (18,303) | (16,715) |
| **Total loans held for investment, net** | 1,609,141 | 1,103,162 |
| Premises and equipment, net | 30,399 | 21,926 |
| Goodwill | 26,008 | - |
| Bank-owned life insurance | 23,566 | 19,714 |
| Deferred income tax assets | 8,827 | 9,799 |
| Accrued interest receivable | 7,594 | 5,557 |
| Other intangibles | 3,854 | 581 |
| Other real estate owned | 994 | 245 |
| Other assets | 9,832 | 5,285 |
| **Total assets** | $ 2,123,529 | $ 1,665,981 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits: | | |
| Non-interest bearing deposits | $ 641,124 | $ 443,100 |
| Interest bearing deposits | 1,173,508 | 981,974 |
| **Total deposits** | 1,814,632 | 1,425,074 |
| Short-term borrowings | 40,000 | 3,199 |
| Accrued interest payable | 353 | 305 |
| Other liabilities | 11,126 | 8,886 |
| **Total liabilities** | 1,866,111 | 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; 18,511,797 and 17,819,538 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively | 185 | 178 |
| Additional paid-in capital | 84,532 | 68,657 |
| Retained earnings | 174,804 | 160,692 |
| Accumulated other comprehensive income (loss) | (2,103) | (1,010) |
| **Total shareholders' equity** | 257,418 | 228,517 |
| **Total liabilities and shareholders' equity** | $ 2,123,529 | $ 1,665,981 |

*See accompanying notes to the consolidated financial statements.*

**PEOPLE'S UTAH BANCORP AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**

| *(Dollars in thousands, except share and per share data)* | Years Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Interest income** | | | |
| Interest and fees on loans | $ 76,965 | $ 66,600 | $ 58,861 |
| Interest and dividends on investments | 7,015 | 6,155 | 5,740 |
| Total interest income | 83,980 | 72,755 | 64,601 |
| **Interest expense** | 3,342 | 2,874 | 2,961 |
| **Net interest income** | 80,638 | 69,881 | 61,640 |
| Provision for loan losses | 2,750 | 900 | 1,000 |
| Net interest income after provision for loan losses | 77,888 | 68,981 | 60,640 |
| **Non-interest income** | | | |
| Service charges on deposit accounts | 2,445 | 2,181 | 2,449 |
| Card processing | 4,956 | 4,451 | 4,250 |
| Mortgage banking | 7,536 | 8,478 | 7,316 |
| Net loss on sale of investment securities | (499) | (91) | - |
| Other operating | 2,122 | 1,769 | 1,989 |
| Total non-interest income | 16,560 | 16,788 | 16,004 |
| **Non-interest expense** | | | |
| Salaries and employee benefits | 34,392 | 31,441 | 29,892 |
| Occupancy, equipment and depreciation | 4,827 | 4,296 | 3,953 |
| Data processing | 2,798 | 2,866 | 2,831 |
| FDIC premiums | 572 | 631 | 754 |
| Card processing | 2,166 | 2,178 | 2,017 |
| Marketing and advertising | 1,381 | 1,044 | 853 |
| Acquisition-related costs | 4,784 | - | - |
| Other | 7,205 | 6,430 | 6,468 |
| Total non-interest expense | 58,125 | 48,886 | 46,768 |
| **Income before income tax expense** | 36,323 | 36,883 | 29,876 |
| Income tax expense | 16,477 | 13,273 | 10,262 |
| **Net income** | $ 19,846 | $ 23,610 | $ 19,614 |
| **Earnings per common share:** | | | |
| Basic | $ 1.10 | $ 1.33 | $ 1.21 |
| Diluted | $ 1.08 | $ 1.30 | $ 1.17 |
| **Weighted average common shares outstanding:** | | | |
| Basic | 18,019,643 | 17,732,920 | 16,258,424 |
| Diluted | 18,447,621 | 18,214,924 | 16,829,205 |

*See accompanying notes to the consolidated financial statements.*

## PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| *(Dollars in thousands)* | Years Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Net income** | $ 19,846 | $ 23,610 | $ 19,614 |
| **Other comprehensive income** | | | |
| Unrealized holding losses on securities available for sale | (1,168) | (1,104) | (1,781) |
| Tax effect | 447 | 423 | 673 |
| Unrealized holding losses on securities available for sale, net of tax | (721) | (681) | (1,108) |
| **Comprehensive income** | $ 19,125 | $ 22,929 | $ 18,506 |

*See accompanying notes to the consolidated financial statements.*

**PEOPLE'S UTAH BANCORP AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**For the Three Years Ended December 31, 2017**

| *(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 | - | - | - | 19,614 | (1,108) | 18,506 |
| Cash dividends declared ($0.18 per share) | - | - | - | (2,986) | - | (2,986) |
| Issuance of common shares | 2,657,000 | 27 | 34,870 | - | - | 34,897 |
| Share-based compensation | | | 485 | - | - | 485 |
| Exercise of stock options | 152,033 | 1 | 846 | - | - | 847 |
| **Balance as of December 31, 2015** | 17,567,154 | $ 176 | $ 67,338 | $142,223 | $ (329) | $209,408 |
| Comprehensive income | - | - | - | 23,610 | (681) | 22,929 |
| Cash dividends declared ($0.29 per share) | - | - | - | (5,141) | - | (5,141) |
| Share-based compensation | - | - | 544 | - | - | 544 |
| Exercise of stock options | 252,384 | 2 | 775 | - | - | 777 |
| **Balance as of December 31, 2016** | 17,819,538 | $ 178 | $ 68,657 | $160,692 | $ (1,010) | $228,517 |
| Comprehensive income | - | - | - | 19,846 | (721) | 19,125 |
| Cash dividends declared ($0.34 per share) | - | - | - | (6,106) | - | (6,106) |
| Share-based compensation | - | - | 510 | - | - | 510 |
| Reclassification of deferred tax rate change related to AOCI | - | - | - | 372 | (372) | - |
| Issuance of common shares | 466,546 | 5 | 13,972 | - | - | 13,977 |
| Exercise of stock options and vested restricted stock units | 225,713 | 2 | 1,393 | - | - | 1,395 |
| **Balance as of December 31, 2017** | 18,511,797 | $ 185 | $ 84,532 | $174,804 | $ (2,103) | $257,418 |

*See accompanying notes to the consolidated financial statements.*

## PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(Dollars in thousands)* | Years Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 19,846 | $ 23,610 | $ 19,614 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 2,750 | 900 | 1,000 |
| Depreciation and amortization | 2,612 | 2,527 | 2,552 |
| Deferred income taxes | 3,990 | (771) | (250) |
| Net amortization of securities discounts and premiums | 2,822 | 3,080 | 3,174 |
| Other | (61) | 423 | 364 |
| Gain on sale of loans held for sale | (5,459) | (6,341) | (5,247) |
| Originations of loans held for sale | (233,055) | (278,083) | (229,708) |
| Proceeds from sale of loans held for sale | 248,469 | 281,545 | 229,280 |
| Net changes in: | | | |
| Accrued interest receivable | (2,037) | 210 | (514) |
| Other assets | 1,551 | (219) | (1,042) |
| Accrued interest payable | 48 | (9) | (29) |
| Other liabilities | (4,062) | (985) | 3,543 |
| **Net cash provided by operating activities** | 37,414 | 25,887 | 22,737 |
| **Cash flows from investing activities:** | | | |
| Net cash used in acquisition-related activities | (112,247) | - | - |
| Net change in loans held for investment | (148,032) | (72,126) | (108,112) |
| Purchase of available-for-sale securities | (68,425) | (153,853) | (167,397) |
| Purchase of held-to-maturity securities | (12,198) | (17,170) | (40,535) |
| Maturities/sales of available-for-sale securities | 147,351 | 147,413 | 125,736 |
| Maturities of held-to-maturity securities | 10,278 | 8,923 | 9,461 |
| Purchase of bank-owned life insurance | - | - | (12,157) |
| Purchase of premises and equipment | (7,339) | (2,345) | (3,028) |
| Sale of other real estate owned, net of improvements | 587 | 923 | 1,206 |
| Net change of non-marketable equity securities | (1,879) | 417 | 384 |
| **Net cash used in investing activities** | (191,904) | (87,818) | (194,442) |
| **Cash flows from financing activities:** | | | |
| Net increase in deposits | 105,489 | 115,889 | 109,952 |
| Issuance of common shares | - | - | 34,897 |
| Exercise of stock options | 1,395 | 777 | 847 |
| Net change in short-term borrowings | 36,801 | (24,005) | 25,708 |
| Cash dividends paid | (6,106) | (5,141) | (5,052) |
| **Net cash provided by financing activities** | 137,579 | 87,520 | 166,352 |
| **Net change in cash and cash equivalents** | (16,911) | 25,589 | (5,353) |
| Cash and cash equivalents, beginning of year | 67,938 | 42,349 | 47,702 |
| Cash and cash equivalents, end of year | $ 51,027 | $ 67,938 | $ 42,349 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid for interest | $ 3,294 | $ 2,552 | $ 2,670 |
| Income taxes paid | $ 13,429 | $ 13,963 | $ 10,192 |
| **Supplemental disclosures of non-cash transactions:** | | | |
| Reclassifications from loans to other real estate owned | $ 1,419 | $ 482 | $ - |
| Dividends declared but not paid | $ - | $ - | $ - |
| Unrealized losses on securities available for sale | $ (1,168) | $ (1,104) | $ (1,781) |
| Acquisitions: | | | |
| Assets acquired | $ 416,595 | $ - | $ - |
| Liabilities assumed | $ 290,371 | $ - | $ - |

*See accompanying notes to the consolidated financial statements*

**PEOPLE'S UTAH BANCORP AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 —Summary of Significant Accounting Policies**

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

PIB is a community bank that provides highly personalized retail and commercial banking products and services to small and medium sized businesses and individuals. Products and services are offered primarily through 25 retail branches located throughout Utah and southern Idaho. PIB has three banking divisions, Bank of American Fork, Lewiston State Bank, and People's Town & Country Bank; a leasing division, GrowthFunding Equipment Finance; and a mortgage division, People's Intermountain Bank Mortgage. The Bank offers a full range of short-term to long-term commercial, personal and mortgage loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and accounts receivable), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans to finance automobiles, home improvements, education, and personal investments. The Bank also offers mortgage loans secured by personal residences. The Bank offers a full range of deposit services typically available in most financial institutions, including checking accounts, savings accounts, and time deposits. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental entities.

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

*Use of Estimates* — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions 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 ("ALLL"), the determination of the fair value of certain financial instruments, the valuation of real estate acquired through foreclosure, deferred income tax assets, and share-based compensation.

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

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

**Note 1 —Summary of Significant Accounting Policies – Continued**

*Cash and cash equivalents* — Cash and cash equivalents consist of cash on hand, amounts due from banks, interest bearing deposits, and federal funds sold, all of which have original maturities of three months or less. The Company places its cash with high credit quality institutions. The amounts on deposit fluctuate and, at times, exceed the insured limit by the FDIC, which potentially subjects the Company to credit risk.

*Investment securities* — Investment securities are classified as held-to-maturity ("HTM") when the Company has the positive intent and ability to hold the securities to maturity. Investment securities are classified as available-for-sale ("AFS") when the Company has the intent of holding the security for an indefinite period of time, but not necessarily to maturity. The Company determines the appropriate classification at the time of purchase, and periodically thereafter. Investment securities classified at HTM are carried at amortized cost. Investment securities classified at AFS are reported at fair value. As the fair value of AFS securities changes, the changes are reported (net of tax, if applicable) in comprehensive income and as an element of accumulated other comprehensive income/loss ("AOCI") in shareholder's equity. When AFS securities, specifically identified, are sold, the unrealized gain or loss is reclassified from AOCI to non-interest income.

When the estimated fair value of a security is lower than the book value, a security is considered to be temporarily impaired. On a quarterly basis, Management evaluates any securities in a loss position to determine whether the impairment is other-than-temporary. If there is intent to sell the security, or if the Company will be required to sell the security, or if the Company believes it will not recover the entire cost basis of the security, the security is other-than-temporarily impaired ("OTTI") and impairment is recognized. The amount of impairment resulting from credit loss is recognized in earnings and impairment related to all other factors, such as general market conditions, is recognized in AOCI.

Management considers a number of factors in its analysis of whether a decline in a security's estimated fair value is OTTI. Certain factors considered include, but are not limited to: (a) the length of time and the extent to which the security has been in an unrealized loss position, (b) changes in the financial condition of the issuer, (c) the payment structure of debt securities, (d) adverse changes in ratings issued by rating agencies, (e) and the intent and ability of the Company to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Interest income is recognized based on the coupon rate, and is increased by the accretion of discounts earned or decreased by the amortization of premiums paid. The amortization of premiums or the accretion of discounts are recognized in interest income using the effective interest method over the period of maturity.

*Non-marketable equity securities* — Non-marketable equity securities primarily consist of Federal Home Loan Bank ("FHLB") stock. FHLB stock is restricted because such stock may only be sold to FHLB at its par value. Due to the restrictive terms, and the lack of a readily determinable market value, FHLB stock is carried at cost. The investments in FHLB stock are required investments related to the Company's borrowings from FHLB. FHLB obtains its funding primarily through issuance of consolidated obligations of the FHLB system. The U.S. government does not guarantee these obligations, and each of the regional FHLBs are jointly and severally liable for repayment of each other's debt.

*Loans held for sale* — Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net estimated losses before sale, if any, are recognized through a valuation allowance by charges to income. Mortgage loans held for sale are generally sold with the mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. Substantially all of the residential mortgage loans originated are sold to larger financial institutions; however, the Company provides loan servicing for FNMA and Freddie Mac mortgage loans. Servicing income from servicing sold residential mortgages is not significant.

**Note 1 —Summary of Significant Accounting Policies – Continued**

*Loans held for investment* — Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on acquired loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

*Impaired loans* — The Company considers loans impaired when, based on current information and events, it is probable the Company will be unable to collect all principal and interest payments due according to the contractual terms of the loan agreement. Such loans are generally classified as Substandard or Doubtful loans (see Note 3). Impaired loans are measured 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. Changes in these values are recorded to provision for loan losses and as adjustments to the ALLL.

Factors considered by management in determining impairment include 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the 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.

*Acquired loans* - Loans acquired through purchase or through a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date. Should the Company's allowance for credit losses methodology indicate that the credit discount associated with acquired, non-purchased credit impaired loans, is no longer sufficient to cover probable losses inherent in those loans, the Company will establish an allowance for those loans through a charge to provision for loan losses. At the time of an acquisition, the Company evaluates loans to determine if they are purchase credit impaired ("PCI") loans. PCI loans are those acquired loans with evidence of credit deterioration for which it was probable at acquisition that the Company would be unable to collect all contractual payments. The Company makes this determination by considering past due and/or nonaccrual status, prior designation of a troubled debt restructuring, or other factors that may suggest we will not be able to collect all contractual payments. Credit discounts on PCI loans are not accreted to interest income. The accounting for PCI loans is periodically updated for changes in cash flow expectations, and reflected in interest income over the life of the loans as accretable yield. Any subsequent decreases in expected cash flows attributable to credit deterioration are recognized by recording a provision for loan losses. An acquired loan previously classified by the seller as a troubled debt restructuring is no longer classified as such at the date of acquisition. Past due status is reported based on contractual payment status.

*Allowance for loan losses* — Credit risk is inherent in the business of extending loans and leases to borrowers. Normally, this credit risk is addressed through a valuation allowance termed ALLL. The ALLL represents a creditor's estimate of loan losses inherent within the loan portfolio at each balance sheet date. Netted against the outstanding loan balance, this allowance reduces the balance to the creditor's estimate of what will be collected from borrowers. The ALLL is established through charges to current period earnings by recording a provision for loan losses. When losses become specifically identifiable and quantifiable, the loan balance is reduced through recording a charge-off against the ALLL. Should payments be received on charged-off loans, the payment is credited to the allowance as a recovery.

**Note 1 —Summary of Significant Accounting Policies – Continued**

Charge-offs of loans are generally processed by policy as well as by regulatory guidance. Secured consumer loans, including residential real estate loans, that are 120 days past due, are written down to the fair value of the collateral. Unsecured loans are charged-off once the loan is 120 days past due. Decisions on when to charge-off commercial loans and loans secured by commercial real estate are made on an individual basis rather than length of delinquency, though it is a factor in the decision. The financial resources of the borrower and/or guarantor and the nature and value of any collateral are other factors considered.

The 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.

The ALLL consists of specific and general components. The specific component relates to loans determined to be impaired which 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 loan is collateral dependent, of the impaired loan is 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, real estate foreclosure rates, and trends in past due and classified credits.

*Premises and equipment* — Land is carried at cost. Premises and equipment are carried at cost, net of accumulated depreciation and amortization. Depreciation and amortization expense is computed using the straight-line method based on the estimated useful lives of the related assets, generally 10 to 30 years for buildings and 3 to 5 years for equipment, furniture, and software. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

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

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

**Note 1 —Summary of Significant Accounting Policies – Continued**

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

*Other real estate owned* — Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the carrying amount of the foreclosed loan or the fair value of the foreclosed asset, less costs to sell, at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less selling costs. Revenues and expenses from operations and changes in the valuation allowance are included in other real estate owned expense.

*Transfers of financial assets* — Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

*Income taxes* — Deferred income tax assets and deferred income tax liabilities represent the tax effect of temporary differences between financial reporting and tax reporting measured at enacted tax rates in effect for the year in which the differences are expected to reverse. The Company recognizes only the impact of tax positions that, based on their technical merits, are more likely than not to be sustained upon an audit by the taxing authority.

Developing the provision for income taxes, including the effective tax rate and analysis of potential tax exposure items, if any, requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred income tax assets and liabilities and any estimated valuation allowances deemed necessary to value deferred income tax assets. Judgments and tax strategies are subject to audit by various taxing authorities. While the Company believes it has no significant uncertain income tax positions in the consolidated financial statements, adverse determinations by these taxing authorities could have a material adverse effect on the consolidated financial positions, result of operations, or cash flows.

*Off-balance sheet credit related financial instruments* — In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

*Incentive share-based plans* — The fair value of incentive share-based awards is recorded as compensation expense over the vesting period of the award. Compensation expense for stock options is estimated at the date of grant using the Black-Scholes option-pricing model. Compensation expense for restricted stock units ("RSU") is based on the fair value of the Company's common shares at the date of grant.

*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 RSU's.

**Note 1 —Summary of Significant Accounting Policies – Continued**

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

| *(Dollars in thousands, except share and per share data)* | Year ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| *Numerator* | | | |
| Net income | $ 19,846 | $ 23,610 | $ 19,614 |
| *Denominator* | | | |
| Weighted-average number of common shares outstanding | 18,019,643 | 17,732,920 | 16,258,424 |
| Incremental shares assumed for stock options and RSUs | 427,978 | 482,004 | 570,781 |
| Weighted-average number of dilutive shares outstanding | 18,447,621 | 18,214,924 | 16,829,205 |
| Basic earnings per common share | $ 1.10 | $ 1.33 | $ 1.21 |
| Diluted earnings per common share | $ 1.08 | $ 1.30 | $ 1.17 |

*Comprehensive income* — U.S. GAAP generally requires that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, net of the related income tax effect, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

*Advertising costs* — Advertising costs are expensed when incurred and totaled $1,381,000 in 2017, $1,044,000 in 2016, and $853,000 in 2015.

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

In February 2018, the FASB issued ASU 2018-02, Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU gives businesses the option of reclassifying to retained earnings the so-called "stranded tax effects" left in accumulated other comprehensive income ("AOCI") because of the reduction to the corporate income tax rate. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The FASB said that businesses and organization should apply the amendments either in the period of adoption or retrospectively to each period in which the effect of the change in the tax rate is recognized. The Company has elected to early adopt this ASU.

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

**Note 1 —Summary of Significant Accounting Policies – Continued**

In January 2017, FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The ASU removes the requirement to compare the implied fair value of goodwill with its carrying value as required in Step 2 of the goodwill impairment test. Under the ASU, registrants would perform their goodwill impairment test and recognize an impairment charge for any amount the carrying value exceeds the reporting unit's fair value, but limited by the amount of goodwill allocated to that reporting unit. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities after January 1, 2017. The Company has elected to early adopt this ASU and adoption did not have a material effect on the Company's Consolidated Financial Statements.

In January 2017, FASB issued ASU 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)." The ASU amends the Codification for SEC staff announcements made at recent Emerging Issues Task Force (EITF) meetings. The SEC guidance that specifically relates to our Consolidated Financial Statements was from the September 2016 meeting, where the SEC staff expressed their expectations about the extent of disclosures registrants should make about the effects of the new FASB guidance as well as any amendments issued prior to adoption, on revenue (ASU 2014-09), leases (ASU 2016-02) and credit losses on financial instruments (ASU 2016-13) in accordance with SAB Topic 11.M. Registrants are required to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. In cases where a registrant cannot reasonably estimate the impact of the adoption, then additional qualitative disclosures should be considered. The ASU incorporates these SEC staff views into ASC 250 and adds references to that guidance in the transition paragraphs of each of the three new standards. The Company has adopted the amendments in this ASU and appropriate disclosures have been included in this Note for each recently issued accounting standard.

In December 2016, FASB issued ASU No. 2016-19, "Technical Corrections and Improvements" and ASU 2016-20, "Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers." On November 10, 2010 FASB added a standing project that will facilitate the FASB Accounting Standards Codification ("Codification") updates for technical corrections, clarifications, and improvements. These amendments are referred to as Technical Corrections and Improvements. Maintenance updates include non-substantive corrections to the Codification, such as editorial corrections, various link-related changes, and changes to source fragment information. These updates contain amendments that will affect a wide variety of Topics in the Codification. The amendments in these ASUs will apply to all reporting entities within the scope of the affected accounting guidance and generally fall into one of four categories: amendments related to differences between original guidance and the Codification, guidance clarification and reference corrections, simplification, and minor improvements. In summary, the amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the amendments in the ASUs. The amendments that require transition guidance are effective for fiscal years and interim reporting periods after December 15, 2016. Early adoption is permitted including adoption in an interim period. All other amendments are effective upon the issuance of these ASUs. Neither ASU 2016-19 nor ASU 2016-20 had a material impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The ASU amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows and is intended to reduce the diversity in practice. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for all entities beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-5 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements.

**Note 1 —Summary of Significant Accounting Policies – Continued**

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of identifying required changes to the loan loss estimation models and processes and evaluating the impact of this new guidance. Once adopted, we expect our allowance for loan losses to increase, however, until our evaluation is complete the magnitude of the increase will be unknown.

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

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization’s other deferred tax assets. This ASU is effective for interim and annual periods beginning after December 15, 2017. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

**Note 1 —Summary of Significant Accounting Policies – Continued**

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." The ASU simplifies the accounting for measurement period adjustments. The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period when the adjustment amounts are determined. The acquirer is required to record in the same period's financial statements the effect on earnings from changes in depreciation, amortization, or other income effects resulting from the change to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The acquirer must present separately on the income statement, or disclose in the notes, the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the provisional amount had been recognized at the acquisition date. This ASU was effective for interim and annual periods beginning after December 15, 2015. The adoption of ASU No. 2015-16 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606)", which defers the effective date of Accounting Standard Update ("ASU") No. 2014-09 one year. ASU No. 2014-09 created Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. ASU No. 2015-14 is effective for interim and annual periods beginning after December 15, 2017; early adoption is permitted for interim and annual periods beginning after December 15, 2016. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. With respect to noninterest income, the Company is in its preliminary stages of identifying and evaluating the revenue streams and underlying revenue contracts within the scope of the guidance. The Company completed its assessment of revenue streams and associated incremental costs of contracts affected by the standard. The Company's adoption of this standard did not change the method in which we recognized revenue. The Company has adopted this standard on January 1, 2018. The Company is evaluating the standard's expanded disclosure requirements.

*Subsequent events* — The Company has evaluated events occurring subsequent to December 31, 2017 through March 15, 2017, which is the date the financial statements were available to be issued.

## Note 2 — Investment Securities

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

| *(Dollars in thousands)* | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Losses: Less Than 12 Months | Gross Unrealized Losses: 12 Months or Longer | Fair Value |
|---|---|---|---|---|---|
| **As of December 31, 2017** | | | | | |
| U.S. Government-sponsored securities | $ 48,950 | $ 13 | $ (6) | $ (453) | $ 48,504 |
| Municipal securities | 13,310 | 184 | (22) | (18) | 13,454 |
| Mortgage-backed securities | 198,100 | 71 | (1,145) | (1,764) | 195,262 |
| Corporate securities | 5,500 | 573 | - | (237) | 5,836 |
| | $ 265,860 | $ 841 | $ (1,173) | $ (2,472) | $ 263,056 |
| **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 |

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

| *(Dollars in thousands)* | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Losses: Less Than 12 Months | Gross Unrealized Losses: 12 Months or Longer | Fair Value |
|---|---|---|---|---|---|
| **As of December 31, 2017** | | | | | |
| Municipal securities | $ 74,654 | $ 167 | $ (293) | $ (227) | $ 74,301 |
| | $ 74,654 | $ 167 | $ (293) | $ (227) | $ 74,301 |
| **As of December 31, 2016** | | | | | |
| Municipal securities | $ 73,512 | $ 105 | $ (579) | $ (38) | $ 73,000 |
| | $ 73,512 | $ 105 | $ (579) | $ (38) | $ 73,000 |

**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 December 31, 2017, by contractual maturity, are as follows:

| | Available-for-sale | | Held-to-maturity | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| **Securities maturing in:** | | | | |
| One year or less | $ 2,973 | $ 3,007 | $ 7,554 | $ 7,543 |
| After one year through five years | 63,235 | 62,721 | 44,502 | 44,253 |
| After five years through ten years | 72,401 | 71,224 | 16,266 | 16,152 |
| After ten years | 127,251 | 126,104 | 6,332 | 6,353 |
| | $ 265,860 | $ 263,056 | $ 74,654 | $ 74,301 |

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

As of December 31, 2017, the Company held 304 investment securities 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:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Loans held for investment: | | |
| Commercial real estate loans: | | |
| Real estate term | $ 784,148 | $ 582,029 |
| Construction and land development | 369,590 | 240,120 |
| Total commercial real estate loans | 1,153,738 | 822,149 |
| Commercial and industrial loans | 294,085 | 213,260 |
| Consumer loans: | | |
| Residential and home equity | 158,591 | 72,959 |
| Consumer and other | 25,591 | 15,678 |
| Total consumer loans | 184,182 | 88,637 |
| Gross loans held for investment | 1,632,005 | 1,124,046 |
| Less: | | |
| Net deferred loan fees | (4,561) | (4,169) |
| Loans held for investment | 1,627,444 | 1,119,877 |
| Less: allowance for loan losses | (18,303) | (16,715) |
| Loans held for investment, net | $ 1,609,141 | $ 1,103,162 |

Changes in the allowance for loan losses are as follows:

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

| *(Dollars in thousands)* | Real Estate Term | Construction and Land Development | Commercial and Industrial | Residential and Home Equity | Consumer and Other | Total |
|---|---|---|---|---|---|---|
| | **Year Ended December 31, 2017** | | | | | |
| Balance at beginning of year | $ 6,770 | $ 5,449 | $ 3,718 | $ 617 | $ 161 | $ 16,715 |
| Additions: Provisions for loan losses | 67 | 731 | 1,423 | 406 | 123 | 2,750 |
| Deductions: | | | | | | |
| Gross loan charge-offs | (350) | - | (1,098) | (359) | (231) | (2,038) |
| Recoveries | 219 | 129 | 271 | 151 | 106 | 876 |
| Net loan charge-offs | (131) | 129 | (827) | (208) | (125) | (1,162) |
| Balance at end of year | $ 6,706 | $ 6,309 | $ 4,314 | $ 815 | $ 159 | $ 18,303 |

| *(Dollars in thousands)* | Real Estate Term | Construction and Land Development | Commercial and Industrial | Residential and Home Equity | Consumer and Other | Total |
|---|---|---|---|---|---|---|
| | **Year Ended December 31, 2016** | | | | | |
| Balance at beginning of year | $ 6,783 | $ 3,984 | $ 3,941 | $ 603 | $ 246 | $ 15,557 |
| Additions: Provisions for loan losses | (617) | 813 | 847 | (72) | (71) | 900 |
| Deductions: | | | | | | |
| Gross loan charge-offs | (17) | - | (1,511) | (6) | (240) | (1,774) |
| Recoveries | 621 | 652 | 441 | 92 | 226 | 2,032 |
| Net loan charge-offs | 604 | 652 | (1,070) | 86 | (14) | 258 |
| Balance at end of year | $ 6,770 | $ 5,449 | $ 3,718 | $ 617 | $ 161 | $ 16,715 |

| *(Dollars in thousands)* | Real Estate Term | Construction and Land Development | Commercial and Industrial | Residential and Home Equity | Consumer and Other | Total |
|---|---|---|---|---|---|---|
| | **Year Ended December 31, 2015** | | | | | |
| Balance at beginning of year | $ 5,181 | $ 4,425 | $ 4,608 | $ 671 | $ 266 | $ 15,151 |
| Additions: Provisions for loan losses | 1,554 | (91) | (508) | (135) | 180 | 1,000 |
| Deductions: | | | | | | |
| Gross loan charge-offs | (32) | (396) | (350) | - | (281) | (1,059) |
| Recoveries | 80 | 46 | 191 | 67 | 81 | 465 |
| Net loan charge-offs | 48 | (350) | (159) | 67 | (200) | (594) |
| Balance at end of year | $ 6,783 | $ 3,984 | $ 3,941 | $ 603 | $ 246 | $ 15,557 |

**Note 3 — Loans and Allowance for Loan Losses Continued**

Non-accrual loans are summarized as follows:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Non-accrual loans, not troubled debt restructured: | | |
| Real estate term | $ 644 | $ 2,386 |
| Construction and land development | 355 | 378 |
| Commercial and industrial | 1,578 | 1,211 |
| Residential and home equity | - | 142 |
| Consumer and other | - | 14 |
| Total non-accrual loans, not troubled debt restructured | 2,577 | 4,131 |
| Troubled debt restructured loans, non-accrual: | | |
| Real estate term | - | 808 |
| Construction and land development | 296 | 396 |
| Commercial and industrial | - | - |
| Residential and home equity | - | - |
| Consumer and other | - | - |
| Total troubled debt restructured loans, non-accrual | 296 | 1,204 |
| Total non-accrual loans | $ 2,873 | $ 5,335 |

Troubled debt restructured loans are summarized as follows:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Accruing troubled debt restructured loans | $ 3,307 | $ 5,572 |
| Non-accrual troubled debt restructured loans | 296 | 1,204 |
| Total troubled debt restructured loans | $ 3,603 | $ 6,776 |

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.

**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:

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Current | 30-89 Days Past Due | 90+ Days Past Due | Non-accrual | Total Past Due | Total Loans |
| Commercial real estate: | | | | | | |
| Real estate term | $ 781,261 | $ 2,243 | $ - | $ 644 | $ 2,887 | $ 784,148 |
| Construction and land development | 361,844 | 7,095 | - | 651 | 7,746 | 369,590 |
| Total commercial real estate | 1,143,105 | 9,338 | - | 1,295 | 10,633 | 1,153,738 |
| Commercial and industrial | 288,297 | 4,210 | - | 1,578 | 5,788 | 294,085 |
| Consumer: | | | | | | |
| Residential and home equity | 156,379 | 2,212 | - | - | 2,212 | 158,591 |
| Consumer and other | 25,307 | 283 | 1 | - | 284 | 25,591 |
| Total consumer | 181,686 | 2,495 | 1 | - | 2,496 | 184,182 |
| Total gross loans | $1,613,088 | $ 16,043 | $ 1 | $ 2,873 | $ 18,917 | $1,632,005 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Current | 30-89 Days Past Due | 90+ Days Past Due | Non-accrual | Total Past Due | Total Loans |
| Commercial real estate: | | | | | | |
| Real estate term | $ 577,134 | $ 1,701 | $ - | $ 3,194 | $ 4,895 | $ 582,029 |
| Construction and land development | 237,433 | 1,913 | - | 774 | 2,687 | 240,120 |
| Total commercial real estate | 814,567 | 3,614 | - | 3,968 | 7,582 | 822,149 |
| Commercial and industrial | 211,143 | 906 | - | 1,211 | 2,117 | 213,260 |
| Consumer: | | | | | | |
| Residential and home equity | 71,719 | 1,098 | - | 142 | 1,240 | 72,959 |
| Consumer and other | 15,168 | 474 | 22 | 14 | 510 | 15,678 |
| Total consumer | 86,887 | 1,572 | 22 | 156 | 1,750 | 88,637 |
| Total gross loans | $1,112,597 | $ 6,092 | $ 22 | $ 5,335 | $ 11,449 | $1,124,046 |

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.

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

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

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

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

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

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | Pass | Special Mention | Substandard and Doubtful | Total Loans | Total Allowance |
| Commercial real estate: | | | | | |
| Real estate term | $ 758,575 | $ 13,055 | $ 12,518 | $ 784,148 | $ 6,706 |
| Construction and land development | 358,766 | 7,227 | 3,597 | 369,590 | 6,309 |
| Total commercial real estate | 1,117,341 | 20,282 | 16,115 | 1,153,738 | 13,015 |
| Commercial and industrial | 274,535 | 13,464 | 6,086 | 294,085 | 4,314 |
| Consumer loans: | | | | | |
| Residential and home equity | 152,753 | 3,913 | 1,925 | 158,591 | 815 |
| Consumer and other | 25,461 | 45 | 85 | 25,591 | 159 |
| Total consumer | 178,214 | 3,958 | 2,010 | 184,182 | 974 |
| Total | $ 1,570,090 | $ 37,704 | $ 24,211 | $ 1,632,005 | $ 18,303 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | Pass | Special Mention | Substandard and Doubtful | Total Loans | Total Allowance |
| Commercial real estate: | | | | | |
| Real estate term | $ 565,550 | $ 10,609 | $ 5,870 | $ 582,029 | $ 6,770 |
| Construction and land development | 234,359 | 2,222 | 3,539 | 240,120 | 5,449 |
| Total commercial real estate | 799,909 | 12,831 | 9,409 | 822,149 | 12,219 |
| Commercial and industrial | 205,933 | 2,266 | 5,061 | 213,260 | 3,718 |
| Consumer loans: | | | | | |
| Residential and home equity | 69,287 | 1,869 | 1,803 | 72,959 | 617 |
| Consumer and other | 15,542 | - | 136 | 15,678 | 161 |
| Total consumer | 84,829 | 1,869 | 1,939 | 88,637 | 778 |
| Total | $ 1,090,671 | $ 16,966 | $ 16,409 | $ 1,124,046 | $ 16,715 |

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

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

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 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 | $ - | $ 3 | $ 41 | $ 101 | $ - | $ 145 |
| Collectively evaluated for impairment | 6,706 | 6,306 | 4,273 | 714 | 159 | 18,158 |
| Total | $ 6,706 | $ 6,309 | $ 4,314 | $ 815 | $ 159 | $ 18,303 |
| Outstanding loan balances: | | | | | | |
| Individually evaluated for impairment | $ 7,201 | $ 3,218 | $ 9,058 | $ 1,150 | $ - | $ 20,627 |
| Collectively evaluated for impairment | 776,947 | 366,372 | 285,027 | 157,441 | 25,591 | 1,611,378 |
| Total gross loans | $ 784,148 | $ 369,590 | $ 294,085 | $ 158,591 | $ 25,591 | $1,632,005 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 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 | $ 189 | $ 67 | $ 323 | $ 75 | $ - | $ 654 |
| Collectively evaluated for impairment | 6,581 | 5,382 | 3,395 | 542 | 161 | 16,061 |
| Total | $ 6,770 | $ 5,449 | $ 3,718 | $ 617 | $ 161 | $ 16,715 |
| Outstanding loan balances: | | | | | | |
| Individually evaluated for impairment | $ 5,778 | $ 2,995 | $ 6,045 | $ 1,476 | $ - | $ 16,294 |
| Collectively evaluated for impairment | 576,251 | 237,125 | 207,215 | 71,483 | 15,678 | 1,107,752 |
| Total gross loans | $ 582,029 | $ 240,120 | $ 213,260 | $ 72,959 | $ 15,678 | $1,124,046 |

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

Information on impaired loans is summarized as follows:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | Recorded Investment | | | |
| *(Dollars in thousands)* | Unpaid Principal Balance | With No Allowance | With Allowance | Total Recorded Investment | Related Allowance |
| Commercial real estate: | | | | | |
| Real estate term | $ 8,681 | $ 7,201 | $ - | $ 7,201 | $ - |
| Construction and land development | 4,397 | 3,022 | 196 | 3,218 | 3 |
| Total commercial real estate | 13,078 | 10,223 | 196 | 10,419 | 3 |
| Commercial and industrial | 16,102 | 8,290 | 768 | 9,058 | 41 |
| Consumer loans: | | | | | |
| Residential and home equity | 1,150 | 229 | 921 | 1,150 | 101 |
| Consumer and other | - | - | - | - | - |
| Total consumer | 1,150 | 229 | 921 | 1,150 | 101 |
| Total | $ 30,330 | $ 18,742 | $ 1,885 | $ 20,627 | $ 145 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | Recorded Investment | | | |
| *(Dollars in thousands)* | Unpaid Principal Balance | With No Allowance | With Allowance | Total Recorded Investment | Related Allowance |
| Commercial real estate: | | | | | |
| Real estate term | $ 5,864 | $ 2,979 | $ 2,799 | $ 5,778 | $ 189 |
| Construction and land development | 3,949 | 2,790 | 205 | 2,995 | 67 |
| Total commercial real estate | 9,813 | 5,769 | 3,004 | 8,773 | 256 |
| Commercial and industrial | 6,937 | 4,458 | 1,587 | 6,045 | 323 |
| Consumer loans: | | | | | |
| Residential and home equity | 1,476 | 1,071 | 405 | 1,476 | 75 |
| Consumer and other | - | - | - | - | - |
| Total consumer | 1,476 | 1,071 | 405 | 1,476 | 75 |
| Total | $ 18,226 | $ 11,298 | $ 4,996 | $ 16,294 | $ 654 |

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

The interest income recognized on impaired loans was as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| *(Dollars in thousands)* | Average Recorded Investment | Interest Income Recognition | Average Recorded Investment | Interest Income Recognition | Average Recorded Investment | Interest Income Recognition |
| Commercial real estate: | | | | | | |
| Real estate term | $ 6,489 | $ 187 | $ 7,435 | $ 240 | $ 10,317 | $ 380 |
| Construction and land development | 3,107 | 137 | 2,809 | 168 | 5,015 | 276 |
| Total commercial real estate | 9,596 | 324 | 10,244 | 408 | 15,332 | 656 |
| Commercial and industrial | 7,552 | 276 | 6,214 | 311 | 6,318 | 251 |
| Consumer loans: | | | | | | |
| Residential and home equity | 1,313 | 46 | 1,695 | 67 | 2,916 | 105 |
| Consumer and other | - | - | 60 | 1 | 24 | 1 |
| Total consumer | 1,313 | 46 | 1,755 | 68 | 2,940 | 106 |
| Total | $ 18,461 | $ 646 | $ 18,213 | $ 787 | $ 24,590 | $ 1,013 |

*Purchased Loans* -- Purchased loans, including loans acquired in business combinations, are recorded at fair value on the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired ("PCI loans") or purchased non-credit impaired ("Performing purchased loans").

The following table summarizes the performing loans purchased on the acquisition date for both the seven Utah branches of Banner Bank and Town & Country Bank ("Acquisitions"):

| *(Dollars in thousands)* | Acquisition Date |
|---|---|
| Contractually required principal payments receivable | $ 359,624 |
| Adjustment for credit, interest rate and liquidity | (7,259) |
| Fair value of performing purchased loans | $ 352,365 |

The following table summarizes the PCI loans purchased on the acquisition date for the Acquisitions:

| *(Dollars in thousands)* | Acquisition Date |
|---|---|
| Contractually required payments including interest | $ 15,535 |
| Amounts not expected to be collected - nonaccretable difference | (4,584) |
| Cash flows expected to be collected | 10,951 |
| Accretable yield | (1,200) |
| Fair value of PCI loans | $ 9,751 |

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

The following table summarizes the balance of purchased loans as of December 31, 2017:

| *(Dollars in thousands)* | Performing Purchased Loans | PCI Loans | Total Acquired Loans |
|---|---|---|---|
| Commercial real estate loans: | | | |
| Real estate term | $ 220,009 | $ 1,013 | $ 221,022 |
| Construction and land development | 27,030 | 651 | 27,681 |
| Total commercial real estate loans | 247,039 | 1,664 | 248,703 |
| Commercial and industrial loans | 59,093 | 7,010 | 66,103 |
| Consumer loans: | | | |
| Residential and home equity | 30,871 | - | 30,871 |
| Consumer and other | 8,770 | - | 8,770 |
| Total consumer loans | 39,641 | - | 39,641 |
| Total loans carrying balance | $ 345,773 | $ 8,674 | $ 354,447 |
| Total loans unpaid principal balance | $ 354,309 | $ 12,414 | $ 366,723 |

*Loans to affiliates* — The Company has entered into loan transactions with certain directors 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 $3.4 million and $330,000 at December 31, 2017 and 2016, respectively. Available lines of credit for loans and credit cards to affiliates were $548,000 at December 31, 2017.

### Note 4 — Premises and Equipment

Premises and equipment are summarized as follows as of December 31:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Land and buildings | $ 36,278 | $ 28,997 |
| Equipment, furniture, and software | 23,707 | 19,908 |
| | 59,985 | 48,905 |
| Accumulated depreciation and amortization | (29,586) | (26,979) |
| | $ 30,399 | $ 21,926 |

The Company leases certain properties from third parties under operating leases. Total rent expense for the years ended December 31, 2017, 2016, and 2015 was $539,000, $344,000, and $283,000, respectively.

### Note 4 — Premises and Equipment – Continued

The total future minimum rental commitments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2017 are as follows:

| *(Dollars in thousands)* | Amount |
|---|---|
| 2018 | $ 729 |
| 2019 | 680 |
| 2020 | 630 |
| 2021 | 629 |
| 2022 and beyond | 870 |
| | $ 3,538 |

### Note 5 — Deposits

Deposit account balances are summarized as follows as of December 31:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Non-interest bearing | $ 641,124 | $ 443,100 |
| Interest bearing deposits: | | |
| Interest bearing demand and savings | 736,820 | 654,541 |
| Money market accounts | 230,844 | 169,369 |
| Certificates of deposit | 205,844 | 158,064 |
| Total interest bearing deposits | 1,173,508 | 981,974 |
| Total deposits | $ 1,814,632 | $ 1,425,074 |

Scheduled maturities for certificates of deposit are as follows for the years ending December 31:

| *(Dollars in thousands)* | Amount |
|---|---|
| 2017 | $ 113,347 |
| 2018 | 32,108 |
| 2019 | 20,149 |
| 2020 | 13,691 |
| 2021 and beyond | 26,549 |
| | $ 205,844 |

Deposits held by affiliates were $7.1 million and $7.8 million as of December 31, 2017 and 2016, respectively.

### Note 6 — Short-term borrowings

Short-term borrowings consist the following as of December 31:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Security repurchase agreements | $ - | $ 3,199 |
| Other short-term borrowings: | | |
| Federal Home Loan Bank advances | 40,000 | - |
| Total other short-term borrowings | 40,000 | - |
| Total short-term borrowings | $ 40,000 | $ 3,199 |

**Note 6 — Short-term borrowings – Continued**

As of December 31, 2017, committed Federal funds lines of credit arrangements totaling $25.0 million were available to the Company from an unaffiliated bank. The average Federal funds interest rate as of December 31, 2017 was 1.64%.

The Company is a member of the FHLB of Des Moines and has a committed credit line of $480.2 million which is secured by $664.8 million in various real estate loans and investment securities pledged as collateral. Borrowings generally provide for interest at the then current published rates which was 1.63% as of December 31, 2017.

The Company holds $21.3 million in investment securities in its Federal Reserve Bank ("Fed") account. As of December 31, 2017, the Company's overnight borrowing capacity using the primary credit facilities from the Fed is $20.8 million. The borrowing rate is the current discount rate plus 25 basis points. There were no outstanding Fed advances as of December 31, 2017 and 2016.

Securities sold under agreements to repurchase are generally overnight financing arrangements with customers collateralized by the Company's investment securities that mature within 166 months. As of December 31, 2017, the Company had no investment securities pledged for securities sold under agreements to repurchase and $4.0 million pledged as of December 31, 2016. At maturity, the securities underlying the agreements are returned to the Company.

Information concerning short-term borrowings consist of the following as of December 31:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Security repurchase agreements: | | |
| Average daily balance | $ 2,568 | $ 2,713 |
| Weighted average rate | 0.14% | 0.15% |
| Highest month-end balance | $ 3,789 | $ 3,315 |
| Year-end balance | $ - | $ 3,199 |
| Weighted average rate on outstanding at year-end | 0.00% | 0.15% |
| Other short-term borrowings: | | |
| Average daily balance | $ 4,894 | $ 9,359 |
| Weighted average rate | 1.28% | 0.39% |
| Highest month-end balance | $ 40,000 | $ 45,000 |
| Year-end balance | 40,000 | - |
| Weighted average rate on outstanding at year-end | 1.63% | 0.00% |

**Note 7 — Income Taxes**

The components of the income tax expense (benefit) are as follows for the years ended December 31:

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 10,778 | $ 12,194 | $ 9,060 |
| State | 1,709 | 1,850 | 1,452 |
| | 12,487 | 14,044 | 10,512 |
| Deferred: | | | |
| Federal | 3,468 | (670) | (217) |
| State | 522 | (101) | (33) |
| Deferred | 3,990 | (771) | (250) |
| Income tax expense | $ 16,477 | $ 13,273 | $ 10,262 |

**Note 7 — Income Taxes - Continued**

The combined federal and state income tax expense differs from that computed at the federal statutory corporate tax rate as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| Tax rate change | 13.0% | - | - |
| State taxes, net of federal income tax benefit | 2.9% | 3.1% | 3.1% |
| Tax-exempt interest and income | (2.1)% | (2.1)% | (2.4)% |
| Equity awards expense | (2.8)% | (0.3)% | - |
| Other, net | (0.6)% | 0.3% | (1.4)% |
| Effective tax rate | 45.4% | 36.0% | 34.3% |

The nature and components of the Company's net deferred income tax assets are as follows as of December 31:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Deferred income tax assets: | | |
| Allowance for loan losses | $ 5,792 | $ 6,724 |
| Deferred loan fees and costs | 1,436 | 1,594 |
| Fair value adjustments on certificates of deposit | 170 | 79 |
| Deferred compensation | 427 | 565 |
| Unrealized loss on securities | 701 | 626 |
| State franchise taxes | 362 | 630 |
| Other | 740 | 563 |
| | 9,628 | 10,781 |
| Deferred income tax liabilities: | | |
| FHLB dividends | 157 | 241 |
| Mortgage servicing rights | 192 | 328 |
| Basis difference in premises, equipment and other assets | 452 | 413 |
| | 801 | 982 |
| Net deferred income tax assets | $ 8,827 | $ 9,799 |

The Federal government signed into law the Tax Cuts and Jobs Act (the "Act"), which amended the Internal Revenues Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the federal corporate tax rate from a maximum of 35% to a flat rate of 21%. The rate reduction was effective January 1, 2018. Consequently, the lower corporate income tax rate reduces the future net tax benefits of timing differences between book and taxable income recorded by the Company as net deferred income tax assets. As a result, the Company re-measured its net deferred income tax assets at the end of 2017, and recorded additional income tax expense of $4.7 million related to the write-down of deferred income tax assets due to the reduction in the Federal corporate income tax rate.

The Company believes, based on available information, that it is more likely than not that the net deferred income tax asset will be realized in the normal course of operations. The impact of a tax position is recognized in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. As of December 31, 2017, the Company did not have any significant uncertain tax positions. As of December 31, 2016, the Company had an uncertain tax position related to a rehabilitation credit, which was resolved in the Company's favor in 2017. The Company includes any interest and penalties associated with unrecognized tax benefits within the provision for income taxes. As of December 31, 2017, there was no liability for unrecognized tax benefits. As of December 31, 2016, there was a liability of $200,000 for unrecognized tax benefits, which was resolved and recorded as an income tax credit in 2017. The Company does not expect a material change to the total amount of unrecognized tax benefits in the next twelve months.

### Note 7 — Income Taxes - Continued

The Company elected to adopt the provisions of Accounting Standards Update 2016-09, Compensation—Stock Compensation (Topic 718) in 2016. The credit to current tax expense related to tax-deductible stock compensation expense was $1.2 million in 2017 and $201,000 in 2016.

The Company files U.S. and state income tax returns in jurisdictions with various statutes of limitations. The 2014 through 2017 tax years remain subject to selection for examination as of December 31, 2017. None of the Company's income tax returns are currently under audit. As of December 31, 2017 and 2016, the Company has no net operating loss or credit carry-forwards.

### Note 8 — Commitments and Contingencies

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

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

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Commitments to extend credit, including unsecured commitments of $13,625 and $11,230 as of December 31, 2017 and 2016, respectively | $ 637,029 | $ 445,645 |
| Stand-by letters of credit and bond commitments, including unsecured commitments of $440 and $660 as of December 31, 2017 and 2016, respectively | 27,943 | 29,332 |
| Unused credit card lines, all unsecured | 24,949 | 25,803 |

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 9 — Regulatory Capital Matters

The Company is subject to various regulatory capital requirements administered by its primary federal regulator, the FDIC. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and its consolidated financial statements. Under the regulatory capital adequacy guidelines and regulatory framework for prompt corrective action, the Company must meet specific capital guidelines involving quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 2017, the Company was categorized as well capitalized under the regulatory framework. To be categorized as well capitalized, an institution must maintain minimum common Tier 1 ("CET1"), Tier 1 risk-based capital, total risk-based capital, and Tier 1 to average assets ("Tier 1 Leverage") capital ratios as disclosed in the table below.

**Note 9 — Regulatory Capital Matters – Continued**

The Company's actual and required capital amounts and ratios are as follows:

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum Capital Requirement | | Well Capitalized Requirement | |
| *(Dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Consolidated | | | | | | |
| CET1 Capital to Risk-Weighted Assets | $ 229,886 | 13.51% | $ 76,598 | 4.50% | $ 110,642 | 6.50% |
| Tier 1 Capital to Risk-Weighted Assets | 229,886 | 13.51% | 102,131 | 6.00% | 136,174 | 8.00% |
| Total Risk-Based Capital to Risk-Weighted Assets | 249,645 | 14.67% | 136,174 | 8.00% | 170,218 | 10.00% |
| Tier 1 Leverage | 229,886 | 11.46% | 80,249 | 4.00% | NA | NA |
| People's Intermountain Bank | | | | | | |
| CET1 Capital to Risk-Weighted Assets | $ 227,252 | 13.35% | $ 76,591 | 4.50% | $ 110,632 | 6.50% |
| Tier 1 Capital to Risk-Weighted Assets | 227,252 | 13.35% | 102,122 | 6.00% | 136,163 | 8.00% |
| Total Risk-Based Capital to Risk-Weighted Assets | 247,011 | 14.51% | 136,163 | 8.00% | 170,203 | 10.00% |
| Tier 1 Leverage | 227,252 | 11.32% | 80,323 | 4.00% | 100,403 | 5.00% |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum Capital Requirement | | Well Capitalized Requirement | |
| *(Dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Consolidated | | | | | | |
| CET1 Capital to Risk-Weighted Assets | $ 229,312 | 18.93% | $ 54,519 | 4.50% | $ 78,750 | 6.50% |
| Tier 1 Capital to Risk-Weighted Assets | 229,312 | 18.93% | 72,692 | 6.00% | 96,923 | 8.00% |
| Total Risk-Based Capital to Risk-Weighted Assets | 244,655 | 20.19% | 96,923 | 8.00% | 121,154 | 10.00% |
| Tier 1 Leverage | 229,312 | 13.71% | 66,902 | 4.00% | NA | NA |
| People's Intermountain Bank | | | | | | |
| CET1 Capital to Risk-Weighted Assets | $ 193,277 | 16.05% | $ 54,174 | 4.50% | $ 78,251 | 6.50% |
| Tier 1 Capital to Risk-Weighted Assets | 193,277 | 16.05% | 72,232 | 6.00% | 96,309 | 8.00% |
| Total Risk-Based Capital to Risk-Weighted Assets | 208,526 | 17.32% | 96,309 | 8.00% | 120,386 | 10.00% |
| Tier 1 Leverage | 193,277 | 11.81% | 65,453 | 4.00% | 81,816 | 5.00% |

Federal Reserve Board Regulations require maintenance of certain minimum reserve balances based on certain average deposits. The Bank had reserve requirements of $6.0 million and $9.1 million as of December 31, 2017 and 2016, 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 10 — Shareholders' Equity

The following table summarizes dividends per share declared and paid per quarter for the periods indicated:

| | Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| First quarter | $ 0.08 | $ 0.07 |
| Second quarter | 0.08 | 0.07 |
| Third quarter | 0.09 | 0.07 |
| Fourth quarter | 0.09 | 0.08 |
| Total | $ 0.34 | $ 0.29 |

### Note 11 — 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 "2014 Plan") which replaced an existing share-based incentive plan. The 2014 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 2014 Plan is 800,000 common shares. The share-based awards are granted to participants at a price not less than the fair value on the date of grant and for terms of up to ten years. The 2014 Plan also allows for granting of share-based awards to directors and consultants who are not employees of the Company.

Under the plans, share-based options are exercisable at the time of grant or other times subject to such terms and conditions as determined by the Board. Share-based options granted may be exercised in whole or in part at any time during the maximum option term of ten years. All share-based options are adjustable for any future stock splits or stock dividends. The Board has the authority to grant to eligible participants one or more of the various share-based incentive awards. To date, the Company has issued incentive share-based options, non-qualified share-based options and restricted stock units to participants. Fair value of the exercise price prior to the Company's initial public offering in June 2015 was set at the time of grant by the Board based on independent valuations and related models; and after the initial public offering, fair value is based on market prices at the date of grant. The Company's policy is to issue common shares to the person exercising share-based options.

### Note 11 — Incentive Share-Based Plan and Other Employee Benefits – Continued

Share-based option transactions are summarized as follows:

| *(Dollars in thousands, except share and per share data)* | Options Granted for Common Shares | Weighted Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2015 | 940,683 | $ 5.92 | | |
| Granted | 190,448 | 12.90 | | |
| Exercised | (152,508) | 5.31 | | |
| Forfeited | (16,368) | 4.85 | | |
| Outstanding at December 31, 2015 | 962,255 | 7.42 | | |
| Granted | 86,831 | 15.66 | | |
| Exercised | (285,568) | 5.62 | | |
| Forfeited | (802) | 16.96 | | |
| Outstanding at December 31, 2016 | 762,716 | 7.42 | | |
| Granted | 17,692 | 29.59 | | |
| Exercised | (221,337) | 7.76 | | |
| Forfeited | (14,358) | 15.41 | | |
| Outstanding at December 31, 2017 | 544,713 | 10.14 | 4.06 | $ 12,198 |
| Exercisable at December 31, 2017 | 405,256 | 8.53 | 3.86 | 7,423 |
| Exercisable at December 31, 2016 | 481,959 | 7.29 | 3.83 | 9,426 |

The weighted-average grant-date fair value of options per share granted, using the Black-Scholes method of valuation, was $3.82, $2.26 and $2.65 during 2017, 2016 and 2015, respectively. The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was $4.2 million, $3.5 million and $1.6 million, respectively. Shares issued upon exercises of stock options in 2017 were reduced by 11,462 shares related to net settled option exercises or existing shares tendered as consideration.

Restricted stock unit transactions are summarized as follows:

| *(Dollars in thousands, except share and per share data)* | Options Granted for Common Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at January 1, 2015 | 3,198 | $ 11.10 |
| Granted | 40,035 | 12.54 |
| Vested | (3,304) | 11.13 |
| Non-vested at December 31, 2015 | 39,929 | 11.10 |
| Granted | 3,866 | 16.50 |
| Vested | (14,228) | 12.81 |
| Forfeited | (1,672) | 12.54 |
| Non-vested at December 31, 2016 | 27,895 | 12.97 |
| Granted | 27,811 | 28.92 |
| Vested | (15,838) | 13.37 |
| Forfeited | (292) | 12.10 |
| Non-vested at December 31, 2017 | 39,576 | 24.02 |

**Note 11 — Incentive Share-Based Plan and Other Employee Benefits – Continued**

The total intrinsic value of RSU's vested during the years ended December 31, 2017, 2016, and 2015 were $423,000 and $244,000, and $56,000, respectively.

As of December 31, 2017, there was $711,000 of total unrecognized compensation expense related to stock options and RSU's granted to be recognized over a weighted-average period of 1.2 years.

The Company recorded share-based compensation expense of $510,000, $544,000 and $485,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The Company used the Black-Scholes pricing model using the following assumptions to calculate the fair value of incentive share-based options granted during 2017, 2016 and 2015: annual dividend yield of 0.7% to 2.3%; risk-free interest rates of 0.1% to 1.6%; expected option terms of 0.7 to 6.5 years; and volatility index of 13.3% to 29.9%. The assumptions for expected dividend yield and expected life reflected management's judgment and include consideration of historical experience. Expected volatility is based on data from comparable public companies for the expected option term. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. Expected forfeitures are estimated based on the Company's historical forfeiture experience. Management believes that the assumptions used in the option-pricing model are highly subjective and represent only one estimate of possible value as there is no active market for the options granted.

Share-based compensation expense related to restricted stock units and non-qualified stock options was $342,000, $371,000 and $287,000 for the years ended December 31, 2017, 2016 and 2015; and the related recognized income tax benefit associated with this expense is $131,000, $142,000 and $110,000, respectively.

*401(k) plan* — The Company offers a retirement savings 401(k) plan in which all eligible employees may participate. Currently, the Company contributes and allocates to each eligible participant's account, a percentage of the participant's elective deferral. The Company made contributions of $883,000, $778,000 and $708,000 in 2017, 2016 and 2015, respectively.

*Profit-sharing* — The Company provides an annual profit-sharing contribution to all eligible employees based on each year's profitability and as approved by the Board of Directors. Profit sharing contributions were $725,000, $600,000 and $600,000 in 2017, 2016 and 2015, respectively.

**Note 12 — Fair Value**

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

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

**Note 12 — 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:

| *(Dollars in thousands)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As of December 31, 2017** | | | | |
| *Fair valued on a recurring basis:* | | | | |
| Investment securities available for sale | $ - | $ 263,056 | $ - | $ 263,056 |
| *Fair valued on a non-recurring basis:* | | | | |
| Impaired loans | - | 1,740 | - | 1,740 |
| **As of December 31, 2016** | | | | |
| *Fair valued on a recurring basis:* | | | | |
| Investment securities available for sale | $ 1,008 | $ 334,601 | $ - | $ 335,609 |
| *Fair valued on a non-recurring basis:* | | | | |
| Impaired loans | - | 4,342 | - | 4,342 |

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

| *(Dollars in thousands)* | Carrying Amount | Estimated Fair Value |
|---|---|---|
| **As of December 31, 2017** | | |
| Financial Assets: | | |
| Net loans held for investment | $ 1,609,141 | $ 1,607,388 |
| Financial Liabilities: | | |
| Interest bearing deposits | 1,173,508 | 1,172,979 |
| **As of December 31, 2016** | | |
| Financial Assets: | | |
| Net loans held for investment | $ 1,103,162 | $ 1,101,890 |
| Financial Liabilities: | | |
| Interest bearing deposits | 981,974 | 982,380 |

**Note 12 — Fair Value – Continued**

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 counter parties' credit standing. The fair value of the fees as of December 31, 2017 and 2016 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.

**Note 13 — Contingencies and Concentrations of Credit Risk**

*Litigation* — The Company may from time to time be subject to legal proceedings arising in the normal course of business. Management does not believe the outcome of any currently pending matters will have a material impact on the financial condition, results of operations, or liquidity of the Company.

*Concentrations of credit risk* — The Company has concentrated credit risk exposure, including off-balance-sheet credit risk exposure, related to real estate loans as disclosed in Notes 3 and 8. The ultimate collectability of a substantial portion of the loan portfolio is susceptible to changes in economic and market conditions in the region. The Company generally requires collateral on all real estate lending arrangements and typically maintains loan-to-value ratios of no greater than 80%.

Investments in municipal securities principally involve governmental entities within the State of Utah. Loans are limited by state banking regulation to 15% of each Bank's total capital, as defined by banking regulations. As a matter of practice and in accordance with applicable Utah state law, the Bank does not extend credit to any single borrower or group of related borrowers in excess of 15% of the Bank's total capital. As of December 31, 2017, PIB's lending limit was $38.6 million.

The contractual amounts of credit-related financial instruments, such as commitments to extend credit and credit-card arrangements, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults, and the value of any existing collateral becomes worthless.

**Note 14 — Condensed Financial Statements of Parent Company**

Financial information pertaining only to PUB, on a parent-only basis, is as follows as of and for the years ended December 31:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| **Balance Sheets** | | |
| Assets | | |
| Cash and cash equivalents | $ 2,619 | $ 2,946 |
| Available for sale investment securities, at fair value | - | 34,507 |
| Investment in subsidiaries | 254,784 | 192,578 |
| Other assets | 801 | 391 |
| Total assets | $ 258,204 | $ 230,422 |
| Liabilities and shareholders' equity | | |
| Due to subsidiaries, net | $ 369 | $ 1,411 |
| Other liabilities | 417 | 494 |
| Shareholders' equity | 257,418 | 228,517 |
| Total liabilities and shareholders' equity | $ 258,204 | $ 230,422 |

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Statements of Income** | | | |
| Dividend and other income from subsidiaries | $ 5,300 | $ 3,884 | $ 8,730 |
| Interest and dividends on investment securities & other income | 310 | 363 | 174 |
| Total income | 5,610 | 4,247 | 8,904 |
| Salaries and employee benefits | 1,455 | 1,100 | 6,100 |
| Other expenses | 420 | 461 | 429 |
| Total expenses | 1,875 | 1,561 | 6,529 |
| Income before income taxes | 3,735 | 2,686 | 2,375 |
| Income tax benefit | 575 | 624 | 216 |
| | 4,310 | 3,310 | 2,591 |
| Equity in undistributed net income of subsidiaries | 15,536 | 20,300 | 17,023 |
| Net income | $ 19,846 | $ 23,610 | $ 19,614 |

**Note 14 — Condensed Financial Statements of Parent Company – Continued**

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Statements of Cash Flows** | | | |
| Cash flows from operating activities: | | | |
| Net income | $ 19,846 | $ 23,610 | $ 19,614 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed net income of the Banks | (15,536) | (20,300) | (17,023) |
| Net amortization of securities discounts and premiums | - | 89 | 55 |
| Change in other assets and liabilities | (1,204) | 1,002 | 886 |
| Net change provided by operating activities | 3,106 | 4,401 | 3,532 |
| Cash flows from investing activities: | | | |
| Purchase of available-for-sale securities | - | (20,995) | (50,227) |
| Maturities/sales of available-for-sale securities | 34,278 | 21,267 | 15,149 |
| Investments in banking subsidiary | (46,977) | - | - |
| Net change (used in) provided by investing activities | (12,699) | 272 | (35,078) |
| Cash flows from financing activities: | | | |
| Issuance of common shares | 13,977 | - | 34,897 |
| Exercise of stock options | 1,395 | 777 | 847 |
| Dividends paid | (6,106) | (5,141) | (5,052) |
| Net change provided by (used in) financing activities | 9,266 | (4,364) | 30,692 |
| Net change in cash and cash equivalents | (327) | 309 | (854) |
| Cash and cash equivalents, beginning of year | 2,946 | 2,637 | 3,491 |
| Cash and cash equivalents, end of year | $ 2,619 | $ 2,946 | $ 2,637 |

**Note 15 —Acquisitions**

*Utah Banner Bank Branch Acquisition*

On October 6, 2017, the Company acquired the loans and deposits of seven Utah branch locations from Banner Bank ("Banner branches"). The Company acquired $257 million in loans and assumed $160 million in deposits and paid a deposit premium of $13.8 million based on average deposits at closing. Two of the seven branches were consolidated into existing Bank branches. The Company has successfully completed the conversion of these branches into its core-banking platform and integrated personnel into the Company's operations.

The acquired assets and assumed liabilities was recorded at fair value at the date of the acquisition. In accordance with GAAP guidance for business combinations, the Company recorded $14.9 million of goodwill and $2.6 million of other intangibles as of the acquisition date. The other intangible asset is related to core deposits and are being amortized using a straight-line method over a period of ten years with no significant residual value. For tax purposes, the purchase accounting adjustments, including goodwill and other intangibles related to the Banner branch acquisition are taxable or deductible.

**Note 15 —Acquisitions (continued)**

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed and recognized at the acquisition date.

| *(Dollars in thousands)* | | |
|---|---|---|
| **Purchase Price** | | |
| Cash | | $ 100,283 |
| Premium paid on average deposits | | 13,762 |
| Total Consideration | | $ 114,045 |
| **Recorded amounts of assets acquired and liabilities assumed** | | |
| **Assets** | | |
| Loans, net of discounts | $ 251,782 | |
| Premises & equipment | 3,467 | |
| Core deposit intangible | 2,604 | |
| Other assets | 1,761 | |
| Total assets | 259,614 | |
| **Liabilities** | | |
| Deposits, net of premiums | 160,292 | |
| Other liabilities | 175 | |
| Total liabilities assumed | 160,467 | |
| Total net assets from merger | | $ 99,147 |
| Goodwill | | $ 14,898 |

Direct costs related to the branch acquisition were expensed as incurred in the year ended December 31, 2017. Such expenses primarily related to professional and legal services, human resource costs and information system charges. For the year ended December 31, 2017, the Company incurred $1.7 million of expenses related to the acquisition of the Utah branches of Banner Bank.

Pro forma income statements are not being presented as the information is not practicable to produce.

*Town & Country Bank Acquisition*

The Company also completed the merger of Town & Country Bank located in St. George, Utah on November 13, 2017, including the acquisition of $117 million in loans and assumption of $124 million in deposits.

The Company successfully completed the conversion of this branch into its core-banking platform, consolidated its existing branch and the Town & Country Branch in St. George into one branch, and integrated personnel into the Company's operations. The Company exchanged Town & Country Bank shares for 466,546 PUB common shares and paid cash of $11.6 million of which $2.0 million is being held in escrow to cover potential loss indemnifications.

The acquired assets and assumed liabilities were recorded at fair value at the date of the respective acquisitions. In accordance with GAAP guidance for business combinations, the Company recorded $11.1 million of goodwill and $845,000 of core deposit intangibles and $702,000 in deposit premium on certificates of deposit related to Town & Country Bank on the acquisition date. The core deposit intangible is being amortized using a straight-line method over a period of ten years with no significant residual value. The deposit premium is being accreted into net interest income over the life of the certificates of deposit. In accordance with the applicable accounting guidance for business combinations, there was no carry-over of TC Bank's previously established allowance for loan losses. The acquisition was a tax-free exchange; therefore, for tax purposes, purchase accounting adjustments, including goodwill, for the TC Bank acquisition are all non-taxable and/or non-deductible.

**Note 15 —Acquisitions (continued)**

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed and recognized at the acquisition date.

| *(Dollars in thousands, except share data)* | | |
|---|---|---|
| **Purchase Price** | | |
| PUB common shares issued for Town & Country shares | | 466,546 |
| PUB share price at closing | | $ 29.96 |
| Consideration from common stock conversion (0.2916 ratio) | | $ 13,977 |
| Cash | | 11,603 |
| Total Consideration | | $ 25,580 |
| **Recorded amounts of assets acquired and liabilities assumed** | | |
| **Assets** | | |
| Cash and cash equivalents | $ 13,401 | |
| Investment securities | 9,585 | |
| Loans, net of discounts | 110,334 | |
| Premises & equipment | 145 | |
| Core deposit intangible | 845 | |
| Bank owned life insurance | 3,332 | |
| Deferred income tax asset | 2,571 | |
| Other assets | 4,161 | |
| Total assets | 144,374 | |
| **Liabilities** | | |
| Deposits, net of premiums | 123,777 | |
| Other liabilities | 6,127 | |
| Total liabilities assumed | 129,904 | |
| Total net assets from merger | | $ 14,470 |
| Goodwill | | $ 11,110 |

The following table provides the unaudited pro forma information for the results of operations for the twelve months ended December 31, 2017 and 2016, as if the acquisition had occurred on January 1, 2016. These adjustments reflect the impact of certain purchase accounting fair value measurements, primarily comprised of TC Bank's loan and deposit portfolios. In addition, the acquisition-related expenses are included in the twelve months ended December 31, 2017. These unaudited pro forma results are presented for illustrative purposes only and are not intended to represent or be indicative of the actual results of operations of the combined banking organization that would have been achieved had the acquisition occurred at the beginning of each period presented, nor are they intended to represent or be indicative of future results of operations. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

**Note 15 —Acquisitions (continued)**

The following table is Unaudited Pro Forma Statements of Income

| *(Dollars in thousands)* | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| Net interest income | $ 87,294 | $ 75,075 |
| Provision for loan losses | 2,895 | 1,009 |
| Non-interest income | 18,623 | 18,426 |
| Non-interest expense | 64,950 | 54,116 |
| Income before income tax expense | 38,072 | 38,376 |
| Income tax expense | 17,152 | 13,533 |
| Net income | $ 20,920 | $ 24,843 |
| Earnings per share: | | |
| Basic | $ 1.13 | $ 1.37 |
| Diluted | $ 1.11 | $ 1.33 |

Direct costs related to the branch acquisition were expensed as incurred in the year ended December 31, 2017. Such expenses primarily related to professional and legal services, human resource costs and information system charges. For the year ended December 31, 2017, the Company incurred $3.1 million of expenses related to the TC Bank acquisition, the majority of which is tax deductible.

The two acquisitions were consistent with the Company's strategy to expand our presence in Utah. The acquisitions offer the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in Utah. Goodwill arising from the acquisition consisted largely of synergies and the cost savings resulting from the combined operations.

### Note 16— Unaudited Quarterly Financial Data

Summarized unaudited quarterly financial data is as follows:

| *(Dollars in thousands, except share and per share data)* | Quarters Ended 2017 | | | |
|---|---|---|---|---|
| | **March 31** | **June 30** | **September 30** | **December 31** |
| Net interest income | $ 17,792 | $ 18,981 | $ 19,918 | $ 23,947 |
| Provision for loan losses | 200 | 900 | 900 | 750 |
| Non-interest income | 4,112 | 4,348 | 3,574 | 4,526 |
| Non-interest expense | 12,443 | 12,351 | 13,657 | 19,674 |
| Income before income tax expense | 9,261 | 10,078 | 8,935 | 8,049 |
| Income tax expense | 2,740 | 3,584 | 2,697 | 7,456 |
| Net income | $ 6,521 | $ 6,494 | $ 6,238 | $ 593 |
| Earnings per common share: | | | | |
| Basic | $ 0.36 | $ 0.37 | $ 0.35 | $ 0.03 |
| Diluted | $ 0.36 | $ 0.35 | $ 0.34 | $ 0.03 |

| *(Dollars in thousands, except share and per share data)* | Quarters Ended 2016 | | | |
|---|---|---|---|---|
| | **March 31** | **June 30** | **September 30** | **December 31** |
| Net interest income | $ 16,700 | $ 17,211 | $ 17,637 | $ 18,333 |
| Provision for loan losses | 200 | 225 | 325 | 150 |
| Non-interest income | 3,763 | 4,398 | 4,386 | 4,332 |
| Non-interest expense | 12,135 | 12,400 | 11,902 | 12,540 |
| Income before income tax expense | 8,128 | 8,984 | 9,796 | 9,975 |
| Income tax expense | 2,885 | 3,407 | 3,548 | 3,433 |
| Net income | $ 5,243 | $ 5,577 | $ 6,248 | $ 6,542 |
| Earnings per common share: | | | | |
| Basic | $ 0.30 | $ 0.31 | $ 0.35 | $ 0.37 |
| Diluted | $ 0.29 | $ 0.31 | $ 0.34 | $ 0.36 |

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes or disagreements with accountants on accounting and financial disclosure.

## Item 9A. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the disclosure controls and procedures (as required by Exchange Act Rules 240.13a-15(b) and 15d-14(a)). Based on that evaluation, the CEO and CFO have concluded that as of the end of the period covered by this report, the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that are filed or submitted under the Securities Exchange Act of 1934 are recorded, processed, summarized and timely reported as provided in the SEC's rules and forms.

### Management's Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting is incorporated by herein by reference in "Item 8. Financial Statements and Supplementary Data."

Tanner LLC, the independent registered public accounting firm that audited the financial statements for the year ended December 31, 2017, has issued an attestation report on the Company's internal control over financial reporting. Such attestation report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 and is included in "Item 8. Financial Statements and Supplementary Data."

### 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 year ended December 31, 2017, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

## Item 9B. Other Information

None

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding “Directors and Executive Officers” is set forth under the headings “Election of Directors” and “Management – Executive Officers who are not Directors” of the Company’s 2018 Annual Meeting Proxy Statement (“Proxy Statement”) and is incorporated herein by reference.

Information regarding “Compliance with Section 16(a) of the Exchange Act” is set forth under the section “Compliance with Section 16(a) Filing Requirements” of the Company’s Proxy Statement and is incorporated herein by reference.

Information regarding the Company’s audit committee is set forth under the heading “Meetings and Committees of the Board of Directors – Committee Membership” in the Company’s Proxy Statement and is incorporated by reference.

Consistent with the requirements of the Sarbanes-Oxley Act, the Company has a Code of Ethics applicable to senior financial officers including the principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics can be accessed electronically by visiting the Company’s website at www.peoplesutah.com.

### Item 11. Executive Compensation

Information regarding “Executive Compensation” is set forth under the headings “Compensation of Directors” and “Executive Compensation” of the Company’s Proxy Statement and is incorporated herein by reference.

Information regarding “Compensation Committee Interlocks and Insider Participation” is set forth under such heading of the Company’s Proxy Statement and is incorporated herein by reference.

Information regarding the “Compensation Committee Report” is set forth under the heading “Report of Compensation Committee” of the Company’s Proxy Statement and is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding “Security Ownership of Certain Beneficial Owners and Management” is set forth under the headings “Beneficial Ownership” of the Company’s Proxy Statement and is incorporated herein by reference.

Information regarding “Equity Compensation Plan Information” is set forth under the headings “Equity Compensation Plan Information” of the Company’s Proxy Statement and is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding “Certain Relationships and Related Transactions, and Director Independence” is set forth under the heading “Transactions with Management” and “Corporate Governance – Director Independence” of the Company’s Proxy Statement and is incorporated herein by reference.

### Item 14. Principal Accounting Fees and Services

Information regarding “Principal Accounting Fees and Services” is set forth under the heading “Auditors – Fees Paid to Independent Registered Public Accounting Firm” of the Company’s Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits

**List of Financial Statements and Financial Statement Schedules**

(a) The following documents are filed as a part of this report:

(1) Financial Statements and

(2) Financial Statement schedules required to be filed by Item 8 of this report.

(3) The following exhibits are required by Item 601 of Regulation S-K and are included as part of this Form 10-K:

| Exhibit Number | Description |
|---|---|
| 2.1# | Purchase and Assumption Agreement between Banner Bank and People's Intermountain Bank dated July 26, 2017 (5) |
| 2.2# | First Amendment to Purchase and Assumption Agreement between Banner Bank and People's Intermountain Bank dated October 4, 2017 (6) |
| 2.3# | Merger Agreement among People's Utah Bancorp, People's Intermountain Bank, Town & Country Bank, Inc. and the Shareholders' Representative dated May 31, 2017 |
| 2.4# | Amendment No. 1 to Merger Agreement dated August 31, 2017 |
| 2.5# | Amendment No. 2 to Merger Agreement dated October 25, 2017 |
| 3.1 | Amended and Restated Articles of Incorporation of People's Utah Bancorp (1) |
| 3.2 | Amended and Restated Bylaws of People's Utah Bancorp (1) |
| 4.1 | Specimen Share Certificate for Common Shares of People's Utah Bancorp (3) |
| 10.1* | People's Utah Bancorp 2014 Incentive Plan (1) |
| 10.2* | People's Utah Bancorp Amended and Restated 2008 Incentive Plan (1) |
| 10.3* | People's Utah Bancorp Incentive Plan (1999 Incentive Plan) and all amendments thereto (1) |
| 10.4* | People's Utah Bancorp Deferred Compensation Plan for Directors (1) |
| 10.5* | Form of 2014 Incentive Plan Notice of Stock Option Grant and Stock Option Agreement (1) |
| 10.6* | Form of 2014 Incentive Plan Restricted Stock Unit Award Agreement (1) |
| 10.7 | Form of Director and Officer Indemnification Agreement (2) |
| 10.8* | Employment Agreement by and between People's Utah Bancorp, People's Intermountain Bank and Len E. Williams(4) |
| 10.9* | Employment Agreement by and between People's Utah Bancorp, People's Intermountain Bank and Mark K. Olson |
| 21 | Subsidiaries of the Company (7) |
| 23 | Consent of Tanner LLC |
| 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 Annual Report on Form 10-K for the year ended December 31, 2017 is formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements |

* Compensatory plan or arrangement

# Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any such omitted schedule or exhibit to the SEC upon request.

(1) Filed as part of the Registrant's Draft Registration Statement on Form S-1 filed on March 11, 2015.

(2) Filed as part of the Registrant's Registration Statement on Form S-1 filed on April 20, 2015.

(3) Filed as part of the Registrant's Amendment No.1 to Registration Statement on Form S-1 filed on May 5, 2015.

(4) Filed as part of the Registrant’s Quarterly Report on Form 10-Q filed on May 9, 2017.

(5) Filed as part of the Registrant's Quarterly Report on Form 10-Q filed on August 8, 2017.

(6) Filed as part of the Registrant's Quarterly Report on Form 10-Q filed on November 7, 2017.

(7) Filed as part of the Registrant’s Annual Report on Form 10-K filed on March 10, 2017.

All other financial statement schedules required by Regulation S-X are omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or related notes.

**Item 16. Form 10-K Summary**

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 15, 2018.

PEOPLE'S UTAH BANCORP

/s/ Len E. Williams
Len E. Williams
President and Chief Executive Officer
*(Principal Executive Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 15, 2018, by the following persons on behalf of the registrant and in the capacities indicated.

| Signature | Title |
| --- | --- |
| /s/ Len E. Williams<br>Len E. Williams | Director, President and Chief Executive Officer<br>*(Principal Executive Officer)* |
| /s/ Mark K. Olson<br>Mark K. Olson | Executive Vice President and Chief Financial Officer<br>*(Principal Financial and Accounting Officer)* |
| /s/ Paul R. Gunther<br>Paul R. Gunther | Director, Chairman |
| /s/ Dale O. Gunther<br>Dale O. Gunther | Director, Vice Chairman |
| /s/ David G. Anderson<br>David G. Anderson | Director, Executive Vice President and Chief Credit Officer |
| /s/ R. Brent Anderson<br>R. Brent Anderson | Director |
| /s/ Deborah S. Bayle<br>Deborah S. Bayle | Director |
| /s/ Richard T. Beard<br>Richard T. Beard | Director |
| /s/ Matthew S. Browning<br>Matthew S. Browning | Director |
| /s/ Fred W. Fairclough Jr.<br>Fred W. Fairclough Jr. | Director |
| /s/ Jonathan B. Gunther<br>Jonathan B. Gunther | Director |
| /s/ Wolfgang T. N. Muelleck<br>Wolfgang T. N. Muelleck | Director |
| /s/ Douglas H. Swenson<br>Douglas H. Swenson | Director |

## CORPORATE HEADQUARTERS

One East Main Street
American Fork, Utah 84003

801-642-3998

www.peoplesutah.com

## STOCK LISTING

People's Utah Bancorp's common shares are traded on the Nasdaq Capital Market under the symbol "PUB".

## INVESTOR RELATIONS

Mark K. Olson
EVP/Chief Financial Officer

InvestorRelations@PeoplesUtah.com

Phone: 801-642-3998

## INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Moss Adams LLP

601 West Riverside Avenue
Suite 1800
Spokane, Washington 99201

509-747-2600

www.mossadams.com

## STOCK TRANSFER AGENT

Transfer Online

512 SE Salmon Street
Portland, Oregon 97214

503-227-2950

info@transferonline.com

www.transferonline.com

## LEGAL COUNSEL

Dorsey & Whitney LLP

111 South Main Street
Suite 2100
Salt Lake City, UT 84111

801-933-7360

www.dorsey.com

People's Utah Bancorp

1 East Main Street | American Fork UT | 84003

peoplesutah.com