People’s Utah Bancorp

Q4 and Year End Earnings Conference Call

Tuesday, January 29, 2019, 12:00 PM

CORPORATE PARTICIPANTS

Mark Olson – *Executive Vice President and Chief Financial Officer*

Len Williams – *President and Chief Executive Officer*

PRESENTATION

Operator
Good day and welcome to the People's Utah Bancorp Fourth Quarter and Year End Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by 0.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note, this event is being recorded.

I would now like to turn the conference over to Mark Olson, EVP and CFO. Please go ahead.

Mark Olson
Thank you, Allison. Good morning. Thank you for joining us today to review our Fourth Quarter and Year End 2018 Financial Performance. Joining me this morning on the call is Len Williams, President and Chief Executive Officer of People's Utah Bancorp.

Our comments today will refer to the financial results included in our earnings announcement released last night. To obtain a copy of our earnings release, please visit our website, at www.peoplesutah.com.

Our earnings release contain forward looking statements. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and beyond the control of a company. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in or implied or projected by such forward-looking statements. These forward-looking statements are intended to be covered by the Safe Harbor for Forward-Looking Statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements speak only as of the date they are made and we assume no duty to update such statements.

I will now turn the call over to Len Williams. Len?

Len Williams
Thank you, Mark. Good morning and thank you for joining us on the call today. People's Utah Bancorp achieves strong financial performance, both in the fourth quarter and for all of 2018. The company achieved a return on equity of 14.9% for 2018, even as we build our tangible common equity to tangible assets to 12.1% compared with 10.9% a year ago.

With a strong financial performance, we've achieved, after the two acquisition transactions completed at the end of 2017, we've fully earned back the tangible book value dilution. To add a little color to our past year, we ended the third quarter of 2017 with 19 branches. Since then, we added nine locations, consolidated two, to bring us to our current total of 26. The organization added over 100 people to our staff, integrated two large credit portfolios, and hired a new management team all in the past year. We are now back to our third quarter 2017 asset quality, increased our reserved, earned back the book dilution, and accomplished the desired efficiency gains.

We achieved a 33%, or $426 million year-over-year average loan growth rate, with total loans ending the fourth quarter at $1.7 billion. Total loans grew $51 million for the year, a 3.2%

annualized growth rate. The lower loan growth rate for the year is primarily the result of a 2.3%, or $40 million, decline in total loans in the fourth quarter, as we experience seasonal trends in our construction loan portfolio due to more severe fall and winter as compared to a year ago. In addition, we sold a $7 million hotel construction loan as we actively reduced our hotel loan concentration by 12%, to $56 million overall, which is well within our guidelines.

Lastly, we've had a couple large construction projects that were completed in the fourth quarter, with the long term permanent financing coming from an outside source. Our ADC to total capital concentration fell to 112% at the end of the year compared to 148% a year ago. To the extent that we don't experience an extended winter end of the first quarter, we expect our loan volume to increase based on our current loan pipeline.

Looking at deposits, we achieved 19%, or $286 million, year to date average deposit growth with a total average deposits ending the fourth quarter of 2018 at $1.81 billion. More importantly, deposits remain flat at $1.88 billion at the end of the fourth quarter compared with the linked third quarter. Historically, we've experienced an outflow deposits in the fourth quarter related to charitable donations made by our customers to religious organizations at the end of the year.

For the year, total deposits grew 3.5%, or $62 million, despite expected deposit outflows form the acquisition of the Utah branches of Banner Bank and the merger of Town & Country Bank, completed at the end of 2017. We achieved this growth despite experiencing greater competition for deposits and competitive deposit pricing pressures from our peers.

Our cost of deposits increased 17 basis points to 0.49% for all of 2018, as we matched our competitive deposit rates and enhanced our deposit pricing programs to reward and retain high valued customer relationships. We expect that our cost of funds will increase as deposit betas continue to rise, consistent with our competitors in the near term.

We continue to focus on diversifying our loan portfolio, in particular growing our CNI portfolio. Currently, we operate two commercial banking centers that are located in Salt Lake County. As mentioned on our last call, we expect to open a third commercial banking center in Utah County in the second quarter of 2019, and we are currently on target with that opening.

We are continuing our efforts to automate and digitize our commercial loan origination process through the implementation of an online commercial lending application, and have recently signed a contract with a vendor, nCino, which is an industry leader in the commercial banking loan operating system space. The goal with this project is to ensure that we continue to provide the high touch and unparalleled responsiveness as we continue to grow in size, complexity of products and services, and expand our geographic footprint. We expect to have this project completed in the fourth quarter of 2019.

Looking at our asset quality metrics, non-performing assets were $4.5 million at December 31, 2018, compared with $3.9 million a year earlier. Non-performing assets to total assets increased to 0.21% at December 31, 2018 compared with 0.18% for the same period a year ago. We ended the year with no other real estate owned, as we completed the sale of two foreclosed assisted living centers from a Town & Country borrowing during the quarter.

Allowance for loan losses increased $6.9 million, or 37.9%, at December 31, 2018, compared with the same period a year ago. The percentage of allowance to loans held for investment increased to 1.5% at December 31, 2018 compared to 1.12% a year ago.

In addition to our allowance for loan losses, we have $8.8 million in discounts remaining on our acquired loan portfolio. We are actively monitoring the performance of the acquired loan portfolios, as well as our existing loan portfolio, and believe we are adequately reserved. The allowance for loan losses plus total non-acreetable discounts to loans held for investment was 1.68% at December 31, 2018. We believe it is prudent for us to continue to build our overall allowance for credit losses, given that we believe we are nearing the end of an overall credit cycle.

As mentioned on our last call, we hired a seasoned treasury service specialist to lead our efforts and expanding our commercial banking treasury products and service offerings. We've restructured our treasury service team and are actively evaluating our side of treasury management--our suite of treasury management products and services to improve our sales and service processes.

We expect to upgrade the systems by the end of the third quarter 2019. We've already experienced some positive trends with the treasury services team bringing in more than $25 million in deposits since we hired the team a quarter ago.

On the retail banking front, we have--we mentioned on our last call, our plan to open a new business-oriented branch in the fast growing Pleasant Grove area during the first quarter, were a number of technology firms that recently built new corporate offices. The branch will focus predominantly on small- to medium-sized commercial clients. We are on track to have that branch up and running in March.

We also--we're also rebuilding our Alpine branch with an expected completion date of sometime in the fourth quarter 2019. The Alpine branch is one of our oldest and largest branches with deposits over $120 million.

We're fortunate to be operating in one of the strongest economic markets in the country. Utah's unemployment rate at 3.1% for December remains below the national rate at 3.9%. Utah ranked number one in the nation in several indexes for 2018, including personal income growth, economic diversity, and economic outlook. Utah has the third fastest population growth in the nation. In December, job growth was 3.1% year over year versus 1.8% nationally. Thus far, we haven't seen any significant slowdown in the economy in the markets we serve.

We continue to actively evaluate potential acquisition opportunities, both in Utah and contiguous states, particularly along the I-15 corridor. I'm pleased to announce that the board of directors declared a quarterly dividend of 11 cents per common share. The dividend will be payable on February 11th, 2019, to shareholders of record on February 4th, 2019.

Now, I'll turn the call back over to Mark to discuss our financial performance.

Mark Olson
Thank you, Len. Net income was $10.7 million, or 56 cents per diluted common share for the fourth quarter of 2018, compared with $10.5 million, or 55 cents per diluted common share, for the third quarter of 2018, and $.6 million, or 3 cents per diluted common share, for the fourth quarter year ago.

For the 12 months ended December 31st, 2018, net income was $40.6 million, or $2.14 per diluted common share, compared with $19.8 million, or $1.08 per diluted common share, for the same period a year earlier. We have excluded non-recurring items, including gains or losses on sale of investment securities, costs related to the acquisition of the Utah branches with Banner Bank, the merger of Town & Country Bank, incurred in both 2017 and 2018, and higher income tax expense related to the one-time revaluation of our deferred income tax assets recorded in 2017 to derive non-GAAP financial information related to our core operations.

We believe this non-GAAP financial information is useful in understanding our core financial performance. Net income from core operations was $10.7 million, or 56 cents per diluted common share, for the fourth quarter of 2018, compared with $10.4 million, or 55 cents per diluted common share, for the third quarter of 2018, and $8.1 million, or 43 cents per diluted common share, for the fourth quarter of 2017.

For the 12 months ended December 31st, 2018, net income from core operations was $40.6 million, or $2.14 per diluted common share, compared with $28.1 million, or $1.53 per diluted common share, for the same period a year earlier.

As a result of our strong financial performance and lower income taxes, our return on average assets for the fourth quarter of 2018 was 1.94% compared with 1.91% for the third quarter of 2018 and 0.12% for the fourth quarter of 2017. For the year, return on average assets was 1.87% compared with 1.11% for the same period a year earlier. Return on average assets from core operations for the fourth quarter of 2018 was 1.94% compared with 1.89% for the third quarter of 2018, and 1.58% for the third quarter a year earlier.

For the year, return on average assets from core operations was 1.87% compared with 1.57% for the same period a year earlier. Return on average equity for the fourth quarter was 14.84% compared with 14.97% for the third quarter of 2018 and 0.92% for the fourth quarter of 2017.

For the year, return on average equity was 14.85% compared with 8.18% for the same period a year ago. Return on average equity from core operations was flat at 14.84% for both of the fourth and third quarter, and 12.59% for the fourth quarter a year ago. For the year, return on average equity from core operations was 14.82% compared with 11.6% for the same period a year ago.

I'll now discuss the financial results in detail.

For the fourth quarter of 2018, net interest income grew 17.2%, or $4.1 million, to $28.1 million, compared with $23.9 million for the same period a year earlier. The increase is primarily the result of average interest earning assets growing 6.9%, or $133 million, and yields on interest earning assets increasing 64 basis points to 5.8% for the same comparable periods. Higher yields on interest earning assets was primarily the result of yields on loans increasing 58 basis points to 5--6.56% for the same comparable periods and the percentage of loans to total interest earning assets increased into 83% of the end of year compared with 80.4% for the fourth quarter of 2017.

For the fourth quarter of 2018, total cost of interest bearing liabilities increased 27 basis points to 0.64%, compared with the same period a year ago and is the result of a cost of interest bearing deposits increasing 27 basis points to 0.63% for the same comparable periods and short term borrowings remaining flat at $10.5 million with a borrowing rate increasing 144 basis points to 2.79% for the fourth quarter of 2018 compared with the same period a year earlier.

For the fourth quarter of 2018, acquisition accounting adjustments including the accretion of loan discounts and the amortization of certificate of deposit premiums added 14 basis points to our net interest margin.

For the 12 months ended December 31st, 2018, net interest income grew 34.2%, or $27.5 million, to $108 million compared with $80.6 million for the same period a year earlier. The increase is primarily the result of average interest earning assets growing 20.3%, or $346 million, and yields on interest earning assets increasing 70 basis points to 5.64% for the same comparable periods.

Higher yields on interest earning assets was primarily the result of yields on loans increasing 34 basis points to 6.38% for the same comparable periods. And, the percentage of loans to interest earning assets increasing to 83% compared with 75% a year ago.

For the 12 months ended December 31st, 2018, total cost of interest-bearing liabilities increased 26 basis points to 0.58% compared with the same period a year ago and is the result of the cost of interest-bearing deposits increasing 17 basis points to 0.49% for the same comparable periods, and an increase in short term borrowings of $64.4 million at a borrowing rate of 1.98% for all of 2018. The company expects the increase in cost of interest-bearing deposits to continue to increase over the next several quarters as financial institutions increase their competitive deposit pricing.

For the 12 months ended December 31st, 2018, acquisition accounting adjustments, including the accretion of loan discounts and the amortization of certificate of deposit premiums added 15 basis points to the net interest margin. For the fourth quarter 2018, provision for loan losses was $3.2 million compared with $0.8 million for the same period a year earlier. The increase in provision for loan losses in the fourth quarter of 2018 is due primarily to an increase in charge offs and the increase in allowance for loan losses to loans held for investment.

For the fourth quarter of 2018, the company incurred net charge offs of $1.2 million compared with net charge offs of $.1 million for the same period a year ago. For the 12 months ended December 31st, 2018, provision for loan losses was $8.6 million compared with $2.8 million for the same period a year earlier. The increase in provision for loan losses for all of 2018 is due primarily to a $0.5 million increase in charge offs and a 38 basis point increase in allowance for loan losses to loans held for investment.

For the 12 months ended December 31st, 2018, the company incurred net charge offs of $1.7 million compared with net charge offs of $1.2 million from the same period a year ago. Annualized net charge offs were 10 basis points in 2018 compared with 9 basis points in 2017.

For the fourth quarter of 2018, non-interest income was $3.6 million compared with $3.9 million for the same period a year ago. The decrease was primarily due to a $0.5 million decline in mortgage banking income resulting from lower loan originations, which is primarily the result of a higher interest rate environment for the same comparable period.

For the 12 months ended December 31st, 2018, non-interest income was $15.1 million compared to $14.4 million for the same period a year ago. The increase was primarily due to a loss of securities a year ago, an increase in service charges on deposit accounts and card processing fees compared with a year earlier, offset by $1.3 million lower mortgage banking income year-over-year, resulting from lower loan originations, which is primarily the result of a higher interest rate environment for the same comparable periods.

For the fourth quarter of 2018, non-interest expense was $14.8 million compared with $19.1 million for the same period a year earlier and is primarily the result of the company reporting $4.1 million in non-recurring costs associated with the acquisition of both the Utah Banner Bank branches and the merger of Town & Country Bank in the fourth quarter of 2017.

For the fourth quarter of 2018, the company's efficiency ratio was 46.94% compared with 68.46% for the same period a year ago. Fourth quarter, the company's efficiency ratio from core operations was 46.94% compared with 53.67% for the same period a year earlier.

For the 12 months ended December 31st, 2018, non-interest expense was $62 million compared with $56 million for the same period a year earlier. Non-interest expense increased as a result of $5.5 million of higher salary employee benefits, primarily from the addition of employees from the two acquisition transactions, $1.2 million of higher occupancy, equipment and depreciation costs associated with these transactions, and $0.7 million in higher data processing costs associated with an increase in total accounts from both organic growth and acquisition transactions for the same comparable period. Higher non-interest expense in 2018 compared with 2017 was offset by recording $4.6 million in non-recurring costs associated with these two acquisitions in 2017.

For the 12 months ended December 31st, 2018, the company's efficiency ratio was 50.28% compared with 58.88% for the same period a year ago. For the fourth quarter, the company's efficiency ratio from core operations was 50.23%compared with 53.57% for the same period a year earlier.

For the fourth quarter of 2018, income tax expense was $2.9 million compared with $7.5 million for the same period a year earlier. Income tax expense in the fourth quarter was reduced by $.3 million to reflect the final impact of the Tax Cuts and Job Acts, as well as filing the company's 2017 federal tax return this quarter.

For the 12 months ended December 31st, 2018, income tax expense was $12.1 million compared with $16.5 million for the same period a year ago. In the fourth quarter of 2017, the job cuts--the Tax Cuts and Jobs Act was signed into law, which amended the internal revenue code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses.

For businesses, the Act reduced the federal corporate tax rate from a maximum of 35% to a flat rate of 21%. The rate reduction was effective January 1st, 2018. Consequently, the lower corporate income tax rate reduced future net tax benefits of time 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 a one-time additional income tax expense of $4.7 million, related to the write-down of deferred net income tax assets for tax benefits the company did not expect to realize. For the fourth quarter of 2018, the effective tax rate was 21.5% compared with 33.9% for the same period a year ago, excluding the one-time adjustments.

For the 12 months ended December 31st, 2018, the effective tax rate was 22.9% compared with 32.3% for the same period a year ago. The lower effective tax rate for both the 3 and 12 months ended December 31st, 2018 compared with the same periods a year earlier is primarily the result of the reduction in the federal corporate tax rate to a flat 21%, the reduction with the

Utah state corporate tax rate to 4.95%, as well as tax benefits related to tax deductibles stock compensation expense.

I'll turn the call back to Len.

Len Williams
Thank you, Mark. We're excited to begin the 2019 new year and believe that we're well positioned to take advantage of the outstanding economic prospects in the markets we serve. We believe we can continue to grow our business organically, diversify our loan portfolio, and expand our low cost core deposit base.

We're passionate and enthusiastic about our prospects to expand our commercial and industrial lending to small and medium sized businesses with our commercial banking centers and increase our emphasis on growing our commercial deposits with the expansion of our treasury management services team, and through improving the products and services we offer.

As mentioned earlier, we continue to actively pursue potential acquisition opportunities throughout the intermountain west, which we believe is a crucial component to our business strategy going forward.

Thank you so much for joining us today. At this point, I will now turn it back to Allison to open it up for questions.

QUESTION AND ANSWER

Operator
Thank you sir. We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2.

At this time, we will pause for a moment to assemble our roster. Our first question today will come from Jeff Rulis of D.A. Davidson. Please go ahead.

Jeff Rulis
Thanks.

Mark Olson
Morning, Jeff.

Len Williams
Morning, Jeff.

Jeff Rulis
Hi. First couple questions on the margin. Mark, so you mentioned 14 basis points of benefit to the margin in accretion and other. What was that linked quarter? I guess if you have a 4--527 quarter this quarter, what was that in the prior quarter?

Mark Olson
What was the net interest margin of the third quarter?

Jeff Rulis
Yes.

Mark Olson
Or what was the benefit from the accretion?

Jeff Rulis
Right.

Mark Olson
Yes, hold on one second. I can give you that information. It's in the earnings release.

Jeff Rulis
Sure. Maybe if I've got Len there, on the, just the margin outlook then, you talk about the deposit pressure and kind of from there, we can kind of get into the core. But, what do you see on the margin front?

Len Williams
We--it's actually surprised us a little bit that it's held up as well as it has. We've been relatively conservative on our deposit beta movement with the rate changes and actually shown some pretty good growth in the third quarter and then moderate growth in the fourth quarter, which is the first time--we went back in history, it's the first time we've actually seen growth in the organization in the fourth quarter in deposits.

We attribute a lot of that to the commercial business focus and to the efforts of all the lenders in the organizations focusing, kind of laser focused, on the deposit game. And then the increase in addition to the treasury management team. So, that outlook still looks quite positive for us. We think there's a good opportunity to continue that focus and obtain low-cost deposits.

Last year, as I mentioned as we were talking through this, there was a lot going on. We had to integrate quite a bit. This year, the focus will be more on both loan and deposit quality sustainable profitable growth.

Mark Olson
So Jeff, if you look at our non-GAAP financial table on the back, you'll see that for the third quarter, we had five basis points of acreetable yields in that number. So, our--excluding that, our net interest margin would have been 5.2% and for the fourth quarter, it was 5.27%. So, kind of that 5 and a quarter percent is a number I think that makes sense.

Jeff Rulis
You say 5 and a quarter, that makes sense for the outlook?

Mark Olson
Yes, excluding the accretion. Now, we had a large--some large payoffs in the fourth quarter and that's why you saw an increase in the acreetable yield in the fourth quarter.

Jeff Rulis
Right, okay. And then, on the credit side, some--a big drop in the NPAs and you walked through a couple sales of the Town & Country loans. But, could you just itemize maybe what kind of went out of both non-performers and OREO and then the makeup of what was in net charge offs?

Len Williams
The charge offs were related predominantly to the leasing portfolio. We've talked about that on last couple quarterly calls. Those were anticipated charges. We don't have any more OREO. We only had two properties in there. Both of them were related assisted living centers. The amount of reserves held this quarter. We're a mix between some specific allocation and just general increases. We've always been conservative in that arena and knowing that we're pretty heavy in the real estate construction businesses--business, we wanted to ensure we had adequate comfortable reserves in there. But, there's nothing highlighted in there as far as big problems looming.

Jeff Rulis
Now, when the net charge offs from the leasing portfolio, are there still to come, or is that going to be an area of continued higher losses with the--

Len Williams
You know, that's kind of the $64,000 question, Jeff. The issue with the leasing program--and that's why we've exited the business except for in our market with our clients. The very nature of that, doing business out of state, out of market, when you find out there's an issue, there's an issue, versus managing traditional credits through the credit grading system. They go from performing to non-performing when you hear about it.

That portfolio is down to about $40 million, dropping relatively quickly. Yields on the backend are pretty high, but no surprises, and we take the marks as soon as the--as soon as we hear there's a problem. Right now, we're in a lull unless I just jinxed it.

Jeff Rulis
What was the peak of that portfolio?

Mark Olson
It was about $53 million.

Jeff Rulis
Got you. And, then maybe last one, I guess Len, you touched on this a bit, but the in market transaction very recently of the FNB Bancorp, just kind of if you could also, additional comments about your interest in that institution and kind of what else dialogue on the M&A front that you're having.

Len Williams
Yes, the FNB, we really don't have a comment on. They were acquired, as you know, by Glacier. Great organization, phenomenal institution that'll provide some good competition. Obviously, you've seen what they can do with their currency value in their stock price, which certainly would have given them an advantage on that particular transaction.

But, we continue to have active conversations in and near the market and we hope we can continue forward and have some positive news in that front. The--as you know, we absorbed two a year ago and we really focused a lot on that absorption, and frankly, building relationships with some of the banks in the market. So, there are active conversations, obviously nothing concrete at this point.

Mark Olson
And, our currency valuation is strong. We think that that gives us an opportunity to continue to aggressively try to acquire banks and we are seriously focused on that. We spend a great deal of time looking at acquisition opportunities. So, any one of them that come up, we're looking at it.

Jeff Rulis
Okay. Thanks, guys.

Unknown
Thank you.

Unknown
Thanks, Jeff.

Operator
Our next question will come from Andrew Leisch of Sandler O'Neill. Please go ahead.

Thomas
Good morning. This is Thomas on for Andrew today.

Mark Olson
Hi, Thomas.

Len Williams
Hi, Thomas

Thomas
So, it sounds like most of the lower loan portfolio balances at the end of the quarter were mostly construction. But, was there anything else driving the portfolio lower?

Mark Olson
No, it was predominantly the construction portfolio. And, as we mentioned on the call, we see seasonality in the fourth quarter and weather-related activities slow it down, as well as people anticipate the weather and so they complete projects. And, so we expect some pay downs in the fourth quarter usually. Last year, it was very warm and projects continued on into the fourth quarter, and that's a big part of the difference between the two periods.

Thomas
Okay, got it. And, how's the pipeline looking heading into this quarter?

Len Williams
The pipeline looks pretty good. It--actually the last month has been relatively heavy. The issue being in the construction business is that starts out low and builds over time. We'll probably start to see some of those peak in the second quarter but build--start building in this quarter.

Thomas
Okay. And, then just turning to expenses, is this a good run rate going forward or will there be a step up in operating costs just due to bonus accruals and payroll taxes this quarter?

Mark Olson
Yes. So, we did have some adjustments to bonus accruals in the fourth quarter that improved our overall expenses. We will have a 3% increase in salaries overall, just with our annual merit increases in the first quarter. So, this would be a little bit lower than what we would expect going forward. We would expect to be more in the 10-7/10-8 range.

Thomas
Okay. And, then looking at the provision, that's definitely helped to build the allowance. Is there a reserve ratio you guys are kind of targeting or looking to build towards this year?

Len Williams
We don't have a specific. We continue to look at our portfolio, do specific allocations when the opportunity presents itself, and stay relatively conservative. We feel pretty good about where we are right now, however.

Thomas
Okay, thanks. And, just one last question. What's your outlook for deposit growth this year? And, where are you guys kind of comfortable allowing the loan-to-deposit ratio to rise to, if at all?

Len Williams
That depends on a couple issues. One is we don't provide guidance on actual or our budgeted growth. We do expect moderate deposit growth. I'll have that at that. And, then what was the other part of the question?

Mark Olson
Loan-to-deposit and where we're at right now is a good level.

Len Williams
It's a comfortable zone. However, we do have plenty of borrowing liquidity. We're not in a position to slow down our lending because of it. But, we prefer that 90% range. We got up as high as 95 last year, which is higher than we're comfortable at. Thus, the deposit focus. But, we've got plenty of liquidity to take care of anticipated loan growth.

Thomas
Got it. Thanks for taking my questions. I'll step back.

Mark Olson
Thank you.

Len Williams
Thank you, Thomas.

Operator
Again, if you would like to ask a question, please press star, then 1. Our next question will come from John Rodis of FIG Partners. Please go ahead.

John Rodis
Good morning, guys.

Len Williams
Hi, John.

Mark Olson
Hi, John.

John Rodis
Hi. Maybe circling back first to the question on expenses. You said 10-7 to 10-8, is that salary expense?

Mark Olson
Yes no, that number was not correct. Let me give you a better number.

Mark Olson
Yes, it's 15-3 for total non-interest expense.

John Rodis
15-3 is sort of a starting point?

Mark Olson
Yes.

John Rodis
Okay, so you've had bonus accrual adjustments of what, roughly 600,000 I guess?

Mark Olson
Yes.

John Rodis
Okay. And, then I guess just given the various initiatives, do you still think sort of low- to mid-single digit loan growth for next year?

Len Williams
That's probably a pretty good guess. The market is still in decent shape, but it has slowed a bit. We've seen some slowing.

John Rodis
I'm sorry, on the expense side.

Mark Olson
As far as what? I'm not sure I understood the question.

John Rodis
No, I'm sorry. I didn't know. I meant expense growth. I said low to mid-single digit expense growth.

Mark Olson
Oh, yeah. Yes, that's about right.

John Rodis
Okay. And, then I think maybe your response as far as you don't see the market slowing, is that more loan growth, I guess? Is that sort of what you were referring to?

Mark Olson
It is. Yes.

John Rodis
Okay. So, low to mid--because for the year, you guys put up loan growth of what, 3.2%.

Mark Olson
3.4.

John Rodis
So, historically--

Len Williams
We would have done better than that.

Mark Olson
And, we would expect some improvement over that this year.

John Rodis
Okay. Maybe just revisiting the provision, you obviously grew the reserve. As far as on an absolute basis, the provision was $8.6 million this year. Do you think it'll be that high again this year? And, then on a percentage basis, it was around 50 basis points of average loans. Do you still anticipate it being that high?

Len Williams
A lot of it's going to be driven by loan growth during the year. That percentage is comfortable for where we are now. We continue to be conservative there. But, I don't anticipate it growing at the rate it grew this year.

John Rodis
Okay, but it could be at--I mean, it could be in that $8 million range?

Len Williams
I doubt it.

John Rodis
Okay, probably something less?

Mark Olson
Yes, I mean we don't give forward guidance, but we believe that's a reasonable level from a reserve perspective.

Len Williams
We had to build it this year. Next year, it's more maintenance.

John Rodis
Makes sense. And, then just one other question on the tax rate. So, for the year, you were roughly 23%? And, I think you sort of said 23/24% going forward?

Mark Olson
That's right.

John Rodis
Okay, so that's still good?

Mark Olson
Yes.

John Rodis
Okay. Thank you, guys.

Mark Olson
Yes, I'd say just under 24.

John Rodis
Thank you.

Len Williams
Thanks, John.

Mark Olson
Thank you.

Operator
And, ladies and gentlemen, this will conclude our question-and-answer session. At this time, I'd like to turn the conference back over to Len Williams for any closing remarks.

CONCLUSION

Len Williams
Thank you, Allison, and thank you all for joining us and your interest in the organization. Please feel free to give us a holler any time. We're pretty transparent about where we are. If you have specific questions, give either Mark or myself a call and we'd be glad to address it with you. So, thank you for joining us and have a great day.

Operator
Ladies and gentlemen, the conference has now concluded, and we thank you for attending today's presentation. You may now disconnect your lines.