Zacks Small-Cap Research

February 11, 2013
Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com
111 North Canal Street • Chicago, IL 60606

# Chesapeake Financial Shares, Inc. (CPKF - OTC)

## CPKF: Fourth Quarter EPS Dragged Down by Nonoperating Items

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 05/26/2011 |
| Current Price (02/08/13) | $17.00 |
| **Twelve-Month Target Price** | **$19.50** |

## OUTLOOK

CPKF reported fourth quarter diluted EPS of $0.39 that was $0.10, or 20%, lower than our $0.49 estimate as nonoperating items dragged down results. Specifically, net losses from sales of securities and OREO plus other noninterest expense were larger than we had expected, though this was partly offset by other noninterest income and an effective tax rate that were better than anticipated. Relative to the year-ago quarter, net earnings slid 17% to $1.3 million, while 2012's fourth quarter diluted EPS fell 20% from the $0.49 posted in 2011's fourth quarter due to a greater number of shares outstanding. For the year, CPKF earned $7.7 million, or $2.32 per diluted share, up 10% from the $7.0 million, or $2.16 per diluted share, posted in 2011. Primary contributors to this growth were a 10% gain in noninterest income on the back of higher merchant card revenues, a 50% reduction in the loan loss provision, and continuing strong control over operating expenses. CPKF recently hiked its quarterly dividend by 9% to $0.12, following a 10% increase earlier in 2012. Notably, CPKF has increased the annual dividend payment every year for the past twenty years since 1991. In December, CPKF completed a tender offer to repurchase $1.5 million of company stock (about 2% of outstanding shares) at $18.50 per share. CPKF was ranked 16th (up from 20th a year ago) out of all banks nationally with less than $2 billion in total assets by the ABA. We are reviewing our estimates and will issue a more comprehensive report when detailed financial information becomes available within the next few weeks.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$18.70** |
| **52-Week Low** | **$12.69** |
| **One-Year Return (%)** | **33.59** |
| **Beta** | **0.14** |
| **Average Daily Volume (sh)** | **826** |
| **Shares Outstanding (mil)** | **3** |
| **Market Capitalization ($mil)** | **$56** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **40** |
| **Annual Cash Dividend** | **$0.48** |
| **Dividend Yield (%)** | **2.82** |
| **5-Yr. Historical Growth Rates** | |
| **Net Revenue (%)** | **9.6** |
| **Earnings Per Share (%)** | **13.3** |
| **Dividend (%)** | **9.1** |
| **P/E using TTM EPS** | **7.3** |
| **P/E using 2012** | **7.3** |
| **P/E using 2013 Estimate** | **6.9** |
| **Zacks Rank** | **1** |

| | |
|---|---|
| **Risk Level** | **Average** |
| **Type of Stock** | **Small-Value** |
| **Industry** | **Banks-Southeast** |
| **Zacks Rank in Industry** | **8 of 67** |

## ZACKS ESTIMATES

### Net Revenue

(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2010 | 8.2 A | 8.6 A | 10.1 A | 9.1 A | 36.1 A |
| 2011 | 8.8 A | 9.4 A | 9.2 A | 9.1 A | 36.5 A |
| 2012 | 9.0 A | 9.4 A | 10.1 A | 9.6 A | 38.1 A |
| 2013 | | | | | 39.0 E |

### Earnings per Share

(EPS is operating earnings before nonrecurring items)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2010 | 0.35 A | 0.40 A | 0.59 A | 0.31 A | 1.69 A |
| 2011 | 0.47 A | 0.63 A | 0.56 A | 0.49 A | 2.16 A |
| 2012 | 0.57 A | 0.62 A | 0.74 A | 0.39 A | 2.32 A |
| 2013 | | | | | 2.45 E |

Quarterly EPS may not add to total due to changes in shares outstanding.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

## FOURTH QUARTER RESULTS

CPKF reported fourth quarter diluted EPS of $0.39 that was $0.10, or 20%, lower than our $0.49 estimate as nonoperating items dragged down results. Specifically, net losses from sales of securities and OREO plus other noninterest expense were larger than we had expected, though this was partly offset by other noninterest income and an effective tax rate that were better than anticipated.

Relative to the year-ago quarter, net earnings slid 17% to $1.3 million, while 2012's fourth quarter diluted EPS fell 20% from the $0.49 posted in 2011's fourth quarter due to a greater number of shares outstanding.

For the year, CPKF earned $7.7 million, or $2.32 per diluted share, up 10% from the $7.0 million, or $2.16 per diluted share, posted in 2011. Primary contributors to this growth were a 10% gain in noninterest income on the back of higher merchant card revenues, a 50% reduction in the loan loss provision, and continuing strong control over operating expenses.

Sequential net income declined 46% from third quarter's record $2.5 million and diluted EPS decreased by 47% from the $0.74 peak in the third quarter of 2012. The primary reasons for the fourth quarter's drop versus the third quarter were: (1) a $0.3 million increase in the combined loss from the sales of securities and OREO to a loss of $0.4 million from a loss of $0.1 million in the third quarter; (2) a $0.2 million, or 29%, tumble in income from fiduciary activities; we note that the third quarter typically represents the peak for the year due to accruals for certain trust accounts, so it is not unusual for this to slip in the fourth quarter; (3) a $0.6 million, or 20%, jump in salaries, with the fourth quarter typically representing peak quarterly salary expense; and (4) a $0.4 million, or 24%, rise in other noninterest expense.

Compared to our projections, net income was $0.3 million, or $0.10 per diluted share, below our $1.6 million, or $0.49 per share, estimate, respectively. This primarily reflected combined losses from the sales of securities and OREO that were $0.3 million higher than our estimate plus other noninterest expense that was $0.4 million larger, partially offset by other noninterest income that came in $0.2 million above our estimate and an effective tax rate of 14.4% that was below our 21.9% estimate.

Net interest income shed 4% year over year to $5.7 million (the same as our estimate), as 2% growth in loans and receivables outstanding was partially offset by a net interest margin that we estimate was below the 4.77% earned in the year-ago quarter.

Noninterest income advanced $0.7 million, or 21%, year over year to $3.9 million ($0.1 million above our estimate), largely the result of strong growth in merchant card income (up $0.2 million, or 13%) as the Company added new clients, other noninterest income (up $0.4 million, or 52%), and cash flow income (up $0.1 million or 12%) due to product line expansion.

Total noninterest expense increased $0.7 million, or about 10%, year over year to $7.9 million ($0.4 million higher than our estimate), as total compensation expense climbed 4% and other noncompensation expense rose 16%.

The loan loss provision decreased 25% to $0.15 million (the same as our estimate). Loan loss reserves fell $0.1 million from $6.5 million (1.81% of loans) year over year and increased nominally from $6.34 million (1.73% of loans) sequentially to $6.35 million (1.69% of loans) as of December 31, 2012.

As to other asset quality measures, CPKF charged off $135,000 of loans in the fourth quarter. This is $251,000 less than the $386,000 million charged off in the year-ago quarter and compares to net charge-offs of $0.7 million for full-year 2012. Gross loans outstanding increased $19 million, or about 5%, year over year and $8 million, or 2%, sequentially to $375 million, as the Company witnessed better loan demand. CEO Jeff Szyperski noted that total delinquencies 30 days and over increased to 3.03% of total

loans at December 31, 2012 from 1.25% at December 31, 2011, though these loans are largely residential properties and well reserved in all cases.

CPKF posted an 8.7% ROE and 0.81% ROA for the fourth quarter of 2012, compared to 12.5% and 1.00%, respectively, in the prior-year quarter.

On October 23, 2012, CPKF hiked its quarterly dividend by 9% to $0.12 per share from $0.11 per share, paid on December 15, 2012 to shareholders of record on December 1, 2012. This was the second dividend increase in 2012—earlier in the year, CPKF hiked the dividend 10% from the $0.10 quarterly rate. Notably, CPKF has increased the annual dividend payment every year for the past twenty years since 1991.

On October 29, 2012, CPKF announced a tender offer to repurchase up to $1.5 million of company stock at a price of $18.50 per share for shareholders of record (a 12% premium to the $16.50 share price at that time) as of October 25, 2012, with shares tendered by the close of business on December 10, 2012. As the entire $1.5 million was repurchased, this reduced shares outstanding by 2% and increased annual diluted EPS by a penny.

We note that American Banker recently ranked CPKF 16$^{th}$ (up from 20$^{th}$ a year ago) out of all banks nationally with less than $2 billion in total assets, which includes approximately 6,000 banks, and #1 of all banks in Virginia for the second year in a row. This ranking was based upon three-year average returns on equity, which for Chesapeake Financial was 14.00%. The Company has steadily risen through the rankings in the past five years, reflecting its solid financial performance during this difficult banking environment.

We are currently reviewing our estimates and will issue a more comprehensive report when detailed financial information becomes available within the next few weeks.

## OVERVIEW

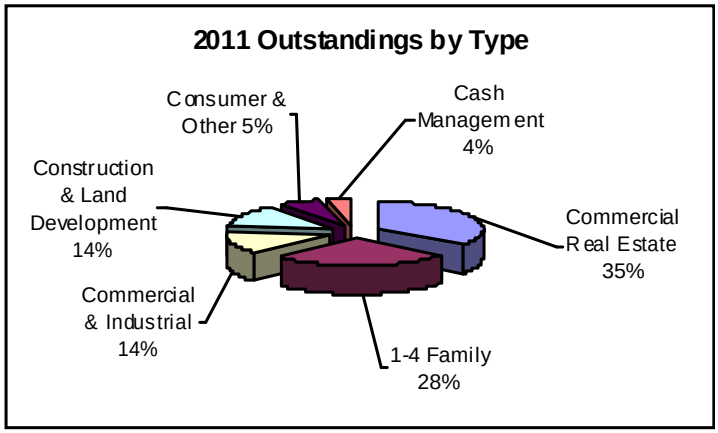
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a bank holding company headquartered in Kilmarnock, Virginia, with $668 million in total assets at December 31, 2012. CPKF is predominantly a small business lender with 11 branch offices that serve customers in the eastern region of Virginia between the Potomac and James Rivers. These offices are located in Kilmarnock, Lively, Irvington, Mathews, Hayes, and Gloucester, with four branches in Williamsburg. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves. In addition, CPKF opened a commercial loan production office in Richmond, Virginia in mid-August 2011.

Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $301 million in assets (at 2011 yearend) through its subsidiaries involved in asset management (CIG is a registered investment adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, Clear Sky accounts, and its secondary market mortgage banking operation.

Chesapeake Payment Systems offers merchant processing services such as credit card and debit card processing, electronic benefits transfers, and loyalty and gift card processing to companies involved in travel, entertainment, restaurant, hospitality, retail, mail order, and e-commerce. At yearend 2011, Chesapeake Payment Systems had 632 merchants in its system and processed over $124 million in merchant card transactions.

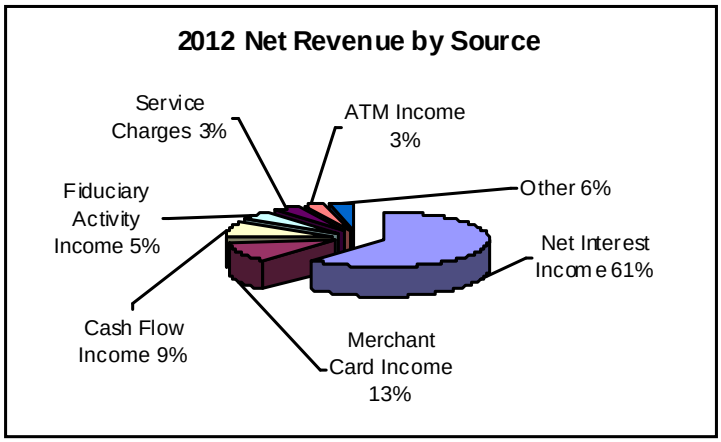
The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and has approximately 63 customers.
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2011, Clear Sky deposits totalled $51 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $177 million loan portfolio (as of December 31, 2011) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $440,000 annually) on the outstanding loan portfolio balance. Additionally, CPKF earns a pare-off fee for residential mortgage loans that are originated and closed with FHLMC, which added $474,000 to revenues in 2011 ( both types of fees are included in other noninterest income in the Company's financial statements).




The lending portfolio is dominated by real estate loans, as shown in the chart at left. At December 31, 2011, the lending book consisted of commercial real estate (accounting for 35% of total gross outstandings), 1-4 family (28%), commercial and industrial (14%), construction and land development (14%), consumer and other (5%), and cash flow (4%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2011, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 15% of total assets and 32% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 53% and 15%, respectively, of the total.
Core deposits represented 79% of total deposits at December 31, 2011, with certificates of deposit larger than $100,000 at 21%.




In 2012, net interest income contributed 61% of net revenue, with a significant 39% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (13% of net revenues), cash flow income (9%), income from fiduciary activities (5%), service charges on deposit accounts (3%), and ATM income (3%).

## VALUATION

CPKF stock has risen 1.2% year to date, below the small-cap bank industry's median price increase of 6.8%, as shown in the following table, as well as the 6.4% gain for the S&P 500. We note that the share price surged 49.3% last year in 2012 compared to 13.4% for the S&P 500.

At its current price, CPKF is trading at a discount to the industry median P/E of 41% in 2013, based upon our most recent CPKF EPS estimate for 2013. This is below the average 50% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 50% to our 2013 EPS estimate results in a price of about $14.50.

Turning to Price/Tangible Book Value, CPKF is valued at 0.91X versus the industry median of 1.01X. This represents a 10% discount, well below the average historical premium of 19% for CPKF since the end of 2005. Applying the historical premium of 19% to our estimated book value for CPKF twelve months out results in a price of approximately $23.25.

At a minimum, we believe that CPKF should be trading in line with the industry's 1.01X Price/Tangible Book Value, given CPKF's strong performance throughout the financial crisis, its superior profitability measures, and its above-average yield on the recently increased dividend. Applying this metric to our estimated book value for CPKF twelve months out results in a price of approximately $19.50.

With $19.50 as our target price (versus CPKF's $17.00 current market price) and a 2.8% dividend yield, this indicates a total return of 17.5%, above our expectations for gains in the broader market index over the next year. Therefore, we are maintaining our recommendation on CPKF at Outperform.

## Industry Comparables- Small-cap Banks

| | | Price / Earnings Ratios | | | | | Return on Equity | | Return on Assets | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pr Chg YTD | TTM* EPS | 2013E | 2014E | 5-Yr Avg | Price/ Book | TTM* | 5-Yr Avg | TTM* | 5-Yr Avg | Div Yld |
| **Chesapeake Finc'l** | **1.2** | **7.3** | **6.9** | | **8.1** | **0.91** | **13.4** | **14.3** | **1.20** | **0.96** | **2.8** |
| S&P 500 | 6.4 | 15.5 | 14.0 | 12.9 | 16.7 | 5.8 | 48.3 | ----- | 9.3 | ----- | 2.7 |
| **Median** | **6.8** | **13.3** | **11.7** | **12.7** | **16.3** | **1.01** | **8.0** | **3.9** | **0.75** | **0.34** | **0.4** |
| Average | 13.0 | 15.6 | 13.8 | 12.5 | 24.4 | 1.0 | 7.0 | 1.7 | 0.7 | 0.3 | 1.1 |
| High | 85.9 | 47.5 | 47.7 | 19.6 | 103.9 | 2.2 | 19.0 | 14.3 | 1.7 | 2.1 | 4.9 |
| Low | (5.7) | 5.0 | 5.5 | 5.8 | 6.6 | 0.6 | (16.9) | (78.0) | (1.6) | (2.4) | ----- |

*Trailing twelve months

# Chesapeake Financial Shares, Inc.

**Income Statement and Balance Sheet**

*(Dollars in millions, except per share data)*

| Summary Financial Data | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12P | 12/13E |
|---|---|---|---|---|---|---|---|
| Net interest income | 14.5 | 16.5 | 18.9 | 21.8 | 22.8 | 23.1 | 23.6 |
| Non-interest income | 13.5 | 15.0 | 14.1 | 13.8 | 13.7 | 15.0 | 15.4 |
| Total net revenue | 28.0 | 31.5 | 33.0 | 35.6 | 36.5 | 38.1 | 39.0 |
| Loan loss provision | 0.2 | 0.4 | 0.9 | 2.5 | 1.2 | 0.6 | 0.6 |
| Non-interest expense | 21.8 | 25.0 | 25.9 | 26.2 | 26.4 | 27.8 | 28.0 |
| Income taxes & other | 1.7 | 1.5 | 1.4 | 1.5 | 1.9 | 2.0 | 2.3 |
| Zacks adjusted income before NRI | 4.3 | 4.6 | 4.8 | 5.4 | 7.0 | 7.7 | 8.1 |
| GAAP net income | 4.3 | 4.6 | 4.8 | 5.4 | 7.0 | 7.7 | 8.1 |
| Diluted EPS before NRI | 1.24 | 1.34 | 1.48 | 1.69 | 2.16 | 2.32 | 2.45 |
| Reported EPS | 1.24 | 1.34 | 1.48 | 1.69 | 2.16 | 2.32 | 2.45 |
| Dividends per share | 0.29 | 0.34 | 0.35 | 0.36 | 0.40 | 0.45 | 0.48 |
| | | | | | | | |
| Liquid assets | 58.4 | 45.4 | 57.8 | 73.2 | 97.9 | 103.3 | 78.3 |
| Outstandings, gross | 361.6 | 396.2 | 391.3 | 382.3 | 373.1 | 375.1 | 406.7 |
| Total assets | 483.0 | 538.0 | 586.7 | 607.7 | 638.0 | 667.7 | 667.9 |
| Core deposits | 308.8 | 317.0 | 370.0 | 396.2 | 430.4 | 456.9 | 444.1 |
| Purchased funds | 94.0 | 121.9 | 131.3 | 127.2 | 113.3 | 119.9 | 128.5 |
| Long-term debt | 44.4 | 65.5 | 47.4 | 40.0 | 39.6 | 26.7 | 25.0 |
| Shareholders' equity | 33.7 | 30.6 | 35.3 | 41.1 | 51.2 | 60.8 | 66.3 |
| | | | | | | | |
| **Profitability** | | | | | | | |
| Return on avg assets | 0.97% | 0.89% | 0.84% | 0.90% | 1.13% | 1.20% | 1.24% |
| Return on avg equity | 13.68% | 13.51% | 13.14% | 13.55% | 15.31% | 13.39% | 12.69% |
| Net interest margin | 4.10% | 4.00% | 4.10% | 4.40% | 4.70% | | 4.45% |
| Loan loss provision % avg assets | 0.04% | 0.08% | 0.16% | 0.41% | 0.19% | 0.09% | 0.10% |
| Noninterest income % avg assets | 3.01% | 2.91% | 2.45% | 2.30% | 2.21% | 2.34% | 2.36% |
| Noninterest expense % avg assets | 4.87% | 4.84% | 4.51% | 4.34% | 4.27% | 4.33% | 4.28% |
| Preprovision pretax income % avg assets | 1.39% | 1.26% | 1.24% | 1.57% | 1.62% | 1.61% | 1.68% |
| Tangible efficiency ratio | 78% | 80% | 77% | 73% | 71% | 71% | 71% |
| Payout ratio | 23% | 25% | 24% | 21% | 18% | 19% | 20% |
| | | | | | | | |
| **Asset Quality** | | | | | | | |
| Net charge-offs % avg outstandings | 0.04% | 0.27% | 0.34% | 0.48% | 0.22% | | 0.16% |
| Allowance % outstandings | 1.50% | 1.43% | 1.59% | 1.90% | 2.01% | | 1.82% |
| NPAs % loans + OREO | 0.61% | 0.35% | 1.20% | 3.91% | 4.48% | | 3.79% |
| Allowance % NPAs | 245% | 411% | 131% | 48% | 44% | | 48% |
| | | | | | | | |
| **Liquidity & Funding** | | | | | | | |
| Liquid assets % purchased funds | 62% | 37% | 44% | 58% | 86% | 86% | 61% |
| Core deposits % outstandings | 85% | 80% | 95% | 104% | 115% | 122% | 109% |
| Liquid assets % assets | 12% | 8% | 10% | 12% | 15% | 15% | 12% |
| Outstandings % assets | 75% | 74% | 67% | 63% | 58% | 56% | 61% |
| | | | | | | | |
| **Capital Adequacy** | | | | | | | |
| Total equity % assets | 6.97% | 5.68% | 6.01% | 6.76% | 8.03% | 9.11% | 9.93% |
| Tangible equity % assets | 6.97% | 5.68% | 6.01% | 6.76% | 8.03% | 9.11% | 9.93% |
| Tier 1 capital ratio | 10.80% | 10.60% | 10.10% | 12.07% | 12.20% | | |
| Total capital ratio | 15.50% | 12.50% | 11.70% | 13.54% | 13.40% | | |
| | | | | | | | |
| **Parent Company Statistics** | | | | | | | |
| Interest coverage | 0.4X | 0.6X | 0.8X | 2.6X | 2.1X | | 1.0X |
| Interest & dividend coverage | 0.3X | 0.3X | 0.4X | 1.1X | 0.9X | | 0.4X |
| Short-term debt coverage | Lge | Lge | Lge | Lge | Lge | | Lge |
| Total debt coverage | 1.0X | 0.9X | 0.8X | 0.8X | 0.8X | | 1.6X |
| Double leverage | 133.2% | 139.8% | 142.1% | 134.7% | 127.2% | | 122.6% |

# Chesapeake Financial Shares, Inc.

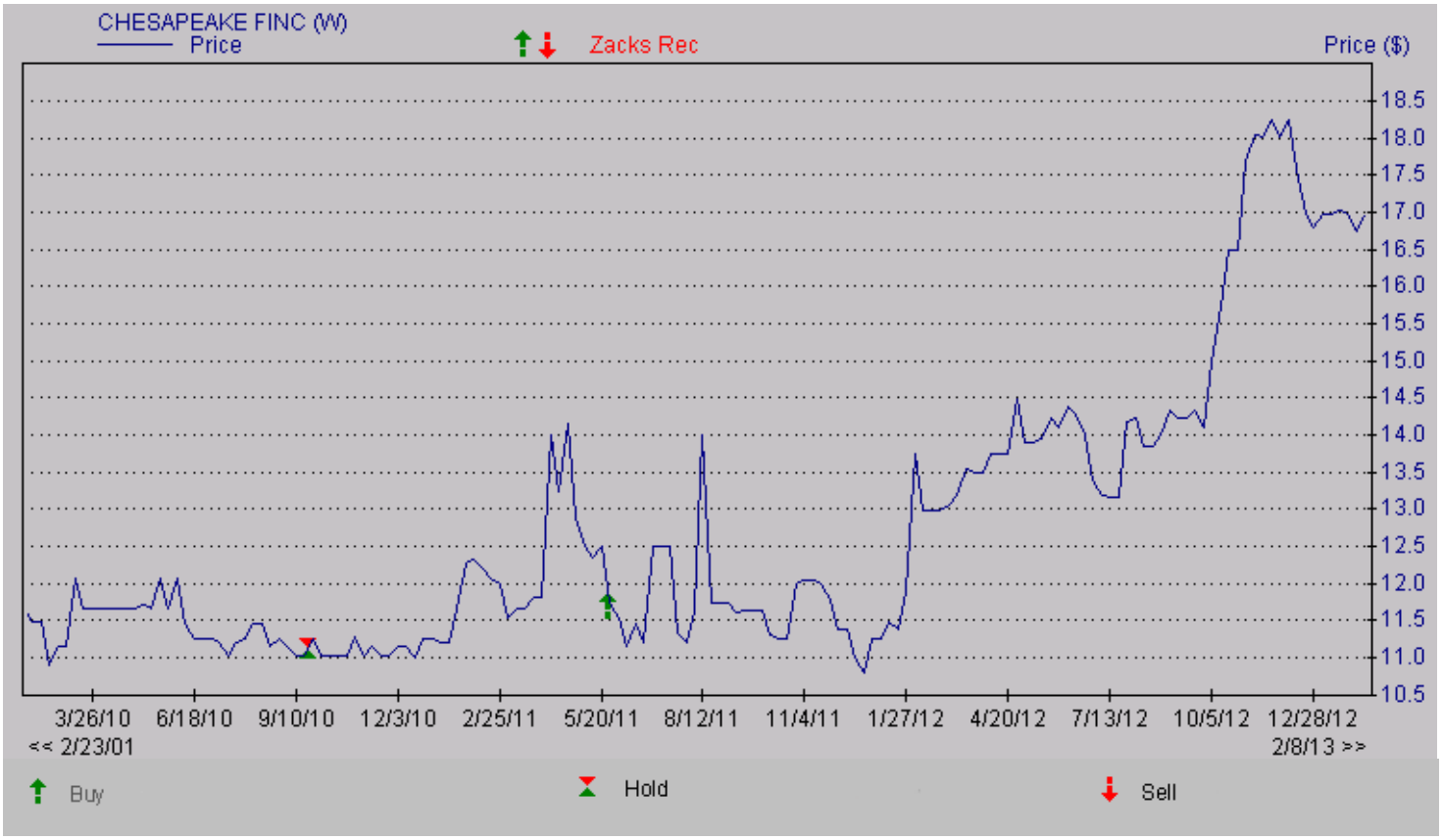
**Income Statement and Balance Sheet**

*(Dollars in millions, except per share data)*

| | 2011 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Summary Financial Data** | **Q1 A** | **Q2 A** | **Q3 A** | **Q4 A** | **Q1 A** | **Q2 A** | **Q3 A** | **Q4 P** |
| Net interest income | 5.8 | 5.4 | 5.7 | 5.9 | 5.9 | 5.7 | 5.7 | 5.7 |
| Non-interest income | 3.0 | 4.0 | 3.5 | 3.2 | 3.1 | 3.7 | 4.4 | 3.9 |
| Total net revenue | 8.9 | 9.4 | 9.2 | 9.1 | 9.0 | 9.4 | 10.1 | 9.6 |
| Loan loss provision | 0.6 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Non-interest expense | 6.2 | 6.4 | 6.6 | 7.2 | 6.4 | 6.6 | 6.8 | 7.9 |
| Income taxes & other | 0.5 | 0.7 | 0.6 | 0.1 | 0.6 | 0.5 | 0.6 | 0.2 |
| Zacks adjusted income before NRI | 1.5 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 2.5 | 1.3 |
| GAAP net income | 1.5 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 2.5 | 1.3 |
| Diluted EPS before NRI | 0.47 | 0.63 | 0.56 | 0.49 | 0.57 | 0.62 | 0.74 | 0.39 |
| Reported EPS | 0.47 | 0.63 | 0.56 | 0.49 | 0.57 | 0.62 | 0.74 | 0.39 |
| Dividends per share | 0.10 | 0.10 | 0.10 | 0.10 | 0.11 | 0.11 | 0.11 | 0.12 |
| | | | | | | | | |
| Liquid assets | 68.9 | 88.4 | 99.8 | 97.9 | 99.0 | 85.3 | 74.5 | 103.3 |
| Outstandings, gross | 376.8 | 376.5 | 372.9 | 373.1 | 372.3 | 379.5 | 386.9 | 375.1 |
| Total assets | 602.7 | 619.6 | 631.5 | 638.0 | 640.7 | 635.4 | 633.9 | 667.7 |
| Core deposits | 397.2 | 412.1 | 422.9 | 430.4 | 432.9 | 424.9 | 422.5 | 456.9 |
| Purchased funds | 115.8 | 118.3 | 112.5 | 113.3 | 122.9 | 122.5 | 119.9 | 119.9 |
| Long-term debt | 40.0 | 39.9 | 39.8 | 39.6 | 27.1 | 26.9 | 26.8 | 26.7 |
| Shareholders' equity | 43.6 | 46.6 | 50.4 | 51.2 | 55.0 | 57.4 | 60.8 | 60.8 |
| | | | | | | | | |
| **Profitability** | | | | | | | | |
| Return on avg assets* | 1.01% | 1.35% | 1.16% | 1.00% | 1.15% | 1.29% | 1.55% | 0.81% |
| Return on avg equity * | 14.40% | 18.28% | 14.91% | 12.49% | 13.88% | 14.61% | 16.63% | 8.71% |
| Net interest margin* | 4.68% | 4.33% | 4.56% | 4.77% | 4.67% | 4.53% | 4.50% | |
| Loan loss provision % avg assets* | 0.39% | 0.13% | 0.13% | 0.13% | 0.09% | 0.09% | 0.09% | 0.09% |
| Noninterest income % avg assets* | 1.99% | 2.61% | 2.25% | 2.00% | 1.93% | 2.28% | 2.75% | 2.37% |
| Noninterest expense % avg assets* | 4.13% | 4.21% | 4.20% | 4.54% | 4.02% | 4.13% | 4.28% | 4.85% |
| Preprovision pretax inc.% avg assets* | 1.72% | 1.92% | 1.66% | 1.22% | 1.57% | 1.74% | 2.09% | 1.04% |
| Tangible efficiency ratio | 71% | 72% | 72% | 75% | 69% | 69% | 67% | 80% |
| Payout ratio | 20% | 16% | 18% | 20% | 19% | 18% | 15% | 30% |
| | | | | | | | | |
| **Asset Quality** | | | | | | | | |
| Net charge-offs % avg outstandings* | 0.01% | 0.44% | ----- | 0.41% | 0.08% | 0.17% | 0.35% | |
| Allowance % outstandings | 2.11% | 2.06% | 2.12% | 2.01% | 2.04% | 2.00% | 1.92% | |
| NPAs % loans + OREO | 1.92% | 4.29% | 2.28% | 4.48% | 4.20% | 4.11% | 4.39% | |
| Allowance % NPAs | 92% | 47% | 92% | 44% | 48% | 48% | 43% | |
| | | | | | | | | |
| **Liquidity & Funding** | | | | | | | | |
| Liquid assets % purchased funds | 60% | 75% | 89% | 86% | 81% | 70% | 62% | 86% |
| Core deposits % outstandings | 105% | 109% | 113% | 115% | 116% | 112% | 109% | 122% |
| Liquid assets % assets | 11% | 14% | 16% | 15% | 15% | 13% | 12% | 15% |
| Outstandings % assets | 63% | 61% | 59% | 58% | 58% | 60% | 61% | 56% |
| | | | | | | | | |
| **Capital Adequacy** | | | | | | | | |
| Total equity % assets | 7.24% | 7.52% | 7.98% | 8.03% | 8.58% | 9.03% | 9.59% | 9.11% |
| Tangible equity % assets | 7.24% | 7.52% | 7.98% | 8.03% | 8.58% | 9.03% | 9.59% | 9.11% |
| Tier 1 capital ratio | 12.39% | 12.04% | 12.09% | 12.20% | 13.20% | 13.38% | 13.81% | |
| Total capital ratio | 13.76% | 13.30% | 13.34% | 13.40% | 14.45% | 14.63% | 15.06% | |

*Annualized.

## HISTORICAL ZACKS RECOMMENDATIONS




## DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1011 companies covered: Buy/Outperform- 14.7%, Hold/Neutral- 77.9%, Sell/Underperform – 6.8%. Data is as of midnight on the business day immediately prior to this publication.