Zacks Small-Cap Research

June 16, 2016

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

scr.zacks.com
10 South Riverside Plaza, Chicago, IL 60606

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

## CPKF: CPKF Has Another Good Quarter

We have chosen the $20.25 midpoint of the range of values based upon CPKF's 2016 P/E of $19.00 and Price/Tangible Book Value of $21.50 as our new target price.

| | |
|---|---|
| Current Price (06/15/16) | $19.67 |
| **Valuation** | **$20.25** |

## OUTLOOK

CPKF's first quarter net earnings rose $0.1 million year over year, or 3%, to $2.0 million, while 2016's first quarter diluted EPS increased by $0.01, or 1%, to $0.48 from $0.47 posted a year ago. Results in 2015 exclude a $0.7 million, or $0.18 per share, net gain on the retirement of trust preferred securities. This was better than our estimate, which had called for a $0.3 million decrease in net earnings to $1.7 million (off by $0.4 million) and a $0.06 decline in diluted EPS to $0.41 (off by $0.07). The primary reasons for the difference between reported results and our estimate were that total noninterest expense of $8.7 million was $0.8 million lower than we had projected, primarily reflecting compensation expense that was $0.7 million better than expected, as well other miscellaneous noninterest expense that was $0.1 million lower than we thought it would be. On the other hand, net revenues were $0.4 million less than the $10.8 million we had anticipated, consisting of noninterest income that was $0.6 million lower than our projection, largely due to reduced other miscellaneous income, partly offset by net interest income that was $0.2 million higher than our estimate. CPKF recently announced a 50,000-share buyback and increased the dividend 7% last year, having increased its annual dividend payment every year for the past twenty-five years since 1991. In 2016 for the ninth consecutive year, Chesapeake Financial Shares, Inc. has been included in the American Banker magazine listing of the "Top 200 Community Banks" in the United States, ranking #67 out of about 6,000 community banks. We are currently reviewing our estimates and will issue a more comprehensive report within the next few weeks.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$19.67** |
| **52-Week Low** | **$16.60** |
| **One-Year Return (%)** | **20.58** |
| **Beta** | **0.05** |
| **Average Daily Volume (sh)** | **940** |
| **Shares Outstanding (mil)** | **4** |
| **Market Capitalization ($mil)** | **$78** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **40** |
| **Annual Cash Dividend** | **$0.48** |
| **Dividend Yield (%)** | **2.44** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **3.5** |
| **Earnings Per Share (%)** | **3.1** |
| **Dividend (%)** | **9.3** |
| **P/E using TTM EPS** | **12.0** |
| **P/E using 2016 Estimate** | **11.6** |
| **P/E using 2017 Estimate** | **N/A** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Average** |
| **Type of Stock** | **Small-Value** |
| **Industry** | **Banks-Southeast** |
| **Zacks Rank in Industry** | **N/A** |

## ZACKS ESTIMATES

**Net Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2013 | 9.5 A | 10.0 A | 9.6 A | 9.6 A | 39.0 A |
| 2014 | 9.0 A | 9.6 A | 9.3 A | 9.7 A | 37.7 A |
| 2015 | 9.8 A | 10.6 A | 11.1 A | 10.8 A | 42.3 A |
| 2016 | 10.3 A | 11.4 E | 11.6 E | 12.0 E | 45.8 E |

**Earnings per Share***
(EPS is operating earnings before nonrecurring items)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2013 | 0.53 A | 0.46 A | 0.38 A | 0.30 A | 1.66 A |
| 2014 | 0.32 A | 0.48 A | 0.23 A | 0.41 A | 1.43 A |
| 2015 | 0.47 A | 0.54 A | 0.40 A | 0.22 A | 1.64 A |
| 2016 | 0.48 A | 0.44 E | 0.44 E | 0.41 E | 1.70 E |

Quarterly EPS may not add to total due to changes in shares outstanding.
* Per share data have been adjusted for a 5-for-6 stock split, paid to shareholders in mid-October 2014.

© Copyright 2016, Zacks Investment Research. All Rights Reserved.

## FIRST QUARTER

CPKF's first quarter net earnings rose $0.1 million year over year, or 3%, to $2.0 million, while 2016's first quarter diluted EPS increased by $0.01, or 1%, to $0.48 from $0.47 posted a year ago. Results in 2015 exclude a $0.7 million, or $0.18 per share, net gain on the retirement of trust preferred securities.

This was better than our estimate, which had called for a $0.3 million decrease in net earnings to $1.7 million (off by $0.4 million) and a $0.06 decline in diluted EPS to $0.41 (off by $0.07).

The primary reasons for the difference between reported results and our estimate were that total noninterest expense of $8.7 million was $0.8 million lower than we had projected, primarily reflecting compensation expense that was $0.7 million better than expected, as well other miscellaneous noninterest expense that was $0.1 million lower than we thought it would be.

On the other hand, net revenues were $0.4 million less than the $10.8 million we had anticipated, consisting of noninterest income that was $0.6 million lower than our projection, largely due to reduced other miscellaneous income, partly offset by net interest income that was $0.2 million higher than our estimate.

The major reasons for the first quarter's $0.1 million increase in net earnings versus the prior-year quarter were a $0.6 million, or 6%, advance in net revenues due both to higher net interest income (up $0.2 million) and higher noninterest income (up $0.4 million), partly offset by a $0.5 million, or 7%, rise in total noninterest expense from greater merchant card expense.

As to quarterly results, net interest income increased $0.2 million, or 4%, year over year in the first quarter to $6.1 million ($0.2 million above our $5.9 million estimate), as an estimated 3% increase in average interest-earning assets was partly offset by a net interest margin of 4.34% that was 7 basis points lower than the 4.41% earned in the year-ago quarter, but above our 4.25% NIM estimate.

Noninterest income increased $0.4 million, or 9%, year over year to $4.2 million due to higher merchant card income (up $1.0 million) and cash flow income (up $0.1 million), partly offset by a $0.3 million negative swing in net securities gains and a $0.4 million reduction in other miscellaneous income.

Noninterest expense advanced $0.5 million, or 7%, to $7.9 million ($0.8 million less than the $8.7 million we had projected) from the prior-year quarter, largely reflecting greater merchant card expense (up $0.7 million).

The loan loss provision declined by $10,000 to $62,000 from $72,000 in the year-ago quarter and was about the same as our estimate. Loan loss reserves fell $0.4 million to $5.1 million (1.19% of loans) compared with the fourth quarter (1.33% of loans), and were $1.1 million below the $6.2 million (1.53% of loans) in the year-ago quarter.

As to other asset quality measures, CPKF recorded net charge-offs of $472,000 in the first quarter. This compares to net charge-offs of $282,000 in the year-ago quarter and net charge-offs of $1,119,000 for the full year in 2015.

CEO Jeffrey M. Szyperski noted that nonperforming assets continued to decrease—to 2.12% of total assets at March 31, 2016 from 2.44% of total assets at December 31, 2015.

Mr. Szyperski also announced that the Board of Directors has authorized a 50,000 share buyback during the course of 2016, affirming their confidence in the current value of the stock.

Gross loans increased $25 million, or about 6%, year over year, and about $13 million, or 3%, sequentially to $427 million.

CPKF posted a 10.3% ROE and 1.15% ROA for the first quarter of 2015, compared to 10.7% and 1.16%, respectively, in the prior-year quarter.

CPKF opened a new branch in Richmond, Virginia in late September 2015 and in October 2015 opened a loan production office in Chester, Virginia (for commercial loans), as part of its long-term strategy emphasizing planned thoughtful expansion.These two locations will house all of CPKF's Richmond area associates, from loan production to banking to wealth management.

On July 17, 2015, CPKF's Board of Directors approved a 6.7% increase in the quarterly dividend to $0.12 from $0.1125, paid on September 15, 2015 to shareholders of record on September 1, 2015. Notably, CPKF has increased the annual dividend payment every year for the past twenty-four years since 1991.

In 2016 for the ninth consecutive year, Chesapeake Financial Shares, Inc. has been included in the American Banker magazine (formerly US Banker magazine) listing of the "Top 200 Community Banks" in the United States. The bank ranked at #67 in the nation out of approximately 6,000 community banks in the study, up from #148, when CPKF first broke into the rankings in 2008. The ranking is based on a three-year average of return on average equity (ROAE), which for CPKF was 11.18%.

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 financial holding company headquartered in Kilmarnock, Virginia, with $693 million in total assets at March 31, 2016. CPKF is predominantly a small business lender with 13 branch offices and one loan production office that serve customers in the eastern region of Virginia between the Potomac and James Rivers. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

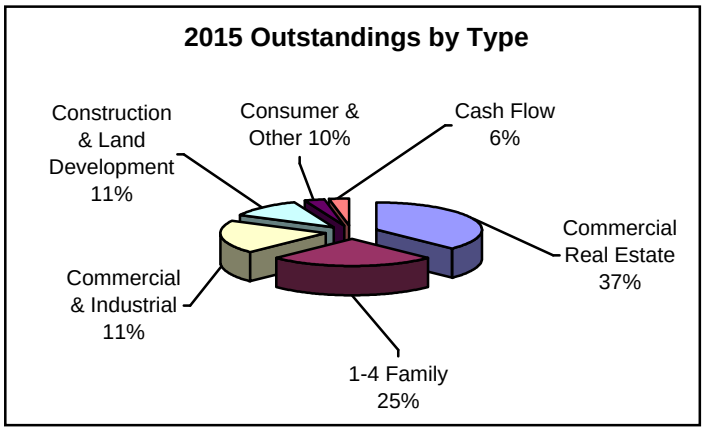
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $385 million in assets (at 2015 yearend) through its subsidiaries involved in 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 2015, Chesapeake Payment Systems had 531 merchants in its system and processed over $200 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with three independent sales organizations (ISOs) to expand its processing footprint.

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 had 72 customers at the end of 2015.

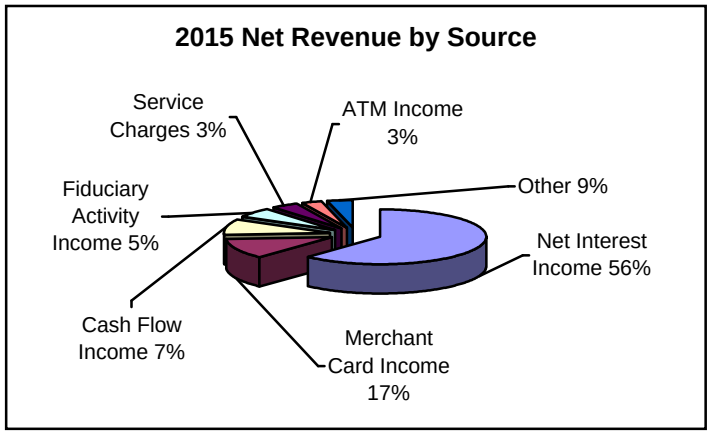
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2015, Clear Sky deposits totalled $26.6 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $220 million loan portfolio (as of December 31, 2015) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $552,000 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 $490,000 to revenues in 2015 (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, 2015, the lending book consisted of commercial real estate (accounting for 37% of total gross outstandings), 1-4 family (25%), commercial and industrial (11%), construction and land development (11%), consumer and other (10%), and cash flow (6%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2015, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 6% of total assets and 15% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 65% and 19%, respectively, of the total. Core deposits represented 86% of total deposits at December 31, 2015, with certificates of deposit larger than $100,000 at 14%.




In 2015, net interest income contributed 56% of net revenue, with a significant 44% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (17% of net revenues), cash flow income (7%), income from fiduciary activities (5%), service charges on deposit accounts (3%), and ATM income (3%).

## VALUATION

CPKF stock is up 13.4% year to date, much better than the 1.5% median decrease for the small-cap bank industry, as well as the 1.3% price increase for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a premium to the industry median P/E of 2% in 2016, based upon our current CPKF EPS estimate for 2016. Assuming a small-cap bank industry valuation of 11.1X for 2016, CPKF's target price based upon our 2016 EPS estimate is $19.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.03X. Assuming a moderate increase in valuation to 1.05X based upon our estimated book value twelve months out, our target price is about $21.50, which compares to CPKF's current book value of $19.34.

We have chosen the $20.25 midpoint of the range of values based upon CPKF's 2016 P/E of $19.00 and Price/Tangible Book Value of $21.50 as our new target price.

### Industry Comparables - Small-cap Banks

| | Pr Chg YTD | EPS TTM* | EPS 2016E | EPS 2017E | ROE TTM* | ROE 5-Yr Avg | ROA TTM* | ROA 5-Yr Avg | Div Yld |
|---|---|---|---|---|---|---|---|---|---|
| **Chesapeake Finc'l** | **13.4** | **12.0** | **11.3** | **-----** | **10.0** | **14.8** | **1.11** | **1.38** | **2.4** |
| S&P 500 | 1.3 | 20.6 | 17.3 | 15.9 | ----- | ----- | 8.1 | ----- | 2.1 |
| **Median** | **(1.5)** | **13.1** | **11.1** | **11.5** | **8.6** | **7.9** | **0.90** | **0.73** | **2.1** |
| Average | 1.6 | 14.3 | 7.5 | 5.7 | 8.4 | 7.3 | 0.8 | 0.7 | 1.9 |
| High | 62.5 | 50.0 | 23.4 | 16.7 | 14.8 | 14.8 | 1.3 | 1.5 | 5.4 |
| Low | (12.8) | ----- | ----- | ----- | ----- | (5.4) | ----- | (0.4) | ----- |

*Trailing twelve months

# Chesapeake Financial Shares, Inc.

**Income Statement and Balance Sheet**

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

| Summary Financial Data | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16E |
|---|---|---|---|---|---|---|---|
| Net interest income | 21.8 | 22.8 | 23.1 | 23.3 | 23.1 | 23.4 | 24.5 |
| Non-interest income | 13.8 | 13.7 | 15.0 | 15.7 | 14.6 | 18.9 | 21.3 |
| Total net revenue | 35.6 | 36.5 | 38.1 | 39.0 | 37.7 | 42.3 | 45.8 |
| Loan loss provision | 2.5 | 1.2 | 0.6 | 1.1 | 0.6 | 0.2 | 0.3 |
| Non-interest expense | 26.2 | 26.4 | 27.8 | 29.8 | 30.5 | 34.1 | 37.1 |
| Income taxes & other | 1.5 | 1.9 | 2.0 | 1.5 | 0.8 | 1.3 | 1.4 |
| Zacks adjusted income before NRI | 5.4 | 7.0 | 7.7 | 6.6 | 5.8 | 6.7 | 7.0 |
| GAAP net income | 5.4 | 7.0 | 7.7 | 7.4 | 6.5 | 7.4 | 7.0 |
| Diluted EPS before NRI | 1.41 | 1.80 | 1.94 | 1.66 | 1.43 | 1.64 | 1.70 |
| Reported EPS | 1.41 | 1.80 | 1.94 | 1.84 | 1.62 | 1.82 | 1.70 |
| Dividends per share | 0.30 | 0.33 | 0.38 | 0.43 | 0.45 | 0.47 | 0.48 |
| | | | | | | | |
| Liquid assets | 73.2 | 97.9 | 92.1 | 89.9 | 62.8 | 43.2 | 43.9 |
| Outstandings, gross | 382.3 | 373.1 | 397.6 | 401.0 | 410.4 | 439.0 | 479.8 |
| Total assets | 607.7 | 638.0 | 667.7 | 661.8 | 663.2 | 679.1 | 720.7 |
| Core deposits | 396.2 | 430.4 | 459.0 | 467.2 | 480.5 | 489.1 | 529.5 |
| Purchased funds | 127.2 | 113.3 | 118.4 | 105.3 | 82.4 | 92.4 | 78.6 |
| Long-term debt | 40.0 | 39.6 | 26.0 | 25.9 | 20.6 | 21.1 | 15.5 |
| Shareholders' equity | 41.1 | 51.2 | 60.9 | 61.8 | 70.6 | 76.0 | 80.9 |
| | | | | | | | |
| **Profitability** | | | | | | | |
| Return on avg assets | 0.90% | 1.13% | 1.19% | 1.01% | 0.87% | 0.99% | 0.99% |
| Return on avg equity | 13.55% | 15.31% | 14.87% | 10.74% | 9.14% | 9.08% | 8.86% |
| Net interest margin | 4.40% | 4.70% | 4.60% | 4.60% | 4.60% | 4.38% | 4.25% |
| Loan loss provision % avg assets | 0.41% | 0.19% | 0.09% | 0.17% | 0.09% | 0.04% | 0.04% |
| Noninterest income % avg assets | 2.30% | 2.21% | 2.33% | 2.40% | 2.20% | 2.80% | 3.04% |
| Noninterest expense % avg assets | 4.34% | 4.27% | 4.32% | 4.55% | 4.61% | 5.08% | 5.30% |
| Preprovision pretax income % avg assets | 1.57% | 1.62% | 1.60% | 1.41% | 1.09% | 1.21% | 1.24% |
| Tangible efficiency ratio | 73% | 71% | 71% | 75% | 81% | 82% | 81% |
| Payout ratio | 21% | 18% | 19% | 23% | 28% | 26% | 28% |
| | | | | | | | |
| **Asset Quality** | | | | | | | |
| Net charge-offs % avg outstandings | 0.48% | 0.22% | 0.18% | 0.29% | 0.14% | 0.26% | 0.17% |
| Allowance % outstandings | 1.90% | 2.01% | 1.88% | 1.75% | 1.88% | 1.51% | 1.29% |
| NPAs % loans + OREO | 3.91% | 4.48% | 4.93% | 5.20% | 4.20% | 3.09% | 2.54% |
| Allowance % NPAs | 48% | 44% | 32% | 30% | 37% | 40% | 51% |
| | | | | | | | |
| **Liquidity & Funding** | | | | | | | |
| Liquid assets % purchased funds | 58% | 86% | 78% | 85% | 76% | 47% | 56% |
| Core deposits % outstandings | 104% | 115% | 115% | 117% | 117% | 111% | 110% |
| Liquid assets % assets | 12% | 15% | 14% | 14% | 9% | 6% | 6% |
| Outstandings % assets | 63% | 58% | 60% | 61% | 62% | 65% | 67% |
| | | | | | | | |
| **Capital Adequacy** | | | | | | | |
| Total equity % assets | 6.76% | 8.03% | 9.12% | 9.34% | 10.65% | 11.19% | 11.23% |
| Tangible equity % assets | 6.76% | 8.03% | 9.12% | 9.34% | 10.65% | 11.19% | 11.23% |
| Tier 1 capital ratio | 12.07% | 12.20% | 13.55% | 14.23% | 14.69% | 13.95% | |
| Total capital ratio | 13.54% | 13.40% | 14.80% | 15.48% | 15.94% | 15.19% | |
| | | | | | | | |
| **Parent Company Statistics** | | | | | | | |
| Interest coverage | 2.6X | 2.1X | 4.4X | 9.2X | 27.3X | 61.5X | 7.5X |
| Interest & dividend coverage | 1.1X | 0.9X | 1.5X | 1.5X | 3.7X | 3.5X | 1.3X |
| Short-term debt coverage | Lge | Lge | Lge | Lge | Lge | Lge | Lge |
| Total debt coverage | 0.8X | 0.8X | 0.9X | 1.0X | 0.9X | 1.1X | 0.9X |
| Double leverage | 134.7% | 127.2% | 121.7% | 119.7% | 109.3% | 101.7% | 104.0% |

# Chesapeake Financial Shares, Inc.

**Income Statement and Balance Sheet**

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

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Summary Financial Data** | **Q1 A** | **Q2 A** | **Q3 A** | **Q4 A** | **Q1 P** | **Q2 E** | **Q3 E** | **Q4 E** |
| Net interest income | 5.9 | 5.8 | 5.8 | 6.0 | 6.1 | 6.1 | 6.2 | 6.4 |
| Non-interest income | 3.9 | 4.8 | 5.3 | 4.8 | 4.2 | 5.3 | 5.4 | 5.6 |
| Total net revenue | 9.8 | 10.6 | 11.1 | 10.8 | 10.3 | 11.4 | 11.6 | 12.0 |
| Loan loss provision | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Non-interest expense | 7.4 | 7.8 | 9.1 | 9.9 | 7.9 | 9.1 | 9.4 | 9.9 |
| Income taxes & other | 0.4 | 0.5 | 0.3 | (0.1) | 0.4 | 0.4 | 0.3 | 0.3 |
| Zacks adjusted income before NRI | 1.9 | 2.2 | 1.7 | 0.9 | 2.0 | 1.8 | 1.8 | 1.7 |
| GAAP net income | 2.6 | 2.2 | 1.7 | 0.9 | 2.0 | 1.8 | 1.8 | 1.7 |
| Diluted EPS before NRI | 0.48 | 0.54 | 0.40 | 0.22 | 0.48 | 0.44 | 0.44 | 0.41 |
| Reported EPS | 0.66 | 0.54 | 0.40 | 0.22 | 0.48 | 0.44 | 0.44 | 0.41 |
| Dividends per share | 0.11 | 0.11 | 0.11 | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 |
| | | | | | | | | |
| Liquid assets | 51.1 | 55.6 | 51.9 | 43.2 | 50.2 | 43.5 | 43.7 | 43.9 |
| Outstandings, gross | 420.6 | 414.0 | 418.6 | 439.0 | 452.3 | 458.9 | 469.3 | 479.8 |
| Total assets | 663.1 | 665.1 | 665.8 | 679.1 | 692.7 | 699.6 | 710.1 | 720.7 |
| Core deposits | 482.0 | 486.1 | 489.8 | 489.1 | 502.8 | 508.9 | 519.1 | 529.5 |
| Purchased funds | 82.9 | 84.4 | 79.5 | 92.4 | 86.6 | 78.0 | 78.3 | 78.6 |
| Long-term debt | 19.3 | 15.5 | 15.4 | 21.1 | 20.2 | 18.0 | 17.0 | 15.5 |
| Shareholders' equity | 73.2 | 72.9 | 74.6 | 76.0 | 77.6 | 78.5 | 79.8 | 80.9 |
| | | | | | | | | |
| **Profitability** | | | | | | | | |
| Return on avg assets* | 1.16% | 1.00% | 0.99% | 0.54% | 1.15% | 1.05% | 1.02% | 0.93% |
| Return on avg equity * | 10.67% | 12.49 | 8.95% | 4.85% | 10.26% | 9.35% | 9.08% | 8.29% |
| Net interest margin* | 4.41% | 4.32% | 4.33% | 4.47% | 4.34% | 4.25% | 4.25% | 4.25% |
| Loan loss provision % avg assets* | 0.04% | 0.13% | 0.01% | 0.05% | 0.04% | 0.04% | 0.04% | 0.03% |
| Noninterest income % avg assets* | 2.36% | 2.00% | 3.18% | 2.85% | 2.48% | 3.06% | 3.09% | 3.15% |
| Noninterest expense % avg assets* | 4.44% | 4.54% | 5.46% | 5.90% | 4.58% | 5.24% | 5.33% | 5.54% |
| Preprovision pretax inc.% avg assets* | 1.46% | 1.22% | 1.20% | 0.54% | 1.44% | 1.31% | 1.27% | 1.16% |
| Tangible efficiency ratio | 77% | 75% | 83% | 92% | 75% | 80% | 80% | 82% |
| Payout ratio | 17% | 21% | 28% | 54% | 25% | 27% | 27% | 29% |
| | | | | | | | | |
| **Asset Quality** | | | | | | | | |
| Net charge-offs % avg outstandings* | 0.27% | 0.06% | 0.57% | 0.17% | | 0.18% | 0.17% | 0.17% |
| Allowance % outstandings | 1.80% | 1.72% | 1.59% | 1.51% | | 1.40% | 1.34% | 1.29% |
| NPAs % loans + OREO | 3.48% | 3.95% | 3.43% | 3.09% | | 2.81% | 2.68% | 2.54% |
| Allowance % NPAs | 42% | 38% | 39% | 40% | | 50% | 50% | 51% |
| | | | | | | | | |
| **Liquidity & Funding** | | | | | | | | |
| Liquid assets % purchased funds | 62% | 66% | 65% | 47% | 58% | 56% | 56% | 56% |
| Core deposits % outstandings | 115% | 117% | 117% | 111% | 111% | 111% | 111% | 110% |
| Liquid assets % assets | 8% | 8% | 8% | 6% | 7% | 6% | 6% | 6% |
| Outstandings % assets | 63% | 62% | 63% | 65% | 65% | 66% | 66% | 67% |
| | | | | | | | | |
| **Capital Adequacy** | | | | | | | | |
| Total equity % assets | 11.05% | 10.97% | 11.21% | 11.19% | 11.20% | 11.22% | 11.23% | 11.23% |
| Tangible equity % assets | 11.05% | 10.97% | 11.21% | 11.19% | 11.20% | 11.22% | 11.23% | 11.23% |
| Tier 1 capital ratio | 13.85% | 14.15% | 14.23% | 13.95% | | | | |
| Total capital ratio | 15.10% | 15.40% | 15.48% | 15.19% | | | | |

*Annualized.

## HISTORICAL STOCK PRICE




## DISCLOSURES

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

ANALYST DISCLOSURES

I, Ann H. Heffron, CFA, CPA hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover.

SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.