Zacks Small-Cap Research

November 1, 2012
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: Record Third Quarter EPS and Another Dividend Increase

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 05/26/2011 |
| Current Price (10/31/12) | $16.50 |
| **Twelve-Month Target Price** | **$18.25** |

## OUTLOOK

Chesapeake Financial Shares, Inc. (CPKF) reported third quarter diluted EPS of $0.75 that was 27% higher than our $0.59 estimate and a record quarter for the Company as noninterest revenue and noninterest expense were better than our estimates. Relative to the year-ago quarter, net earnings jumped 36% to $2.5 million, while 2012's third quarter diluted EPS advanced 33% over the $0.56 posted in 2011's third quarter due to a greater number of shares outstanding.Net interest income rose 2% year over year to $5.7 million, due to good 4% growth in loans and receivables outstanding partially offset by a net interest margin that we estimate was below the 4.56% earned in the year-ago quarter. Noninterest income advanced $1.0 million, or 28%, year over year to $4.4 million, largely the result of strong growth in merchant card income (up $0.4 million, or 32%) as the Company added new clients and in other noninterest income (up $0.3 million, or 54%), as well as a $0.3 million positive swing in the combined loss from the sales of securities and OREO to a loss of $0.1 million from a loss of $0.4 million. Total noninterest expense increased $0.3 million, or about 2%, year over year to $6.9 million ($0.1 million below our estimate), as total compensation expense climbed 3% and other noninterest expense rose 10%. CPKF just hiked its quarterly dividend by 9% to $0.12, following a 10% increase earlier this year. Notably, CPKF has increased the annual dividend payment every year for the past twenty years since 1991. CPKF was ranked 16th (up from 20th a year ago) out of all banks nationally with less than $2 billion in total assets by American Banker.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$16.50** |
| **52-Week Low** | **$10.80** |
| **One-Year Return (%)** | **40.17** |
| **Beta** | **0.14** |
| **Average Daily Volume (sh)** | **597** |
| **Shares Outstanding (mil)** | **3** |
| **Market Capitalization ($mil)** | **$53** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **4** |
| **Insider Ownership (%)** | **40** |
| **Annual Cash Dividend** | **$0.48** |
| **Dividend Yield (%)** | **2.92** |
| **5-Yr. Historical Growth Rates** | |
| **Net Revenue (%)** | **7.1** |
| **Earnings Per Share (%)** | **14.1** |
| **Dividend (%)** | **8.2** |
| **P/E using TTM EPS** | **6.8** |
| **P/E using 2012 Estimate** | **7.3** |
| **P/E using 2013 Estimate** | **7.0** |
| **Zacks Rank** | **1** |

| | |
|---|---|
| **Risk Level** | **Average** |
| **Type of Stock** | **Small-Value** |
| **Industry** | **Banks-Southeast** |
| **Zacks Rank in Industry** | **9 of 66** |

## 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 | 8.9 A | 9.4 A | 10.1 A | 9.6 E | 37.5 E |
| 2013 | | | | | 39.4 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 | 0.75 A | 0.47 E | 2.25 E |
| 2013 | | | | | 2.35 E |

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

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

## THIRD QUARTER RESULTS

CPKF reported third quarter diluted EPS of $0.75 that was 27% higher than our $0.59 estimate and a record quarter for the Company as noninterest revenue and noninterest expense were better than our estimates.

Relative to the year-ago quarter, net earnings jumped 36% to $2.5 million, while 2012's third quarter diluted EPS advanced 33% over the $0.56 posted in 2011's third quarter due to a greater number of shares outstanding.

Sequential net income advanced 20% from $2.1 million and diluted EPS also gained 20% from $0.62 in the second quarter of 2012. The primary reasons for the third quarter's outperformance versus the second quarter were strong growth in merchant card income (up $0.3 million, or 26%) and income from fiduciary activities (up $0.2 million, or 29%; we note that the third quarter typically represents the peak for the year due to accruals for certain trust accounts), as well as a $0.2 million positive swing in the combined loss from the sales of securities and OREO to a loss of $0.1 million from a loss of $0.3 million. These items were partially offset by a $0.2 million increase in noninterest expense, related to higher employee benefits, occupancy, and cash flow expense.

Compared to our projections, net income was $0.5 million, or $0.16 per diluted share, above our $2.0 million, or $0.59 per share, estimate, respectively. This primarily reflected merchant card income and other noninterest income that were each $0.250 million higher than our estimates and a combined loss from the sales of securities and OREO and salary expense that were each $0.1 million lower than our estimates, partly offset by net interest income that fell $0.2 million shy of our estimate.

Net interest income rose 2% year over year to $5.7 million ($0.2 million below our estimate), due to good 4% growth in loans and receivables outstanding partially offset by a net interest margin that we estimate was below the 4.56% earned in the year-ago quarter.

Noninterest income advanced $1.0 million, or 28%, year over year to $4.4 million, largely the result of strong growth in merchant card income (up $0.4 million, or 32%) as the Company added new clients and in other noninterest income (up $0.3 million, or 54%), as well as a $0.3 million positive swing in the combined loss from the sales of securities and OREO to a loss of $0.1 million from a loss of $0.4 million.

Total noninterest expense increased $0.3 million, or about 2%, year over year to $6.9 million ($0.1 million below our estimate), as total compensation expense climbed 3% and other noninterest expense rose 10%.

The loan loss provision decreased 25% to $0.15 million (the same as our estimate), due to better asset quality. Loan loss reserves fell $0.3 million from $6.7 million (1.89% of loans) year over year and $0.2 million from $6.5 million (1.82% of loans) sequentially to $6.3 million (1.73% of loans) as of September 30, 2012.

As to other asset quality measures, CPKF charged off $340,000 of loans in the third quarter. This is $283,000 more than the $57,000 charged off in the year-ago quarter and compares to net charge-offs of $0.9 million for full-year 2011. Gross loans outstanding increased $15 million, or about 4%, year over year and $7 million, or 2%, sequentially to $367 million, as the Company witnessed better loan demand.

CPKF posted a 16.6% ROE and 1.55% ROA for the third quarter of 2012, compared to 14.9% and 1.16%, 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, payable on December 15, 2012 to shareholders of record on December 1, 2012. This represents the second dividend increase this year—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.

In other news, Jeffrey M. Szyperski, Chairman, President & CEO, Chesapeake Bank, has been named Chairman of the Virginia Bankers Association.

We note that American Banker recently ranked CPKF 16th (up from 20th 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 $634 million in total assets at September 30, 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.

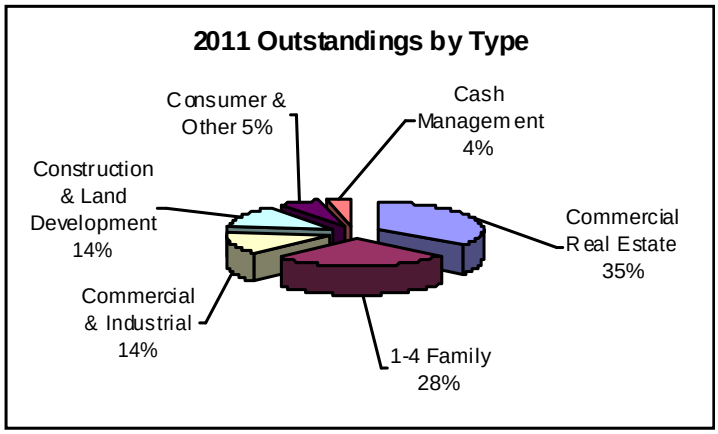
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $301 million in assets (at 2011 yearend) through its subsidiaries involved in 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.

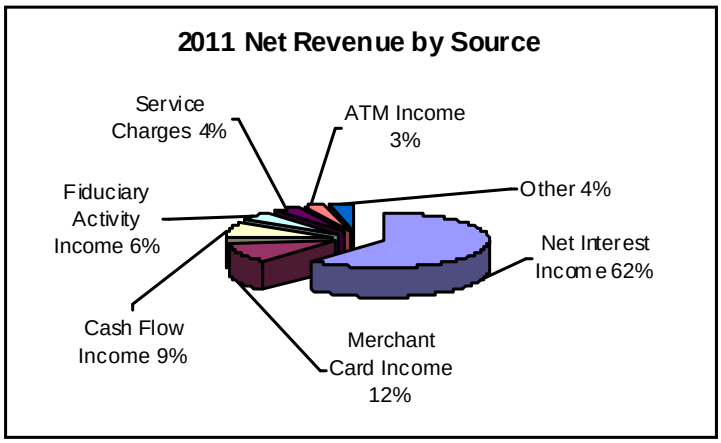
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2011, Clear Sky deposits totalled $51 million, with customers in all 50 states.

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 2011, net interest income contributed 62% of net revenue, with a significant 38% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (12% of net revenues), cash flow income (9%), income from fiduciary activities (6%), service charges on deposit accounts (4%), and ATM income (3%).

## VALUATION

CPKF stock has risen 46.7% year to date and is trading at its 52-week high. Moreover, CPKF has outperformed the small-cap bank industry's median price increase of 40.9%, as shown in the following table, as well as the 12.4% gain for the S&P 500. At its current price, CPKF is trading at a discount to the industry median P/E of 46% in 2013, based upon our most recent CPKF EPS estimate for 2013. This is below the average 52% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 52% to our 2013 EPS estimate results in a price of about $13.75.

Turning to Price/Tangible Book Value, CPKF is valued at 0.93X versus the industry median of 0.97X. This represents a 4% discount, well below the average historical premium of 21% for CPKF since the end of 2005. We believe a higher premium is justified given CPKF's strong performance throughout the financial crisis, its superior profitability measures, and its above-average yield on the recently increased dividend. Applying the historical premium of 21% to our estimated book value for CPKF twelve months out results in a price of approximately $22.75.

Taking the midpoint of the $13.75-22.75 stock price range determined above results in a target price of roughly $18.25, or about 1% below CPKF's current tangible book value of $18.51 at September 30, 2012. This compares to CPKF's current stock price of $16.50, indicating an 11% gain. When combined with the

dividend yield, this represents a total return of almost 14%, 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 | 2012E | 2013E | 5-Yr Avg | Price/ Book | TTM* | 5-Yr Avg | TTM* | 5-Yr Avg | Div Yld |
| **Chesapeake Finc'l** | **46.7** | **6.8** | **7.3** | **7.0** | **8.4** | **0.93** | **13.6** | **14.2** | **1.14** | **0.94** | **2.9** |
| S&P 500 | 12.4 | 14.4 | 13.9 | 13.0 | 17.0 | 3.6 | 42.5 | ----- | 9.7 | ----- | 2.1 |
| **Median** | **40.9** | **12.6** | **13.1** | **12.2** | **17.4** | **0.97** | **7.3** | **4.0** | **0.63** | **0.32** | **-----** |
| Average | 42.4 | 15.7 | 14.9 | 12.9 | 26.5 | 0.9 | 4.8 | 1.7 | 0.5 | 0.3 | 1.2 |
| High | 166.9 | 61.0 | 51.9 | 45.1 | 103.5 | 1.7 | 19.0 | 14.2 | 1.6 | 2.2 | 6.1 |
| Low | (46.6) | 5.1 | 4.9 | 4.6 | 6.9 | 0.2 | (55.2) | (76.5) | (5.9) | (2.2) | ----- |

*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 | 12/12E | 12/13E |
|---|---|---|---|---|---|---|---|
| Net interest income | 14.5 | 16.5 | 18.9 | 21.8 | 22.8 | 23.4 | 24.3 |
| Non-interest income | 13.5 | 15.0 | 14.1 | 13.8 | 13.7 | 14.1 | 15.1 |
| Total net revenue | 28.0 | 31.5 | 33.0 | 35.6 | 36.5 | 37.5 | 39.4 |
| Loan loss provision | 0.2 | 0.4 | 0.9 | 2.5 | 1.2 | 0.6 | 0.7 |
| Non-interest expense | 21.8 | 25.0 | 25.9 | 26.2 | 26.4 | 27.4 | 28.6 |
| Income taxes & other | 1.7 | 1.5 | 1.4 | 1.5 | 1.9 | 2.1 | 2.3 |
| Zacks adjusted income before NRI | 4.3 | 4.6 | 4.8 | 5.4 | 7.0 | 7.4 | 7.8 |
| GAAP net income | 4.3 | 4.6 | 4.8 | 5.4 | 7.0 | 7.4 | 7.8 |
| Diluted EPS before NRI | 1.24 | 1.34 | 1.48 | 1.69 | 2.16 | 2.25 | 2.35 |
| Reported EPS | 1.24 | 1.34 | 1.48 | 1.69 | 2.16 | 2.25 | 2.35 |
| 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 | 87.0 | 90.5 |
| Outstandings, gross | 361.6 | 396.2 | 391.3 | 382.3 | 373.1 | 387.2 | 410.9 |
| Total assets | 483.0 | 538.0 | 586.7 | 607.7 | 638.0 | 648.2 | 688.0 |
| Core deposits | 308.8 | 317.0 | 370.0 | 396.2 | 430.4 | 433.4 | 460.0 |
| Purchased funds | 94.0 | 121.9 | 131.3 | 127.2 | 113.3 | 125.0 | 132.7 |
| Long-term debt | 44.4 | 65.5 | 47.4 | 40.0 | 39.6 | 27.0 | 25.0 |
| Shareholders' equity | 33.7 | 30.6 | 35.3 | 41.1 | 51.2 | 59.7 | 64.9 |
| | | | | | | | |
| **Profitability** | | | | | | | |
| Return on avg assets | 0.97% | 0.89% | 0.84% | 0.90% | 1.13% | 1.16% | 1.17% |
| Return on avg equity | 13.68% | 13.51% | 13.14% | 13.55% | 15.31% | 13.10% | 12.54% |
| Net interest margin | 4.10% | 4.00% | 4.10% | 4.40% | 4.70% | 4.59% | 4.53% |
| Loan loss provision % avg assets | 0.04% | 0.08% | 0.16% | 0.41% | 0.19% | 0.10% | 0.10% |
| Noninterest income % avg assets | 3.01% | 2.91% | 2.45% | 2.30% | 2.21% | 2.21% | 2.25% |
| Noninterest expense % avg assets | 4.87% | 4.84% | 4.51% | 4.34% | 4.27% | 4.27% | 4.29% |
| Preprovision pretax income % avg assets | 1.39% | 1.26% | 1.24% | 1.57% | 1.62% | 1.58% | 1.61% |
| Tangible efficiency ratio | 78% | 80% | 77% | 73% | 71% | 71% | 72% |
| Payout ratio | 23% | 25% | 24% | 21% | 18% | 20% | 20% |
| | | | | | | | |
| **Asset Quality** | | | | | | | |
| Net charge-offs % avg outstandings | 0.04% | 0.27% | 0.34% | 0.48% | 0.22% | 0.16% | 0.16% |
| Allowance % outstandings | 1.50% | 1.43% | 1.59% | 1.90% | 2.01% | 1.98% | 1.92% |
| NPAs % loans + OREO | 0.61% | 0.35% | 1.20% | 3.91% | 4.48% | 3.88% | 3.34% |
| Allowance % NPAs | 245% | 411% | 131% | 48% | 44% | 50% | 57% |
| | | | | | | | |
| **Liquidity & Funding** | | | | | | | |
| Liquid assets % purchased funds | 62% | 37% | 44% | 58% | 86% | 70% | 68% |
| Core deposits % outstandings | 85% | 80% | 95% | 104% | 115% | 112% | 112% |
| Liquid assets % assets | 12% | 8% | 10% | 12% | 15% | 13% | 13% |
| Outstandings % assets | 75% | 74% | 67% | 63% | 58% | 60% | 60% |
| | | | | | | | |
| **Capital Adequacy** | | | | | | | |
| Total equity % assets | 6.97% | 5.68% | 6.01% | 6.76% | 8.03% | 9.21% | 9.44% |
| Tangible equity % assets | 6.97% | 5.68% | 6.01% | 6.76% | 8.03% | 9.21% | 9.44% |
| 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 | 1.0X |
| Interest & dividend coverage | 0.3X | 0.3X | 0.4X | 1.1X | 0.9X | 0.4X | 0.4X |
| Short-term debt coverage | Lge | Lge | Lge | Lge | Lge | Lge | Lge |
| Total debt coverage | 1.0X | 0.9X | 0.8X | 0.8X | 0.8X | 1.2X | 1.6X |
| Double leverage | 133.2% | 139.8% | 142.1% | 134.7% | 127.2% | 121.6% | 123.9% |

# Chesapeake Financial Shares, Inc.

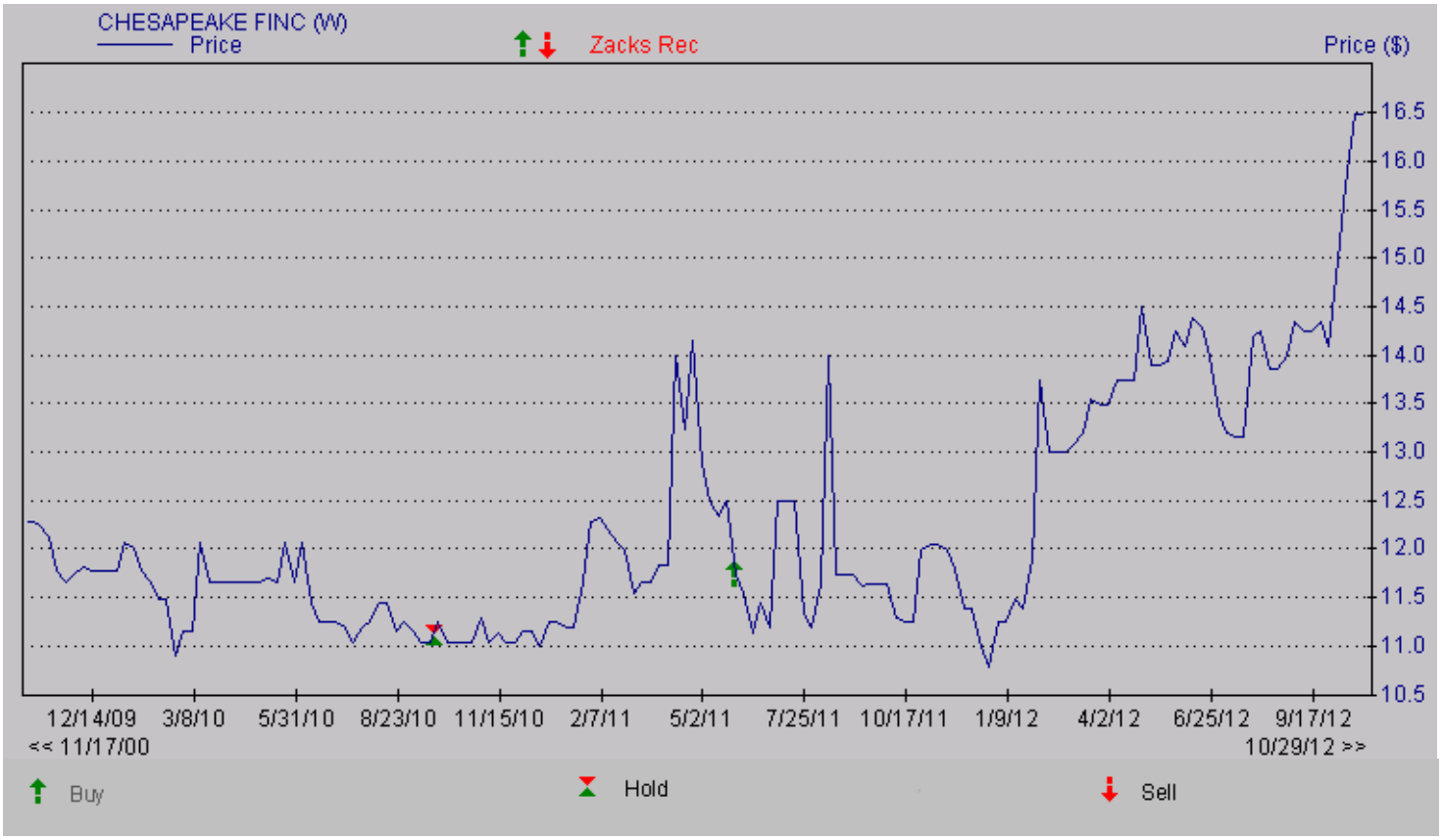
**Income Statement and Balance Sheet**

*(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 P** | **Q4 E** |
| Net interest income | 5.8 | 5.4 | 5.7 | 5.9 | 5.9 | 5.7 | 5.7 | 5.9 |
| Non-interest income | 3.0 | 4.0 | 3.5 | 3.2 | 3.1 | 3.7 | 4.4 | 3.7 |
| 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 | 7.4 |
| Income taxes & other | 0.5 | 0.7 | 0.6 | 0.1 | 0.6 | 0.5 | 0.6 | 0.4 |
| Zacks adjusted income before NRI | 1.5 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 2.5 | 1.6 |
| GAAP net income | 1.5 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 2.5 | 1.6 |
| Diluted EPS before NRI | 0.47 | 0.63 | 0.56 | 0.49 | 0.57 | 0.62 | 0.75 | 0.47 |
| Reported EPS | 0.47 | 0.63 | 0.56 | 0.49 | 0.57 | 0.62 | 0.75 | 0.47 |
| 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 | 87.5 | 87.0 |
| Outstandings, gross | 376.8 | 376.5 | 372.9 | 373.1 | 372.3 | 379.5 | 386.8 | 387.2 |
| Total assets | 602.7 | 619.6 | 631.5 | 638.0 | 640.7 | 635.4 | 633.6 | 648.2 |
| Core deposits | 397.2 | 412.1 | 422.9 | 430.4 | 432.9 | 424.9 | 419.9 | 433.4 |
| Purchased funds | 115.8 | 118.3 | 112.5 | 113.3 | 122.9 | 122.5 | 122.5 | 125.0 |
| Long-term debt | 40.0 | 39.9 | 39.8 | 39.6 | 27.1 | 26.9 | 26.8 | 27.0 |
| Shareholders' equity | 43.6 | 46.6 | 50.4 | 51.2 | 55.0 | 57.4 | 60.8 | 59.7 |
| | | | | | | | | |
| **Profitability** | | | | | | | | |
| Return on avg assets* | 1.01% | 1.35% | 1.16% | 1.00% | 1.15% | 1.29% | 1.55% | 0.97% |
| Return on avg equity * | 14.40% | 18.28% | 14.91% | 12.49% | 13.88% | 14.61% | 16.63% | 10.52% |
| Net interest margin* | 4.68% | 4.33% | 4.56% | 4.77% | 4.67% | 4.53% | | 4.55% |
| Loan loss provision % avg assets* | 0.39% | 0.13% | 0.13% | 0.13% | 0.09% | 0.09% | 0.09% | 0.11% |
| Noninterest income % avg assets* | 1.99% | 2.61% | 2.25% | 2.00% | 1.93% | 2.28% | 2.75% | 2.29% |
| Noninterest expense % avg assets* | 4.13% | 4.21% | 4.20% | 4.54% | 4.02% | 4.13% | 4.28% | 4.59% |
| Preprovision pretax inc.% avg assets* | 1.72% | 1.92% | 1.66% | 1.22% | 1.57% | 1.74% | 2.09% | 1.35% |
| Tangible efficiency ratio | 71% | 72% | 72% | 75% | 69% | 69% | 67% | 76% |
| Payout ratio | 20% | 16% | 18% | 20% | 19% | 18% | 15% | 23% |
| | | | | | | | | |
| **Asset Quality** | | | | | | | | |
| Net charge-offs % avg outstandings* | 0.01% | 0.44% | ----- | 0.41% | 0.08% | 0.17% | | 0.23% |
| Allowance % outstandings | 2.11% | 2.06% | 2.12% | 2.01% | 2.04% | 2.00% | | 1.98% |
| NPAs % loans + OREO | 1.92% | 4.29% | 2.28% | 4.48% | 4.20% | 4.11% | | 3.88% |
| Allowance % NPAs | 92% | 47% | 92% | 44% | 48% | 48% | | 50% |
| | | | | | | | | |
| **Liquidity & Funding** | | | | | | | | |
| Liquid assets % purchased funds | 60% | 75% | 89% | 86% | 81% | 70% | 71% | 70% |
| Core deposits % outstandings | 105% | 109% | 113% | 115% | 116% | 112% | 109% | 112% |
| Liquid assets % assets | 11% | 14% | 16% | 15% | 15% | 13% | 14% | 13% |
| Outstandings % assets | 63% | 61% | 59% | 58% | 58% | 60% | 61% | 60% |
| | | | | | | | | |
| **Capital Adequacy** | | | | | | | | |
| Total equity % assets | 7.24% | 7.52% | 7.98% | 8.03% | 8.58% | 9.03% | 9.60% | 9.21% |
| Tangible equity % assets | 7.24% | 7.52% | 7.98% | 8.03% | 8.58% | 9.03% | 9.60% | 9.21% |
| Tier 1 capital ratio | 12.39% | 12.04% | 12.09% | 12.20% | 13.20% | 13.38% | | |
| Total capital ratio | 13.76% | 13.30% | 13.34% | 13.40% | 14.45% | 14.63% | | |

*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 1010 companies covered: Buy/Outperform- 14.6%, Hold/Neutral- 77.9%, Sell/Underperform – 7.1%. Data is as of midnight on the business day immediately prior to this publication.