July 26, 2012
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# Zacks Small-Cap Research

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

## CPKF: Second Quarter Displays Strong Sequential Growth in Merchant Card and Cash Flow Businesses

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 05/26/2011 |
| Current Price (07/25/12) | $14.00 |
| **Twelve-Month Target Price** | **$17.50** |

## OUTLOOK

Chesapeake Financial Shares, Inc. (CPKF) reported second quarter diluted EPS of $0.62 that was 22% higher than our $0.51 estimate as noninterest revenue and noninterest expense were better than our estimates. Relative to the year-ago quarter, net earnings were basically flat at $2.1 million, though 2012's second quarter diluted EPS was a penny lower than the $0.63 posted in 2011's second quarter due to a greater number of shares outstanding. From an operating perspective, results were actually stronger than they first appear: 2012's second quarter includes a combined net loss of $0.3 million from the sales of securities and OREO, while 2011's second quarter includes a combined net gain of $0.3 million from the sales of securities and OREO. Excluding these items from both years' results in a $0.13 per share gain in diluted EPS in 2012's second quarter, rather than the $0.01 per share decrease that was actually reported. Sequential net income advanced 11% from $1.8 million and diluted EPS gained 10% from $0.57 in the first quarter of 2012 due to strong growth in merchant card income (up $0.2 million, or 25%) and cash flow income (up $0.2 million, or 29.0% on a solid gain in cash flow receivables from new business initiatives), partly offset by $0.2 million, or 2%, slide in net interest income. CPKF raised its quarterly dividend by 10% to $0.11 and has increased its dividend payment annually for the past twenty years. 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. 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** | **$14.50** |
| **52-Week Low** | **$10.80** |
| **One-Year Return (%)** | **28.14** |
| **Beta** | **0.15** |
| **Average Daily Volume (sh)** | **517** |
| **Shares Outstanding (mil)** | **3** |
| **Market Capitalization ($mil)** | **$45** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **40** |
| **Annual Cash Dividend** | **$0.44** |
| **Dividend Yield (%)** | **3.14** |
| **5-Yr. Historical Growth Rates** | |
| **Net Revenue (%)** | **7.1** |
| **Earnings Per Share (%)** | **14.1** |
| **Dividend (%)** | **8.2** |
| **P/E using TTM EPS** | **6.3** |
| **P/E using 2012 Estimate** | **6.5** |
| **P/E using 2013 Estimate** | **6.1** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Average** |
| **Type of Stock** | **Small-Value** |
| **Industry** | **Banks-Southeast** |
| **Zacks Rank in Industry** | **62 of 65** |

## 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 | 9.5 E | 9.5 E | 37.1 E |
| 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 | 0.57 E | 0.52 E | 2.16 E |
| 2013 | | | | | 2.30 E |

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

## SECOND QUARTER RESULTS

CPKF reported second quarter diluted EPS of $0.62 that was 22% higher than our $0.51 estimate as noninterest revenue and noninterest expense were better than our estimates.

Relative to the year-ago quarter, net earnings were basically flat at $2.1 million, though 2012's second quarter diluted EPS was a penny lower than the $0.63 posted in 2011's second quarter due to a greater number of shares outstanding.

From an operating perspective, results were actually stronger than they first appear: 2012's second quarter includes a combined net loss of $0.3 million from the sales of securities and OREO, while 2011's second quarter includes a combined net gain of $0.3 million from the sales of securities and OREO. Excluding these items from both years results in a $0.13 per share gain in diluted EPS in 2012's second quarter, rather than the $0.01 per share decrease that was actually reported.

Sequential net income advanced 11% from $1.8 million and diluted EPS gained 10% from $0.57 in the first quarter of 2012. The primary reasons for 2012's outperformance versus 2012's first quarter were strong growth in both merchant card income (up $0.2 million, or 25%) and cash flow income (up $0.2 million, or 29.0% on a solid gain in cash flow receivables from new business initiatives), partly offset by $0.2 million, or 2%, slide in net interest income.

Compared to our projections, net income was $0.4 million, or $0.11 per diluted share, above our $1.7 million, or $0.51 per share, estimates. This primarily reflected cash flow income and other income that were each $0.2 million higher than our estimates and employee benefits, merchant card expense, and other nointerest expense that were each $0.1 million lower than our estimates, partly offset by net interest income that was $0.2 million below our estimate.

Net interest income rose 7% year over year to $5.7 million ($0.2 million below our estimate), due to improvement in the net interest margin, which jumped 39 basis points to 4.72% from 4.33% in the year-ago quarter, and $2 million, or about 1%, growth in loans and receivables outstanding.

Noninterest income declined $0.4 million, or 9%, year over year to $3.6 million, largely reflecting a $0.6 million combined negative swing in securities losses and net losses on other real estate owned to a loss of $0.3 million in 2012 from a gain of $0.3 million in the year-ago quarter.

Excluding these items, noninterest income was up 7% year over year as strong growth in merchant card income and other noninterest income (up 12% and 42%, respectively) was offset by a 10% fall in cash flow income, reflecting a year-over-year decline in a receivables outstanding as CPKF clients secured more traditional bank financing at other financial institutions (sequentially, cash flow receivables actually increased over $2 million), and a 5% decrease in service charges on deposit accounts, primarily reflecting lower customer usage and secondarily changes in federal regulations.

Total noninterest expense increased $0.2 million, or about 2%, year over year to $6.6 million ($0.3 million below our estimate), as total compensation expense climbed 6%.

The loan loss provision decreased 25% to $0.15 million (versus our $0.20 million estimate), due to better asset quality. Loan loss reserves were flat year over year and sequentially at $6.5 million (1.82-1.84% of loans).

As to other asset quality measures, CPKF charged off $160,000 of loans in the second quarter. This is $0.26 million less than the $0.42 million 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 about $4 million, about 1%, sequentially and year over year to $360 million, as the Company witnessed better loan demand.

CPKF posted a 14.6% ROE and 1.29% ROA for the second quarter of 2012, compared to 18.3% and 1.35%, respectively, in the prior-year quarter.

On July 24, 2012, CPKF announced a $0.11 quarterly dividend, payable on or before September 15, 2012 to shareholders of record as of September 1, 2012. Earlier in the year, CPKF hiked the dividend 10% from the $0.10 quarterly rate, and 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 $635 million in total assets at June 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.

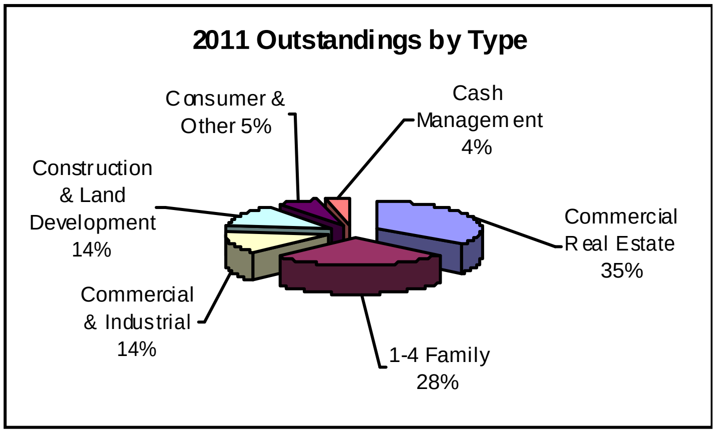
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $301 million in assets (at 2011 yearend) through its subsidiaries involved in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

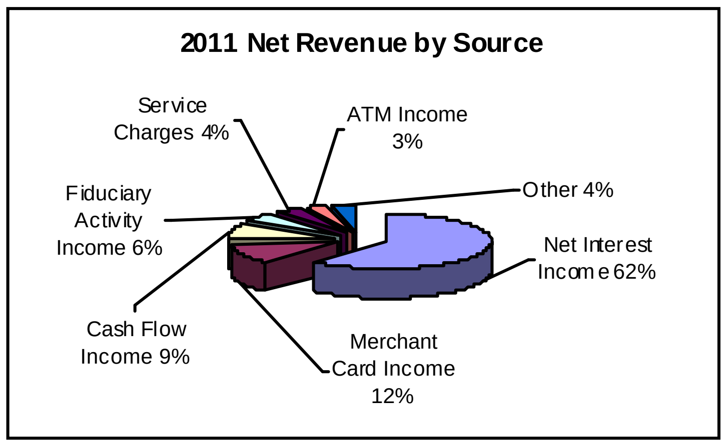
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2011, Clear Sky deposits totalled $51 million, with customers in all 50 states.

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.

The liquidity portfolio, consisting of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represent 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 currently account 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 24.4% year to date and has outperformed the S&P 500's 6.4% advance by a wide margin, though it has underperformed the small-cap bank industry's median price increase of 28.8%, as shown in the following table. At its current price, CPKF is trading at a discount to the industry median P/E of 44% in 2013, based upon our CPKF EPS estimate for 2013. This equals the average 44% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 44% to our 2013 EPS estimate results in a price of about $14.25.

Turning to Price/Tangible Book Value, CPKF is valued at 0.82X versus the industry median of 0.89X. This represents a 7% discount, well below the average historical premium of 19% 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 solid dividend yield. Applying the historical premium of 19% to our estimated book value for CPKF twelve months out results in a price of approximately $20.50.

Taking the midpoint of the $14.25-20.50 stock price range determined above results in a target price of roughly $17.50, or about the same as CPKF's current tangible book value, which was $17.45 at June 30, 2012. This compares to CPKF's current stock price of $14.00, indicating a 25% gain. When combined with the dividend yield, this represents a total return of 28%, well 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** | **24.4** | **6.3** | **6.5** | **6.1** | **8.7** | **0.82** | **14.4** | **14.3** | **1.15** | **0.94** | **3.1** |
| S&P 500 | 6.4 | 13.9 | 13.0 | 12.1 | 17.0 | 8.4 | 67.8 | ----- | 9.5 | ----- | 2.2 |
| **Median** | **28.8** | **11.9** | **11.3** | **10.9** | **15.6** | **0.89** | **8.4** | **4.7** | **0.76** | **0.31** | **0.6** |
| Average | 28.0 | 15.0 | 12.1 | 10.8 | 20.4 | 0.8 | (87.7) | (3.1) | 0.5 | 0.3 | 1.5 |
| High | 179.5 | 52.5 | 18.9 | 15.1 | 43.8 | 1.5 | 16.2 | 11.6 | 1.8 | 2.2 | 6.9 |
| Low | (80.1) | 6.4 | 6.8 | 6.3 | 11.2 | 0.0 | (3,208.6) | (188.4) | (3.7) | (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** | **12/12E** | **12/13E** |
|---|---|---|---|---|---|---|---|
| Net interest income | 14.5 | 16.5 | 18.9 | 21.8 | 22.8 | 23.7 | 24.7 |
| Non-interest income | 13.5 | 15.0 | 14.1 | 13.8 | 13.7 | 13.4 | 14.3 |
| Total net revenue | 28.0 | 31.5 | 33.0 | 35.6 | 36.5 | 37.1 | 39.0 |
| Loan loss provision | 0.2 | 0.4 | 0.9 | 2.5 | 1.2 | 0.8 | 0.6 |
| Non-interest expense | 21.8 | 25.0 | 25.9 | 26.2 | 26.4 | 27.3 | 28.7 |
| Income taxes & other | 1.7 | 1.5 | 1.4 | 1.5 | 1.9 | 1.9 | 2.1 |
| Zacks adjusted income before NRI | 4.3 | 4.6 | 4.8 | 5.4 | 7.0 | 7.1 | 7.6 |
| GAAP net income | 4.3 | 4.6 | 4.8 | 5.4 | 7.0 | 7.1 | 7.6 |
| Diluted EPS before NRI | 1.24 | 1.34 | 1.48 | 1.69 | 2.16 | 2.16 | 2.30 |
| Reported EPS | 1.24 | 1.34 | 1.48 | 1.69 | 2.16 | 2.16 | 2.30 |
| Dividends per share | 0.29 | 0.34 | 0.35 | 0.36 | 0.40 | 0.44 | 0.48 |
| | | | | | | | |
| Liquid assets | 58.4 | 45.4 | 57.8 | 73.2 | 97.9 | 102.0 | 89.5 |
| Outstandings, gross | 361.6 | 396.2 | 391.3 | 382.3 | 373.1 | 388.1 | 409.8 |
| Total assets | 483.0 | 538.0 | 586.7 | 607.7 | 638.0 | 668.0 | 688.0 |
| Core deposits | 308.8 | 317.0 | 370.0 | 396.2 | 430.4 | 451.3 | 459.7 |
| Purchased funds | 94.0 | 121.9 | 131.3 | 127.2 | 113.3 | 128.1 | 133.0 |
| 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 | 58.4 | 64.7 |
| | | | | | | | |
| **Profitability** | | | | | | | |
| Return on avg assets | 0.97% | 0.89% | 0.84% | 0.90% | 1.13% | 1.08% | 1.13% |
| Return on avg equity | 13.68% | 13.51% | 13.14% | 13.55% | 15.31% | 12.64% | 12.15% |
| Net interest margin | 4.10% | 4.00% | 4.10% | 4.40% | 4.70% | 4.65% | 4.60% |
| Loan loss provision % avg assets | 0.04% | 0.08% | 0.16% | 0.41% | 0.19% | 0.11% | 0.09% |
| Noninterest income % avg assets | 3.01% | 2.91% | 2.45% | 2.30% | 2.21% | 2.05% | 2.14% |
| Noninterest expense % avg assets | 4.87% | 4.84% | 4.51% | 4.34% | 4.27% | 4.19% | 4.30% |
| Preprovision pretax income % avg assets | 1.39% | 1.26% | 1.24% | 1.57% | 1.62% | 1.50% | 1.54% |
| Tangible efficiency ratio | 78% | 80% | 77% | 73% | 71% | 72% | 72% |
| Payout ratio | 23% | 25% | 24% | 21% | 18% | 20% | 21% |
| | | | | | | | |
| **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% | 2.00% | 1.89% |
| NPAs % loans + OREO | 0.61% | 0.35% | 1.20% | 3.91% | 4.48% | 3.60% | 3.22% |
| Allowance % NPAs | 245% | 411% | 131% | 48% | 44% | 55% | 58% |
| | | | | | | | |
| **Liquidity & Funding** | | | | | | | |
| Liquid assets % purchased funds | 62% | 37% | 44% | 58% | 86% | 80% | 67% |
| Core deposits % outstandings | 85% | 80% | 95% | 104% | 115% | 116% | 112% |
| Liquid assets % assets | 12% | 8% | 10% | 12% | 15% | 15% | 13% |
| Outstandings % assets | 75% | 74% | 67% | 63% | 58% | 58% | 60% |
| | | | | | | | |
| **Capital Adequacy** | | | | | | | |
| Total equity % assets | 6.97% | 5.68% | 6.01% | 6.76% | 8.03% | 8.74% | 9.40% |
| Tangible equity % assets | 6.97% | 5.68% | 6.01% | 6.76% | 8.03% | 8.74% | 9.40% |
| 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 | 1.5X |
| Double leverage | 133.2% | 139.8% | 142.1% | 134.7% | 127.2% | 123.7% | 124.0% |

## Chesapeake Financial Shares, Inc.

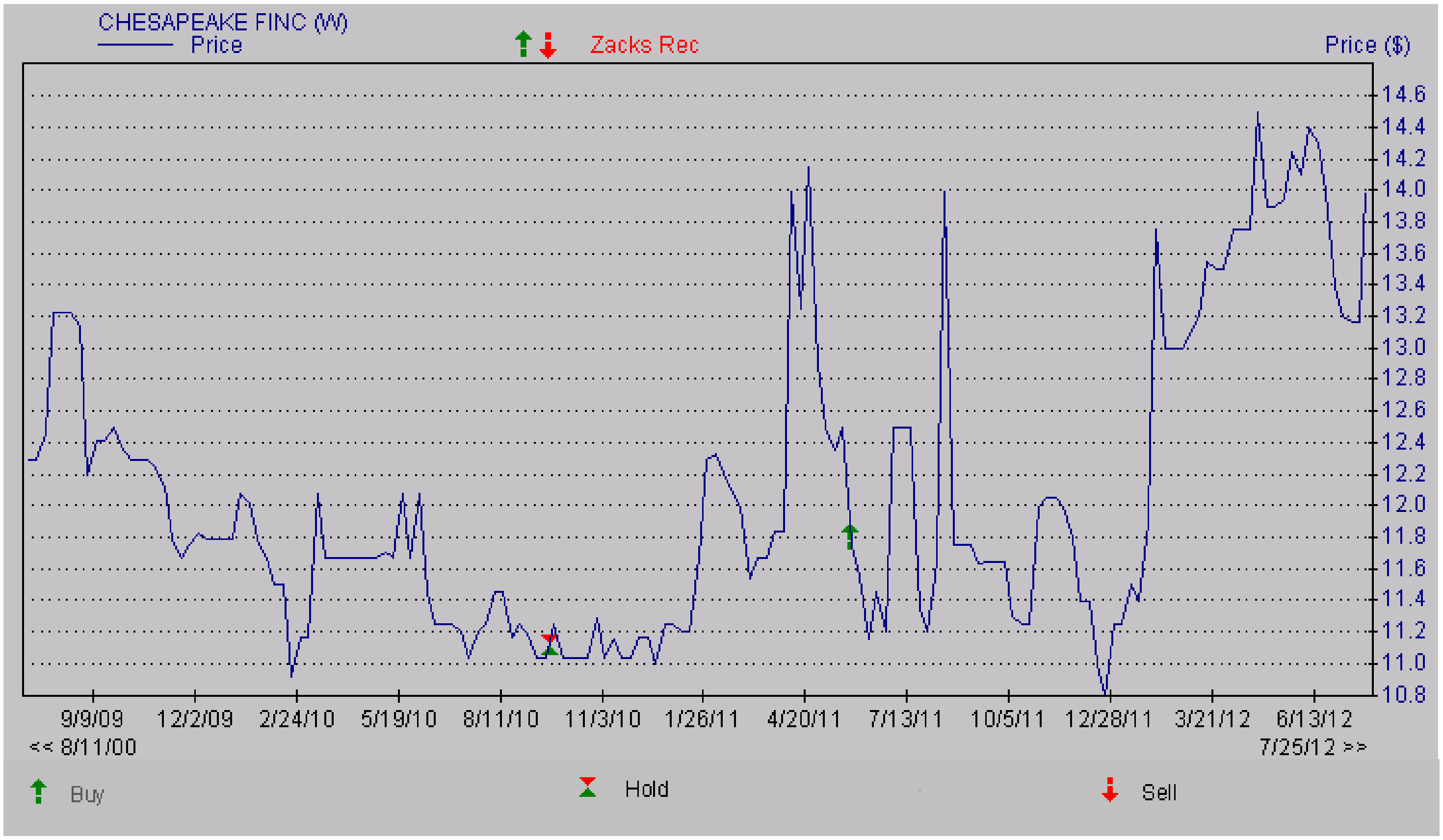
**Income Statement and Balance Sheet**

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

| | 2011 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Summary Financial Data** | **Q1 A** | **Q2 A** | **Q3 A** | **Q4 A** | **Q1 A** | **Q2 P** | **Q3 E** | **Q4 E** |
| Net interest income | 5.8 | 5.4 | 5.7 | 5.9 | 5.9 | 5.7 | 6.0 | 6.0 |
| Non-interest income | 3.0 | 4.0 | 3.5 | 3.2 | 3.1 | 3.7 | 3.5 | 3.5 |
| Total net revenue | 8.9 | 9.4 | 9.2 | 9.1 | 9.0 | 9.4 | 9.5 | 9.5 |
| 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 | 6.9 | 7.2 |
| Income taxes & other | 0.5 | 0.7 | 0.6 | 0.1 | 0.6 | 0.5 | 0.5 | 0.4 |
| Zacks adjusted income before NRI | 1.5 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 1.9 | 1.7 |
| GAAP net income | 1.5 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 1.9 | 1.7 |
| Diluted EPS before NRI | 0.47 | 0.63 | 0.56 | 0.49 | 0.57 | 0.62 | 0.57 | 0.52 |
| Reported EPS | 0.47 | 0.63 | 0.56 | 0.49 | 0.57 | 0.62 | 0.57 | 0.52 |
| Dividends per share | 0.10 | 0.10 | 0.10 | 0.10 | 0.11 | 0.11 | 0.11 | 0.11 |
| | | | | | | | | |
| Liquid assets | 68.9 | 88.4 | 99.8 | 97.9 | 99.0 | 84.3 | 101.0 | 102.0 |
| Outstandings, gross | 376.8 | 376.5 | 372.9 | 373.1 | 372.3 | 378.5 | 384.3 | 388.1 |
| Total assets | 602.7 | 619.6 | 631.5 | 638.0 | 640.7 | 635.4 | 661.4 | 668.0 |
| Core deposits | 397.2 | 412.1 | 422.9 | 430.4 | 432.9 | 424.6 | 446.8 | 451.3 |
| Purchased funds | 115.8 | 118.3 | 112.5 | 113.3 | 122.9 | 122.9 | 126.8 | 128.1 |
| Long-term debt | 40.0 | 39.9 | 39.8 | 39.6 | 27.1 | 26.9 | 27.0 | 27.0 |
| Shareholders' equity | 43.6 | 46.6 | 50.4 | 51.2 | 55.0 | 57.4 | 57.3 | 58.4 |
| | | | | | | | | |
| **Profitability** | | | | | | | | |
| Return on avg assets* | 1.01% | 1.35% | 1.16% | 1.00% | 1.15% | 1.29% | 1.13% | 1.02% |
| Return on avg equity * | 14.40% | 18.28% | 14.91% | 12.49% | 13.88% | 14.61% | 13.08% | 11.74% |
| Net interest margin* | 4.68% | 4.33% | 4.56% | 4.77% | 4.67% | 4.72% | 4.65% | 4.65% |
| Loan loss provision % avg assets* | 0.39% | 0.13% | 0.13% | 0.13% | 0.09% | 0.09% | 0.12% | 0.12% |
| Noninterest income % avg assets* | 1.99% | 2.61% | 2.25% | 2.00% | 1.93% | 2.28% | 2.14% | 2.13% |
| Noninterest expense % avg assets* | 4.13% | 4.21% | 4.20% | 4.54% | 4.02% | 4.13% | 4.19% | 4.31% |
| Preprovision pretax inc.% avg assets* | 1.72% | 1.92% | 1.66% | 1.22% | 1.57% | 1.74% | 1.57% | 1.43% |
| Tangible efficiency ratio | 71% | 72% | 72% | 75% | 69% | 69% | 71% | 74% |
| Payout ratio | 20% | 16% | 18% | 20% | 19% | 18% | 19% | 21% |
| | | | | | | | | |
| **Asset Quality** | | | | | | | | |
| Net charge-offs % avg outstandings* | 0.01% | 0.44% | ----- | 0.41% | 0.08% | | 0.16% | 0.23% |
| Allowance % outstandings | 2.11% | 2.06% | 2.12% | 2.01% | 2.04% | | 2.02% | 2.00% |
| NPAs % loans + OREO | 1.92% | 4.29% | 2.28% | 4.48% | 4.20% | | 3.93% | 3.60% |
| Allowance % NPAs | 92% | 47% | 92% | 44% | 48% | | 51% | 55% |
| | | | | | | | | |
| **Liquidity & Funding** | | | | | | | | |
| Liquid assets % purchased funds | 60% | 75% | 89% | 86% | 81% | 69% | 80% | 80% |
| Core deposits % outstandings | 105% | 109% | 113% | 115% | 116% | 112% | 116% | 116% |
| Liquid assets % assets | 11% | 14% | 16% | 15% | 15% | 13% | 15% | 15% |
| Outstandings % assets | 63% | 61% | 59% | 58% | 58% | 60% | 58% | 58% |
| | | | | | | | | |
| **Capital Adequacy** | | | | | | | | |
| Total equity % assets | 7.24% | 7.52% | 7.98% | 8.03% | 8.58% | 9.03% | 8.66% | 8.74% |
| Tangible equity % assets | 7.24% | 7.52% | 7.98% | 8.03% | 8.58% | 9.03% | 8.66% | 8.74% |
| Tier 1 capital ratio | 12.39% | 12.04% | 12.09% | 12.20% | 13.20% | | | |
| Total capital ratio | 13.76% | 13.30% | 13.34% | 13.40% | 14.45% | | | |

*Annualized.

## HISTORICAL ZACKS RECOMMENDATIONS

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