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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTC)

CPKF: Another Record-Breaking Quarter and a Dividend Increase!

We have chosen the $32.00 midpoint of the range of values based upon CPKF's 2019 P/E of $33.00 and forward Price/Tangible Book Value of $31.00 as our new valuation.

Current Price (06/11/18)	$28.50
Valuation	**$32.00**

OUTLOOK

We are maintaining our 2018 diluted EPS estimate at $2.30, and initiating our 2019 estimate at $2.45 per share. Our 2018 EPS estimate represents a 6% advance over 2017's diluted EPS of $2.17, while our 2019 estimate represents a 7% gain. We have moderated our expectations of loan growth due to softening loan demand, though robust advances in merchant card income from higher volumes will offset this. CPKF's first quarter net earnings rose $0.3 million year over year, or 12%, to $2.9 million, while 2018's first quarter diluted EPS increased by $0.07, or 11%, to $0.70 from $0.63 posted a year ago. This was much better than our estimate, which had called for a decline in net earnings to $2.1 million (off by $0.8 million) and diluted EPS to $0.51 (off by $0.19). The primary factors behind the difference between reported results and our estimate were: (1) net interest income was $0.3 million greater than our estimate; (2) merchant card income was $0.3 million higher than we anticipated, though this was offset by a similar increase in merchant card expense; (3) compensation costs were $0.6 million less than anticipated; and (4) an effective tax rate of 12% was 9 points below our 21% estimate. The major reasons for the first quarter's $0.3 million increase in net earnings versus the prior-year quarter were a 9-point decline in the effective tax rate due to tax reform to 12% from 21% (adding $0.3 million to the bottom line) and a $1.6 million, or 13%, advance in net revenues, partly offset by a $1.6 million, or 17%, rise in total noninterest expense. On April 20, 2018, Chesapeake Financial Shares, Inc. approved an 8% quarterly dividend increase to $0.14 per share. Notably, CPKF has increased the annual dividend payment every year for the past twenty-seven years since 1991. In 2018 for the eleventh consecutive year, CPKF has been included in the American Banker magazine listing of the "Top 200 Community Banks" in the United States.

SUMMARY DATA

52-Week High	**$31.00**
52-Week Low	**$26.50**
One-Year Return (%)	**7.13**
Beta	**0.21**
Average Daily Volume (sh)	**3,925**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$116**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.56**
Dividend Yield (%)	**1.96**
5-Yr. Historical Growth Rates	
Sales (%)	**7.0**
Earnings Per Share (%)	**2.3**
Dividend (%)	**6.3**
P/E using TTM EPS	**12.8**
P/E using 2018 Estimate	**12.4**
P/E using 2019 Estimate	**11.6**
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)
2016	10.5 A	11.2 A	11.9 A	11.9 A	45.5 A
2017	12.2 A	13.3 A	14.0 A	13.9 A	53.4 A
2018	13.8 A	14.3 E	14.4 E	14.6 E	57.1 E
2019					60.4 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	0.48 A	0.46 A	0.43 A	0.33 A	1.71 A
2017	0.63 A	0.48 A	0.61 A	0.44 A	2.17 A
2018	0.70 A	0.54 E	0.59 E	0.47 E	2.30 E
2019					2.45 E

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

FIRST QUARTER

CPKF’s first quarter net earnings rose $0.3 million year over year, or 12%, to $2.9 million, while 2018’s first quarter diluted EPS increased by $0.07, or 11%, to $0.70 from $0.63 posted a year ago.

This was much better than our estimate, which had called for a decline in net earnings to $2.1 million (off by $0.8 million) and diluted EPS to $0.51 (off by $0.19).

The primary factors behind the difference between reported results and our estimate were: (1) net interest income was $0.3 million greater than our estimate; (2) merchant card income was $0.3 million higher than we anticipated, though this was offset by a similar increase in merchant card expense; (3) compensation costs were $0.6 million less than anticipated; and (4) an effective tax rate of 12% was 9 points below our 21% estimate, adding $0.3 million to the bottom line. This was partly offset by other miscellaneous expense that came in $0.2 million more than we had expected and other miscellaneous income that was $0.1 million less than our estimate.

The major reasons for the first quarter’s $0.3 million increase in net earnings versus the prior-year quarter were a 9-point decline in the effective tax rate due to tax reform to 12% from 21% (adding $0.3 million to the bottom line) and a $1.6 million, or 13%, advance in net revenues due to higher net interest income (up $0.5 million) and larger noninterest income (up $1.1 million due to from merchant card activities), partly offset by a $1.6 million, or 17%, rise in total noninterest expense, mostly from greater compensation, merchant card costs, and other miscellaneous expense.

We are maintaining our 2018 diluted EPS estimate at $2.30, and initiating our 2019 estimate at $2.45 per share. Our 2018 EPS estimate represents a 6% advance over 2017’s diluted EPS of $2.17, while our 2019 estimate represents a 7% gain. We have moderated our expectations of loan growth to 5% from 8% in 2018 due to softening loan demand, though robust advances in merchant card income from higher volumes will offset this.

As to merchant card, CPKF recently added a few new high-volume merchants that process several million dollars of card volume per month, as well as raising the volume limits for certain other merchants and increasing the proportion of higher margin direct business in its mix. Thus, we expect steady growth in this business throughout the next couple of years. Moreover, additional upside is possible should CPKF add more merchants or ISO relationships later on or increase the amount of direct business.

We estimate that loan growth of 5% in 2018 and 2019 will offset a declining net interest margin. Increased compensation costs and higher expenses related to the expansion of the merchant card business will temper these gains, though a lower effective tax rate will help.

On April 20, 2018, Chesapeake Financial Shares, Inc. approved an 8% quarterly dividend increase to $0.14 per share from $0.13 per share, payable on or about June 15, 2018 to shareholders of record June 1, 2018. Notably, CPKF has increased the annual dividend payment every year for the past twenty-seven years since 1991.

In 2018 for the eleventh 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. The bank ranked at #97 in the nation out of approximately 633 publicly traded banks and thrifts with less than $2 billion in assets in the study, up from #123 last year and #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 10.08%.

Chesapeake Bank also recently garnered a top ranking in the American Banker’s list of “Best Banks to Work for” in 2017, earning a #34 spot out of the 75 banks listed.

CPKF opened a new branch in a retirement community in November in Richmond, VA. It is CPKF's fifth venture into the retirement center market, which it finds attractive due to opportunities to grow both the deposit gathering and investment management businesses.

In other news, the ABA (American Bankers Association) elected Jeffrey M. Szyperski as Chairman Elect during the ABA Annual Convention, held October 15-17 in Chicago.

Below, we discuss first quarter results more fully. Our projections are shown at the back of the report.

Net Interest Income

Net interest income increased $0.4 million, or 7%, year over year in the first quarter to $6.7 million ($0.3 million above our estimate), as an 8% increase in average interest-earning assets was partly offset by a net interest margin of 4.06%, lower than the 4.26% earned in the year-ago quarter and also below our estimate. We note that in 2018's first quarter, CPKF reduced the FTE adjustment due to a lower tax rate associated with the tax reform act. As a result, the net interest margin is also lower than that reported in previous years.

Our new NIM estimate for 2018 and 2019 is now 4.05%, about the same as reported in 2018's first quarter.

We note that CPKF's balance sheet was asset sensitive at the end of the first quarter, which will likely expand the net interest margin in a rising interest-rate environment.

Noninterest Income

Noninterest income increased $1.1 million, or 13%, year over year to $7.2 million ($0.2 million more than the $7.0 million we had projected), largely due to strong growth in merchant card income (up $1.0 million, or 34%) and cash flow income (up $0.1 million, or 12%).

CPKF recently expanded its merchant card processing operations. Thus, we expect steady growth in this business throughout the next couple of years. Moreover, the cash flow business has been generateing solid receivables growth recently that should benefit revenues over the next couple of years.

Loss Provision

The loan loss provision was flat year over year at $175,000, and was the same as our estimate. Loan loss reserves fell $0.4 million year over year to $4.7 million (0.97% of loans), which was above the fourth quarter's loss reserve of $4.5 million, or 0.92%, of loans, but below the $5.2 million (1.11% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance rose to $6.4 million (1.24% of loans plus cash flow receivables) from $6.1 million (1.17% of loans plus cash flow receivables) at the end of the previous quarter, but was below the $6.7 million (1.34% of loans plus cash flow receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF recorded recoveries of $68,000 in the first quarter. This compares to a net recovery of $2,000 in the year-ago quarter and net charge-offs of $1,464,000 for the full year in 2017.

We are estimating that the loss provision will decrease by $250,000 to $700,000 in 2018 from $950,000 actual in 2017 before rising $100,000 in 2019 to $800,000.

We project that the total loss allowance will remain flat at 1.17% of total loans plus receivables at yearend 2018 before slipping to 1.15% at the end of 2019.

Noninterest Expense
Noninterest expense advanced $1.5 million, or 17%, to $10.4 million ($0.1 million less than the $10.5 million we had projected) from the prior-year quarter, primarily reflecting greater compensation costs (up $0.4 million, or 11%), merchant card expense (up $0.9 million, or 46%), and other miscellaneous expense (up $0.2 million , or 11%).

The efficiency ratio worsened, rising to 74.8% from 72.0% in the year-ago quarter, but improved from the fourth quarter's 78.9%.

We project that compensation costs will increase from $18.6 million actual in 2017 to $19.7 million in 2018 and $20.4 million in 2019. Our estimate of noncompensation costs is $25.3 million in 2018 and $26.9 million in 2019, compared to $22.5 million actual in 2017. In total, we believe that the efficiency ratio will stabilze at about the 77%-78% level in 2018 and 2019.

Income Taxes
The Company had a 12% effective tax rate in the first quarter, a 9-point decrease from 21% in the year-ago quarter, stemming from reduced tax rates associated with the tax reform act. This compares to our estimate of an effective tax rate of 21%.

We are decreasing our estimate of the effective tax rate for the remaining quarters in 2018 to 18%, which gives an effective tax rate of 16% for the entire year. We are using the same estimates for 2019. This compares to a full-year effective tax rate of 21.3% in 2017.

Net Income
CPKF's first quarter net earnings rose $0.3 million year over year, or 12%, to $2.9 million, while 2018's first quarter diluted EPS increased by $0.07, or 11%, to $0.70 from $0.63 posted a year ago.

This was much better than our estimate, which had called for a decline in net earnings to $2.1 million (off by $0.8 million) and diluted EPS to $0.51 (off by $0.19).

Profitability
CPKF posted a 13.4% ROE and 1.47% ROA for the first quarter of 2018, compared to 13.1% and 1.42%, respectively, in the prior-year quarter.

Loans and Asset Quality
Gross loans increased $19 million, or about 4%, year over year, and fell $4 million, or 1%, sequentially to $487 million.

By category, 1-4 family loans rose $2.0 million, or 2%, to $121 million; commercial and industrial rose $1.3 million, or 2%, to $69 million; other loans gained by $0.7 million, or 2%; and consumer advanced by $0.2 million, or 2%, to $11 million. Negatively, construction and land development loans dropped $5.9 million, or 11%, to $48 million commercial real estate decreased $1.6 million, or 1%, to $203 million; and cash management receivables slipped by $0.4 million, or 1%, to $33 million.

We estimate combined loan and receivables growth of 5% in 2018 and 2019. This compares to actual growth of 9% in loans and receivables in full-year 2017.

Asset quality measures improved during the first quarter. Total nonperforming assets fell $1.2 million to $7.9 million from $9.1 million sequentially. Restructured loans decreased $0.7 million, to $0.0 million, nonaccrual loans declined by $0.5 million, or 9%, to $4.7 million, and other real estate owned was flat at $3.2 million.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreased 21 basis points to 1.52% of outstandings + OREO at March 31, 2018 from 1.73% of outstandings + OREO at December 31, 2017, and declined 70 basis points year over year from 2.22%.

The loss allowance as a percent of nonperforming assets rose to 81% from 68% sequentially, as there was improvement in both the loss reserve for loans plus cash flow receivables and in nonperforming assets.

Liquidity and Funding
Cash and equivalents increased by $14 million to $32 million at the end of the first quarter, while the securities portfolio fell $3 million, or 1%, to $205 million. By category the private-label mortgage securities portfolio decreased $1 million to $27 million, while the municipal securities portfolio rose by $3 million to $145 million and US government-related securities was flat at $33 million.

On a relative basis, the private-label mortgage securities portfolio was 13% of the entire available-for-sale securities portfolio, US government-related securities were 16%, and the municipal securities portfolio was 71%.

CPKF's liquidity ratios were sightly better compared to the previous quarter. At March 31, 2018, liquid assets represented 8% of total assets (6% at the end of the fourth quarter) and covered purchased funds by 132% (up from 95%), while loans plus receivables accounted for 65% of total assets (down from 67% at December 31, 2017).

Core deposits rose by $15 million sequentially to $647 million and funded 125% of loans and receivables.

Capital Adequacy and Dividends
The Company's capital adequacy ratios increased during the first quarter, reflecting a decline in risk assetsand an increase in capital. The Tier 1 capital ratio rose 51 basis points sequentially to 14.86% at the end of 2018's first quarter from 14.35% at December 31, 2017, while the Total capital ratio jumped 64 basis points, rising to 15.94% from 15.30%.

Total shareholders' equity gained $0.3 million during the first quarter, as a $2.4 million advance in retained earnings plus $0.1 million of other capital increases was partly offset by a $2.2 million decline in unrealized gains on securities available for sale.

Reflecting these factors plus a 9,000 increase in common shares outstanding, tangible book value per share decreased during the first quarter, by $0.01 per share to $21.31 from $21.32. The total equity to total assets ratio worsened, decreasing by 14 basis points to 10.91% from 11.05%, as the growth in total assets outpaced a minor gain in total common shareholders' equity.

OVERVIEW

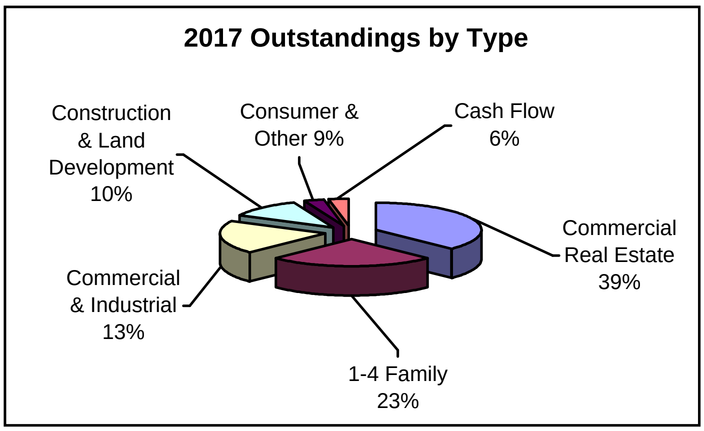
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $797 million in total assets at March 31, 2018. CPKF is predominantly a small business lender with 15 branch offices and one loan production office that serve customers in 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 Wealth Management, an independent wealth management firm with trust powers that manages about $425 million in assets (at 2017 yearend) through its subsidiaries involved in asset management (Chesapeake Wealth Management is a registered investment adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, 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 2017, Chesapeake Payment Systems had 668 direct merchants in its system and processed over $406 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with three independent sales organizations (ISOs) to expand its processing footprint.

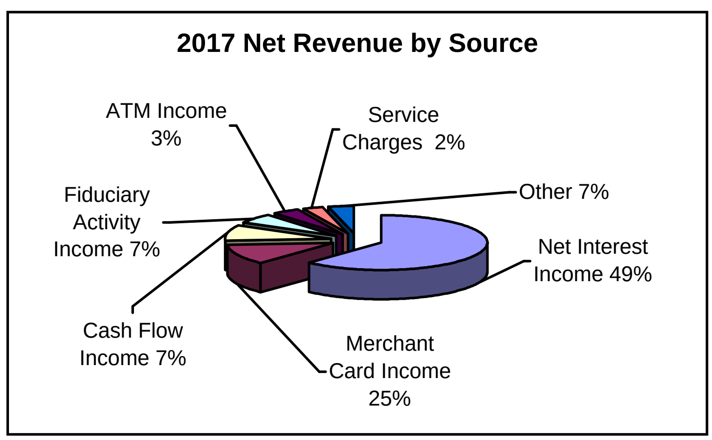
The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and had 71 customers at the end of 2017.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $229 million loan portfolio (as of December 31, 2017) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $562,000 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 $697,000 to revenues in 2017 (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, 2017, the lending book consisted of commercial real estate (accounting for 39% of total gross outstandings), 1-4 family (23%), commercial and industrial (13%), construction and land development (10%), consumer and other (9%), 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, 2017, 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 16% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 70% and 14%, respectively, of the total. Core deposits represented 94% of total deposits at December 31, 2017, with certificates of deposit larger than $250,000 at 6%.



In 2017, net interest income contributed 49% of net revenue, with a significant 51% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (25% of net revenues), cash flow income (7%), income from fiduciary activities (7%), ATM income (3%), and service charges on deposit accounts (2%).

VALUATION

CPKF stock is down 5.0% year to date, worse than the 7.3% median price gain for the small-cap bank industry, as well as the 4.1% price increase for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a discount to the industry median P/E of 13% in 2019, based upon our current CPKF EPS estimate for 2019. Assuming a small-cap bank industry valuation of 13.4X for 2019, CPKF's target price based upon our 2019 EPS estimate is about $33.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.34X. Assuming a similar multiple based upon our estimated book value twelve months out, our target price is about $31.00, which compares to CPKF's current book value of $21.31.

We have chosen the $32.00 midpoint of the range of values based upon CPKF's 2018 P/E of $33.00 and forward Price/Tangible Book Value of $31.00 as our new valuation.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2018E	EPS 2019E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	**(5.0)**	**12.8**	**12.4**	**11.6**	**10.8**	**12.7**	**1.17**	**1.32**	**2.0**
S&P 500	4.1	22.3	17.9	16.8			8.9		1.8
Median	**7.3**	**17.4**	**14.8**	**13.4**	**9.6**	**9.1**	**1.04**	**0.93**	**1.9**
Average	9.5	19.0	14.6	13.3	9.9	8.7	1.0	0.9	1.8
High	34.0	76.8	17.9	16.3	19.5	14.5	1.6	1.4	3.7
Low	(5.0)	12.5	12.2	11.2	2.6	(7.4)	0.3	(0.8)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	**12/13**	**12/14**	**12/15**	**12/16**	**12/17**	**12/18E**	**12/19E**
Net interest income	23.3	23.1	23.4	24.5	26.0	27.2	28.7
Non-interest income	15.7	14.6	18.9	21.0	27.4	29.9	31.7
Total net revenue	39.0	37.7	42.3	45.5	53.4	57.1	60.4
Loan loss provision	1.1	0.6	0.2	0.5	0.9	0.7	0.8
Non-interest expense	29.8	30.5	34.1	36.7	41.1	44.9	47.3
Income taxes & other	1.5	0.8	1.3	1.3	2.5	1.9	2.0
Zacks adjusted income before NRI	6.6	5.8	6.7	7.0	8.9	9.6	10.3
GAAP net income	7.4	6.5	7.4	7.0	8.9	9.6	10.3
Diluted EPS before NRI	1.66	1.43	1.64	1.71	2.17	2.30	2.45
Reported EPS	1.84	1.62	1.82	1.71	2.17	2.30	2.45
Dividends per share	0.43	0.45	0.47	0.49	0.51	0.55	0.57
Liquid assets	89.9	62.8	43.2	40.6	50.6	50.4	51.2
Outstandings, gross	401.0	410.4	439.0	481.4	523.7	550.5	578.5
Total assets	661.8	663.2	679.1	720.8	785.2	821.5	854.9
Core deposits	467.2	480.5	489.1	522.3	632.4	667.0	694.1
Purchased funds	105.3	82.4	92.4	97.4	53.1	50.1	50.9
Long-term debt	25.9	20.6	21.1	16.1	5.2	5.2	5.0
Shareholders' equity	61.8	70.6	76.0	77.9	86.8	91.9	99.8
Profitability							
Return on avg assets	1.01%	0.87%	0.99%	0.99%	1.17%	1.19%	1.23%
Return on avg equity	10.74%	9.14%	9.08%	8.89%	10.78%	10.78%	10.70%
Net interest margin	4.60%	4.60%	4.38%	4.38%	4.28%	4.05%	4.05%
Loan loss provision % avg assets	0.17%	0.09%	0.04%	0.08%	0.12%	0.09%	0.10%
Noninterest income % avg assets	2.40%	2.20%	2.80%	2.96%	3.58%	3.71%	3.79%
Noninterest expense % avg assets	4.55%	4.61%	5.08%	5.17%	5.36%	5.58%	5.64%
Preprovision pretax income % avg assets	1.41%	1.09%	1.21%	1.23%	1.61%	1.51%	1.56%
Tangible efficiency ratio	75%	81%	82%	81%	77%	79%	78%
Payout ratio	23%	28%	26%	29%	24%	24%	23%
Asset Quality							
Net charge-offs % avg outstandings	0.29%	0.14%	0.26%	0.31%	0.29%	0.10%	0.14%
Allowance % outstandings	1.75%	1.88%	1.51%	1.34%	1.17%	1.17%	1.15%
NPAs % loans + OREO	5.20%	4.20%	3.09%	2.21%	1.73%	1.32%	1.12%
Allowance % NPAs	33%	45%	49%	60%	68%	88%	102%
Liquidity & Funding							
Liquid assets % purchased funds	85%	76%	47%	42%	95%	101%	101%
Core deposits % outstandings	117%	117%	111%	108%	121%	121%	120%
Liquid assets % assets	14%	9%	6%	6%	6%	6%	6%
Outstandings % assets	61%	62%	65%	67%	67%	67%	68%
Capital Adequacy							
Total equity % assets	9.34%	10.65%	11.19%	10.81%	11.05%	11.19%	11.68%
Tangible equity % assets	9.34%	10.65%	11.19%	10.81%	11.05%	11.19%	11.68%
Tier 1 capital ratio	14.23%	14.69%	13.95%	14.16%	14.35%		
Total capital ratio	15.48%	15.94%	15.19%	15.30%	15.37%		
Parent Company Statistics							
Interest coverage	9.2X	27.3X	61.5X	9.6X	7.5X	7.5X	7.5X
Interest & dividend coverage	1.5X	3.7X	3.5X	0.5X	1.2X	1.1X	1.1X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.0X	0.9X	1.1X	1.2X	0.9X	0.9X	0.9X
Double leverage	119.7%	109.3%	101.7%	102.6%	102.7%	10.4%	19.9%

Chesapeake Financial Shares, Inc.

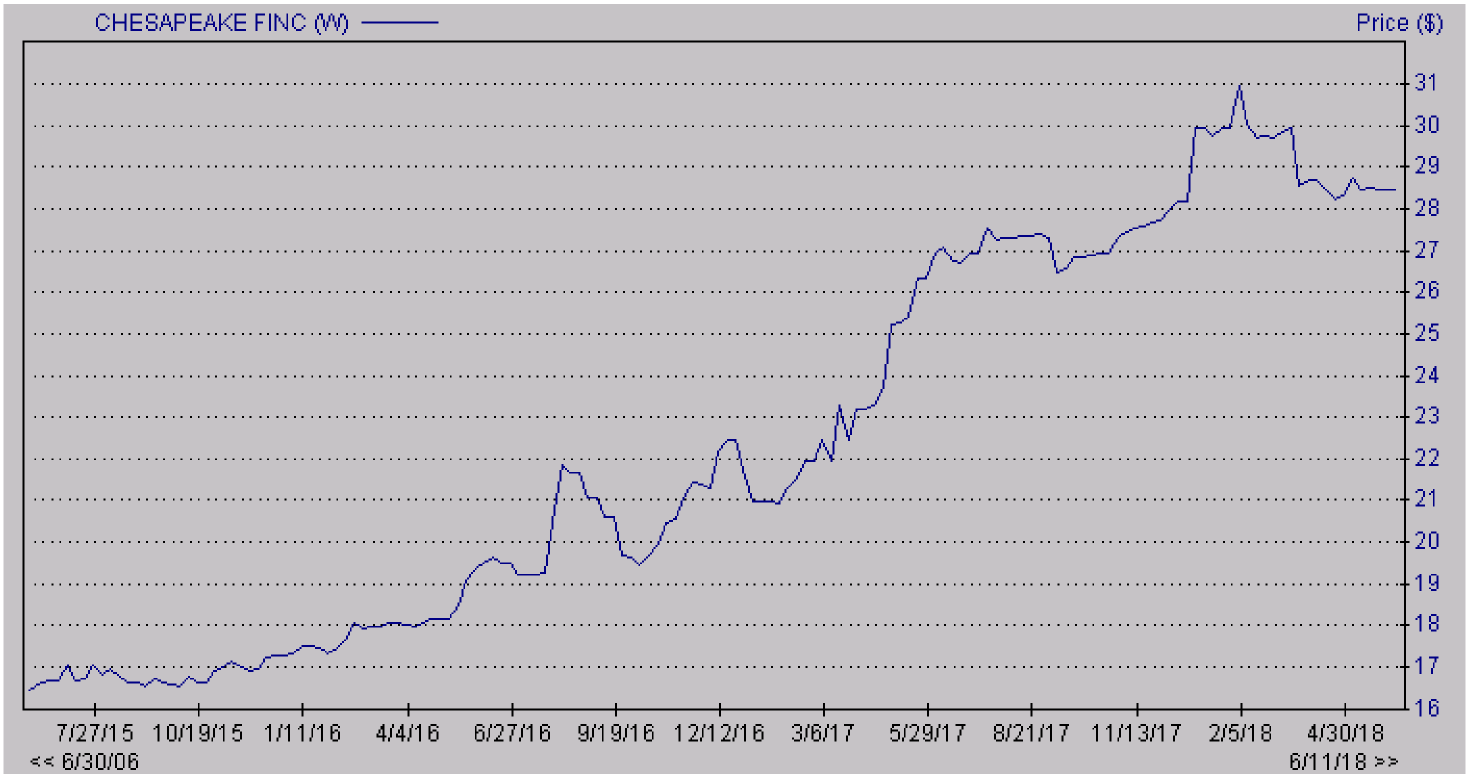
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2017				2018			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	6.2	6.5	6.6	6.7	6.7	6.8	6.9	6.9
Non-interest income	6.0	6.8	7.4	7.2	7.1	7.5	7.5	7.7
Total net revenue	12.2	13.3	14.0	13.9	13.8	14.3	14.4	14.6
Loan loss provision	0.2	0.5	0.2	0.1	0.2	0.2	0.2	0.2
Non-interest expense	8.8	10.5	10.6	11.2	10.4	11.4	11.2	12.0
Income taxes & other	0.6	0.3	0.7	0.8	0.3	0.5	0.5	0.5
Zacks adjusted income before NRI	2.6	2.0	2.5	1.8	2.9	2.2	2.5	1.9
GAAP net income	2.6	2.0	2.5	1.8	2.9	2.2	2.5	1.9
Diluted EPS before NRI	0.63	0.48	0.61	0.44	0.70	0.54	0.59	0.47
Reported EPS	0.63	0.48	0.61	0.44	0.70	0.54	0.59	0.47
Dividends per share	0.13	0.13	0.13	0.13	0.13	0.14	0.14	0.14
Liquid assets	48.1	59.8	59.6	50.6	65.3	50.0	50.2	50.4
Outstandings, gross	494.9	515.7	516.7	523.7	518.7	529.1	539.7	550.5
Total assets	744.6	784.7	784.1	785.2	797.3	805.3	813.4	821.5
Core deposits	585.9	626.6	627.8	632.4	647.4	653.8	660.4	667.0
Purchased funds	49.1	56.8	57.4	53.1	49.5	49.7	49.9	50.1
Long-term debt	21.0	10.2	5.2	5.2	5.2	5.2	5.2	5.2
Shareholders' equity	80.7	83.6	85.3	86.8	87.0	88.7	90.6	91.9
Profitability								
Return on avg assets*	1.42%	1.04%	1.28%	0.94%	1.47%	1.12%	1.22%	0.95%
Return on avg equity *	13.12%	9.72%	11.92%	8.54%	13.43%	10.21%	11.06%	8.54%
Net interest margin*	4.26%	4.33%	4.31%	4.28%	4.06%	4.05%	4.05%	4.05%
Loan loss provision % avg assets*	0.10%	0.25%	0.09%	0.06%	0.09%	0.09%	0.09%	0.09%
Noninterest income % avg assets*	3.29%	3.55%	3.76%	3.69%	3.62%	3.76%	3.72%	3.74%
Noninterest expense % avg assets*	4.81%	5.47%	5.43%	5.72%	5.23%	5.68%	5.53%	5.89%
Preprovision pretax inc.% avg assets*	1.88%	1.47%	1.71%	1.38%	1.76%	1.45%	1.58%	1.25%
Tangible efficiency ratio	72%	79%	78%	79%	75%	80%	78%	83%
Payout ratio	20%	26%	21%	29%	18%	26%	24%	30%
Asset Quality								
Net charge-offs % avg outstandings*	(0.00)%	1.07%	0.08%	0.01%	(0.05)	0.15%	0.15%	0.15%
Allowance % outstandings	1.34%	1.13%	1.16%	1.17%	1.24%	1.21%	1.19%	1.17%
NPAs % loans + OREO	2.22%	1.84%	1.69%	1.73%	1.52%	1.45%	1.39%	1.32%
Allowance % NPAs	60%	61%	68%	68%	81%	83%	85%	88%
Liquidity & Funding								
Liquid assets % purchased funds	98%	105%	104%	95%	132%	101%	101%	101%
Core deposits % outstandings	118%	122%	121%	121%	125%	124%	122%	121%
Liquid assets % assets	6%	8%	8%	6%	8%	6%	6%	6%
Outstandings % assets	66%	66%	66%	67%	65%	66%	66%	67%
Capital Adequacy								
Total equity % assets	10.84%	10.66%	10.87%	11.05%	10.91%	11.01%	11.13%	11.19%
Tangible equity % assets	10.84%	10.66%	10.87%	11.05%	10.91%	11.01%	11.13%	11.19%
Tier 1 capital ratio	14.31%	14.04%	14.43%	14.35%	14.86%			
Total capital ratio	15.48%	15.02%	15.44%	15.37%	15.94%			

*Annualized.

HISTORICAL STOCK PRICE



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