

Cortland Bancorp

(CLDB-\$15.16; Not Rated)

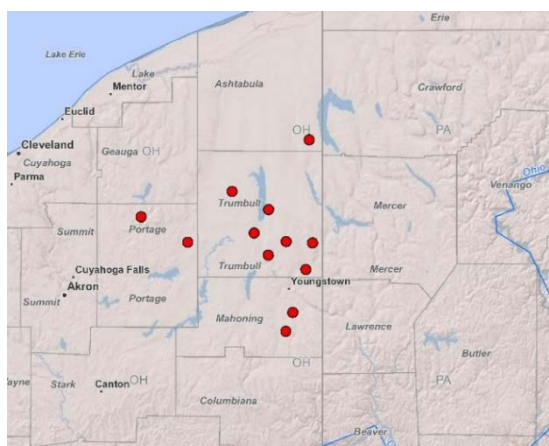
Company Profile: Fourth Quarter 2014 Financial Results

Company Description: Cortland Bancorp is a financial holding company headquartered in Cortland, Ohio. Founded in 1892, the company's bank subsidiary, The Cortland Savings and Banking Company, has 12 full-service banking offices located in Trumbull, Mahoning, Portage, and Ashtabula counties (OH). The company offers both retail and commercial banking services, though the majority of the loan portfolio is commercial-oriented. Cortland's market has a projected population growth rate of -2.30% through 2019. The weighted median household income for the company's market was \$42,469 in 2014; below both the Ohio and national medians of \$46,760 and \$51,579, respectively.

Key Highlights:

- **Management:** Cortland is led by President and Chief Executive Officer James M. Gasior. Mr. Gasior is Certified Public Accountant and has been with the company since 1990. Other key management positions are held by Chief Financial Officer David J. Lucido, and Chief Operating Officer Timothy Carney, each has more than 20 years of experience in the banking industry.
- **Earnings:** Cortland Bancorp reported GAAP diluted EPS of \$0.12 in 4Q14 versus \$0.21 in 3Q14. The decrease in earnings relative to 3Q14 was driven by an elevated level of loan loss provision.
- **Loan & Deposit Growth:** On a linked-quarter basis, gross loans held for investment increased 36.3%, annualized, in 4Q14, with CRE and C&I loans posting the largest increases. Total deposits grew 24.6%, annualized, over the same period, primarily in money market accounts.
- **Net Interest Margin:** On a sequential-quarter basis, the net interest margin expanded four bps to 3.68% in 4Q14 and net interest income increased 3.6% to \$4.5 million, over the same period. Both increased were due to an improved balance sheet mix.
- **Asset Quality:** Loan loss provision expense was \$1.15 million in 4Q14 vs. \$0.19 million in 3Q14, but the net-charge off ratio declined to 0.03% from 0.30%, over the same period. Nonperforming assets (ex. TDRs) increased to 1.77% of total assets at quarter-end. The increase in NPAs was due to a specific portion of the loan portfolio, rather than a trend of broad credit quality deterioration.
- **Future Goals:** Management has stated Cortland will focus on deploying capital towards organic growth to expand its presence in the northeastern Ohio region. The company features a strong balance sheet, cash dividends, and the potential for strategic acquisitions. Additionally, Cortland recently authorized the repurchase of up to 200,000, or 4.4%, of its outstanding common shares.

Cortland Bancorp: Bank Branch Map



March 30, 2015

FINANCIALS

Market Data

Market Value (MM)	\$68.6
Current Price	\$15.16
52 Week Range	\$10.51 to \$16.00
Shares Outstanding	4,527,848
ADTV (shares)	3,778
ADTV	\$57,274
Dividend Yield	1.6%
Institutional Ownership	5.2%

Financial Data

Quarter Ended December 31, 2014

Assets (MM)	\$569
Deposits (MM)	\$457
Equity (MM)	\$56
Book Value per Share	\$12.33
Tang. Book Value per Share	\$12.33
Loans/ Deposits	78.9%
Tang. Equity/Tang. Assets	9.82%
Net Interest Margin	3.68%
Efficiency Ratio	72.7%
ROAA	0.39%
ROACE	3.9%
NPAs/ Assets	1.77%
NCOs/ Avg. Loans	0.03%
Loan Loss Reserves/ Loans	1.44%

GAAP EPS (Fully Diluted)

	Q1	Q2	Q3	Q4	FY
2012	\$0.26	\$0.21	\$0.28	(\$0.11)	\$0.64
2013	\$0.18	\$0.18	\$0.14	(\$0.11)	\$0.39
2014	\$0.29	\$0.23	\$0.21	\$0.12	\$0.85

Valuation Metrics

	CLDB	Peers	Prem/Disc
LTM P/E	17.8x	13.5x	32.1%
P/BV	123%	96%	27.7%
P/TBV	123%	108%	13.8%

Source: SNL Financial and B&S Estimates

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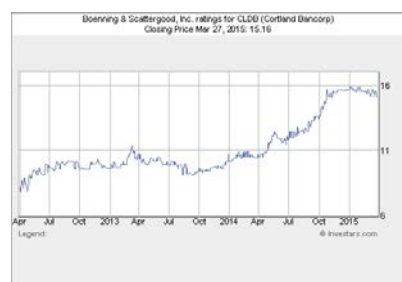
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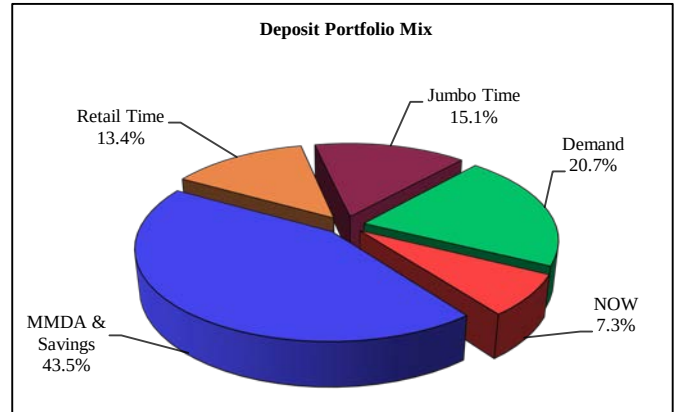
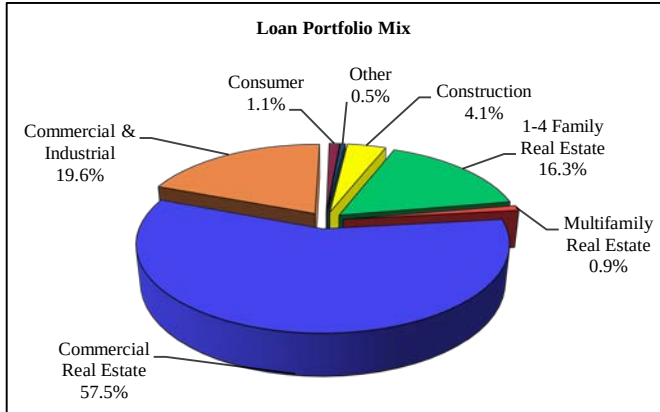
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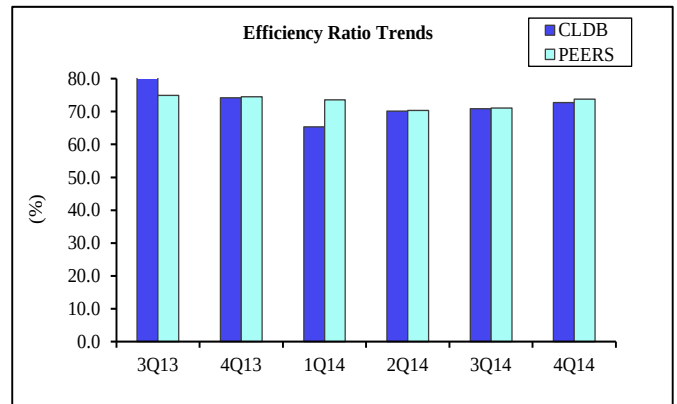
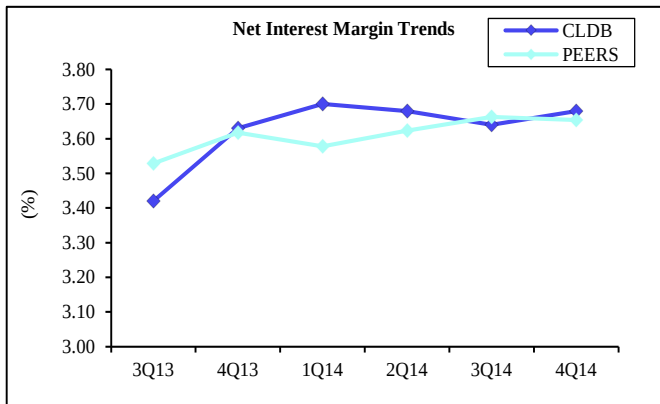


FINANCIAL POSITION & TRENDS

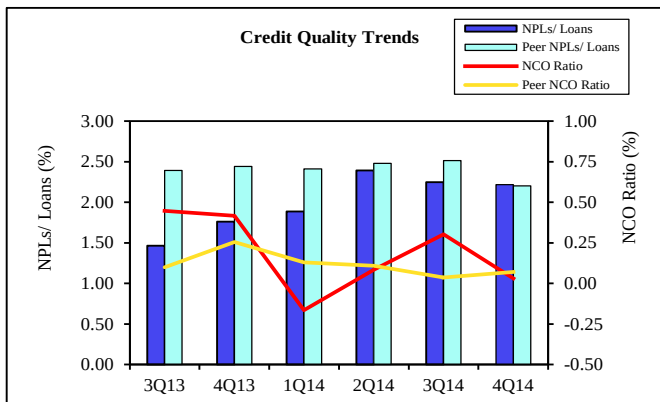
Cortland Bancorp had gross loans held for investment of \$360.2 million as of December 31, 2014. As shown below, CRE loans, residential mortgage loans, and C&I loans represent the largest components of the loan portfolio. The total deposit balance was \$456.8 million at quarter-end with money market and savings accounts representing the largest portions of the portfolio.



Cortland's net interest margin was 3.68% in 4Q14, three bps above the median of 3.65% for its peer group. The average yield on interest-earning assets was 4.21% in 4Q14, flat from the prior quarter, while the average cost of deposits decreased one basis point to 0.39%, over the same period. Cortland's efficiency ratio was 72.72% in 4Q14 vs. the peer group median of 73.73%.



The company's nonperforming loans/ total loans ratio was 2.22% as of December 31, 2014, vs. the peer group median of 2.20%. The net charge-off ratio was 0.03% in 4Q14, below the peer group median of 0.07%. Cortland's tangible common equity ratio was 9.82% as of December 31, 2014, in line with the peers, and the total capital ratio was 15.82% at quarter-end, one basis point greater than the peer median of 15.81%.



Capital Metrics Trends

	3Q13 (%)	4Q13 (%)	1Q14 (%)	2Q14 (%)	3Q14 (%)	4Q14 (%)
Dividend Pay. Ratio						
CLDB	21.43	NM	10.34	21.74	23.81	41.67
Peer Group	28.26	42.86	33.16	32.82	26.76	38.14
TCE/ TA						
CLDB	9.16	8.89	9.95	10.18	10.06	9.82
Peer Group	9.57	9.42	9.59	10.03	9.88	9.82
Leverage Ratio						
CLDB	10.38	10.35	10.48	10.79	10.86	10.66
Peer Group	10.06	10.21	10.24	9.93	10.16	10.00
Tier 1 Cap. Ratio						
CLDB	13.58	13.26	14.89	14.76	14.69	14.58
Peer Group	14.86	15.44	15.17	14.76	14.69	14.77
Total Capital Ratio						
CLDB	14.55	14.19	15.98	15.84	15.74	15.82
Peer Group	15.59	16.07	15.98	15.57	15.74	15.81

Note: The "peer group" consists of all publicly traded banks and thrifts with less than \$1 billion in assets located in the state where the profile company is headquartered.
Source: SNL Financial and Company filings

Disclosure Appendix

Risk Factors:

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock: downturn in the economy, change in the valuation of small-, mid- and large-cap banks, regulatory changes, flatness or inversion of the yield curve and unanticipated large credit losses.

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- **Outperform (Buy):** The security's total return over the year or longer is expected to exceed the total return of the S&P 500™ over the identical period.
- **Neutral (Hold):** The security's total return over the next year or longer is expected to be roughly equivalent to the total return of the S&P 500™ over the identical period.
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- **Low:** The security has higher-than-average fundamental predictability and/or lower-than-average price volatility.
- **Moderate:** The security has average fundamental predictability and/or average price volatility.
- **High:** The security has lower-than-average fundamental predictability and/or higher-than-average price volatility.
- **Speculative:** The security has very inconsistent fundamental predictability and/or very high relative price volatility.

Ratings Distribution (12/31/14):

<u>Coverage Universe (b)</u>	<u>% of Universe</u>	<u>Investment Banking Clients (a)</u>	<u>% of Rating Group</u>
Outperform (Buy)	52%	Outperform (Buy)	18%
Neutral (Hold)	43%	Neutral (Hold)	9%
Underperform (Sell)	6%	Underperform (Sell)	0%

(a) Related to services provided within the past 12 months

(b) Total may not add up to 100% due to rounding

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