

**Cortland Bancorp**  
(CLDB-\$15.31; Not Rated)

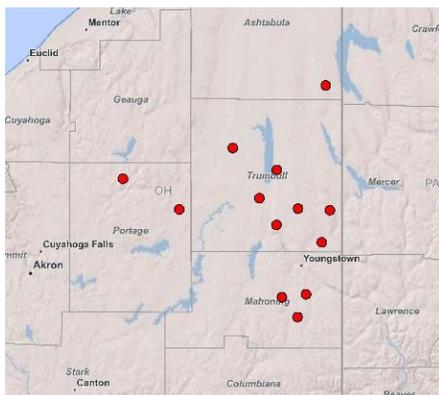
**Company Profile: Third Quarter 2015 Financial Results**

**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 13 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 -2.35% through 2020. The weighted median household income for the company's market is \$43,920; below both the Ohio and national medians of \$48,687 and \$53,706, 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 \$0.27 in 3Q15 vs. \$0.21 in 2Q15. The increase in earnings relative to 2Q15 was driven by increased levels of spread and fee income, combined with lower noninterest expenses.
- **Loan & Deposit Growth:** On a linked-quarter basis, gross loans held for investment increased 2.2%, annualized. Loan growth was concentrated in residential mortgages. Deposits expanded 6.4%, annualized, during the quarter, due to growth in NOW and MMDA accounts.
- **Net Interest Margin:** On a sequential-quarter basis, the net interest margin increased one basis point to 3.67% in 3Q15, and net interest income (FTE) increased 1.4% to \$4.9 million. The margin expansion was primarily driven by a larger balance sheet.
- **Asset Quality:** Loan loss provision expense was \$100k in 3Q15 vs. \$130k in 2Q15 while the net-charge off ratio elevated to 0.42% due to the deterioration of an isolated credit. However, NPAs decreased during 3Q15 in both absolute and relative terms and were 1.63% of assets at quarter-end.
- **Future Goals:** Management has stated Cortland will focus on deploying capital towards accelerated organic growth. The company is characterized by its strong balance sheet, diversified revenue lines, and ample capital (9.9% TCE ratio), which supports enhanced shareholder returns through opportunistic share repurchases and cash dividend increases. Additionally, we believe management is open to exploring a potential strategic acquisition, if an appropriate transaction becomes available.

**Cortland Bancorp: Branch Map**



December 11, 2015

**FINANCIALS**

**Market Data**

Market Value (mm)	\$68.3
Current Price	\$15.31
52 Week Range	\$16.00 - \$13.00
Shares O/S (mm)	4.5
ADTV (shares)	3,220
Dividend Yield	1.6%
Institutional Ownership	11%

**Financial Data**

Assets (mm)	\$570
Deposits (mm)	\$455
Equity (mm)	\$57
Book Value per Share	\$12.82
Tang. Book Value per Share	\$12.82
Loans/ Deposits	79%
Tang. Common Equity/ Tang. Assets	10.0%
Net Interest Margin	3.67%
Efficiency Ratio	67.4%
ROAA	0.86%
ROATCE	8.67%
NPAs/ Assets	1.63%
NCOs/ Avg. Loans	0.42%
Loan Loss Reserves/ Loans	1.43%

**GAAP EPS (Fully Diluted)**

	Q1	Q2	Q3	Q4	FY
2013	\$0.18	\$0.18	\$0.14	(\$0.11)	\$0.39
2014	\$0.29	\$0.23	\$0.21	\$0.12	\$0.85
2015	\$0.25	\$0.21	\$0.27	-	-

**Valuation Metrics**

	CLDB	Peers	Prem/Disc
LTM P/E	18.0x	13.9x	30.0%
P/BV	119%	91%	31.8%
P/TBV	119%	101%	18.0%

Quarter Ended September 30, 2015  
Source: SNL Financial and B&S Estimates

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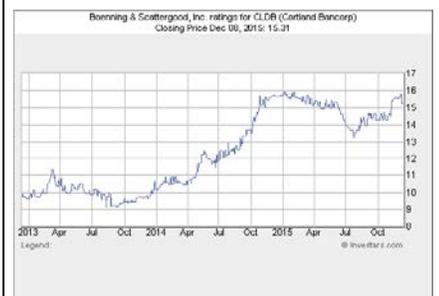
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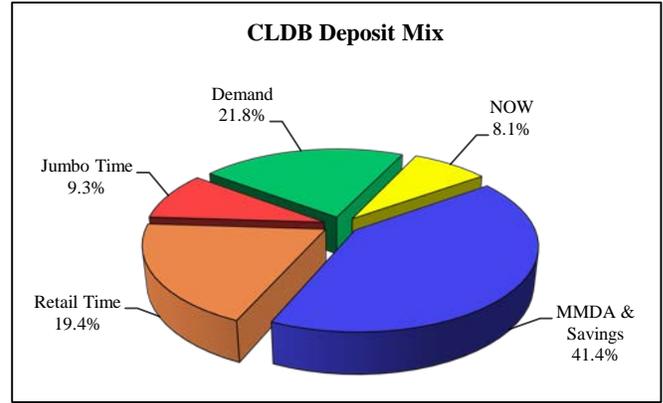
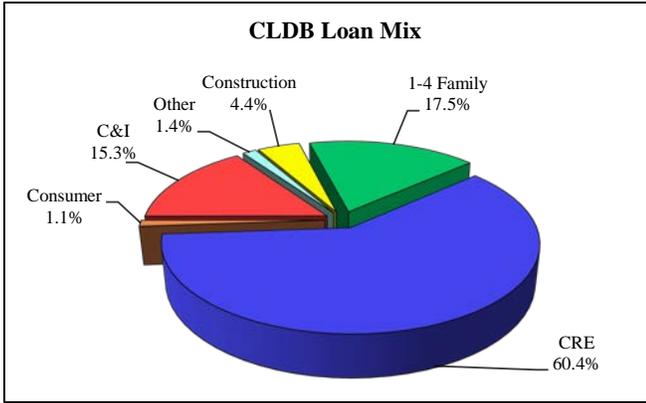
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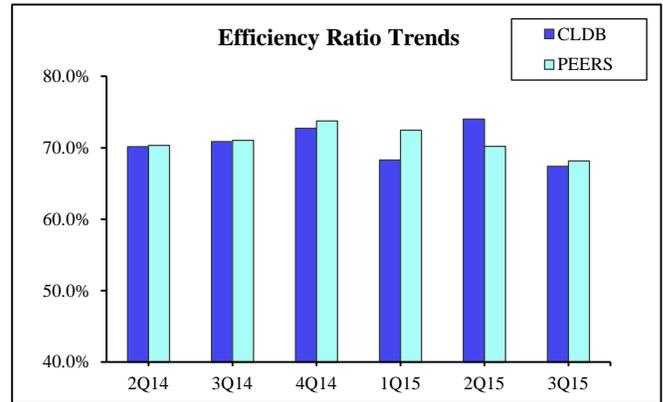
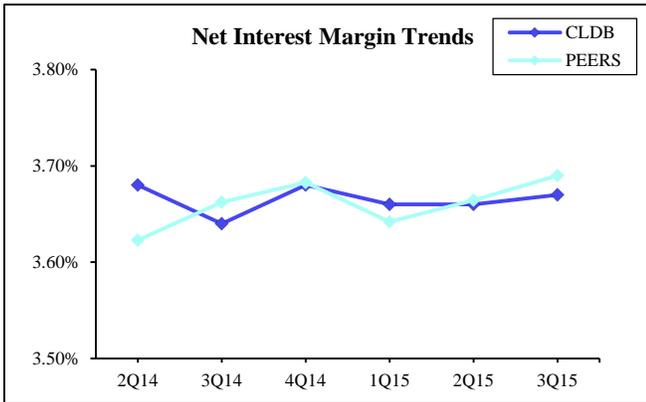


**FINANCIAL POSITION & TRENDS**

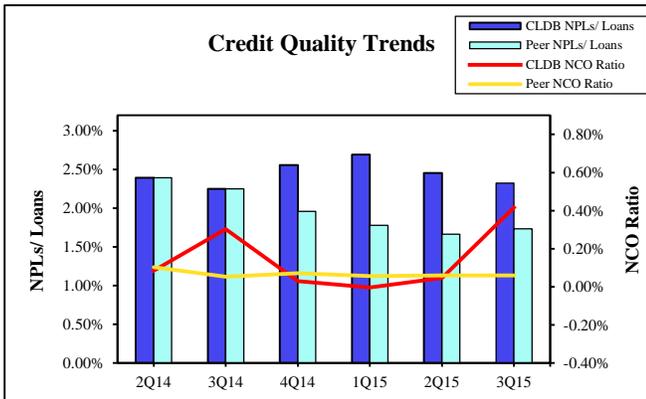
Cortland Bancorp had gross loans of \$363.0 million as of September 30, 2015. As shown below, commercial real estate, 1-4 family and C&I loans represent the largest components of the portfolio. Total deposits were \$447.4 million at quarter-end with money market and savings accounts representing the greatest portions of the deposit mix.



Cortland’s net interest margin was 3.67% in 3Q15, two bps below the median of 3.69% for its peer group. The company’s average yield on interest-earning assets was 4.15% in 3Q15, up one basis point from the prior quarter, and the average cost of deposits was flat at 0.36% over the same period. Cortland’s efficiency ratio was 67.42% in 3Q15 vs. the peer group median of 68.16%.



The company’s nonperforming loans/ total loans ratio fell to 2.33% at quarter-end, compared to the peer median of 1.74%. The net charge-off ratio was 0.42% in 3Q15, vs. the peer median of 0.06%. Cortland’s common equity tier one (“CET1”) capital ratio was 13.02% as of September 30, 2015, vs. a median of 14.28% for its peer group and its total risk-based capital ratio was 15.28% vs. the peer group median of 15.27%.



Capital Metrics	2Q14 (%)	3Q14 (%)	4Q14 (%)	1Q15 (%)	2Q15 (%)	3Q15 (%)
<b>Dividend Payout Ratio</b>						
CLDB	21.74	23.81	41.67	24.00	28.57	22.22
Peer Group	32.73	26.62	37.50	34.54	33.88	27.77
<b>CET1 Ratio</b>						
CLDB	13.49	13.44	13.34	13.19	12.88	13.02
Peer Group	14.26	14.50	14.22	14.31	14.75	14.28
<b>Leverage Ratio</b>						
CLDB	10.79	10.86	10.66	10.74	10.83	10.89
Peer Group	9.98	10.24	9.96	10.13	10.41	10.35
<b>Tier 1 Ratio</b>						
CLDB	14.89	14.76	14.69	14.58	14.39	14.04
Peer Group	15.61	15.23	14.50	14.49	14.79	14.27
<b>Total Capital Ratio</b>						
CLDB	15.98	15.84	15.74	15.82	15.63	15.28
Peer Group	16.17	16.10	15.80	15.52	15.56	15.27

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

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### **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.

### **Analyst Certification:**

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Boenning & Scattergood serves as OTCQX Corporate Broker for the subject company.

Boenning & Scattergood received compensation for non-investment banking services from the subject company within the past 12 months.

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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.
- **Underperform (Sell):** The security's total return over the next year or longer is expected to be less than 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.

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<b><u>Coverage Universe (a)</u></b>	<b><u>% of Universe</u></b>	<b><u>Investment Banking Clients (b)</u></b>	<b><u>% of Rating Group</u></b>
Outperform (Buy)	32%	Outperform (Buy)	6%
Neutral (Hold)	40%	Neutral (Hold)	15%
Underperform (Sell)	6%	Underperform (Sell)	33%
Not Rated	22%	Not Rated	9%

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

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

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