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Earnings Review

November 2, 2020

# First BanCorp (FBP - NYSE - Recent Price: $6.49)

## *FBP: Anticipating Efficiencies from Santander Transaction, NIM Stabilization; Capital Levels Remain Strong. Discontinuing Coverage.*

**3Q20 Results:** First BanCorp reported 3Q20 net income to common shareholders of $27.9 million, compared to the $20.6 million recorded in 2Q20. On a per share basis, 3Q20 results were $0.13 compared to $0.09 in the prior quarter. There were several special items in 3Q20 results, including merger & restructuring costs of $10.4 million ($6.5 million after-tax), an $8.0 million tax benefit related to partial reversal of the deferred tax asset valuation allowance, $5.3 million in securities gains, and $1.0 million ($0.6 million after-tax) in COVID-19 related expenses. In the prior quarter, special items included a $5.0 million ($3.1 million after tax) insurance recovery related to hurricanes Irma and Maria, merger & restructuring costs of $2.9 million ($1.8 million after-tax), and $3.0 million ($1.9 million after-tax) in COVID-19 related expenses. The 3Q20 special items had a $6.4 million positive after-tax impact on results compared to the $0.6 million negative after-tax impact in 2Q20. Excluding these items from both quarters, adjusted net income available to common shareholders for 3Q20 was roughly $21.7 million or $0.10 per share compared to $21.3 million or $0.10 per share in 2Q20. The adjusted 3Q20 earnings of $0.10 fell $0.04 shy of our $0.14 estimate and $0.05 short of the $0.15 median Street estimate. The quarter was characterized by a higher-than-expected loan loss provision and lower net interest income, partially offset by higher noninterest income. Highlights of the quarter include:

- Net interest income rose $13.5 million or 10.0% sequentially to $148.7 million, as a 16.7% increase in average earning assets was offset by 31 bps of contraction in the NIM (on a tax equivalent basis, excluding valuations) to 4.07%. The NIM compression was driven by a 44 bps decline in average earning asset yields offset partially by a 23 bps decrease in the average cost of interest bearing liabilities. The jump in average earning assets was driven by the acquisition of the Banco Santander Puerto Rico (BSPR) operations, completed on September 1, 2020. BSPR operations contributed approximately $14.0 million to the increase in net interest income for the quarter.
- Noninterest income increased $9.0 million or 43.3% linked-quarter. If we exclude the special items from both quarters – securities gains of $5.3 million in 3Q20 and insurance proceeds of $5.0 million in 2Q20 – "core" noninterest income rose $8.6 million or 53.6%, primarily due to the BSPR acquisition, which substantial increases in service charges on deposits and helped push a 92.6% rise in mortgage banking

| Market Data | | Earnings Per Share Data | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Our Forecast | | Consensus | |
| | | | 2019A | 2020E | 2021E | 2020 | 2021 |
| Market Value (M) | $1,407 | 1Q (Mar.) | $ 0.20 | $ 0.01 | $ 0.19 | $ 0.01 | $0.18 |
| ADTV (Shs) | 1,576,781 | 2Q (Jun.) | $ 0.19 | $ 0.09 | $ 0.21 | $ 0.09 | $0.19 |
| ADTV (000') | $10,233.3 | 3Q (Sep.) | $ 0.21 | $ 0.13 | $ 0.24 | $0.15 | $0.24 |
| 52 Week Range | $3.50-$11.10 | 4Q (Dec.) | $ 0.16 | $ 0.17 | $ 0.25 | $0.18 | $0.25 |
| Dividend Yield | 3.08% | Year | $ 0.76 | $ 0.40 | $ 0.89 | $0.39 | $0.84 |
| | | P / E | 8.6 | 16.2 | 7.3 | 16.8 | 7.7 |

| Fundamental Metrics (MRQ) | |
|---|---|
| **Balance Sheet** | |
| Total Assets (M) | $18,660 |
| Gross Loans HFI (M) | $11,847 |
| Total Deposits (M) | $15,203 |
| Loans / Deposits | 78% |
| Securities / Assets | 19% |
| Debt / Assets | 5% |
| **Profitability** | |
| FTE NIM | 4.07% |
| Nonint. Income / Revenue | 14% |
| Efficiency Ratio | 53% |
| Core ROAA | 0.70% |
| Core ROACE | 5.13% |
| **Credit Quality** | |
| NPAs / Assets | 1.57% |
| NPLs / Loans | 1.76% |
| NCO Ratio | 0.45% |
| Reserves / Loans | 3.25% |
| Provision / Avg Loans | 1.85% |
| **Capital Adequacy** | |
| TCE / TA Ratio | 11.4% |
| Total Capital Ratio | 20.3% |
| Tier 1 Ratio | 17.5% |
| Tier 1 CE Ratio | 17.2% |
| Leverage Ratio | 13.0% |
| **Performance** | |
| Core Value | $21.13 |
| 3 Yr. Success Ratio | 11% |
| Failure Ratio | 6.8% |

Source: SNL Financial


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revenues, though increased mortgage activity and low interest rates also assisted with this item.

- Noninterest expenses increased $17.7 million or 19.7% sequentially. If we strip out the $10.4 million of 3Q20 and $2.9 million of 2Q20 merger & restructuring expenses, noninterest expenses advanced $10.0 million or 11.6% LQ, primarily driven by the BSPR operations, which added roughly $10.7 million to 3Q20 expenses. Compensation rose $3.5 million while occupancy expenses climbed $2.7 million.
- The loan loss provision advanced $7.9 million or 20.2% from 2Q20 to $46.9 million in 3Q20. The increase reflects $38.9 million recorded for non-PCD loans acquired in the BSPR transaction, offset by lower reserve build in the legacy loan portfolio. The remaining $8.0 provision in the quarter was well below our $20.0 million projection and the $39.0 million recorded in the prior quarter.
- Net charge-offs of $11.4 million represented 0.45% of average loans, up from 0.43% in 2Q20. Net charge-offs exceeded the provision for legacy loans by roughly $3.4 million, but with the additional reserves on acquired PCD loans, the allowance for loan losses increased $65.4 million or 20.5% to $384.7 million. The ACL declined to 3.25% of loans held-for-investment from 3.41% at the end of the prior quarter. If we exclude PPP loans from the analysis, the ratio of ACL to loans-held-for-investment was 3.38% at September 30, 2020 compared to 3.55% at June 30, 2020.
- Inflows to nonaccrual increased to $18.4 million in 3Q20 from $10.7 million in 2Q20. The growth was largely driven by commercial & construction loans, which saw inflows rise $3.9 million sequentially due to a $3.5 million construction loan in Puerto Rico, and a $2.4 million increase in residential mortgage loan inflows. NPLs remained fairly stable in most loan categories, though construction NPLs climbed advanced roughly $3.5 million due to the aforementioned $3.5 million loan in PR, while commercial mortgage NPLs dipped $4.4 million. This resulted in a $2.7 drop in NPLs. There was also a $7.3 million decrease in OREO and a $0.5 million reduction in other repossessed property. Performing TDRs declined $3.0 million or 0.7% sequentially. Consequently, total NPAs decreased approximately $13.5 million or 1.9% LQ. NPAs/Assets fell to 1.57% at September 30, 2020 from 2.16% at June 30, 2020.
- First BanCorp's direct exposure to Puerto Rico government debt climbed from $203.5 million last quarter to $400.3 million. The bulk of this exposure - $335.3 million or 83.8% - is to municipalities, not the central government.
- Gross loans held-for-investment advanced $2.5 billion or 26.5% linked-quarter, driven by the addition of $2.6 billion in loans from the BSPR acquisition. The Puerto Rico region saw an increase of $2.5 billion while Florida climbed $3.2 million and the Virgin Islands experienced a decline of $3.4 million. The majority of growth in the portfolio was in the commercial segment (up $1.5 billion), and the residential mortgage (+$747 million) segments. The consumer segment was up a more modest $258 million.
- Loan originations, including renewals and draws from existing commitments, but excluding credit card utilization, increased from $902.9 million in 2Q20 to $971.1 million in 3Q20, an advance of roughly 7.6%. If we exclude PPP loan originations from both periods, originations grew 81.2% sequentially. Originations increased $217.0 million in the commercial and construction segment. The bank also saw a $75.8 million rise in residential mortgages, and a $135.6 million increase in consumer loan originations. Loan originations increased in all three of FBPs geographic regions, with the biggest increases occurring in the Puerto Rico and

Florida. Originations in Puerto Rico grew $379.4 million sequentially (excluding PPP loans).

- Total deposits increased $4.5 billion or 42.1% LQ to $15.2 billion. Interest bearing deposits advanced $3.1 billion while noninterest bearing accounts grew $1.4 billion. The increase was primarily driven by the addition of $4.1 billion in deposits from the BSPR acquisition. Government deposits contributed growth of $782.9 million, $115.8 million, and $0.7 million in the Puerto Rico, Virgin islands, and Florida regions, respectively. Puerto Rico experienced a $3.7 billion rise in customer deposits. Meanwhile, Florida, and the US Virgin Islands regions posted declines of $30.3 million and $14.5 million, respectively. Brokered CDs and non-maturity deposits fell $56.0 million LQ.
- Tangible book value per share fell 1.6% to $9.67 at September 30, 2020 from $9.83 at June 30, 2020. The TCE ratio now stands at 12.33%, down from 15.25% at June 30, 2020.
- Regulatory capital ratios declined noticeably compared to June 30, 2020 driven by the BSPR transaction, but they remain far in excess of the minimums to be considered well capitalized. The total capital to risk-weighted assets ratio stood at 20.32% at September 30, 2020, down from 25.08% as of June 30, 2020. Despite the significant reductions in regulatory capital ratios stemming from the BSPR acquisition, FBP still has very high capital ratios.

**Earnings Estimates:**

The recent quarter included the completion of FBP's acquisition of BSPR, a significant event for the bank. While the transaction creates a lot of noise in the results for 3Q20, we still see progress on several fronts. FBP continues to improve its funding mix and lower the cost of funds. There are still opportunities for further funding cost reductions as higher-cost CDs mature. We still expect pressure on asset yields from the low rate environment, but some of this pressure will be offset in coming quarters by purchase accounting accretion on the non-PCD portion of acquired loans and by accelerated fee recognition from PPP loan forgiveness. We are projecting modest NIM compression of 2-4 bps per quarter over the next 3-4 quarters. More rapid redeployment or reductions of excess liquidity could provide an added boost to the NIM beyond our projections.

Loan deferrals and payment moratoriums, coupled with government relief programs, have forestalled any significant deterioration in credit quality so far. However, we still expect increases in NPLs and charge-offs to occur over the next year or so. Still, given the favorable trends in asset quality and the reserve build-up that FBP has accomplished over the last three quarters, we have left our provision projection mostly unchanged from our prior estimates at around $75 million for 2021.

After making these adjustments, we are reducing our 2020 estimate from $0.41 to $0.40. If we exclude merger & restructuring charges from 2020 results, our "core" EPS estimate is $0.44. We are also reducing our 2021 estimate from $0.93 to $0.89 and our 2022 estimate from $1.41 to $1.33.

**Outlook:**

Currently, FBP is trading at 67.1% of tangible book value, slightly more than half the 113.8% valuation for the median mainland peer bank. We believe that much of this discount stems from a Puerto Rico discount due to the string of calamities that have hit Puerto Rico in recent years, including a government debt crisis, hurricane Maria, earthquakes in early 2020, and now the COVID-19 pandemic. Investors are wary about the economy in Puerto Rico. However, the recent 3Q20 earnings reports from FBP and its island competitors BPOP and OFG show that economic activity on the island is better than many people expected, as huriicane and COVID-19 relief programs are providing significant support for the economy. In addition, early results from FBP's takeover of BSPR appear to be going well and management has made favorable revisions to the TBV dilution and payback period expected for the transaction. We still believe FBP will benefit from bigger market share and improved efficiency.

Despite the challenges facing Puerto Rico, we believe that FBP has the capital to get through the current pandemic and that the addition of BSPR operations PR offers the promise of improving profitability. The bank's strong capital position post-acquisition also offers the possibility of increased return of shareholder capital through a higher dividend and/or share repurchases in 2021. We think FBP remains an attractive investment.

*While we have enjoyed covering First BanCorp for over to twenty years, shifting corporate responsibilities do not allow us time to provide the same level of diligence to our equity research as we would like. Consequently, we are discontinuing coverage of First BanCorp.*

**Exhibit 1**:

**First BanCorp: 3Q20 Highlights**

| | Actual Results | | | Change | |
|---|---|---|---|---|---|
| | 3Q19 | 2Q20 | 3Q20 | LQ[1] | YOY |
| Loans Held for Investment ($000)[2] | 8,968,420 | 9,366,216 | 11,847,275 | 106.0% | 32.1% |
| Total Deposits ($000)[2] | 9,132,899 | 10,696,686 | 15,202,898 | 168.5% | 66.5% |
| Average Earning Assets ($000) | 11,718,309 | 12,884,410 | 15,035,381 | 66.8% | 28.3% |
| Total Revenue ($000) | 165,826 | 156,102 | 178,630 | 57.7% | 7.7% |
| Net Interest Income ($000) | 144,425 | 135,210 | 148,696 | 39.9% | 3.0% |
| NIM (FTE) | 5.06% | 4.38% | 4.07% | -0.31% | -0.99% |
| Average Securities Yield | 3.14% | 2.03% | 1.41% | -0.62% | -1.73% |
| Average Loan HFI Yield | 6.85% | 6.32% | 6.19% | -0.13% | -0.66% |
| Average Cost of Int.-bearing Deposits | 1.19% | 0.92% | 0.73% | -0.19% | -0.46% |
| Efficiency Ratio | 55.8% | 57.5% | 62.0% | 4.56% | 6.2% |
| NCO Ratio | 0.61% | 0.43% | 0.45% | 0.02% | -0.16% |

*1. Linked quarter changes for the balances are annualized.*

*2. Loans Held for Investment and Total Deposits balances are end of period balances.*

*Source: company filings*

Exhibit 2:

# First BanCorp, Inc.

*(Figures in thousands except for per share data)*

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| 2018A | 2019A | 2020E | 2021E | 2022E | | 1Q 2020A | 2Q 2020A | 3Q 2020A | 4Q 2020E | 1Q 2021E | 2Q 2021E | 3Q 2021E | 4Q 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 525,383 | 567,081 | 590,766 | 662,255 | 707,203 | Net interest income | 138,649 | 135,210 | 148,696 | 168,211 | 162,507 | 163,338 | 166,818 | 169,592 |
| 59,253 | 40,225 | 183,510 | 74,717 | 88,040 | Provision for loan losses | 77,366 | 39,014 | 46,914 | 20,216 | 18,249 | 18,961 | 19,012 | 18,495 |
| 466,130 | 526,856 | 407,256 | 587,539 | 619,163 | **Net Interest Income after Provision** | 61,283 | 96,196 | 101,782 | 147,995 | 144,258 | 144,377 | 147,806 | 151,098 |
| | | | | | **Non-interest income:** | | | | | | | | |
| - | - | - | - | - | Other Fees on Loans | - | - | - | - | - | - | - | - |
| 21,679 | 23,916 | 22,852 | 26,528 | 27,318 | Service Charges on Deposit Accounts | 5,957 | 4,475 | 5,848 | 6,572 | 6,564 | 6,596 | 6,662 | 6,707 |
| 17,228 | 17,058 | 21,672 | 35,332 | 58,382 | Mortgage Banking Activities | 3,788 | 3,686 | 7,099 | 7,099 | 7,099 | 8,874 | 9,584 | 9,775 |
| - | - | - | - | - | Rental Income | - | - | - | - | - | - | - | - |
| - | - | - | - | - | Other Commissions | - | - | - | - | - | - | - | - |
| 8,429 | 10,186 | 8,938 | 7,419 | 7,410 | Insurance Income | 4,582 | 1,381 | 1,473 | 1,502 | 3,005 | 1,442 | 1,471 | 1,501 |
| 2,316 | - | 94 | - | - | Gains (losses) on extinguishment of loans/re | - | - | 94 | - | - | - | - | - |
| (84) | (497) | 13,380 | - | - | Gains (losses) on trading acct & securities | 8,247 | (155) | 5,288 | - | - | - | - | - |
| 32,742 | 39,909 | 42,195 | 53,234 | 62,751 | Other non interest income | 7,626 | 11,505 | 10,132 | 12,932 | 13,061 | 13,192 | 13,390 | 13,591 |
| 82,310 | 90,572 | 109,132 | 122,513 | 155,862 | **Total non-interest income** | 30,200 | 20,892 | 29,934 | 28,106 | 29,729 | 30,104 | 31,106 | 31,574 |
| | | | | | **Total Non-interest expense** | | | | | | | | |
| 159,494 | 162,374 | 178,808 | 199,642 | 183,367 | Compensation and Benefits | 42,859 | 39,532 | 43,063 | 53,354 | 51,854 | 49,854 | 48,602 | 49,331 |
| 57,942 | 63,169 | 74,322 | 91,573 | 86,895 | Occupany & Equipment | 15,127 | 16,376 | 19,064 | 23,755 | 23,421 | 23,155 | 22,387 | 22,611 |
| 14,808 | 15,710 | 12,333 | 12,883 | 13,374 | Advertising & Promotion | 3,622 | 2,314 | 3,046 | 3,351 | 3,016 | 3,227 | 3,162 | 3,478 |
| 14,452 | 14,644 | 4,086 | 4,312 | 4,307 | Net costs of assets acquired through foreclosu | 1,188 | 811 | 1,019 | 1,068 | 1,079 | 1,078 | 1,088 | 1,067 |
| 43,497 | 46,481 | 47,465 | 48,680 | 47,692 | Professional Fees | 11,793 | 11,968 | 11,563 | 12,141 | 12,263 | 12,385 | 12,137 | 11,895 |
| 67,609 | 75,678 | 97,234 | 86,417 | 40,979 | Other Expenses | 17,595 | 18,785 | 29,753 | 31,101 | 24,164 | 22,565 | 19,761 | 19,928 |
| 357,802 | 378,056 | 414,247 | 443,507 | 376,614 | **Total non-interest expense** | 92,184 | 89,786 | 107,508 | 124,769 | 115,796 | 112,265 | 107,137 | 108,310 |
| 198,932 | 164,701 | 87,445 | 194,567 | 292,148 | **Net Income applicable to common** | 1,597 | 20,587 | 27,944 | 37,317 | 42,393 | 45,371 | 52,445 | 54,359 |
| | | | | | **Per Share Data:** | | | | | | | | |
| 0.92 | 0.76 | 0.40 | 0.89 | 1.33 | GAAP EPS | 0.01 | 0.09 | 0.13 | 0.17 | 0.19 | 0.21 | 0.24 | 0.25 |
| 0.03 | 0.14 | 0.20 | 0.20 | 0.20 | Dividend | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| 3.22% | 18.16% | 45.35% | 20.69% | 14.18% | Dividend Payout Ratio | -274.77% | 47.46% | 43.44% | 21.00% | 21.24% | 20.48% | 20.90% | 20.16% |
| 9.25 | 10.08 | 10.15 | 10.85 | 11.98 | Book Value | 9.92 | 9.99 | 10.03 | 10.15 | 10.30 | 10.46 | 10.65 | 10.85 |
| 9.07 | 9.92 | 9.80 | 10.50 | 11.64 | Tangible Book Value | 9.76 | 9.83 | 9.67 | 9.80 | 9.94 | 10.10 | 10.30 | 10.50 |
| 215,704 | 216,614 | 217,057 | 218,371 | 218,571 | Average Shares Outstanding (MM) | 216,785 | 216,920 | 216,922 | 217,600 | 218,304 | 218,354 | 218,391 | 218,435 |
| | | | | | **Profitability Measures:** | | | | | | | | |
| 58.87% | 57.44% | 60.34% | 56.51% | 43.64% | Efficiency Ratio | 57.40% | 57.46% | 62.02% | 63.56% | 60.24% | 58.04% | 54.13% | 53.84% |
| 1.65% | 1.34% | 0.59% | 1.06% | 1.52% | Return on average assets | -0.12% | 0.63% | 0.70% | 0.82% | 1.14% | 1.00% | 1.13% | 1.16% |
| 10.68% | 8.00% | 4.05% | 8.49% | 11.69% | Return on average equity | -0.72% | 3.86% | 5.13% | 6.75% | 9.22% | 8.02% | 9.00% | 9.16% |
| 4.55% | 4.85% | 4.13% | 3.85% | 3.95% | Net Interest Margin | 4.63% | 4.22% | 3.93% | 3.89% | 3.87% | 3.83% | 3.84% | 3.86% |
| 13.56% | 13.84% | 13.95% | 15.61% | 18.06% | Fee Income % Revenues | 13.67% | 13.47% | 14.22% | 14.32% | 15.46% | 15.56% | 15.72% | 15.70% |
| | | | | | **Average Balances:** | | | | | | | | |
| 8,727,193 | 8,982,087 | 10,061,571 | 11,904,600 | 12,483,801 | Loans | 8,997,418 | 9,247,878 | 10,163,671 | 11,837,317 | 11,779,188 | 11,821,246 | 11,940,096 | 12,077,869 |
| 6,874,007 | 6,739,021 | 8,460,499 | 10,758,304 | 11,114,728 | Interest Bearing Deposits | 7,009,499 | 7,405,547 | 8,744,771 | 10,682,178 | 10,649,755 | 10,703,025 | 10,788,714 | 10,891,722 |
| 2,193,149 | 2,365,749 | 3,313,078 | 4,195,998 | 4,263,430 | Non-interest Bearing Deposits | 2,386,394 | 2,743,434 | 3,774,489 | 4,347,994 | 4,197,865 | 4,170,949 | 4,195,991 | 4,219,186 |
| 11,541,692 | 11,690,764 | 14,295,790 | 17,197,690 | 17,887,791 | Earning Assets | 12,052,964 | 12,884,410 | 15,035,381 | 17,210,406 | 17,044,170 | 17,085,540 | 17,235,189 | 17,425,860 |
| 7,931,736 | 7,749,252 | 9,459,595 | 11,674,897 | 11,966,689 | Interest Bearing Liabilities | 8,009,199 | 8,436,511 | 9,732,691 | 11,659,980 | 11,604,914 | 11,620,392 | 11,685,933 | 11,788,351 |
| | | | | | **Asset Quality Ratios:** | | | | | | | | |
| 1.05% | 0.89% | 0.51% | 0.91% | 0.82% | Net Charge-offs / Loans | 0.77% | 0.42% | 0.38% | 0.73% | 0.86% | 0.88% | 0.95% | 0.99% |
| 10.74% | 8.09% | 6.31% | 6.37% | 5.83% | Nonperforming Assets / Loans | 8.23% | 7.81% | 6.05% | 6.31% | 6.68% | 6.63% | 6.50% | 6.37% |
| 2.22% | 1.72% | 3.27% | 2.88% | 2.58% | Reserves / Loans | 3.24% | 3.41% | 3.25% | 3.27% | 3.21% | 3.13% | 3.01% | 2.88% |
| 0.67% | 0.45% | 1.52% | 0.62% | 0.69% | Provision /Loans | 3.28% | 1.55% | 1.62% | 0.69% | 0.62% | 0.64% | 0.64% | 0.61% |
| | | | | | **Capital & Leverage Ratios:** | | | | | | | | |
| 16.70% | 17.67% | 12.26% | 12.70% | 13.37% | Equity / Assets | 16.86% | 15.71% | 11.93% | 12.26% | 12.44% | 12.54% | 12.62% | 12.70% |
| 16.38% | 17.38% | 11.84% | 6.51% | 12.99% | Tangible Equity / Assets | 16.59% | 15.47% | 11.51% | 11.84% | 12.02% | 12.13% | 12.21% | 12.30% |

## Disclosure Appendix

**Analyst Certification:**

I, Joseph Gladue, the primary analyst covering this issuer, certify that: 1) all of the views expressed in this report accurately reflect my personal views about the subject security or issuer, and 2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**Risk Factors:**

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our target price, if one is established:

- a weakening of the United States economy and the regional and local economies in which the company conducts operations
- unanticipated loan losses or securities-related losses
- a weakening of local real estate markets or the soundness and liquidity of the securities market for real-estate backed assets
- failure to maintain sufficient excess capital or liquidity to conduct operations
- the effects of trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System
- the effects of increased inflation, a flatter yield curve, or increased volatility in financial markets
- inability to attract core deposits or continue to obtain third party financing on favorable terms
- adverse legal action against the company or litigation initiated by the company
- inability to successfully integrate acquired operations or to maintain sufficient excess capital post the close of a transaction

**Investment Rating Definitions:**

Investment ratings reflect the analyst's assessment of the subject stock's return potential relative to the NASDAQ Bank Index. There are three investment rating tiers:

- **Outperform/Buy:** The subject stock's total return is expected to exceed the return of the NASDAQ Bank Index by 10% or more over the next 12-month period.
- **Neutral/Hold:** The subject stock's total return is expected to be comparable with the return of the NASDAQ Bank Index over the next 12-month period.
- **Underperform/Sell:** The subject stock's total return is expected to be less than the return of the NASDAQ Bank Index by 10% or more over the next 12-month period.

**Investment Rating Distributions (as of September 30, 2020)**

| | All Covered Companies | | Investment Banking Services Provided in the Last 12 Months | |
|---|---|---|---|---|
| **Rating Categories** | **Count** | **% of Total** | **Count** | **% of Category** |
| Outperform/Buy | NA | 0% | 0 | 0% |
| Neutral/Hold | NA | 0% | 0 | 0% |
| Underperform/Sell | NA | 0% | 0 | 0% |
| Total | 0 | 0% | | |

**Other Important Disclosures:**

J. Alden Associates, Inc. (DBA Alden Securities) is a FINRA-registered broker-dealer.

Alden Securities expects to receive compensation for investment banking services from the subject company in the next three months and/or seeks to receive such compensation.

Analyst compensation is based, in part, on Alden Securities' profitability, which includes revenues from investment banking.

Target prices, if applicable, are derived from our 12 Month Valuation Assessment. Our 12 Month Valuation Assessment is based on a blend of several relative value methodologies.

Alden Securities shares in the commissions for trades that are executed through Tourmaline Partners, LLC.