**Civista Bancshares, Inc. [CIVB]**
**First Quarter 2021 Earnings Conference Call**
**Friday, April 23, 2021, 1:00 PM ET**

Company Participants:
Dennis Shaffer, President and Chief Executive Officer, Civista Bancshares, Inc.
Rich Dutton, Senior Vice President of Civista Bancshares, Inc., Chief Operating Officer of Civista Bank
Paul Stark, Senior Vice President of Civista Bancshares, Inc. and Chief Credit Officer of Civista Bank
Chuck Parcher, Senior Vice President of Civista Bancshares, Inc., Chief Lending Officer of Civista Bank

Analyst Participants:
Terry McEvoy, Stephens Inc.
Nick Cucharale, Piper Sandler
Michael Perito, Keefe, Bruyette & Woods
Russell Gunther, D.A. Davidson & Co.
Bryce Rowe, Hovde Group

**Presentation:**

Operator: Good afternoon, everyone, and welcome to the Civista Bancshares, Inc. Q1 2021 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please also note today's event is being recorded.

At this time, I'd like now to turn the conference call over to Dennis Shaffer, President and CEO. Please go ahead.

Dennis Shaffer: Good afternoon. This is Dennis Shaffer, President and CEO of Civista Bancshares. And I would like to thank you for joining us for our first quarter 2021 earnings call.

I am joined today by Rich Dutton, SVP of the Company, and Chief Operating Officer of the Bank; Chuck Parcher, SVP of the Company and Chief Lending Officer of the Bank; and other members of our executive team.

Before we begin, I would like to remind you that this conference call contains forward-looking statements with respect to the future performance and financial condition of Civista Bancshares, Inc. that involves risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in the Company's SEC filings, which are available on the

Company's website. The Company disclaims any obligation to update any forward-looking statements made during the call.

Additionally, management may refer to non-GAAP measures, which are intended to supplement, but not substitute, the most directly comparable GAAP measures. The press release, available on the website, contains the financial and other quantitative information to be discussed today, as well as the reconciliation of the GAAP to non-GAAP measures.

We will record this call and make it available on Civista Bancshares' website at www.civb.com.

Again, welcome to Civista Bancshares' first quarter 2021 earnings call. At the conclusion of my remarks, we will take any questions that you may have.

This morning, we reported net income of $10.8 million, or $0.68 per diluted share for the first quarter 2021. Our earnings per share increased 44.7% compared to the first quarter of 2020. This is a direct result of our continued focus on growing and diversifying non-interest income streams and our disciplined approach in managing the company.

Our return on average assets was 1.36% for the quarter compared to 1.44% for the linked quarter, and our return on average equity was 12.48% for the quarter compared to 11.79% for the linked quarter.

During the quarter, we continued our focus on managing COVID-19 loan deferrals, as well as our asset quality as a whole. We were proactive in working with our borrowers in the beginning of the pandemic, and had some sizeable deferrals. We feel that this approach was the right one, as many of our borrowers were able to resume normal payments throughout 2020. Our deferrals have improved modestly from 3.6% of total loans at December 31, 2020, to 3.4% at March 31. Some of these borrowers have seasonal businesses which will not resume operations until late in the spring.

Due to our diligent efforts to work with customers and strong borrowers, we have not experienced any defaults attributable to the pandemic, and delinquencies are at historically low levels.

Our mortgage banking business continues to drive non-interest income, generating gains of $2.7 million this quarter, nearly keeping pace with the $3.1 million record gain that we recorded in the linked quarter.

Our Board of Directors approved our quarterly dividend on April 9 of $0.12 per share, which represents a dividend payout ratio of 17.7%. And earlier this week, we announced the authorization of a new $13.5 million stock repurchase program.

Included in this morning's earnings release is an announcement that we will be closing 2 of our smaller branches in July. This decision isn't one we take lightly, no matter what the size of the branch is. We understand that community banks are the lifeblood of many small communities. During the pandemic, we began a process to transform our online and mobile banking. Many of our customers are transacting their business digitally, and we expect that trend to continue. We anticipate redirecting the cost to operate those small branches into our digital offerings.

Getting back to the numbers, our net interest income increased $297,000 or 1.3% over the linked quarter, and $1.7 million or 7.7% year-over-year. Our net interest margin for the quarter was 3.30% compared to 3.69% for the linked quarter.

Let me first talk about the easy part of our net interest income and our net interest margin. That would be on the funding side. We were able to reduce our funding costs by $990,000 compared to the first quarter of 2020 and $293,000 compared to the linked quarter. The majority of this decline is due to rate. We believe there's still some room for the rates in our time deposit category to come down further.

The earning asset side of this equation has a bit more noise included in it. There are really two pieces to discuss. The first piece is the income related to the PPP loans. Our PPP loans had an average balance of $248.7 million during the first quarter of 2021 and a yield of 6.07% when you factor in the accretion of the fees. This increased our yield on earning assets by 22 basis points and net interest margin by 26 basis points.

The second piece is the increased liquidity generated by the federal government's stimulus program. In early January, we mistakenly received nearly $5.6 billion in stimulus payments with no advance warning from the U.S. Treasury. These funds remained in our account at the Federal Reserve for several days before we could get them either distributed or returned, which increased the average balance of our interest-bearing deposits in other banks by $258 million for the quarter, earning 10 basis points, and had the effect of reducing our yield on earning assets by 33 basis points in our first quarter margin by 30 basis points. This was in addition to extra liquidity normally generated by our tax refund processing program during the first half of the year.

The past few years, we have had short-term borrowings going into the tax season, that we were able to pay off, which lessened the impact to the margin. This year, our liquidity profile was such that all these funds went into our fed account, which further reduced our margin by 14 basis points. Certainly, margin is important, but with all this noise surrounding this quarter's margin, I would like to reiterate that our net interest income increased over both the linked quarter and year-over-year.

During the quarter, non-interest income increased $1.5 million or 19.9% in comparison to the fourth quarter of 2020, and increased $2.3 million or 33.7% year-over-year. Mortgage banking continues to be the largest driver of our non-interest income. First quarter gains on the sale of mortgage loans were $2.7 million, down slightly from our linked quarter, which was a record at $3.1 million and represented a $1.9 million increase over the prior year.

We sold $77.6 million mortgage loans during the first quarter of 2021, compared to $91.8 million during the linked quarter, as strong mortgage demand that we saw during much of 2020 continued. The average premium recognized on the sale of loans increased 21 basis points from 3.34% to 3.55% over the linked quarter.

Service charge revenue declined by $220,000 or 14.9% compared to our linked quarter which was consistent with a $212,000 or 14.4% decline from our first quarter of last year. These declines are primarily attributable to the industry-wide decline in overdraft fees, as our retail customer behavior patterns changed during the pandemic. For similar reasons, interchange

revenue increased $63,000 compared to the linked quarter. Typically, we experience a post-holiday season decline in debit card activity. However, this year, it was not the case. Interchange revenue increased $282,000 or 33.9% compared to our first quarter of last year.

Wealth management revenue increased $81,000 or 7.6% compared to the linked quarter and $140,000 or 13.9% year-over-year. We continue to view the expansion of these services across our entire footprint as an opportunity to diversify and grow non-interest income.

Our tax refund processing program continues to be an important contributor to our non-interest income during our first and second quarters each year. Income from that program during the first quarter was consistent with the prior year at $1.9 million.

Non-interest expense increased $2.3 million or 14.3% compared to the linked quarter and $1.5 million or 8.6% year-over-year. In both cases, the increases are primarily the result of increases in compensation, occupancy and taxes and assessments. Compensation expense, which increased $1.4 million, accounted for the largest portion of the linked quarter increase in non-interest expense.

Payroll taxes are typically higher in the first quarter, as our contributions to our employees' 401K plans and pension plans. Merit increases, which occur each year in April, averaged 3.3% in 2020 and accounted for $199,000, and increased commissions to our mortgage lenders accounted for most of the increase in compensation expense year-over-year.

Other drivers of both the linked quarter and year-over-year increases were occupancy expenses with additional cleaning and sanitation supplies related to the pandemic, and some significant snow removal cost incurred in February 2021.

While taxes and assessment expense also drove up both the linked quarter and year-over-year expenses, the increase from the prior year was the result of the FDIC small bank credit that was applied against our first quarter 2020 assessment and an increase in our FDIC accrual, as our balance sheet has grown.

Our efficiency ratio was 58% compared to 53.7% for the linked quarter and 60.7% year-over-year.

During the first quarter, our total loans grew by $2.7 million. PPP loans were the primary reason for the increase. If we back out the PPP loans originated during the first quarter, our loan portfolio would have contracted by $26.6 million or 1.4%.

Demand for commercial real estate loans across our footprint continued on strong demand in our non-owner-occupied category. However, construction loans declined slightly as projects were completed, and draws on those projects that were not under roof slowed due to weather.

In addition, the influx of stimulus money from both PPP and payments to individuals provided the liquidity to pay down $21.2 million on lines of credit, which are included in commercial and agricultural loans.

While our first quarter loan production was less than what we would've liked, demand has picked up. Strong demand and the fact that our undrawn construction lines are near an all-time high gives us confidence that we will grow our loan portfolio at a mid-single-digit rate for 2021. I talked before about the gains we recorded on the sale of mortgage loans. Our mortgage pipelines remain very strong.

With respect to PPP, we originated over 2,300 loans for $267.8 million during phase 1 of the program and over 1,300 loans for $119.8 million during phase 2 of the program. At the end of the quarter, $246.6 million in PPP loans remained on our balance sheet. Of the $9.9 million in fees generated by phase 1, we have recognized $7.6 million, of which $2.9 million was recognized during the quarter. So far, phase 2 PPP loans have generated $5.7 million in fees, of which $220,000 were recognized during the quarter. Of our phase 1 PPP loans, $141 million or 52.7% have been forgiven through March 31, 2021.

On the funding side, we experienced growth in virtually every category with total deposits increasing $286.5 million or 13.1% since the beginning of the year. Non-interest bearing demand accounts, which made up 37% of our total deposits at March 31, grew by $196.8 million compared to December 31, 2020. While balances related to our income tax processing program made up $136.9 million of the increase, we also experienced $37.9 million of growth in non-interest-bearing business accounts, as our business customers deposited PPP loan proceeds. We also experienced a $77.8 million increase in our interest-bearing demand accounts, driven by a $62.5 million increase in public fund accounts.

During the third quarter of 2020, we automatically downgraded each commercial loan that requested concessions beyond the initial 90-day modification we offered in the beginning stages of the pandemic. We continue leading with our customers to better understand how they have been impacted, and their plans for operating as we move forward. That said, our total criticized loan portfolio, which includes all classified and substandard loans, remained consistent at $149.7 million at March 31, 2021. The largest segment of criticized loans are hotel loans totaling $80.2 million.

During the quarter, we did realize $275,000 in net recoveries. However, there are still uncertainties associated with COVID-19 and its impact on the economy. As a result, we recorded an $830,000 provision expense for the quarter.

The ratio of our allowance for loan losses to loans increased from 1.22% at year-end 2020 to 1.27%. Exclusive of the PPP loans, this ratio would have been 1.44%. Our allowance for loan losses to nonperforming loans also increased to 423.09% at the end of the quarter from 343.05% at the end of 2020. While these reflect very strong credit metrics by historical standards, given the uncertain nature of our current economy, we will continue to monitor our portfolio and the economy, making further adjustments as our model dictates.

We ended the quarter with a tangible common equity ratio of 9% compared to 9.98% at December 31, 2020. The extra $136.9 million of liquidity related to our income tax refund processing business at quarter-end, combined with the $246.6 million in PPP loans, had the effect of reducing our TCE ratio by approximately 133 basis points.

Our strong earnings continue to create capital, which allows us to consider several options in managing our capital. Our overall goal is to have adequate capital for growth, both organic and for acquisitions. We continue to view dividends to our shareholders as one way to manage capital, and we're happy to be able to increase our dividend in January of this year to $0.12 per quarter.

We also view share repurchases as an integral part of our capital management strategy. During the quarter, we repurchased 181,627 shares of common stock for $3.9 million for an average price of $21.39. We expect to continue to repurchase shares with our new authorization through the remainder of 2021.

In summary, we are pleased with another quarter fueled by solid earnings. While there are several challenges that lie ahead for us in 2021, we remain optimistic as restrictions are lifted and the economy continues to open up.

Our loan pipelines are solid. We anticipate that many of the remaining PPP Phase 1 loans will be forgiven during the balance of 2021. In the second quarter of 2021, we look forward to rolling out many new digital tools focused on improving the customer experience. Our digital initiatives are aimed at improving our account on-boarding process, customer communication, the digital delivery of treasury management services as well as how we deliver retail services to consumers.

Thank you for your attention this afternoon. And now we'll be happy to address any questions that you may have.

**Questions and Answers**

Operator: Ladies and gentlemen, at this time we'll begin the question-and-answer session. (Operator Instructions). Terry McEvoy from Stephens.

Terry McEvoy: First off, thanks for running through the inflow of stimulus funds. I thought that was a typo when I saw billion, so thanks for addressing that in the prepared remarks.

Rich Dutton: We thought it was a typo when we saw it in the fed account. (Laughter).

Terry McEvoy: Your surprise is larger than mine, I'm sure. I guess for the first question, could you just maybe run through where you are in the expense side for the digital investments on online and mobile banking? And I guess, will it be fully offset with the branch actions? And I guess what I'm getting at is looking ahead, should we expect a step-up in expenses at all because of technology spending?

Rich Dutton: Well, Terry, where we're at right now, we still haven't expensed anything with regard to what we're rolling out in June and later this year, but we continue to operate under our current, I guess, Jack Henry contract. And we're trying to [time] those up so that when the new expenses roll on to the books, the Jack Henry, we will have some reduction on our Jack Henry

contract. But I think net-net, starting sometime in the second quarter, certainly the third quarter, it's going to increase by about $200,000 in the quarter. And we can -- we'll work at them, but I think that's the way it looks right now, if that's helpful.

Dennis Shaffer: And the branch closures will only net us about $200,000 in total savings for the year, Terry. They were relatively small branches; we didn't have a lot of employees there. So it won't offset it, but it obviously helps a little bit.

Terry McEvoy: Thank you. And then as a follow-up, as I was reading the release, the 3.4% loan deferral is, call it, about maybe about 2x what I've kind of put together for just other banks across the country. And I know you addressed it in terms of kind of some seasonality in some of your customers, but maybe just expand on that. Are those hotels that you're expecting to have just stronger occupancy? And maybe just provide a little bit more color there.

Dennis Shaffer: Do you want to take that, Paul?

Paul Stark: Yes, I'll do it. This is Paul Stark. We do have a number of hotels. I think the income drivers of those hotels are primarily the destination related to your point, Kings Island, as well as the Islands at Sandusky and then also it's mostly leisure. So we expect that -- it's been creeping up as we go and we expect those payments to start to resume. So we think probably half that number should be -- half of that $70 million should go out in the second quarter, early in the third. But it's really more timing as it relates to the revenues and the regional payments.

Dennis Shaffer: Yes, and Terry, we're hearing some positive comments from some of our hotel operators. But we do want to see a couple of months at least that they return back to kind of pre-pandemic revenue type. So even though we're hearing positive comments, we also want to see a couple of months or maybe even a quarter, of revenue numbers, at least, that they return to those -- somewhat close to those pre-pandemic levels.

Paul Stark: The bookings and reservations are strong right now, Terry. (Inaudible).

Dennis Shaffer: Yes, so we're really optimistic there, but I think just being -- we're trying to be a little bit conservative. We don't want to upgrade it, and then the next quarter, have to downgrade it again. So we're just trying to be a little bit conservative there.

Terry McEvoy: I appreciate that. Thank you, and enjoy the weekend.

Operator: Nick Cucharale from Piper Sandler.

Rich Dutton: Nick, how about that operator getting your name right too?

Nicholas Cucharale: Yes, amazing. Just to follow up with the expenses after the digital commentary, where do you see the overall run rate in future periods? And what type of year-over-year growth are you expecting?

Rich Dutton: So, Nick, where we're at, I guess -- again, the first quarter, we've got a fair amount of commissions and incentive payments that went out. And as you'll recall, each year in April, we have our merit increases, so that's almost a push. We've got a run rate going forward of

probably $18.9 million a quarter, is kind of where we're at. How that stacks up year-over-year, I don't have that number in front of me, but I'll bet your calculator can figure that out for me.

Nicholas Cucharale: Yes, that's plenty for what I'm looking for, thanks. And then -- go ahead, I'm sorry.

Rich Dutton: No, go ahead.

Nicholas Cucharale: And secondly, I just wanted to get your take on loan growth, which took a little bit of a breather. Was this a function of a strong fourth quarter and the pipeline is building back up? I'm just trying to get a sense of the outlook for loan demand across your geographies.

Chuck Parcher: No question from that perspective, Nick. This is Chuck. We did have a really big fourth quarter as you know. We had a few payoffs that we expected in the fourth quarter that leaked into the first quarter, so passed a little higher than they normally are. Our pipeline, it was okay coming into the year but it's really strong right now. In the last 30 to 45 days we've seen a really big uptick in loan demand, so we feel good about that. We've got a lot of construction products we need to fund over the summer. So I still feel like we'll end up in that mid-single-digit growth rate for the year.

In Dennis's comments, he mentioned our lines of credit based on the PPP funding and some of the other stuff got paid down a little over $20 million. If you kind of look at the numbers in our release, you'll see that our residential mortgages went down by another $11 million as we continue to refinance kind of some of the stuff on the books and it ends up being out in the gain on sale category. So we have a little pressure as far as on-balance in the first quarter, but we feel like we'll grow through that in the next 3 quarters.

Nicholas Cucharale: Okay. And then lastly, the gain on sale margin in the mortgage business improved again. We touched on this in the last quarter's call. But do you see that as sustainable in the near term?

Chuck Parcher: No, I see that coming down, not dramatically, but I don't see that 3.55% number being sustainable. I think we'll continue to move down probably, we'll go for the 3, in that 3 number, especially in the second quarter.

Dennis Shaffer: If demand starts to go down, I think you'll have to be a little bit more competitive there so -- but pipelines are still full right now so --

Nicholas Cucharale: Makes sense. Thanks for taking my questions.

Operator: Michael Perito from KBW.

Michael Perito: I want to start on the technology investments. So I was curious if maybe you guys could give us a little bit more insight into kind of some of the goals, whether it be financial or just conceptual, that you're trying to achieve with these upgrades. And how we should think about kind of what the platform will look like versus what it is today once the rollouts are completed?

Dennis Shaffer: Yes, I think financially, the big thing what -- and all the benefit kind of is in the back end. So you absorb most of the costs going in, and then you hope to open more accounts, you hope to get a little bit more interchange fees, get your cards top of mind, in the digital wallet and things like it. So that's where we hope between service charges and interchange fees to recognize revenue there. The whole goal of this is really to just improve the overall customer experience.

We feel that one, the design and the platform is going to be as good as anything out there right now. We are going to be able to link other accounts. Currently, you can't; you can only see Civista accounts. You will be able to -- if you use a particular reward card, you'll be able to link that; you'll be able to link if you have a CD at another financial institution. So you'll be able to get one financial snapshot. You'll be able to kind of do some budgeting things and stuff through the app.

The big lift, I hope, is that we'll be able to also do online account opening. I read something just the other day that 55% of the accounts that banks opened last year were opened online and we don't have that capability. So eventually, we'll have that capability toward the latter half of this year, 2021. The online account is kind of in our second phase of this. We will also improve just the time we do it in the branch to open an account, and they'll be able to do it much quicker, much easier. So I think there is a ton of benefits for our customers from the customer experience standpoint.

Rich Dutton: I would add to what Dennis said. I think once we're on the new platform, we're also expecting quite a big lift in our treasury area. I think we're going to get a lot of improvement in the reporting side of that, and feel like we've got a lot of growth opportunity there.

Dennis Shaffer: Yes.

Michael Perito: That's really helpful. And to make you feel a little better, Dennis, that number is jaded by the fact -- by the market share, right? So 55% of like the largest banks in the country are opening their accounts online, but we estimate that number is less than 5% or 6% for the community banks.

Dennis Shaffer: Okay.

Michael Perito: So but it certainly makes a lot of sense and I think that's a good direction for you guys to be moving. Maybe just to piggyback on that and a couple of the earlier questions, I just want to make sure, Rich, I had the expense side right. So it sounds like there's probably $400,000 or $500,000 of elevated expense in the first quarter, that drops to $18.9 million. And then from there, there's probably just some normal growth, low-single-digits on merit increases annually, stuff like that. But in the third and fourth quarter, you expect on top of that to be another couple of hundred thousand a quarter related to tech? Is that kind of capturing it holistically and fairly?

Rich Dutton: Absolutely. And I think that's probably -- and that's our conservative best guess. If we can get a little more aggressive with Jack Henry, that might be better than that, but if I was going to model it, I'd model just the way you said it.

Dennis Shaffer: Yes, that's pretty good. We just -- again, the revenue pieces or from the tech piece, we won't start recognizing that till the latter half of the year and then really into 2022.

Michael Perito: Got it. And then lastly, just any thoughts, Dennis, on M&A in the Ohio marketplace? We've seen some other parts of the country really start to pick up here, Northeast, Southeast. And just curious what you guys are hearing, or if there's any insights on kind of pace of conversations that you could share, or maybe just remind us where your focus on appetites are?

Dennis Shaffer: Yes, sure. I think our goal still is be an independent bank, grow the organization. I think we've been proactive in some of our calling efforts and reaching out to organizations that we think would be a good fit or a good partner for our organization. We remain committed to kind of creating long-term shareholder value. So many of our discussions with other potential partners really center around a lot of the social issues, and really, the culture of the bank because we think we're going to be a little bit friendlier in our approach than some of our larger competitors if they would partner up with us. So that's been really the focus and I think people see that. So we're hoping to gain some traction there.

We again are focused on mostly Ohio, all but maybe southeastern Ohio there, but mostly Ohio, eastern Indiana from Indianapolis north and south, northern Kentucky and southern Michigan. And then I think western Pennsylvania could be a possibility. There are some banks that may be good fits for us there, so that sit fairly close to the Ohio border and that footprint also may open up. So we think a couple of them. The Pittsburgh market would be attractive to be in. So I think those are really where we've been focusing a lot of our efforts.

In Ohio, we haven't seen a lot of -- a ton of activity. I know people did their deal, but they've kind of stretched their footprint and expanded their footprint. So but that was a deal that was just recently announced. But we haven't seen a ton within our footprint as of today anyways.

Michael Perito: Great, yes. No, it makes sense, very helpful. Thank you guys for taking all my questions and providing the color. Appreciate it.

Operator: Russell Gunther from D.A. Davidson.

Russell Gunther: I appreciate all the color on the puts and takes for the margin this quarter. Could you extend your thoughts to the upcoming couple of quarters if we assume some of those idiosyncratic events ease? And you mentioned some additional room on the funding side. Now how do you expect the margin to trend over the next remainder of the year, let's say?

Rich Dutton: Well, from where it's at right now, it'll trend up, right, 3.30. But I guess if you take kind of that noise out of it, Russell, I guess add the 30 basis points that we have due to the stimulus kind of snafu, the tax money coming in again over the last couple of years hasn't had as much impact as maybe it did this year, with the 14 basis point kind of compression that it caused, and that spins off as the year goes. So that gets us back to kind of a 3.74% kind of margin. And I suppose the $500,000 question is kind of how the PPP loans get refunded or forgiven and how quick those fees roll through and that's a hard one. So ex that, I kind of think that 3.70% is kind of a good number and it drifts maybe downward from there. But the PPP piece, I just -- it's hard to say how quick those get forgiven.

Dennis Shaffer: And we're sitting on -- there's a lot of liquidity that we're sitting on and we're probably going to get more liquidity. Yesterday, they were -- I was on a call with the Ohio Bankers League and they were talking about more stimulus money. In the last stimulus bill, there's over $11 billion that will be allocated to public entities in Ohio alone and we've got a 100-and-some million dollars of. So our villages and municipalities and cities, they're going to have more money, so how fast are they -- how fast will that money flow out?

Same thing with the schools. There is $1.5 billion or something that Ohio schools are getting, and we've got a lot of those type accounts, so that's one wild card, and then which then I think creates another wild card and with how aggressive are banks going to be then lending money out. I think that forces people to get that money out quicker. So you'll see some banks start getting very aggressive on loan rates, so it's kind of a snowball effect, I think.

But I think we're doing a pretty good job of trying to stay disciplined where we can. We'll get rate out of our customer and where -- on some of those more competitive deals if we really want them, we're going to have to get a little thinner maybe to get those.

Russell Gunther: That's very helpful, guys. Thank you. And then just my last question, switching gears. Appreciate your answers to Mike's question on M&A. With the renewed buyback program out there, just your appetite to repurchase the stock at current levels.

Dennis Shaffer: Yes, I think we still have appetite there. If we read all of the analysts' reports from all the different companies that cover us, most of them will say that we're a buy or an outperform. And we still think we're undervalued, so we still think it makes sense to repurchase at this current level.

Russell Gunther: Very good. Thanks, guys, for taking my questions.

Operator: (Operator Instructions). Bryce Rowe from Hovde.

Bryce Rowe: I wanted to ask about the allowance and some of the commentary around improving kind of potential improving economic situation as well as credits. We're seeing the allowance continue to build a bit here. At what point do you think that the allowance peaks? And do we run into a situation where maybe you have to release some of the allowance if conditions, in fact, do continue to improve?

Paul Stark: This is Paul Stark. As we look at this, obviously, vaccinations and the whole COVID situation is such a big key. And while we're seeing some good vaccination pace, it's starting to slow down. If you look at the borrowers -- and we've had 2 quarters worth of stability in terms of criticized loans that we would be able to improve our nonperforming somewhat, but that hasn't really changed because of COVID. But I think as we look at this, we're waiting to see the revenue stream resume at normal levels.

And the fact that we've -- a big chunk of our criticized or our hotels, that's going to take a little bit longer. If you believe what you read from the analysts and the hotels, recovery is going to be toward the end of the year. So again, I think we're just trying to be cautious. And as we look at that, that's one of the reasons we slowed down the provision because we are seeing improved bookings and we are seeing it. But until we assess the damage on the balance sheet for some of

these companies and see the revenues resume, I think we're going to maintain that cautious posture.

Dennis Shaffer: Yes, we did slow down the provision from what we put in the previous quarter and stuff. And as we talked earlier, I think some of those, we just want to see some performance there. I think it looks like the conditions are improving and stuff. But our deferral number didn't move a ton, and we hope to see some movement in that, maybe the end of second quarter and that may cause -- but remember, we were a slow build. We didn't go.

Many banks were somewhere in that 150, 160 range when you excluded the PPP. If you exclude ours, even what we put in today, we're at 1.44%. And we said we would be a slow build throughout that process because we were doing it quarter-by-quarter and really assessing the economic factors because we're not a CECL, we're not CECL, and it's those qualitative factors. So we've made adjustments each quarter whether -- as the economy has worsened or has improved.

Bryce Rowe: Okay. That's good commentary. I wanted to shift gears here and talk a little bit more kind of about the margin. Obviously, there was a question about the margin here earlier. But wanted to look at the funding side of things and where funding costs are. Transaction accounts from a funding cost perspective are low and in life, we can't go much lower. But we continue to see that the average cost of CDs work lower. And so kind of curious how you're thinking about the CD levels, retention of CDs and kind of where CDs are repricing or coming into the bank today?

Dennis Shaffer: Yes, the CDs I think we don't have a ton of CDs in our portfolio. I think about 13% of our book is CDs. Some of those were on 18-month specials, that seems to be the big thing we ran a year or more ago. And many of those, as Rich said, I think that's where the opportunity is because they went on our books and some of those were on our books at the [160, 170, 180], and we were paying on an interest rate. And today we're at 30 to 35 basis points. So we think we'll be able to bring those down from what we've seen. As things have been repricing, we really haven't lost too many of those.

I don't think there's going to be a lot of options for other banks. Someone may pay 45 basis points, but everybody's sitting on this excess liquidity, so it's not enough. Rates are so low, I don't think it incentivizes anybody to move those. So I don't think you'll see a big shift of what we're doing there in our CD portfolio. I think it will stay fairly consistent, but I do think we'll be able to bring down those costs because there's still a number of those that need to reprice.

Bryce Rowe: Okay. That's good detail, Dennis. I appreciate it. That's all for me. Again, have a good weekend and I appreciate your time.

Operator: (Operator Instructions). And ladies and gentlemen, at this time, and showing no additional questions, I'd like to turn the conference call back over to the management team for any closing remarks.

Dennis Shaffer: Thank you. In closing, I just want to thank everyone for listening and thank those that participated in the call. Again, we were pleased with our first quarter results, and we

look forward to talking to you again in a few months to share our second quarter results. So thank you for your time today.

Operator: Ladies and gentlemen, that will conclude today's conference call. We do thank you for attending. You may now disconnect your lines.