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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTC)

CPKF: Record 2018 Earnings

We have chosen the \$30.50 midpoint of the range of values based upon CPKF's 2019 P/E of \$29.50 and forward Price/Tangible Book Value of \$31.50 as our new valuation.

Current Price (03/19/19) \$27.00

Valuation \$30.50

OUTLOOK

CPKF's fourth quarter net earnings rose 1% year over year to a record \$1.85 million, while diluted EPS increased by \$0.01 to \$0.45. This was worse than our estimate, which had called for \$0.4 million gain in net earnings to \$2.2 million and diluted EPS of \$0.54 (off by \$0.09). The main factors behind the difference between actual results and our estimate were: (1) compensation costs were \$0.4 million more than expected, due to a one-time additional ESOP contribution; (2) noninterest expense was \$0.2 million more than anticipated, due to a one-time adjustment to fee income; and (3) net interest income was \$0.2 million less than estimated. These were partly offset by a loan loss provision that was \$75,000 less than we had thought and income taxes that were \$0.3 million lower. The major reasons for the fourth quarter's 1% increase in net earnings versus the prior-year quarter were a \$0.2 million, or 2%, advance in net revenue, partly offset by a \$0.9 million, or 11%, rise in total noninterest expense. In addition, the effective tax rate fell 23.5 points to 5.4% from 28.9% in the year-ago quarter, adding \$0.6 million to the bottom line, and the provision for credit losses dropped by \$75,000 to \$125,000. We are decreasing our 2019 diluted EPS estimate from \$2.80 from \$2.63, a \$0.02 increase from 2018's \$2.61, for three reasons. Competitive deposit pricing pressures that began in 2018's fourth quarter are expected to continue, reducing our NIM estimate by 10 basis points to 4.00% from 4.10%. CPKF expects several new hires to add to salaries. CPKF expects to add a full-service branch to its network later in 2019. On January 18, CPKF approved a 4% quarterly dividend increase to \$0.145 per share. Notably, CPKF has increased the annual dividend payment every year for the past twenty-eight years since 1991. In 2018 for the eleventh consecutive year, CPKF was included in the American Banker magazine list of the "Top 200 Community Banks".

SUMMARY DATA

52-Week High \$32.00
52-Week Low \$23.56
One-Year Return (%) -7.79
Beta 0.59
Average Daily Volume (sh) 984

Shares Outstanding (mil) 4
Market Capitalization (\$mil) \$111
Short Interest Ratio (days) N/A
Institutional Ownership (%) 2
Insider Ownership (%) 40

Annual Cash Dividend \$0.58
Dividend Yield (%) 2.15

5-Yr. Historical Growth Rates
Sales (%) 5.0
Earnings Per Share (%) 9.4
Dividend (%) 5.3

P/E using TTM EPS 10.3
P/E using 2018 10.3
P/E using 2019 Estimate 10.3

Zacks Rank N/A

Risk Level
Type of Stock
Industry
Zacks Rank in Industry
Average
Small-Value
Banks-Southeast
N/A

ZACKS ESTIMATES

Net Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2016	9.2 A	9.7 A	10.1 A	10.1 A	39.1 A
2017	10.4 A	11.1 A	11.4 A	11.2 A	44.1 A
2018	11.1 A	11.5 A	11.9 A	11.5 A	46.0 A
2019					47.9 E

Earnings per Share*

(EPS is operating earnings before nonrecurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(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	0.69 A	0.77 A	0.45 A	2.61 A
2019					2.63 E

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

FOURTH QUARTER

CPKF's fourth quarter net earnings rose 1% year over year to a record \$1.85 million, while 2018's fourth quarter diluted EPS increased by \$0.01, or 1%, to \$0.45 from \$0.44 posted a year ago.

This was worse than our estimate, which had called for \$0.4 million gain in net earnings to \$2.2 million and diluted EPS of \$0.54 (off by \$0.09).

The main factors behind the difference between actual results and our estimate were: (1) compensation costs were \$0.4 million more than expected, primarily due to a one-time additional ESOP contribution; (2) noninterest expense was \$0.2 million more than anticipated, largely due to a one-time adjustment to fee income; and (3) net interest income was \$0.2 million less than we had estimated due to a lower net interest margin. These negative items were partially offset by items that had a positive impact on earnings: a loan loss provision that was \$75,000 less than we had thought and income taxes that were \$0.3 million lower than expected.

We note that in the fourth quarter the Company changed its method of presenting merchant card income and expense from separate line items in noninterest income and noninterest expense, respectively, to a single line item, entitled merchant card income, net, in noninterest income. This change had no impact on the bottom line, though noninterest income and noninterest expense are lower than previously reported, both reduced by the amount of merchant card expense. All data in this report have been modified to conform to this new method of presentation.

The major reasons for the fourth quarter's 1% increase in net earnings versus the prior-year quarter were a \$0.2 million, or 2%, advance in net revenues due to higher net interest income (up \$0.2 million), partly offset by a \$0.9 million, or 11%, rise in total noninterest expense, primarily from greater compensation costs and other miscellaneous expenses. In addition, the effective tax rate fell 23.5 points to 5.4% from 28.9% in the year-ago quarter, adding \$0.6 million to the bottom line, and the provision for credit losses dropped by \$75,000 to \$125,000.

For the year, CPKF posted record net income of \$10.8 million, or \$2.61 per diluted share, up 21% from the \$8.9 million, or \$2.17 per diluted share, posted in 2017.

Primary contributors to this result were a \$1.9 million, or 4%, gain in net revenues from a \$1.4 million, or 5%, rise in net interest income, and a \$0.5 million, or 3%, advance in noninterest income, primarily the result of higher income from merchant card, net (\$0.4 million), cash flow (\$0.4 million), fiduciary services (\$0.3 million), and ATM (\$0.1 million), partly offset by a \$0.7 million decline in other miscellaneous income. These positives were partly offset by a \$1.5 million, or 5%, increase in total noninterest expense, largely stemming from a \$0.7 million rise in compensation costs and an \$0.8 million advance in other miscellaneous expense. In addition, the loan loss provision fell \$425,000 to \$525,000 from \$950,000 in the prior year, while the effective tax rate dropped 10 points to 11.3% from 21.3%.

We are decreasing our 2019 diluted EPS estimate from \$2.80 from \$2.63, a \$0.02 increase from 2018's \$2.61. There are three factors contributing to this decline. First, competitive deposit pricing pressures that began in 2018's fourth quarter are expected to continue, reducing our NIM estimate by 10 basis points to 4.00% from 4.10%. Secondly, CPKF expects several new hires to add to compensation costs. Finally, the Company expects to add a full-service branch to its network later on this year, which will also increase expenses. Positively, loan growth is expected to be solid, at 8%.

On January 18, 2019, Chesapeake Financial Shares, Inc. approved a 4% quarterly dividend increase to \$0.145 per share from \$0.14 per share, effective March 1, 2019. Notably, CPKF has increased the annual dividend payment every year for the past twenty-eight 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 again garnered a top ranking in the American Banker’s list of “Best Banks to Work for”, moving up to a #25 spot in 2018, out of the 85 banks listed, from a #34 place in 2017.

CPKF opened a new branch in a retirement community in November in Richmond, VA in 2018. 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. CPKF will open a full-service branch later this year.

In other news, the ABA (American Bankers Association) elected Jeffrey M. Szyperski as Chairman.

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

Net Interest Income

Net interest income increased \$0.2 million, or 3%, year over year in the fourth quarter to \$ 6.9 million (\$0.2 million less than our estimate), as a 4% increase in average interest-earning assets was partly offset by a net interest margin of 4.05%, lower than the 4.28% earned in the year-ago quarter, but 10 basis points below our 4.15% 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.

We have decreased our NIM estimate for 2019 to 4.00% from 4.10%, about 5 basis points below the 4.05% reported in 2018’s fourth quarter. Competitive deposit pricing pressures that began in 2018’s fourth quarter are expected to continue, reducing our 2019 NIM estimate by 10 basis points to 4.00% from 4.10%. We note that CPKF’s balance sheet was asset sensitive at the end of the fourth quarter, which will likely expand the net interest margin in a rising interest-rate environment.

Noninterest Income

Noninterest income was flat year over year at \$4.6 million (the same as our estimate), largely due to solid growth in merchant card income, net (up \$0.1 million, or 6%), income from fiduciary activities (up \$0.1 million, or 9%), service charges on deposit accounts (up \$0.1 million, or 17%) and cash flow income (up \$0.2 million, or 21%), partly offset by a \$0.55 million, or 39%, drop in other miscellaneous income, mainly due to the absence of one-time lower accruals for medical costs, as occurred in the prior year.

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

Loss Provision

The loan loss provision fell \$75,000 year over year to \$125,000, and was \$75,000 below our estimate. Loan loss reserves rose \$0.6 million year over year to \$5.1 million (1.00% of loans), which was flat with the third quarter’s loss reserve of \$5.1 million, or 1.01%, of loans, and above the \$4.5 million (0.92% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance was flat at \$6.6 million (1.22% of loans plus cash flow receivables) compared with \$6.6 million (1.22% of loans plus cash flow receivables) at the end of the previous quarter, and was above the \$6.1 million (1.17% of loans plus cash flow receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF recorded \$12,000 of net charge-offs in the fourth quarter. This compares to net charge-offs of \$13,000 in the year-ago quarter and net recoveries of \$75,000 for the full year in 2018.

We are maintaining our estimate of the loss provision at \$600,000 for 2019. This compares with an actual loan loss provision of \$525,000 in 2018.

We project that the total loss allowance will fall to 1.13% of total loans plus receivables at yearend 2019 from 1.22% at the end of 2018.

Noninterest Expense

Noninterest expense advanced \$0.9 million, or 11%, to \$9.5 million (\$0.6 million more than the \$8.9 million we had projected) from the prior-year quarter, primarily stemming from greater compensation costs, primarily due to a one-time additional ESOP contribution, and other miscellaneous expenses.

The efficiency ratio deteriorated, rising to 81.7% from 74.0% in the year-ago quarter, and was worse than the third quarter's 70.2%.

We project that compensation costs will increase from \$19.4 million actual in 2018 to \$20.8 million in 2019. Our estimate of noncompensation costs is \$14.0 million in 2019, compared to \$13.9 million actual in 2018. In total, we believe that the efficiency ratio will improve slightly, falling from 72.7% in 2018 to 72.5% in 2019.

Income Taxes

The Company had a 5.4% effective tax rate in the fourth quarter, a 23.5-point decrease from 28.9% 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 14.5%.

We are reducing our estimate of the effective tax rate for 2019 to 13.0% from 14.5%. This compares to a full-year effective tax rate of 11.3% in 2018.

Net Income

CPKF's fourth quarter net earnings rose 1% year over year to a record \$1.85 million, while 2018's fourth quarter diluted EPS increased by \$0.01, or 1%, to \$0.45 from \$0.44 posted a year ago.

This was worse than our estimate, which had called for \$0.4 million gain in net earnings to \$2.2 million and diluted EPS of \$0.54 (off by \$0.09).

Profitability

CPKF posted an 8.1% ROE and 0.88% ROA for the fourth quarter of 2018, compared to 8.5% and 0.94%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans increased \$21 million, or about 4%, year over year, and rose \$9 million, or 2%, sequentially to \$512 million.

By category, commercial and industrial rose \$6.7 million to \$73 million; commercial real estate loans increased \$3.5 million, or 2%, to \$222 million; and 1-4 family gained \$3.2 million, or 3%, to \$128 million. Negatively, cash management receivables decreased by \$4.5 million, or 12%, to \$34 million; construction and land development loans fell by \$2.5 million, or 5%, to \$44 million; consumer declined by \$1.0 million, or 9%, to \$11 million; and other loans slumped by \$0.9 million, or 3%, to \$33 million.

We estimate combined loan and receivables growth of 8% in 2019. This compares to actual growth of 4% in loans and receivables in full-year 2018.

Asset quality measures worsened during the fourth quarter. Total nonperforming assets rose \$3.1 million to \$10.6 million from \$7.5 million sequentially. Other real estate owned was flat at \$2.7 million. There was no change in restructured loans, which remained at zero. Nonaccrual loans increased by \$3.1 million, or 65%, to \$7.9 million, the result of one large relationship that went on nonaccrual status during the fourth quarter.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, increased 56 basis points to 1.93% of outstandings + OREO at December 31, 2018 from 1.37% of outstandings + OREO at September 30, 2018, and rose 20 basis points year over year from 1.73%.

The loss allowance as a percent of nonperforming assets decreased to 63% from 89% sequentially, as there was deterioration in nonperforming assets, while the loss reserve for loans plus cash flow receivables was stable.

Liquidity and Funding

Cash and equivalents increased by \$21 million to \$48 million at the end of the fourth quarter, while the securities portfolio rose \$5 million, or 2%, to \$207 million. By category, the private-label mortgage securities portfolio increased \$6 million to \$35 million and the municipal securities portfolio rose by \$1 million to \$146 million, while US government-related securities fell \$2 million to \$25 million.

On a relative basis, the private-label mortgage securities portfolio was 17% of the entire available-for-sale securities portfolio, US government-related securities were 12%, and the municipal securities portfolio was 71%.

CPKF's liquidity ratios were better compared to the previous quarter. At December 31, 2018, liquid assets represented 9% of total assets (7% at the end of the third quarter) and covered purchased funds by 155% (up from 85%), while loans plus receivables accounted for 64% of total assets (down from 66% at September 30, 2018).

Core deposits rose by \$45 million sequentially to \$702 million and funded 129% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios increased slightly during the fourth quarter, reflecting both an increase in risk-weighted assets and an increase in capital. The Tier 1 capital ratio rose 8 basis points sequentially to 15.04% at the end of 2018's fourth quarter from 14.96% at September 30, 2018, while the Total capital ratio gained 6 basis points, rising to 16.08% from 16.02%.

Total shareholders' equity gained \$2.9 million during the fourth quarter, as a \$1.3 million advance in retained earnings plus \$0.3 million of other capital increases added to a \$1.3 million gain in accumulated other comprehensive income.

Reflecting these factors plus a 6,000 increase in common shares outstanding, tangible book value per share rose during the fourth quarter, by \$0.67 per share to \$22.63 from \$21.96. The total equity to total assets ratio deteriorated slightly, decreasing by 7 basis points to 10.85% from 10.92%, as the gain in total assets outpaced the growth in total common shareholders' equity.

OVERVIEW

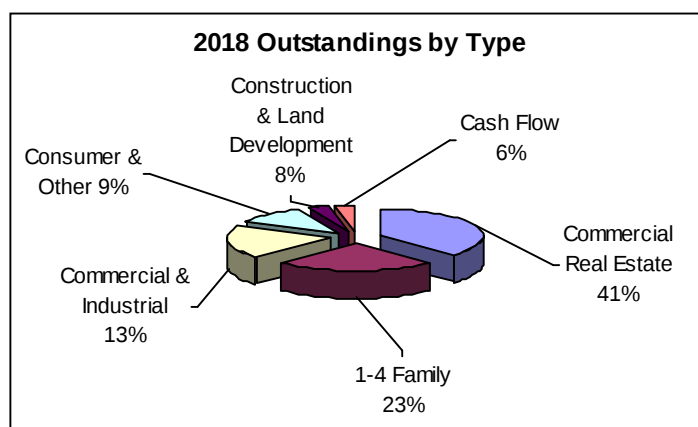
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with \$855 million in total assets at December 31, 2018. CPKF is predominantly a small business lender with 15 branch offices and one loan production office that serve customers 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 \$395 million in assets (at 2018 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 2018, Chesapeake Payment Systems had 588 direct merchants in its system and processed over \$527 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with four independent sales organizations (ISOs) to expand its processing footprint.

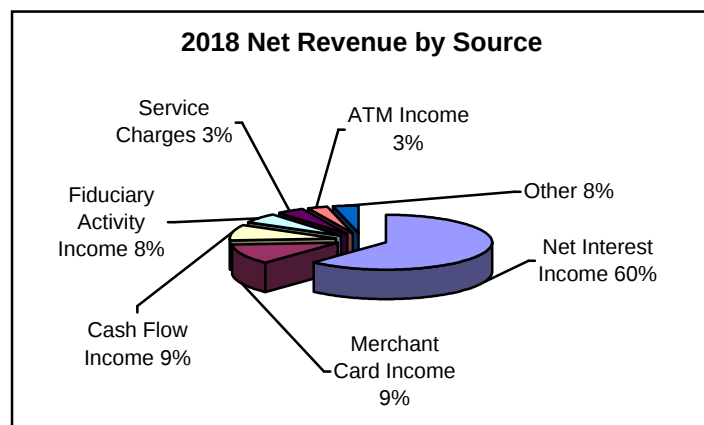
The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and had 67 customers at the end of 2018.

Through Chesapeake's secondary market mortgage banking operation, the Company services a \$235 million loan portfolio (as of December 31, 2018) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately \$575,000 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 \$582,000 to revenues in 2018 (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, 2018, the lending book consisted of commercial real estate (accounting for 41% of total gross outstandings), 1-4 family (23%), commercial and industrial (13%), consumer and other (9%), construction and land development (8%), 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, 2018, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 9% of total assets and 12% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 71% and 17%, respectively, of the total. Core deposits represented 94% of total deposits at December 31, 2018, with certificates of deposit larger than \$250,000 at 6%.



In 2018, net interest income contributed 60% of net revenue, with a significant 40% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (9% of net revenues), cash flow income (9%), income from fiduciary activities (8%), ATM income (3%), and service charges on deposit accounts (3%).

VALUATION

CPKF stock is up 10.0% year to date, a better performance than the 7.7% median price increase for the small-cap bank industry, but a bit worse than the 13.0% price gain 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 8% in 2019, based upon our current CPKF EPS estimate for 2019. Assuming a small-cap bank industry valuation of 11.2 X for 2019, CPKF's target price based upon our 2019 EPS estimate is about \$29.50.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.19X. Assuming an industry multiple of 1.25X based upon our estimated book value or CPKF twelve months out, our target price is about \$31.50, which compares to CPKF's current book value of \$22.63.

We have chosen the \$30.50 midpoint of the range of values based upon CPKF's 2019 P/E of \$29.50 and forward Price/Tangible Book Value of \$31.50 as our new valuation.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2019E	EPS 2020E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	10.0	10.3	10.3		12.1	12.6	1.32	1.34	2.1
S&P 500	13.0	18.8	16.8	15.8			10.2		2.0
Median	7.7	11.8	11.2	10.2	10.6	9.3	1.17	0.96	2.3
Average	7.8	12.4	11.2	10.4	11.6	9.0	1.2	0.9	2.3
High	25.2	38.0	13.5	13.1	22.7	16.3	2.1	1.5	4.3
Low	(4.5)	6.6	9.5	8.5	3.6	(2.9)	0.3	(0.4)	----

*Trailing twelve months

PROJECTED INCOME STATEMENT & BALANCE SHEET - ANNUAL

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	12/18	12/19E
Net interest income	23.3	23.1	23.4	24.4	26.0	27.4	28.2
Non-interest income	<u>12.7</u>	<u>12.0</u>	<u>14.2</u>	<u>14.7</u>	<u>18.1</u>	<u>18.6</u>	<u>19.7</u>
Total net revenue	36.0	35.1	37.6	39.1	44.1	46.0	47.9
Loan loss provision	1.1	0.6	0.2	0.5	0.9	0.5	0.6
Non-interest expense	26.8	27.9	29.5	30.4	31.8	33.3	34.7
Income taxes & other	<u>1.5</u>	<u>0.8</u>	<u>1.2</u>	<u>1.2</u>	<u>2.5</u>	<u>1.4</u>	<u>1.7</u>
Zacks adjusted income before NRI	6.6	5.8	6.7	7.0	8.9	10.8	10.9
GAAP net income	7.4	6.5	7.4	7.0	8.9	10.8	10.9
Diluted EPS before NRI	1.66	1.43	1.64	1.71	2.17	2.61	2.63
Reported EPS	1.84	1.62	1.82	1.71	2.17	2.61	2.63
Dividends per share	0.43	0.45	0.47	0.49	0.51	0.55	0.58
Liquid assets	90.9	62.8	43.2	40.6	50.6	73.1	74.3
Outstandings, gross	401.0	410.4	439.0	481.4	523.7	546.0	589.3
Total assets	661.8	663.2	679.1	720.8	785.2	854.8	889.5
Core deposits	467.2	480.5	489.1	522.3	632.4	702.0	730.5
Purchased funds	105.3	82.4	92.4	97.4	53.1	47.2	48.0
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	92.7	101.2
Profitability							
Return on avg assets	1.01%	0.87%	0.99%	0.99%	1.16%	1.32%	1.25%
Return on avg equity	10.74%	9.14%	9.08%	8.89%	10.64%	12.07%	11.24%
Net interest margin	4.60%	4.60%	4.38%	4.38%	4.30%	4.10%	4.00%
Loan loss provision % avg assets	0.17%	0.09%	0.04%	0.08%	0.12%	0.06%	0.07%
Noninterest income % avg assets	1.94%	1.80%	2.11%	2.06%	2.34%	2.27%	2.26%
Noninterest expense % avg assets	4.08%	4.21%	4.38%	4.28%	4.11%	4.06%	3.98%
Preprovision pretax income % avg assets	1.41%	1.09%	1.21%	1.23%	1.59%	1.55%	1.51%
Tangible efficiency ratio	73%	79%	80%	78%	72%	73%	73%
Payout ratio	23%	28%	26%	29%	24%	21%	22%
Asset Quality							
Net charge-offs % avg outstandings	0.59%	0.11%	0.36%	0.18%	0.27%	0.02%	0.14%
Allowance % outstandings	1.75%	1.88%	1.51%	1.34%	1.17%	1.22%	1.13%
NPAs % loans + OREO	5.20%	4.20%	3.09%	2.21%	1.73%	1.93%	1.64%
Allowance % NPAs	33%	45%	49%	60%	68%	63%	68%
Liquidity & Funding							
Liquid assets % purchased funds	86%	76%	47%	42%	95%	155%	155%
Core deposits % outstandings	117%	117%	111%	108%	121%	129%	124%
Liquid assets % assets	14%	9%	6%	6%	6%	9%	8%
Outstandings % assets	61%	62%	65%	67%	67%	64%	66%
Capital Adequacy							
Total equity % assets	9.34%	10.65%	11.19%	10.81%	11.05%	10.85%	11.38%
Tangible equity % assets	9.34%	10.65%	11.19%	10.81%	11.05%	10.85%	11.38%
Tier 1 capital ratio	14.23%	14.69%	13.95%	14.16%	14.35%	15.04%	
Total capital ratio	15.48%	15.94%	15.19%	15.30%	15.37%	16.08%	
Parent Company Statistics							
Interest coverage	9.2X	27.3X	61.5X	9.6X	12.7X	8.2X	7.5X
Interest & dividend coverage	1.5X	3.7X	3.5X	0.5X	0.8X	0.6X	0.6X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.0X	0.9X	1.1X	1.2X	2.8X	2.7X	2.7X
Double leverage	119.7%	109.3%	101.7%	102.6%	102.3%	102.6%	104.8%

PROJECTED INCOME STATEMENT & BALANCE SHEET - QUARTERLY

Chesapeake Financial Shares, Inc.

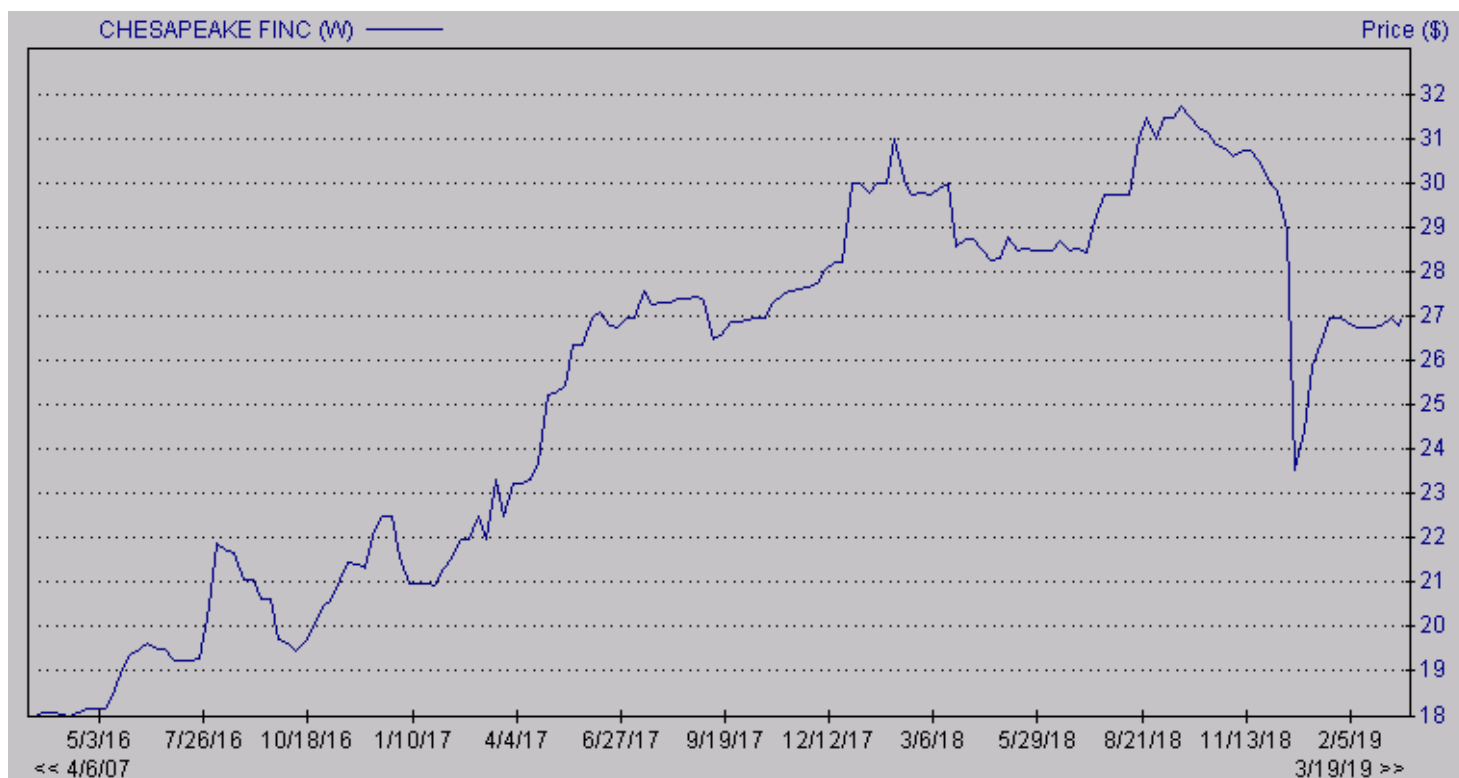
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2017				2018			
Summary Financial Data	Q1 A	Q2 A	Q3 A	Q4 A	Q1 A	Q2 A	Q3 A	Q4 A
Net interest income	6.2	6.5	6.6	6.7	6.7	6.8	7.0	6.9
Non-interest income	<u>4.1</u>	<u>4.6</u>	<u>4.8</u>	<u>4.5</u>	<u>4.4</u>	<u>4.7</u>	<u>4.9</u>	<u>4.6</u>
Total net revenue	10.4	11.1	11.4	11.2	11.1	11.5	11.9	11.5
Loan loss provision	0.2	0.5	0.2	0.1	0.2	0.2	0.1	0.1
Non-interest expense	6.9	8.2	8.1	8.5	7.6	8.1	8.1	9.5
Income taxes & other	<u>0.7</u>	<u>0.4</u>	<u>0.6</u>	<u>0.8</u>	<u>0.4</u>	<u>0.3</u>	<u>0.5</u>	<u>0.0</u>
Zacks adjusted income before NRI	2.6	2.0	2.5	1.8	2.9	2.9	3.2	1.9
GAAP net income	2.6	2.0	2.5	1.8	2.9	2.9	3.2	1.9
Diluted EPS before NRI	0.63	0.48	0.61	0.44	0.70	0.69	0.77	0.45
Reported EPS	0.63	0.48	0.61	0.44	0.70	0.69	0.77	0.45
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	45.1	54.0	73.1
Outstandings, gross	494.9	515.7	516.7	523.7	518.7	527.3	541.6	546.0
Total assets	744.6	784.7	784.1	785.2	797.3	807.4	823.2	854.8
Core deposits	585.9	626.6	627.8	632.4	647.4	653.9	657.3	702.0
Purchased funds	49.1	56.8	57.4	53.1	49.5	51.1	63.3	47.2
Long-term debt	21.0	10.2	5.2	5.2	5.2	6.1	5.2	5.2
Shareholders' equity	80.7	83.6	85.3	86.8	87.0	89.0	89.9	92.7
Profitability								
Return on avg assets*	1.42%	1.04%	1.28%	0.94%	1.47%	1.43%	1.56%	0.88%
Return on avg equity *	13.12%	9.72%	11.92	8.54%	13.43%	13.03%	14.22%	8.13%
Net interest margin*	4.26%	4.33%	4.31%	4.28%	4.06%	4.10%	4.15%	4.05%
Loan loss provision % avg assets*	0.10%	0.25%	0.09%	0.06%	0.09%	0.09%	0.06%	0.02%
Noninterest income % avg assets*	2.26%	2.39%	2.46%	2.32%	2.23%	2.35%	2.42%	2.19%
Noninterest expense % avg assets*	3.78%	4.31%	4.13%	4.36%	3.84%	4.03%	3.98%	4.52%
Preprovision pretax inc.% avg assets*	1.88%	1.47%	1.71%	1.38%	1.76%	1.71%	1.86%	0.96%
Tangible efficiency ratio	67%	74%	73%	74%	69%	70%	70%	82%
Payout ratio	20%	26%	21%	29%	18%	20%	18%	31%
Asset Quality								
Net charge-offs % avg outstandings*	(0.00)%	1.07%	0.03%	(0.02)%	(0.05)%	(0.01)%	0.13%	0.02%
Allowance % outstandings	1.34%	1.13%	1.16%	1.17%	1.24%	1.26%	1.22%	1.22%
NPAs % loans + OREO	2.22%	1.84%	1.69%	1.73%	1.52%	1.48%	1.37%	1.93%
Allowance % NPAs	60%	61%	68%	68%	81%	85%	89%	63%
Liquidity & Funding								
Liquid assets % purchased funds	98%	105%	104%	95%	132%	88%	85%	155%
Core deposits % outstandings	118%	122%	121%	121%	125%	124%	121%	129%
Liquid assets % assets	6%	8%	8%	6%	8%	6%	7%	9%
Outstandings % assets	66%	66%	66%	67%	65%	65%	66%	64%
Capital Adequacy								
Total equity % assets	10.84%	10.66%	10.87%	11.05%	10.91%	11.03%	10.92%	10.85%
Tangible equity % assets	10.84%	10.66%	10.87%	11.05%	10.91%	11.03%	10.92%	10.85%
Tier 1 capital ratio	14.31%	14.04%	14.43%	14.35%	14.86%	14.85%	14.96%	15.04%
Total capital ratio	15.48%	15.36%	15.41%	15.30%	15.94%	15.93%	16.02%	16.08%

*Annualized.

HISTORICAL STOCK PRICE



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