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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTC)

CPKF: Third Quarter Beats Our Estimate

We have chosen the $28.25 midpoint of the range of values based upon CPKF's 2019 P/E of $28.00 and forward Price/Tangible Book Value of $28.50 as our new valuation.

Current Price (12/17/19)	$23.80
Valuation	**$28.25**

OUTLOOK

CPKF's third quarter net earnings rose $47,000, or 2%, year over year to $3.2 million, while 2019's third quarter diluted EPS increased by $0.01, or 2%, to $0.65 from $0.64 posted a year ago. All data in this report have been adjusted for a 6-for-5 stock dividend, paid on October 15, 2019. This was better than our estimate, which had called for a $0.2 million, or 7%, decrease in net earnings to $3.0 million and diluted EPS of $0.60 (off by $0.05). The main factors behind the difference between actual results and our estimate were: (1) net interest income that was $0.4 million more than we had estimated due to a net interest margin and average interest-earning asset base that both were higher than expected and (2) compensation costs that were $0.1 million less than estimated. These were offset by: (1) other miscellaneous expense that was $0.2 million more than anticipated and (2) income tax expense that was $0.1 million larger due to higher-than-estimated pretax earnings and a tax rate of 14.4% versus our 13.0% estimate. The major reasons for the third quarter's 2% increase in net earnings versus the prior-year quarter were a $1.0 million, or 9%, advance in net revenues, partly offset by a $0.9 million, or 11%, rise in total noninterest expense. We are maintaining our 2019 and 2020 diluted EPS estimates at $2.25 each year—for 2019, a $0.08 increase from 2018's $2.17, and for 2020, flat with our 2019 estimate. We recognize that this is down from the prior two years' record earnings growth, but there are several factors contributing to this reality, including pressure on lending rates, several new staff hires, higher IT costs stemming from investing in new technology, and the addition of a full service branch. Positively, loan growth is expected to be solid, though we are cutting our estimate from 10% to 7 ½% in 2019, following a flat third quarter, while continuing our 8% loan growth estimate in 2020. CPKF recently approved a 3% quarterly dividend increase to $0.125 per share from $0.121 per share. Notably, CPKF has increased the annual dividend payment every year for the past twenty-eight years since 1991. In 2019 for the twelfth consecutive year, CPKF was included in the American Banker magazine list of the "Top 200 Community Banks".

SUMMARY DATA

52-Week High	**$24.85**
52-Week Low	**$19.63**
One-Year Return (%)	**5.02**
Beta	**0.56**
Average Daily Volume (sh)	**814**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$117**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.50**
Dividend Yield (%)	**2.10**
5-Yr. Historical Growth Rates	
Sales (%)	**5.0**
Earnings Per Share (%)	**9.4**
Dividend (%)	**5.3**
P/E using TTM EPS	**10.4**
P/E using 2019 Estimate	**10.6**
P/E using 2020 Estimate	**10.6**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	11.3 A	13.0 A	13.0 A	12.2 E	49.5 E
2020					51.2 E

Earnings per Share*
(EPS is operating earnings before nonrecurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	0.53 A	0.40 A	0.51 A	0.37 A	1.80 A
2018	0.59 A	0.58 A	0.64 A	0.37 A	2.17 A
2019	0.60 A	0.66 A	0.65 A	0.34 E	2.25 E
2020					2.25 E

*Quarterly EPS may not add to total due changes in average shares outstanding. Adjusted for 6-for 5- stock dividend on October 15, 2019.

THIRD QUARTER

CPKF's third quarter net earnings rose $47,000, or 2%, year over year to $3.2 million, while 2019's third quarter diluted EPS increased by $0.01, or 2%, to $0.65 from $0.64 posted a year ago. All data in this report have been adjusted for a 6-for-5 stock dividend, paid on October 15, 2019.

This was better than our estimate, which had called for a $0.2 million, or 7%, decrease in net earnings to $3.0 million and diluted EPS of $0.60 (off by $0.05).

The main factors behind the difference between actual results and our estimate were: (1) net interest income that was $0.4 million more than we had estimated due to a net interest margin and average interest-earning asset base that both were higher than expected and (2) compensation costs that were $0.1 million less than estimated. These were offset by: (1) other miscellaneous expense that was $0.2 million more than anticipated and (2) income tax expense that was $0.1 million larger due to higher-than-estimated pretax earnings and a tax rate of 14.4% versus our 13.0% estimate.

We note that in last year's 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 third quarter's 2% increase in net earnings versus the prior-year quarter were a $1.0 million, or 9%, advance in net revenues due to growth in net interest income (up $0.6 million), net securities gains (up by $0.3 million) and other miscellaneous income (up $0.1 million), partly offset by a $0.9 million, or 11%, rise in total noninterest expense, primarily from greater compensation costs (up $0.6 million) and higher other miscellaneous expense (up $0.3 million).

We are maintaining our 2019 and 2020 diluted EPS estimates at $2.25 each year—for 2019, a $0.08 increase from 2018's $2.17, and for 2020, flat with our 2019 estimate. We recognize that this is down from the prior two years' record earnings growth, but there are several factors contributing to this reality.

First, there is pressure on lending rates due to the recent Fed cut in interest rates, though somewhat offsetting influences are reductions in deposit rates and the call of certain higher rate brokered certificates of deposit. This is reducing our NIM estimates to 3.97% in 2019 from 4.10% actual in 2018 and by another 7 basis points, to 3.90% in 2020 from an estimated 3.97% in 2019. Secondly, CPKF expects several new hires to add to compensation costs. Thirdly, CPKF is investing in new technology, leading to higher IT expense. Finally, the Company expects to add a full-service branch to its network late in next year's first quarter, which will also increase expenses. Positively, loan growth is expected to be solid, though we are cutting our estimate from 10% to 7 ½% in 2019, following a flat third quarter, while continuing our 8% loan growth estimate in 2020.

On October 18, 2019, Chesapeake Financial Shares, Inc. approved a 3% quarterly dividend increase to $0.125 per share from $0.121 per share, payable on or about December 15, 2019 to shareholders of record on December 1, 2019. Notably, CPKF has increased the annual dividend payment every year for the past twenty-eight years since 1991. This follows on the heels of a 6-for-5 stock dividend, paid October 15, 2019.

In 2019 for the twelfth 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 #107 in the nation out of approximately 601 publicly traded banks and thrifts with less than $2 billion in assets in the study, up from #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 10.59%. Chesapeake Bank again garnered a top ranking in the American Banker's list of "Best Banks to Work for", moving up to a #19 spot in 2019, out of the 85 banks listed, from a #25 place in 2018.

In other news, Chesapeake Financial Shares, Inc. graduated from the OTCQB Venture Market to the OTCQX Best Market, trading on OTCQX under the symbol CPKF.

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

Net Interest Income
Net interest income increased $0.6 million, or 9%, year over year in the third quarter to $7.6 million ($0.4 million more than our estimate), as an 11% increase in average interest-earning assets added to a higher-than-expected net interest margin of 4.02%, 13 basis point lower than the 4.15% earned in the year-ago quarter, but 12 basis points above our 3.90% 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 for years prior to 2018.

We have increased our NIM estimate for 2019 slightly to 3.97% from 3.94%, largely due the third quarter's outperformance. We note that pressure on lending rates due to the recent Fed cut in interest rates have been somewhat offset by reductions in deposit rates and the call of certain higher rate brokered certificates of deposit. Our 2020 NIM estimate remains at 3.90%. We note that CPKF's balance sheet was asset sensitive at the end of the third quarter, which will likely expand the net interest margin in a rising interest-rate environment, but could hurt should interest rates fall.

Noninterest Income
Noninterest income rose $0.5 million, or 20%, year over year to $5.4 million (the same as our $5.4 million estimate), largely due to a $0.3 million increase in net gain on securities and a $ 0.1 million increase in other miscellaneous income. Most other line items also showed improvement, except cash flow income, which experienced a $0.1 million decline following a $2.7 million drop in cash flow receivables during the third quarter.

With expanded merchant card processing operations, we expect steady growth in this business throughout the next couple of years.

Loss Provision
The loan loss provision was flat year over year at $175,000, and was the same as our estimate. Loan loss reserves rose $0.2 million year over year to $5.2 million (0.97% of loans), which was below the second quarter's loss reserve of $5.4 million, or 1.00% of loans, and above the $5.0 million (1.01% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance rose $0.2 million to $6.9 million (1.20% of loans plus cash flow receivables) compared with $7.0 million (1.23% of loans plus cash flow receivables) at the end of the previous quarter, and was above the $6.6 million (1.22% of loans plus cash flow receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF recorded $329,000 of net charge-offs in the third quarter. This compares to no charge-offs 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 $700,000 for 2019. This compares with an actual loan loss provision of $525,000 in 2018. Our estimate for the 2020 loss provision is now $700,000, down from $800,000 before and flat with our 2019 estimate.

We project that the total loss allowance will fall slightly to 1.20% of total loans plus receivables at yearend 2019 and to 1.11% at the end of 2020. This compares to 1.22% at the end of 2018.

Noninterest Expense
Noninterest expense advanced $0.9 million, or 11%, to $9.0 million ($0.1 million more than the $8.9 million we had projected) from the prior-year quarter, primarily stemming from a $0.6 million, or 12%, increase in compensation expense and a $0.3 million, or 11%, rise in other miscellaneous expenses.

The efficiency ratio deteriorated, rising to 73.3% from 70.2% in the year-ago quarter, but was better than the second quarter's 74.4%.

We project that compensation costs will increase from $19.4 million actual in 2018 to $21.0 million in 2019 and $22.6 million in 2020. Our estimate of noncompensation costs is $14.9 million in 2019 and $15.0 million in 2020, compared to $13.9 million actual in 2018. Our estimate of the efficiency ratio is 75.3% in 2019 and 73.4% in 2020 compared to 72.7% actual in 2018.

Income Taxes
The Company had a 14.4% effective tax rate in the third quarter, a 1.5-point increase from 12.9% in the year-ago quarter. This compares to our estimate of an effective tax rate of 13.0%.

We are maintaining our estimate of the effective tax rate for 2019 at 13%, and keeping it at 13% for 2020. This compares to a full-year effective tax rate of 11.3% in 2018.

Net Income
CPKF's third quarter net earnings rose $47,000, or 2%, year over year to $3.2 million, while 2019's third quarter diluted EPS increased by $0.01, or 2%, to $0.65 from $0.64 posted a year ago. All data in this report have been adjusted for a 6-for-5 stock dividend, paid on October 15, 2019.

This was better than our estimate, which had called for a $0.2 million, or 7%, decrease in net earnings to $3.0 million and diluted EPS of $0.60 (off by $0.05).

Profitability
CPKF posted a 12.4% ROE and 1.38% ROA for the third quarter of 2019, compared to 14.2% and 1.56%, respectively, in the prior-year quarter.

Loans and Asset Quality
Gross loans increased $38 million, or about 7 ½%, year over year, and rose $3 million, or ½%, sequentially to $540 million.

By category, construction and land development loans rose by $3.6 million, or 10 ½%, to $38 million; commercial and industrial gained $2.6 million, or 3%, to $98 million; other loans advanced by $1.7 million, or 4%, to $33 million; and consumer increased by $0.7 million, or 7%, to $11 million. Negatively, commercial real estate loans decreased $4.9 million, or 2%, to $226 million; cash management receivables decreased by $2.7 million, or 8%, to $32 million; and1-4 family fell $0.8 million, or 1%, to $134 million.

We estimate combined loan and receivables growth of 7 ½% in 2019 (down from 10% previously) and 8% in 2020. This compares to actual growth of 4% in loans and receivables in full-year 2018.

Asset quality measures improved markedly during the third quarter. Total nonperforming assets fell $3.7 million to $5.3 million from $9.0 million sequentially. Nonaccrual loans decreased by $5.1 million to $1.6 million from $6.7 million, as most of one credit relationship went back to accruing status, with the remainder added to OREO. Thus, other real estate owned increased $1.4 million to $3.7 million from $2.3 million. There was no change in restructured loans, which remained at zero.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreased 64 basis points to 0.92% of outstandings + OREO at September 30, 2019 from 1.56% of outstandings + OREO at June 30, 2019, and fell 45 basis points year over year from 1.37%.

The loss allowance as a percent of nonperforming assets increased to 102% from 58% sequentially, as there was improvement in nonperforming assets, while the loss reserve for loans plus cash flow receivables increased.

Liquidity and Funding

Cash and equivalents decreased by $12 million to $38 million at the end of the third quarter, while the securities portfolio rose $20 million to $285 million. By category, US government-related securities rose $10 million to $45 million, the private-label mortgage securities portfolio increased $6 million to $57 million, the municipal securities portfolio rose by $2 million to $157 million and asset-backed securities (primarily student loans under the FFELP program) added $2 million to $26 million.

On a relative basis, the private-label mortgage securities portfolio was 20% of the entire available-for-sale securities portfolio, US government-related securities were 16%, municipal securities portfolio were 55%, and asset-backed securities were 9%.

CPKF's liquidity ratios were stable compared to the previous quarter. At September 30, 2019, liquid assets represented 9% of total assets (9% at the end of the second quarter) and covered purchased funds by 128% (down from 158%), while loans plus receivables accounted for 61% of total assets (61% at June 30, 2019).

Core deposits fell by $7 million sequentially to $758 million and funded 133% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios increased during the third quarter, as growth in capital outpaced growth in risk-weighted assets. The Tier 1 capital ratio rose 23 basis points sequentially to 14.85% at the end of 2019's third quarter from 14.62% at June 30, 2019, while the Total capital ratio gained 19 basis points, rising to 15.84% from 15.65%.

Total shareholders' equity gained $4.2 million during the third quarter.

Reflecting these factors plus a 1,000 decrease in common shares outstanding, tangible book value per share rose during the third quarter, by $0.86 per share to $21.52 from $20.66. The total equity to total assets ratio improved, increasing by 34 basis points to 11.25% from 10.91%, as growth total in common shareholders' equity outstripped growth in assets.

OVERVIEW

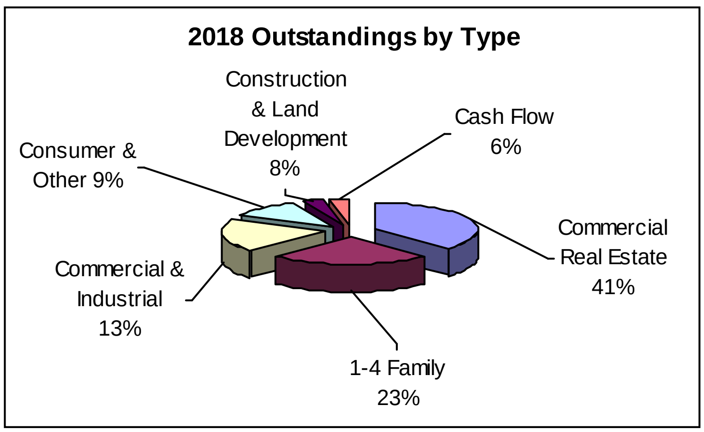
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $944 million in total assets at September 30, 2019. CPKF is predominantly a small business lender with 15 branch offices and one loan production office that serve customers 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.

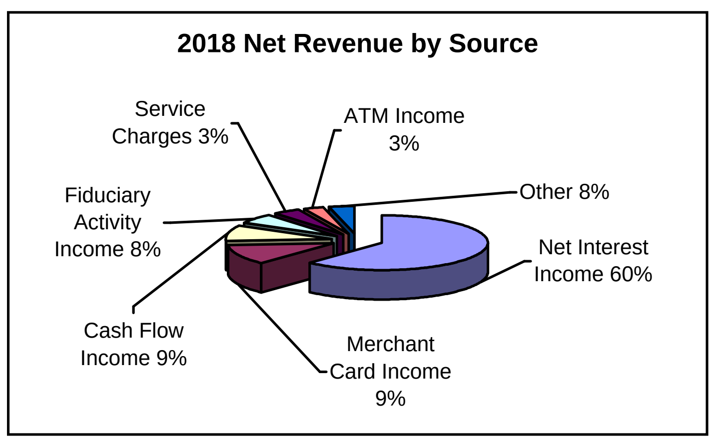
Through Chesapeake’s secondary market mortgage banking operation, the Company services a $235 million loan portfolio (as of December 31, 2018) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $575,000 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 16.3% year to date, a slightly worse performance than the 18.0% median price increase for the small-cap bank industry, and also below the 27.4% 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 15%, based upon our current CPKF EPS estimate for 2020. Assuming a small-cap bank industry valuation of 12.4 X for 2020, CPKF's target price based upon our 2019 EPS estimate is about $28.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.11X. Assuming an industry multiple of 1.22X based upon our estimated book value or CPKF twelve months out, our target price is about $28.50, which compares to CPKF's current book value of $21.52.

We have chosen the $28.25 midpoint of the range of values based upon CPKF's 2019 P/E of $28.00 and forward Price/Tangible Book Value of $28.50 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	**16.3**	**10.4**	**10.6**	**10.6**	**11.4**	**11.6**	**1.25**	**1.27**	**2.1**
S&P 500	27.4	20.9	19.6	18.6					1.9
Median	**18.0**	**12.5**	**12.3**	**12.4**	**10.6**	**9.7**	**1.12**	**0.97**	**2.2**
Average	19.4	16.4	12.6	12.6	10.5	9.4	1.2	1.0	2.2
High	50.0	132.7	15.9	15.5	20.4	17.5	2.9	1.8	4.2
Low	(33.3)	9.0	10.0	9.9	0.5	0.5	0.0	0.0	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	**12/14**	**12/15**	**12/16**	**12/17**	**12/18**	**12/19E**	**12/20E**
Net interest income	23.1	23.4	24.4	26.0	27.4	29.2	31.1
Non-interest income	12.0	14.2	14.7	18.1	18.6	20.3	20.1
Total net revenue	35.1	37.6	39.1	44.1	46.0	49.5	51.2
Loan loss provision	0.6	0.2	0.5	0.9	0.5	0.7	0.7
Non-interest expense	27.9	29.5	30.4	31.8	33.3	35.9	37.6
Income taxes & other	0.8	1.2	1.2	2.5	1.4	1.7	1.7
Zacks adjusted income before NRI	5.8	6.7	7.0	8.9	10.8	11.2	11.2
GAAP net income	6.5	7.4	7.0	8.9	10.8	11.2	11.2
Diluted EPS before NRI	1.19	1.37	1.42	1.80	2.17	2.25	2.25
Reported EPS	1.35	1.51	1.42	1.80	2.17	2.25	2.25
Dividends per share	0.38	0.39	0.41	0.43	0.46	0.49	0.50
Liquid assets	62.8	43.2	40.6	50.6	73.1	83.8	85.2
Outstandings, gross	410.4	439.0	481.4	523.7	546.0	586.2	632.7
Total assets	663.2	679.1	720.8	785.2	854.8	953.1	991.8
Core deposits	480.5	489.1	522.3	632.4	702.0	766.1	797.2
Purchased funds	82.4	92.4	97.4	53.1	47.2	65.5	66.6
Long-term debt	20.6	21.1	16.1	5.2	5.2	5.0	5.0
Shareholders' equity	70.6	76.0	77.9	86.8	92.7	107.2	115.9
Profitability							
Return on avg assets	0.87%	0.99%	0.99%	1.16%	1.32%	1.22%	1.15%
Return on avg equity	9.14%	9.08%	8.89%	10.64%	12.07%	11.02%	10.00%
Net interest margin	4.60%	4.38%	4.38%	4.30%	4.10%	3.97%	3.90%
Loan loss provision % avg assets	0.09%	0.04%	0.08%	0.12%	0.06%	0.08%	0.07%
Noninterest income % avg assets	1.80%	2.11%	2.06%	2.34%	2.27%	2.21%	2.06%
Noninterest expense % avg assets	4.21%	4.38%	4.28%	4.11%	4.06%	3.91%	3.86%
Preprovision pretax income % avg assets	1.09%	1.21%	1.23%	1.59%	1.55%	1.48%	1.40%
Tangible efficiency ratio	79%	80%	78%	72%	73%	75%	73%
Payout ratio	28%	26%	29%	24%	21%	22%	22%
Asset Quality							
Net charge-offs % avg outstandings	0.11%	0.36%	0.18%	0.27%	0.02%	0.10%	0.13%
Allowance % outstandings	1.88%	1.51%	1.34%	1.17%	1.22%	1.20%	1.11%
NPAs % loans + OREO	4.20%	3.09%	2.21%	1.73%	1.93%	0.87%	0.67%
Allowance % NPAs	45%	49%	60%	68%	63%	137%	165%
Liquidity & Funding							
Liquid assets % purchased funds	76%	47%	42%	95%	155%	128%	128%
Core deposits % outstandings	117%	111%	108%	121%	129%	131%	126%
Liquid assets % assets	9%	6%	6%	6%	9%	9%	9%
Outstandings % assets	62%	65%	67%	67%	64%	62%	64%
Capital Adequacy							
Total equity % assets	10.65%	11.19%	10.81%	11.05%	10.85%	11.25%	11.69%
Tangible equity % assets	10.65%	11.19%	10.81%	11.05%	10.85%	11.25%	11.69%
Tier 1 capital ratio	14.69%	13.95%	14.16%	14.35%	15.04%		
Total capital ratio	15.94%	15.19%	15.30%	15.37%	16.08%		
Parent Company Statistics							
Interest coverage	27.3X	61.5X	9.6X	12.7X	8.2X	7.5X	7.5X
Interest & dividend coverage	3.7X	3.5X	0.5X	0.8X	0.6X	0.6X	0.6X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.9X	1.1X	1.2X	2.8X	2.7X	2.7X	2.7X
Double leverage	109.3%	101.7%	102.6%	102.3%	102.6%	99.2%	101.4%

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2018				2019			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 E**
Net interest income	6.7	6.8	7.0	6.9	6.8	7.4	7.6	7.5
Non-interest income	4.4	4.7	4.9	4.6	4.5	5.6	5.4	4.8
Total net revenue	11.1	11.5	11.9	11.5	11.3	13.0	13.0	12.3
Loan loss provision	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Non-interest expense	7.6	8.1	8.1	9.5	7.7	9.1	9.0	10.1
Income taxes & other	0.4	0.3	0.5	0.0	0.4	0.4	0.6	0.3
Zacks adjusted income before NRI	2.9	2.9	3.2	1.9	3.0	3.3	3.2	1.7
GAAP net income	2.9	2.9	3.2	1.9	3.0	3.3	3.2	1.7
Diluted EPS before NRI	0.59	0.58	0.64	0.37	0.60	0.66	0.65	0.34
Reported EPS	0.59	0.58	0.64	0.37	0.60	0.66	0.65	0.34
Dividends per share	0.11	0.12	0.12	0.12	0.12	0.12	0.12	0.13
Liquid assets	65.3	45.1	54.0	73.1	74.4	84.7	83.5	83.8
Outstandings, gross	518.7	527.3	541.6	546.0	557.9	572.0	571.9	586.2
Total assets	797.3	807.4	823.2	854.8	893.4	934.1	943.7	953.1
Core deposits	647.4	653.9	657.3	702.0	730.8	765.4	758.5	766.1
Purchased funds	49.5	51.1	63.3	47.2	50.8	53.5	65.2	65.5
Long-term debt	5.2	6.1	5.2	5.2	6.6	5.2	5.2	5.0
Shareholders' equity	87.0	89.0	89.9	92.7	97.8	101.9	106.1	107.2
Profitability								
Return on avg assets*	1.47%	1.43%	1.56%	0.88%	1.36%	1.44%	1.38%	0.72%
Return on avg equity *	13.43%	13.03%	14.22%	8.13%	12.49%	13.14%	12.41%	6.36%
Net interest margin*	4.06%	4.10%	4.15%	4.05%	3.89%	4.09%	4.02%	3.90%
Loan loss provision % avg assets*	0.09%	0.09%	0.06%	0.02%	0.08%	0.08%	0.07%	0.07%
Noninterest income % avg assets*	2.23%	2.35%	2.42%	2.19%	2.07%	2.47%	2.30%	2.01%
Noninterest expense % avg assets*	3.84%	4.03%	3.98%	4.52%	3.53%	3.97%	3.84%	4.27%
Preprovision pretax inc.% avg assets*	1.76%	1.71%	1.86%	0.96%	1.64%	1.73%	1.68%	0.90%
Tangible efficiency ratio	69%	70%	70%	82%	69%	74%	73%	85%
Payout ratio	18%	20%	18%	31%	20%	18%	19%	37%
Asset Quality								
Net charge-offs % avg outstandings*	(0.05)%	(0.01)%	0.13%	0.02%	0.02%	0.01%	0.25%	0.14%
Allowance % outstandings	1.24%	1.26%	1.22%	1.22%	1.22%	1.23%	1.20%	1.20%
NPAs % loans + OREO	1.52%	1.48%	1.37%	1.93%	1.71%	1.56%	0.92%	0.87%
Allowance % NPAs	81%	85%	89%	63%	71%	78%	102%	137%
Liquidity & Funding								
Liquid assets % purchased funds	132%	88%	85%	155%	146%	158%	128%	128%
Core deposits % outstandings	125%	124%	121%	129%	131%	134%	133%	131%
Liquid assets % assets	8%	6%	7%	9%	8%	9%	9%	9%
Outstandings % assets	65%	65%	66%	64%	62%	61%	61%	62%
Capital Adequacy								
Total equity % assets	10.91%	11.03%	10.92%	10.85%	10.95%	10.91%	11.25%	11.25%
Tangible equity % assets	10.91%	11.03%	10.92%	10.85%	10.95%	10.91%	11.25%	11.25%
Tier 1 capital ratio	14.86%	14.85%	14.96%	15.04%	14.91%	14.62%	14.85%	
Total capital ratio	15.94%	15.93%	16.02%	16.08%	15.95%	15.65%	15.84%	

*Annualized.

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