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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTC)

CPKF: Fourth Quarter Better than Expected

We have chosen the $19.75 midpoint of the range of values based upon CPKF's 2019 P/E of $19.50 and forward Price/Tangible Book Value of $20.00 as our new valuation.

Current Price (03/26/20)	$17.25
Valuation	**$19.75**

OUTLOOK

CPKF's fourth quarter net earnings rose $61,000, or 3%, year over year to $1.9 million, while 2019's fourth quarter diluted EPS increased by $0.02, or 3%, to $0.39 from $0.37 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 9%, decrease in net earnings to $1.7 million and diluted EPS of $0.34 (off by $0.05). The main factors behind the difference between actual results and our estimate were: (1) net interest income was $0.1 million more than we had estimated due to higher average interest-earning assets; (2) there was no provision for credit losses versus our $0.2 million estimate; (3) noninterest income was $0.2 million greater than we expected; and (4) both occupancy expense and other miscellaneous expense were each $0.2 million lower than we expected. These were offset by: (1) compensation costs that were $0.5 million more than estimated due to an accrual adjustment and (2) income tax expense that was $0.2 million larger due to higher-than-estimated pretax earnings and a tax rate of 18.2% versus our 13.0% estimate. The major reasons for the fourth quarter's 3% increase in net earnings versus the prior-year quarter were a $1.1 million, or 9%, advance in net revenues partly offset by a $0.7 million, or 8%, rise in total noninterest expense, as well as $0.3 million more in income taxes due to greater pretax earnings and a higher effective tax rate of 18.2% versus 5.4% a year ago. We are increasing our 2020 diluted EPS estimate by a nickel to $2.30, a penny increase over 2019's $2.29. We recognize that this is down from the prior years' record earnings growth, but there are several factors contributing to this reality, 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 and we are 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	**$14.51**
One-Year Return (%)	**-19.86**
Beta	**0.55**
Average Daily Volume (sh)	**3,700**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$85**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.50**
Dividend Yield (%)	**2.90**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.3**
Earnings Per Share (%)	**14.0**
Dividend (%)	**4.1**
P/E using TTM EPS	**7.5**
P/E using 2019	**7.5**
P/E using 2020 Estimate	**7.5**
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	12.9 A	12.6 A	49.8 A
2020					51.3 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	0.39 A	2.29 A
2020					2.30 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.

FOURTH QUARTER

CPKF's fourth quarter net earnings rose $61,000, or 3%, year over year to $1.9 million, while 2019's fourth quarter diluted EPS increased by $0.02, or 3%, to $0.39 from $0.37 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 9%, decrease in net earnings to $1.7 million and diluted EPS of $0.34 (off by $0.05).

The main factors behind the difference between actual results and our estimate were: (1) net interest income was $0.1 million more than we had estimated as average interest-earning assets were higher than expected; (2) there was no provision for credit losses versus our $0.2 million estimate; (3) noninterest income was $0.2 million greater than anticipated as both merchant card income and other miscellaneous income were each $0.1 million larger than our estimate; and (4) both occupancy expense and other miscellaneous expense were each $0.2 million lower than we expected. These were offset by: (1) compensation costs that were $0.5 million more than estimated due to an accrual adjustment and (2) income tax expense that was $0.2 million larger due to higher-than-estimated pretax earnings and a tax rate of 18.2% 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 fourth quarter's 3% increase in net earnings versus the prior-year quarter were a $1.1 million, or 9%, advance in net revenues due to growth in net interest income (up $0.7 million) and net securities gains (up by $0.4 million), partly offset by a $0.7 million, or 8%, rise in total noninterest expense, primarily from greater compensation costs (up $0.8 million) and reduced occupancy expense (down by $0.1 million), as well as $0.3 million more in income taxes due to greater pretax earnings and a higher effective tax rate of 18.2% versus 5.4% a year ago.

For the year, CPKF posted record net income of $11.4 million, or $2.29 per diluted share, up 5% from the $10.8 million, or $2.17 per diluted share, posted in 2018.

Primary contributors to this result were a $3.8 million, or 8%, gain in net revenues from a $2.1 million, or 8%, rise in net interest income, and a $1.7 million, or 9%, advance in noninterest income, primarily the result of higher other miscellaneous income ($1.7 million). These positives were partly offset by a $2.7 million, or 8%, increase in total noninterest expense, largely stemming from a $2.1 million rise in compensation costs (up 11%) and a $0.6 million advance in other miscellaneous expense (up 6%). In addition, income taxes increased by $0.5 million on larger pretax earnings and a higher effective tax rate of 14.3% compared to 11.3% in 2018.

We are increasing our 2020 diluted EPS estimate by a nickel to $2.30, a penny increase over 2019's $2.29. We recognize that this is down from the prior 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 estimate to 3.70% in 2020, down 20 basis points from our prior 3.90% estimate and an actual net interest margin of 3.98% 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 the second quarter, which will also increase expenses. Positively, loan growth is expected to be solid, and we are 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 fourth quarter results more fully. Our projections are shown at the back of the report.

Net Interest Income

Net interest income increased $0.7 million, or 10%, year over year in the fourth quarter to $7.6 million ($0.1 million more than our estimate), as a 13% increase in average interest-earning assets offset a 3.90% net interest margin, 15 basis point lower than the 4.05% earned in the year-ago quarter, but matching our 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 decreased our NIM estimate for 2020 by 20 basis points to 3.70% from 3.90% previously. 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. 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, but could hurt should interest rates fall.

Noninterest Income

Noninterest income rose $0.4 million, or 8%, year over year to $5.0 million ($0.2 million more than our $4.8 million estimate), largely due to a $0.4 million increase in net securities gains. Most other line items also showed improvement, except cash flow income, which experienced a $0.1 million decline following a $2.5 million drop in cash flow receivables during the fourth 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 zero, $175,000 below our estimate. Loan loss reserves were basically flat year over year at $5.1 million (0.94% of loans), which was below the third quarter’s loss reserve of $5.2 million, or 0.97% of loans, and the same as the $5.1 million (1.00% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance fell $0.2 million to $6.7 million (1.18% of loans plus cash flow receivables) compared with $6.9 million (1.20% 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 $174,000 of net charge-offs in the fourth quarter. This compares to $12,000 charge-offs in the year-ago quarter and net charge-offs of $547,000 for the full year in 2019.

We are maintaining our estimate of the loss provision at $700,000 for 2020. This compares with an actual loan loss provision of $525,000 in 2019.

We project that the total loss allowance will fall slightly to 1.07% of total loans plus receivables at yearend 2020 from 1.18% at the end of 2019.

Noninterest Expense
Noninterest expense advanced $0.7 million, or 8%, to $10.2 million ($0.1 million more than the $10.1 million we had projected) from the prior-year quarter, primarily stemming from a $0.8 million, or 14%, increase in compensation expense, partly offset by a $0.1 million decline in occupancy expense.

The efficiency ratio deteriorated, rising to 83.6% from 81.7% in the year-ago quarter, and was also worse than the third quarter's 73.3%.

We project that compensation costs will increase from $21.5 million actual in 2019 to $22.9 million in 2020. Our estimate of noncompensation costs is $14.5 million in 2020, compared to $14.5 million actual in 2019. Our estimate of the efficiency ratio is 72.8% in 2020 compared to 75.1% actual in 2019.

Income Taxes
The Company had an 18.2% effective tax rate in the fourth quarter, a 12.8-point increase from 5.4% in the year-ago quarter. This compares to our estimate of an effective tax rate of 13.0%.

We are raising our estimate of the effective tax rate for 2020 to 14% from 13%. This compares to a full-year effective tax rate of 14.3% in 2019.

Net Income
CPKF's fourth quarter net earnings rose $61,000, or 3%, year over year to $1.9 million, while 2019's fourth quarter diluted EPS increased by $0.02, or 3%, to $0.39 from $0.37 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 9%, decrease in net earnings to $1.7 million and diluted EPS of $0.34 (off by $0.05).

Profitability
CPKF posted a 7.2% ROE and 0.81% ROA for the fourth quarter of 2019, compared to 8.1% and 0.88%, respectively, in the prior-year quarter.

Loans and Asset Quality
Gross loans increased $26 million, or about 5%, year over year, and decreased $3 million, or 1%, sequentially to $538 million.

By category, commercial real estate loans increased $5.6 million, or 2%, to $232 million; 1-4 family rose $1.1 million, or 1%, to $135 million; and construction and land development loans were flat at $38 million. Negatively, commercial and industrial sank $6.5 million, or 6 ½%, to $92 million; consumer declined by $2.9 million, or 26%, to $8 million; cash management receivables fell by $2.5 million, or 8%, to $29 million and other loans dropped by $0.3 million, or 1%, to $33 million.

We estimate combined loan and receivables growth of 8% in 2020. This compares to actual growth of 4% in loans and receivables in full-year 2019.

Asset quality measures improved during the fourth quarter. Total nonperforming assets fell $0.6 million to $7.7 million from $8.3 million sequentially. Nonaccrual loans decreased by $1.3 million to $0.3 million from $1.6 million. Other real estate owned increased $0.7 million to $4.4 million from $3.7 million. Restructured loans were flat at $3.0 million.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreased 9 basis points to 1.36% of outstandings + OREO at December 31, 2019 from 1.45% of outstandings + OREO at September 30, 2019, and fell 57 basis points year over year from 1.93%.

The loss allowance as a percent of nonperforming assets increased to 86% from 65% sequentially, as there was improvement in nonperforming assets, while the loss reserve for loans plus cash flow receivables decreased.

Liquidity and Funding

Cash and equivalents increased by $10 million to $48 million at the end of the fourth quarter, while the securities portfolio rose $8 million to $293 million. By category, US government-related securities rose $4 million to $49 million, the private-label mortgage securities portfolio increased $1 million to $58 million, the municipal securities portfolio rose by $3 million to $160 million and asset-backed securities (primarily student loans under the FFELP program) were flat at $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 17%, municipal securities portfolio were 54%, and asset-backed securities were 9%.

CPKF's liquidity ratios improved compared to the previous quarter. At December 31, 2019, liquid assets represented 10% of total assets (9% at the end of the third quarter) and covered purchased funds by 247% (up from 128%), while loans plus receivables accounted for 59% of total assets (61% at September 30, 2019).

Core deposits rose by $41 million sequentially to $799 million and funded 141% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios increased during the fourth quarter, as growth in capital outpaced growth in risk-weighted assets. The Tier 1 capital ratio rose 18 basis points sequentially to 15.03% at the end of 2019's fourth quarter from 14.85% at September 30, 2019, while the Total capital ratio gained 16 basis points, rising to 16.00% from 15.84%.

Total shareholders' equity lost $0.7 million during the fourth quarter, as a $1.3 million advance in retained earnings and $0.1 million in capital changes were more than offset by a $2.1 million decline in accmulated other comprehensive income.

Reflecting these factors plus a 2,500 increase in common shares outstanding, tangible book value per share fell during the fourth quarter, by $0.16 per share to $21.36 from $21.52. The total equity to total assets ratio deteriorated, decreasing by 25 basis points to 11.00% from 11.25%, as growth in assets outstripped growth total in common shareholders' equity.

OVERVIEW

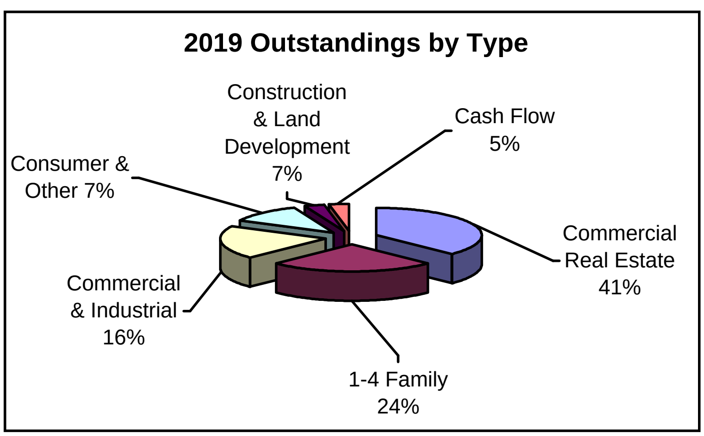
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $958 million in total assets at December 31, 2019. CPKF is predominantly a small business lender with 15 branch offices and one loan production office that serve customers 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 $472 million in assets (at 2019 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 2019, Chesapeake Payment Systems had 571 direct merchants in its system and processed over $637 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with four independent sales organizations (ISOs) to expand its processing footprint.

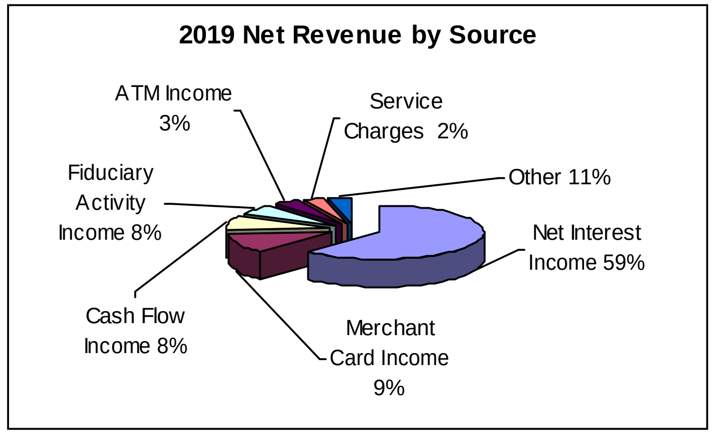
The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and had 70 customers at the end of 2019.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $248 million loan portfolio (as of December 31, 2019) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $595,000 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 $779,000 to revenues in 2019 (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, 2019, the lending book consisted of commercial real estate (accounting for 41% of total gross outstandings), 1-4 family (24%), commercial and industrial (16%), consumer and other (7%), construction and land development (7%), and cash flow (5%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2019, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 10% of total assets and 17% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal at 54% of the total, private label mortgage securities at 20%, and asset-backed securities at 9%. Core deposits represented 95% of total deposits at December 31, 2019, with certificates of deposit larger than $250,000 at 5%.



In 2019, net interest income contributed 59% of net revenue, with a significant 41% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (9% of net revenues), cash flow income (8%), income from fiduciary activities (8%), ATM income (3%), and service charges on deposit accounts (2%).

VALUATION

CPKF stock is down 28.1% year to date, a better performance than the 35.4% median price decrease for the small-cap bank industry, but below the 18.6% price decline 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 9%, based upon our current CPKF EPS estimate for 2020. Assuming a small-cap bank industry valuation of 8.5X for 2020, CPKF's target price based upon our 2019 EPS estimate is about $19.50.

Turning to Price/Tangible Book Value, CPKF is currently valued at 0.81X. Assuming an industry multiple of 0.85X based upon our estimated book value or CPKF twelve months out, our target price is about $20.00, which compares to CPKF's current book value of $21.36.

Under ordinary circumstances, we would expect CPKF to trade at about 10X earnings, its median multiple over the last ten years, or about $23.00, and at about 1.1X tangible book value, its median multiple over the last ten years, or about $23.50. These values are a far distance from CPKF's current stock price of $17.25. While we recognize that CPKF is significantly undervalued at present, we're not certain there is an immediate catalyst to drive the stock price higher over the near term, given the uncertain economic outlook for the United States, stemming from the impact of COVID-19. Should economic conditions improve rapidly, it is likely that CPKF's stock price could as well.

For the time being, we have chosen the $19.75 midpoint of the range of values based upon CPKF's 2019 P/E of $19.50 and forward Price/Tangible Book Value of $20.00 as our new valuation.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2020E	EPS 2021E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	**(28.1)**	**7.5**	**7.7**		**11.1**	**11.1**	**1.22**	**1.22**	**2.9**
S&P 500	(18.6)	17.2	16.3	15.0					2.3
Median	**(35.4)**	**7.5**	**8.5**	**7.9**	**10.8**	**9.8**	**1.17**	**0.96**	**3.7**
Average	(35.3)	8.6	8.6	8.2	10.4	9.5	1.2	1.0	3.4
High	(15.9)	22.2	12.1	10.8	19.6	17.8	5.0	2.0	6.4
Low	(48.6)	5.5	5.5	5.2	(1.4)	0.8	(0.1)	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**	**12/19**	**12/20E**
Net interest income	23.1	23.4	24.4	26.0	27.4	29.5	31.1
Non-interest income	12.0	14.2	14.7	18.1	18.6	20.3	20.2
Total net revenue	35.1	37.6	39.1	44.1	46.0	49.8	51.3
Loan loss provision	0.6	0.2	0.5	0.9	0.5	0.5	0.7
Non-interest expense	27.9	29.5	30.4	31.8	33.3	36.0	37.3
Income taxes & other	0.8	1.2	1.2	2.5	1.4	1.9	1.9
Zacks adjusted income before NRI	5.8	6.7	7.0	8.9	10.8	11.4	11.4
GAAP net income	6.5	7.4	7.0	8.9	10.8	11.4	11.4
Diluted EPS before NRI	1.19	1.37	1.42	1.80	2.17	2.29	2.30
Reported EPS	1.35	1.51	1.42	1.80	2.17	2.29	2.30
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	98.0	99.6
Outstandings, gross	410.4	439.0	481.4	523.7	546.0	566.7	614.6
Total assets	663.2	679.1	720.8	785.2	854.8	958.3	1,008.1
Core deposits	480.5	489.1	522.3	632.4	702.0	799.5	840.2
Purchased funds	82.4	92.4	97.4	53.1	47.2	39.6	40.2
Long-term debt	20.6	21.1	16.1	5.2	5.2	5.2	5.2
Shareholders' equity	70.6	76.0	77.9	86.8	92.7	105.4	114.4
Profitability							
Return on avg assets	0.87%	0.99%	0.99%	1.16%	1.32%	1.22%	1.16%
Return on avg equity	9.14%	9.08%	8.89%	10.64%	12.07%	11.09%	10.35%
Net interest margin	4.60%	4.38%	4.38%	4.30%	4.10%	3.98%	3.70%
Loan loss provision % avg assets	0.09%	0.04%	0.08%	0.12%	0.06%	0.06%	0.07%
Noninterest income % avg assets	1.80%	2.11%	2.06%	2.34%	2.27%	2.18%	2.06%
Noninterest expense % avg assets	4.21%	4.38%	4.28%	4.11%	4.06%	3.86%	3.80%
Preprovision pretax income % avg assets	1.09%	1.21%	1.23%	1.59%	1.55%	1.48%	1.42%
Tangible efficiency ratio	79%	80%	78%	72%	73%	75%	73%
Payout ratio	28%	26%	29%	24%	21%	21%	22%
Asset Quality							
Net charge-offs % avg outstandings	0.11%	0.36%	0.18%	0.27%	0.02%	0.10%	0.14%
Allowance % outstandings	1.88%	1.51%	1.34%	1.17%	1.22%	1.18%	1.07%
NPAs % loans + OREO	4.20%	3.09%	2.21%	1.73%	1.93%	1.36%	1.03%
Allowance % NPAs	45%	49%	60%	68%	63%	86%	103%
Liquidity & Funding							
Liquid assets % purchased funds	76%	47%	42%	95%	155%	247%	247%
Core deposits % outstandings	117%	111%	108%	121%	129%	141%	137%
Liquid assets % assets	9%	6%	6%	6%	9%	10%	10%
Outstandings % assets	62%	65%	67%	67%	64%	59%	61%
Capital Adequacy							
Total equity % assets	10.65%	11.19%	10.81%	11.05%	10.85%	11.00%	11.35%
Tangible equity % assets	10.65%	11.19%	10.81%	11.05%	10.85%	11.00%	11.35%
Tier 1 capital ratio	14.69%	13.95%	14.16%	14.35%	15.04%	15.03%	
Total capital ratio	15.94%	15.19%	15.30%	15.37%	16.08%	16.00%	
Parent Company Statistics							
Interest coverage	27.3X	61.5X	9.6X	12.7X	8.2X	12.4X	12.5X
Interest & dividend coverage	3.7X	3.5X	0.5X	0.8X	0.6X	1.0X	1.0X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.9X	1.1X	1.2X	2.8X	2.7X	5.0X	5.1X
Double leverage	109.3%	101.7%	102.6%	102.3%	102.6%	102.5%	104.4%

Chesapeake Financial Shares, Inc.

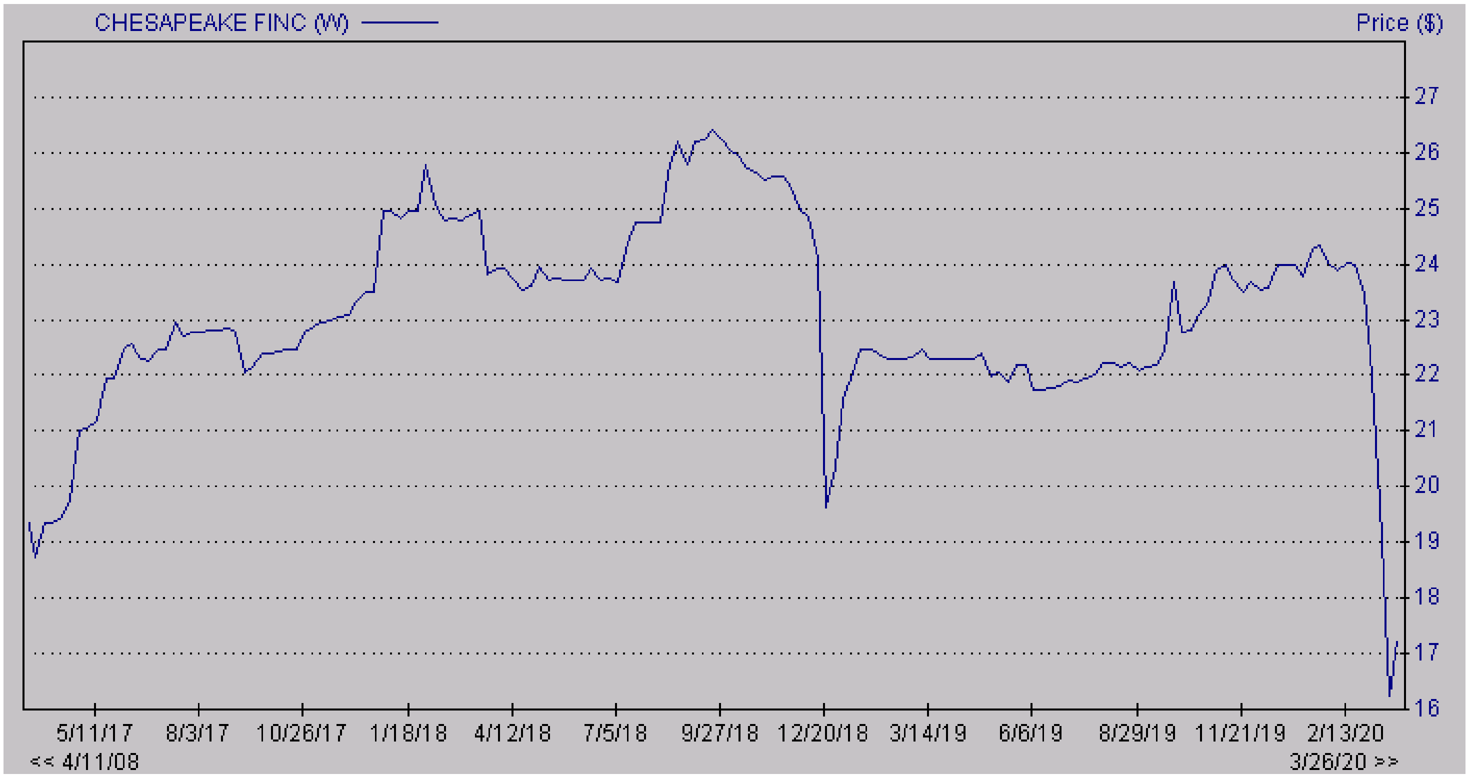
Income Statement and Balance Sheet

(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 A**
Net interest income	6.7	6.8	7.0	6.9	6.8	7.4	7.5	7.6
Non-interest income	4.4	4.7	4.9	4.6	4.5	5.6	5.4	5.0
Total net revenue	11.1	11.5	11.9	11.5	11.3	13.0	12.9	12.6
Loan loss provision	0.2	0.2	0.1	0.1	0.2	0.2	0.2	-----
Non-interest expense	7.6	8.1	8.1	9.5	7.7	9.1	9.0	10.2
Income taxes & other	0.4	0.3	0.5	0.0	0.4	0.4	0.5	0.5
Zacks adjusted income before NRI	2.9	2.9	3.2	1.9	3.0	3.3	3.2	1.9
GAAP net income	2.9	2.9	3.2	1.9	3.0	3.3	3.2	1.9
Diluted EPS before NRI	0.59	0.58	0.64	0.37	0.60	0.66	0.65	0.39
Reported EPS	0.59	0.58	0.64	0.37	0.60	0.66	0.65	0.39
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	98.0
Outstandings, gross	518.7	527.3	541.6	546.0	557.9	572.0	571.9	566.7
Total assets	797.3	807.4	823.2	854.8	893.4	934.1	943.7	958.3
Core deposits	647.4	653.9	657.3	702.0	730.8	765.4	758.5	799.5
Purchased funds	49.5	51.1	63.3	47.2	50.8	53.5	65.2	39.6
Long-term debt	5.2	6.1	5.2	5.2	6.6	5.2	5.2	5.2
Shareholders' equity	87.0	89.0	89.9	92.7	97.8	101.9	106.1	105.4
Profitability								
Return on avg assets*	1.47%	1.43%	1.56%	0.88%	1.36%	1.44%	1.38%	0.81%
Return on avg equity *	13.43%	13.03%	14.22%	8.13%	12.49%	13.14%	12.41%	7.24%
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%	-----
Noninterest income % avg assets*	2.23%	2.35%	2.42%	2.19%	2.07%	2.47%	2.30%	2.08%
Noninterest expense % avg assets*	3.84%	4.03%	3.98%	4.52%	3.53%	3.97%	3.84%	4.30%
Preprovision pretax inc.% avg assets*	1.76%	1.71%	1.86%	0.96%	1.64%	1.73%	1.68%	0.99%
Tangible efficiency ratio	69%	70%	70%	82%	69%	74%	73%	84%
Payout ratio	18%	20%	18%	31%	20%	18%	19%	32%
Asset Quality								
Net charge-offs % avg outstandings*	(0.05)%	(0.01)%	0.13%	0.02%	0.02%	0.01%	0.25%	0.12%
Allowance % outstandings	1.24%	1.26%	1.22%	1.22%	1.22%	1.23%	1.20%	1.18%
NPAs % loans + OREO	1.52%	1.48%	1.37%	1.93%	1.71%	1.56%	1.45%	1.36%
Allowance % NPAs	81%	85%	89%	63%	71%	58%	65%	86%
Liquidity & Funding								
Liquid assets % purchased funds	132%	88%	85%	155%	146%	158%	128%	247%
Core deposits % outstandings	125%	124%	121%	129%	131%	134%	133%	141%
Liquid assets % assets	8%	6%	7%	9%	8%	9%	9%	10%
Outstandings % assets	65%	65%	66%	64%	62%	61%	61%	59%
Capital Adequacy								
Total equity % assets	10.91%	11.03%	10.92%	10.85%	10.95%	10.91%	11.25%	11.00%
Tangible equity % assets	10.91%	11.03%	10.92%	10.85%	10.95%	10.91%	11.25%	11.00%
Tier 1 capital ratio	14.86%	14.85%	14.96%	15.04%	14.91%	14.62%	14.85%	15.03%
Total capital ratio	15.94%	15.93%	16.02%	16.08%	15.95%	15.65%	15.84%	16.00%

*Annualized.

HISTORICAL STOCK PRICE



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