March 11, 2021

Zacks Small-Cap Research

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Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Chesapeake Financial Shares, Inc. (CPKF-OTCQX)

CPKF: Fourth Quarter Right on Target

We have chosen the $27.25 midpoint of the range of values based upon CPKF's 2021 P/E of $27.75 and forward Price/Tangible Book Value of $26.75 as our new valuation.

Current Price (03/10/21)	$23.25
Valuation	**$27.25**

OUTLOOK

CPKF's fourth quarter net earnings rose $1.0 million, or 54%, year over year to $2.9 million, while 2020's fourth quarter diluted EPS jumped by $0.22, or 58%, to $0.61 from $0.39 posted a year ago. This was about the same as our estimate, which had called for a $0.1 million gain in net earnings to $3.0 million and a $0.23 increase in diluted EPS to $0.62 (off by a penny). The major factors behind this showing were a $1.4 million, or 11%, gain in net revenues, as growth in net interest income (up $1.7 million) was partly offset by a $0.3 million, or 7%, drop in noninterest income. Other contributing factors included a loan loss provision that was $0.2 more than that in the year-ago quarter and $0.2 million higher income tax payments due to greater pretax earnings. For the year, CPKF posted record net income of $11.7 million, or $2.40 per diluted share, up 5% from the $11.4 million, or $2.29 per diluted share, posted in 2019. We are maintaining our 2021 diluted EPS estimate at $2.25, 6% below 2020's $2.40. Loan demand appears to be solid, with our estimate for loan growth in 2021 remaining at 5%, though we are cutting our NIM estimate, exclusive of any impact from the recognition of deferred processing fees, to 3.40% from 3.45%, stemming from the effect of continuing low interest rates. Our loan loss provision estimate continues at $0.9 million, about 54% below the level of 2020's $1.95 million, which reflected the bulking up of loan loss reserves in preparation for the possibility of asset quality deterioration due to economic distress caused by COVID-19 (which failed to materialize, as asset quality remains strong). Factors adding to CPKF's expense burden include several new hires, greater IT expense for CPKF's new on-line banking platform, and the opening of a new full-service branch. CPKF approved a 4% quarterly dividend increase in January to $0.13 per share from $0.125 per share. Notably, CPKF has increased the annual dividend payment every year for the past thirty years since 1991. In 2020 for the thirteenth consecutive year, CPKF was included in the American Banker magazine list of the "Top 200 Community Banks".

SUMMARY DATA

52-Week High	**$23.50**
52-Week Low	**$14.51**
One-Year Return (%)	**14.28**
Beta	**0.81**
Average Daily Volume (sh)	**1,492**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$112**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.52**
Dividend Yield (%)	**2.24**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.1**
Earnings Per Share (%)	**11.9**
Dividend (%)	**5.2**
P/E using TTM EPS	**9.7**
P/E using 2020 Actual	**9.7**
P/E using 2021 Estimate	**10.3**
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)
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	13.3 A	12.2 A	13.7 A	13.9 A	53.1 A
2021					53.2 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	0.68 A	0.42 A	0.69 A	0.61 A	2.40 A
2021					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.

FOURTH QUARTER

CPKF's fourth quarter net earnings rose $1.0 million, or 54%, year over year to $2.9 million, while 2020's fourth quarter diluted EPS jumped by $0.22, or 58%, to $0.61 from $0.39 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 about the same as our estimate, which had called for a $0.1 million gain in net earnings to $3.0 million and a $0.23 increase in diluted EPS to $0.62 (off by a penny).

The main factors behind the difference between actual results and our estimate were: (1) the provision for loan losses was $0.4 million lower than our estimate and (2) noninterest expense was $0.3 million less than we had estimated, as a $0.5 million reduction in other miscellaneous expense was partially offset by a higher-than-expected cash management loss provision of $0.2 million. These were offset by: (1) noninterest income that was $0.7 million less than we had estimated due entirely to lower-than-expected miscellaneous income and (2) income tax expense that was $0.1 million greater due to an effective tax rate of 17% that was 2 points higher than our 15% estimate.

The major reasons for the fourth quarter's 54% increase in net earnings versus the prior-year quarter were a $1.4 million, or 11%, gain in net revenues, as growth in net interest income (up $1.7 million) was partly offset by a $0.3 million, or 7%, drop in noninterest income. This reflected $0.5 million growth in miscellaneous income from higher mortgage refinancing fees that was more than offset by the absence of securities gains ($0.3 million in 2019's fourth quarter), a $0.1 million fall in service charges, and a $0.4 million decline in cash flow income. Other contributing factors included a loan loss provision that was $0.2 more than that in the year-ago quarter and $0.2 million higher income tax payments due to greater pretax earnings.

For the year, CPKF posted record net income of $11.7 million, or $2.40 per diluted share, up 5% from the $11.4 million, or $2.29 per diluted share, posted in 2019.

Primary contributors to this result were a $3.2 million, or 6%, gain in net revenues from a $4.0 million, or 13%, rise in net interest income, and an $0.8 million, or 4%, drop in noninterest income. This was due to declines of $1.5 million in cash management fees, of $0.7 million in merchant services income, of $0.4 million in net securities gains, and of $0.3 million in service charges, partly offset by a $2.1 million gain in other miscellaneous income, largely the result of a surge in mortgage refinancing fees. These were partly offset by a $1.3 million, or 4%, increase in total noninterest expense, largely stemming from a $1.1 million rise in compensation costs (up 5%), as well as $1.4 million more in loan loss provisions. In addition, income taxes advanced $0.5 million on greater pretax earnings and a higher effective tax rate of 14.8% compared to 14.3% in 2019.

We are maintaining our 2021 diluted EPS estimate at $2.25, 6% below our 2020 estimate. There are many uncertainties in our estimates, stemming from the effects of COVID-19. We discuss these below.

First, CPKF has participated in the Paycheck Protection Program (PPP), designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Small Business Administration (SBA) will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities. PPP loans are guaranteed by the SBA for 100% of amount of the PPP loan not forgiven. Loans issued prior to June 5 have a maturity of 2 years and 5 years after that. All loans have an interest rate of 1%. In addition, lenders receive fees for processing the PPP loans: 5% for loans of $350,000 or less, 3% for loans between $350,000 and $2 million, and 1% for loans of $2 million or more. (We note these amounts have been tweaked under new provisions when the Consolidated Apropriations Act (CAA) was signed into law on December 27, 2020. The CAA provides for two types of PPP loans, initial or first-draw loans up to $10 million, for entities that have never received a PPP loan, and second-draw loans up to $2 million for entities that have.)

PPP loans provide for the deferral of payments for a period of 6 months, including payment of principal, interest and fees. Interest will accrue, but payments will not be required during the first 6 months. Processing fees will be amortized over the contract life and adjusted based on actual prepayments. Upon notification from the SBA of the amount of the PPP loan to be forgiven, acceleration of recognition of deferred processing fees will occur for the percentage of the loan forgiven.

Through the end of September, CPKF had generated about $77 million of PPP loans, of which $57 million remained outstanding at December 31, 2020. Furthermore, about $25 million of additional PPP loans were generated in 2021's first quarter under the CAA.

The PPP loans will have countervailing impacts on the CPKF's net interest margin. First, the 1% annual interest rate is lower than is typical for CPKF loans, which will tend to reduce the NIM. However, PPP processing fees, amortized over the life of the loan, will add to the NIM. Moreover, when a PPP loan is forgiven, any deferred processing fee will also be added to the NIM. We have estimated a net interest margin of 3.40% for full-year 2021, exclusive of any impact from the recognition of deferred processing fees.

The NIM will be supplemented by the recognition of deferred processing fees. Of total deferred processing fees of about $2.96 million earned during 2020, only $770,000 was taken into income during 2020. Moreover, we estimate that deferred processing fees earned from new PPP loans added under the CAA in 2021's first quarter will generate an additional $625,000 of income in 2021. Most of these deferred processing fees will be booked into income sometime during 2021. At the same time, we are cutting our 2021 NIM estimate, exclusive of any impact from the recognition of deferred processing fees, to 3.40% from 3.45%, stemming from the effect of continuing low interest rates.

For 2021, we are maintaining our estimate of the loan loss provision at $0.9 million, about 54% below the level of 2020's $1.95 million, which reflected the bulking up of loan loss reserves in preparation for the possibility of asset quality deterioration due to economic distress caused by COVID-19 (which failed to materialize, as asset quality remains strong). We assume some economic improvement from 2020, though note the $0.9 million level is still much higher than the loss provision had been in each of the past six years prior to the pandemic.

There are other factors adding to CPKF's expense burden going forward. CPKF expects several new hires to increase compensation costs. CPKF's digital strategy for its new on-line banking platform requires investing in new technology, leading to higher IT expense. Finally, the Company added a full-service branch to its network in the third quarter of 2020, which will also increase expenses.

Loan demand, other than for PPP loans, appears to be solid, with our estimate for loan growth in 2021 remaining at 5%.

We are tweaking our estimate for merchant services income by $0.2 million (now $4.0 million versus $4.2 million before), but maintaining our estimate of cash management fee income at a reduced level of $2.0 million, as customers are opting for PPP loans, rather than cash flow financing.

On January 22, 2021 Chesapeake Financial Shares increased the quarterly dividend 4% to $0.130 per share from $0.125, effective March 1, 2021, payable on or before March 15, 2021. Notably, CPKF has increased the annual dividend payment every year for the past thirty years since 1991. This follows on the heels of a 6-for-5 stock dividend, paid October 15, 2019.

In 2020 for the thirteenth 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 #75 in the nation out of approximately 511 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 11.48%.

Chesapeake Bank again garnered a top ranking in the American Banker's list of "Best Banks to Work for", and had a #24 spot in 2020, out of the 85 banks listed.

In other news, Chesapeake Financial Shares, Inc. graduated in 2019 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 $1.7 million, or 23%, year over year in the fourth quarter to $9.3 million (the same as our estimate), as a 22% increase in average interest-earning assets offset a 3.83% net interest margin, 7 basis points lower than the 3.90% earned in the year-ago quarter, but above our 3.55% estimate (which excluded the PPP impact).

The NIM will be supplemented by the recognition of deferred processing fees. Of total deferred processing fees of about $2.96 million earned during 2020, only $770,000 was taken into income during the year. Moreover, we estimate that deferred processing fees earned from new PPP loans added under the CAA in 2021's first quarter will generate an additional $625,000 of income in 2021. Most of these deferred processing fees will be booked into income sometime during 2021. At the same time, we are cutting our 2021 NIM estimate, exclusive of any impact from the recognition of deferred processing fees, to 3.40% from 3.45%, stemming from the effect of continuing low interest rates.

We note 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 fell $0.3 million, or 7%, year over year to $4.6 million ($0.7 million below our $5.3 million estimate). This reflected $0.5 million growth in miscellaneous income from higher mortgage refinancing fees that was more than offset by the absence of securities gains ($0.3 million in 2019's fourth quarter), a $0.1 million fall in service charges, and $0.4 million decline in cash flow income.

We are tweaking our estimate for merchant services income by $0.2 million (now $4.0 million versus $4.2 million before), but maintaining our estimate of cash management fee income at a reduced level of $2.0 million, as customers are opting for PPP loans, rather than cash flow financing.

Because of these items, we have decreased our 2021 estimate for noninterest income to $17.8 million from $17.9 million previously.

Loss Provision

The loan loss provision of $0.2 million was $0.4 million below our $0.6 million estimate. Loan loss reserves increased $2.2 million year over year to $7.3 million (1.20% of loans), which was below the third quarter's loss reserve of $7.3 million, or 1.22% of loans, but above the $5.1 million (0.94% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance rose $2.5 million to $9.2 million (1.47% of loans plus cash flow receivables) compared with $9.3 million (1.45% of loans plus cash flow receivables) at the end of the previous quarter, and was above the $6.7 million (1.18% of loans plus cash flow receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF recorded $487,000 of net charge-offs in the fourth quarter. This compares to $174,000 of net charge-offs in the year-ago quarter and net loan loss recoveries of $256,000 for the full year in 2020.

For 2021, we are maintaining our estimate of the loan loss provision at $0.9 million, about 54% below the level of 2020's $1.95 million, which reflected the bulking up of loan loss reserves in preparation for the possibility of asset quality deterioration due to economic distress caused by COVID-19 (which failed to materialize). We assume some economic improvement from 2020, though note the $0.9 million level is still much higher than the loss provision had been in each of the past six years prior to the pandemic.

We project that the total loss allowance will decrease in 2021 to 1.39% of total loans plus receivables at yearend 2021 from 1.47% at the end of 2020 (though still improved over the 1.18% at yearend 2019).

Noninterest Expense

Noninterest expense was flat year over year at $10.2 million ($0.3 million less than we had projected) with costs well controlled.

The efficiency ratio improved, falling to 73.3% from 83.6% in the year-ago quarter, but was worse than the third quarter's 66.4%.

We project that compensation costs will increase from $22.7 million actual in 2020 to $24.0 million in 2021. Our estimate of noncompensation costs is $15.5 million for 2021, compared to $14.7 million actual in 2020. Our estimate of the efficiency ratio is 74.2% in 2021, compared to 72.0% actual in 2020.

Income Taxes

The Company had a 17.0% effective tax rate in the fourth quarter, a 1.2-point decrease from 18.2% in the year-ago quarter. This compares to our estimate of an effective tax rate of 15.0%.

We are using an estimated 15.0% tax rate in 2021. This compares to a full-year effective tax rate of 14.8% in 2020.

Net Income

CPKF's fourth quarter net earnings rose $1.0 million, or 54%, year over year to $2.9 million, while 2020's fourth quarter diluted EPS jumped by $0.22, or 58%, to $0.61 from $0.39 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 about the same as our estimate, which had called for a $0.1 million gain in net earnings to $3.0 million and $0.23 increase in diluted EPS to $0.62 (off by a penny).

Profitability

CPKF posted a 9.8% ROE and 0.99% ROA for the fourth quarter of 2020, compared to 7.2% and 0.81%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans increased $69 million, or about 13%, year over year, and fell $14 million, or 2%, sequentially to $606 million.

By category, commercial real estate loans increased $13.5 million, or 6%, to $248 million; construction and land development loans rose $1.9 million, or 5%, to $43 million; and 1-4 family gained $0.7 million, or less than 1%, to $134 million. Consumer loans and cash management receivables were flat at $8 million and $19 million, respectively. Negatively, other loan categories declined: commercial and industrial loans fell $23.2 million, or 13%, to $152 million (due to the payoff and/or forgiveness of PPP loans) and other loans dropped by $2.2 million, or 7%, to $26 million.

Loan demand, other than for PPP loans, appears to be solid, with our estimate for loan growth in 2021 remaining at 5%.

Asset quality measures improved during the fourth quarter. Total nonperforming assets fell $1.3 million to $7.0 million from $8.3 million sequentially. Restructured loans declined $2.3 million to $0.7 million from

$3.0 million. Nonaccrual loans increased by $0.9 million to $2.1 million from $1.2 million, while other real estate owned was flat at $4.2 million.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreased 19 basis points to 1.11% of outstandings + OREO at December 31, 2021 from 1.30% of outstandings + OREO at September 30, 2020, and fell 25 basis points year over year from 1.36%.

The loss allowance as a percent of nonperforming assets increased to 104% from 91% sequentially, as improvement in nonperforming assets more than offset a decrease in the loss reserve for loans plus cash flow receivables.

Liquidity and Funding

Cash and equivalents increased by $5 million to $69 million at the end of the fourth quarter, while the securities portfolio rose $41 million to $454 million. By category, the municipal securities portfolio gained $26 million to $275 million, the private-label mortgage securities portfolio increased $6 million to $86 million, US government-related securities were flat at $50 million, and asset-backed securities (primarily student loans under the FFELP program) and other rose $9 million to $43 million.

On a relative basis, municipal securities were 61% of the entire available-for-sale securities portfolio, the private-label mortgage securities portfolio was 19%, US government-related securities were 11%, and asset-backed securities and other were 9%.

CPKF's liquidity ratios strengthened compared to the previous quarter. At December 31, 2020, liquid assets represented 10% of total assets (10% at the end of the third quarter) and covered purchased funds by 141% (up from 136%), while loans plus receivables accounted for 52% of total assets (55% at September 30, 2020).

Core deposits rose $29 million sequentially to $984 million and funded 157% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios decreased during the fourth quarter, as growth in risk-weighted assets outpaced growth in capital. The Tier 1 capital ratio fell 17 basis points sequentially to 14.03% at the end of 2020's fourth quarter from 14.20% at September 30, 2020, while the Total capital ratio slumped 22 basis points, falling to 15.20% from 15.42%.

Total shareholders' equity gained $5.7 million during the fourth quarter, as a $2.3 million advance in retained earnings and a $3.3 million gain in accumulated other comprehensive income were aided by a positive $0.1 million in capital changes.

Reflecting these factors plus a 2,000 decrease in common shares outstanding, tangible book value per share jumped during the fourth quarter, by $1.19 per share to $25.40 from $24.21. The total equity to total assets ratio improved, increasing by 20 basis points to 10.18% from 9.98%, as growth in common shareholders' equity outstripped growth in total assets.

OVERVIEW

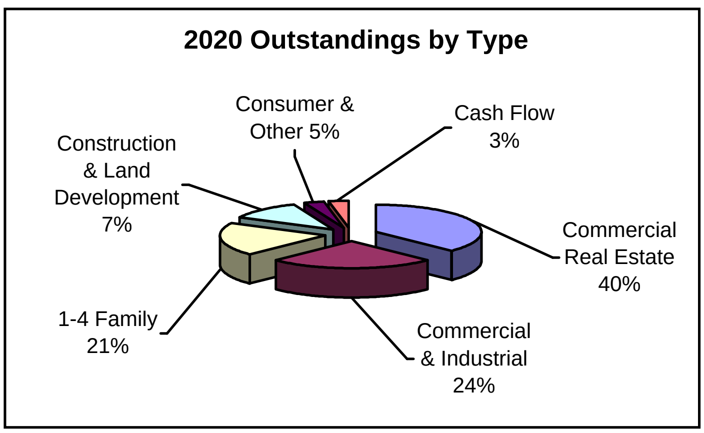
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $1,205 million in total assets at December 31, 2020. CPKF is predominantly a small business lender with 16 branch offices that serve customers in the eastern region of Virginia 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 $510 million in assets (at 2020 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 2020, Chesapeake Payment Systems had 563 direct merchants in its system and processed over $509 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with seven independent sales organizations (ISOs) to expand its processing footprint.

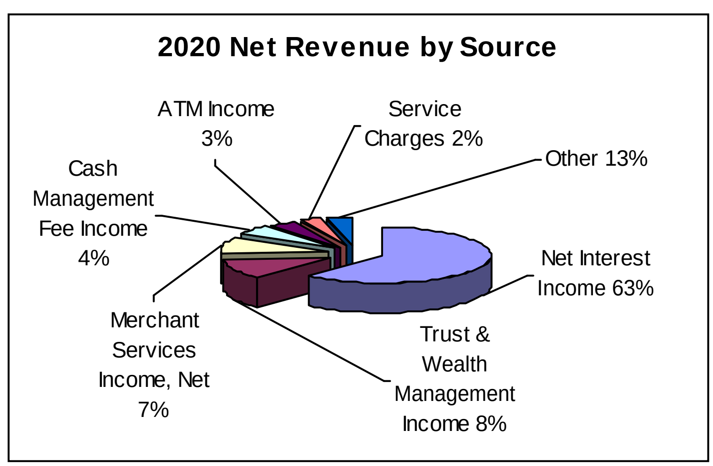
The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and had 60 customers at the end of 2020.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $292 million loan portfolio (as of December 31, 2020) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $667,000 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 $2.8 million to revenues in 2020 (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, 2020, the lending book consisted of commercial real estate (accounting for 40% of total gross outstandings), commercial and industrial (24%), 1-4 family (21%), construction and land development (7%), consumer and other (5%), and cash flow (3%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2020, 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 11% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal at 61% of the total, private label mortgage securities at 19%, and asset-backed and other securities at 9%. Core deposits represented 98% of total deposits at December 31, 2020, with certificates of deposit larger than $250,000 at 3%.



In 2020, net interest income contributed 63% of net revenue, with a significant 37% coming from noninterest income sources. Major contributors to noninterest income include trust and wealth management income (8% of net revenues), merchant services income, net (7%), cash management fee income (4%), ATM income (3%), and service charges (2%).

VALUATION

CPKF stock is up 8.1% year to date, a better performance than the 3.2% price increase for the S&P 500, but below the 25.2% median price gain for the small-cap bank industry, as shown in the following table.

At its current price, CPKF is trading at a discount to the industry median P/E of 16%, based upon our current CPKF EPS estimate for 2021. Assuming a small-cap bank industry valuation of 12.3X for 2021, CPKF's target price based upon our 2021 EPS estimate is about $27.75.

Turning to Price/Tangible Book Value, CPKF is currently valued at 0.91X. Assuming CPKF trades at about 1X tangible book value (its median over the last ten years) based upon our estimated book value for CPKF twelve months out, our target price is about $26.75, which compares to CPKF's current book value of $25.40.

We have chosen the $27.25 midpoint of the range of values based upon CPKF's 2021 P/E of $27.75 and forward Price/Tangible Book Value of $26.75 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	**8.1**	**9.7**	**10.3**		**10.3**	**10.4**	**1.06**	**1.14**	**2.2**
S&P 500	3.2	31.2	22.3	20.4	-----	-----	-----	-----	1.5
Median	**25.2**	**12.6**	**12.3**	**12.1**	**8.7**	**9.4**	**0.89**	**1.01**	**2.8**
Average	25.4	14.0	14.1	15.3	9.5	9.6	0.9	1.0	2.5
High	54.5	33.8	36.8	67.5	16.7	18.2	1.8	2.2	5.1
Low	5.3	6.7	8.3	7.9	3.3	1.4	0.2	0.1	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21E**
Net interest income	23.4	24.4	26.0	27.4	29.5	33.5	35.4
Non-interest income	14.2	14.7	18.1	18.6	20.3	19.6	17.8
Total net revenue	37.6	39.1	44.1	46.0	49.8	53.1	53.2
Loan loss provision	0.2	0.5	0.9	0.5	0.5	2.0	0.9
Non-interest expense	29.5	30.4	31.8	33.3	36.0	37.3	39.5
Income taxes & other	1.2	1.2	2.5	1.4	1.9	2.1	1.9
Zacks adjusted income before NRI	6.7	7.0	8.9	10.8	11.4	11.7	10.9
GAAP net income	7.4	7.0	8.9	10.8	11.4	11.7	10.9
Diluted EPS before NRI	1.37	1.42	1.80	2.17	2.29	2.40	2.25
Reported EPS	1.51	1.42	1.80	2.17	2.29	2.40	2.25
Dividends per share	0.39	0.41	0.43	0.46	0.49	0.50	0.52
Liquid assets	43.2	40.6	50.6	73.1	98.0	120.2	122.2
Outstandings, gross	439.0	481.4	523.7	546.0	566.7	625.0	629.9
Total assets	679.1	720.8	785.2	854.8	958.3	1,204.7	1,226.7
Core deposits	489.1	522.3	632.4	702.0	799.5	984.2	997.2
Purchased funds	92.4	97.4	53.1	47.2	39.6	85.3	86.7
Long-term debt	21.1	16.1	5.2	5.2	5.2	5.2	5.2
Shareholders' equity	76.0	77.9	86.8	92.7	105.4	122.7	131.0
Profitability							
Return on avg assets	0.99%	0.99%	1.16%	1.32%	1.22%	1.06%	0.89%
Return on avg equity	9.08%	8.89%	10.64%	12.07%	11.09%	10.27%	8.58%
Net interest margin	4.38%	4.38%	4.30%	4.10%	3.98%	3.80%	3.40%
Loan loss provision % avg assets	0.04%	0.08%	0.12%	0.06%	0.06%	0.18%	0.08%
Noninterest income % avg assets	2.11%	2.06%	2.34%	2.27%	2.18%	1.76%	1.45%
Noninterest expense % avg assets	4.38%	4.28%	4.11%	4.06%	3.86%	3.36%	3.22%
Preprovision pretax income % avg assets	1.21%	1.23%	1.59%	1.55%	1.48%	1.42%	1.12%
Tangible efficiency ratio	80%	78%	72%	73%	75%	72%	74%
Payout ratio	26%	29%	24%	21%	21%	21%	23%
Asset Quality							
Net charge-offs % avg outstandings	0.36%	0.18%	0.27%	0.02%	0.10%	(0.05)%	0.23%
Allowance % outstandings	1.51%	1.34%	1.17%	1.22%	1.18%	1.47%	1.39%
NPAs % loans + OREO	3.09%	2.21%	1.73%	1.93%	1.36%	1.11%	1.23%
Allowance % NPAs	49%	60%	68%	63%	86%	132%	113%
Liquidity & Funding							
Liquid assets % purchased funds	47%	42%	95%	155%	247%	141%	141%
Core deposits % outstandings	111%	108%	121%	129%	141%	157%	158%
Liquid assets % assets	6%	6%	6%	9%	10%	10%	10%
Outstandings % assets	65%	67%	67%	64%	59%	52%	51%
Capital Adequacy							
Total equity % assets	11.19%	10.81%	11.05%	10.85%	11.00%	10.18%	10.68%
Tangible equity % assets	11.19%	10.81%	11.05%	10.85%	11.00%	10.18%	10.68%
Tier 1 capital ratio	13.95%	14.16%	14.35%	15.04%	15.03%	14.03%	
Total capital ratio	15.19%	15.30%	15.37%	16.08%	16.00%	15.20%	
Parent Company Statistics							
Interest coverage	61.5X	9.6X	12.7X	8.2X	12.4X	41.2X	25.5X
Interest & dividend coverage	3.5X	0.5X	0.8X	0.6X	1.0X	2.0X	1.9X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.1X	1.2X	2.8X	2.7X	5.0X	4.8X	5.1X
Double leverage	101.7%	102.6%	102.3%	102.6%	102.5%	102.1%	103.9%

Chesapeake Financial Shares, Inc.

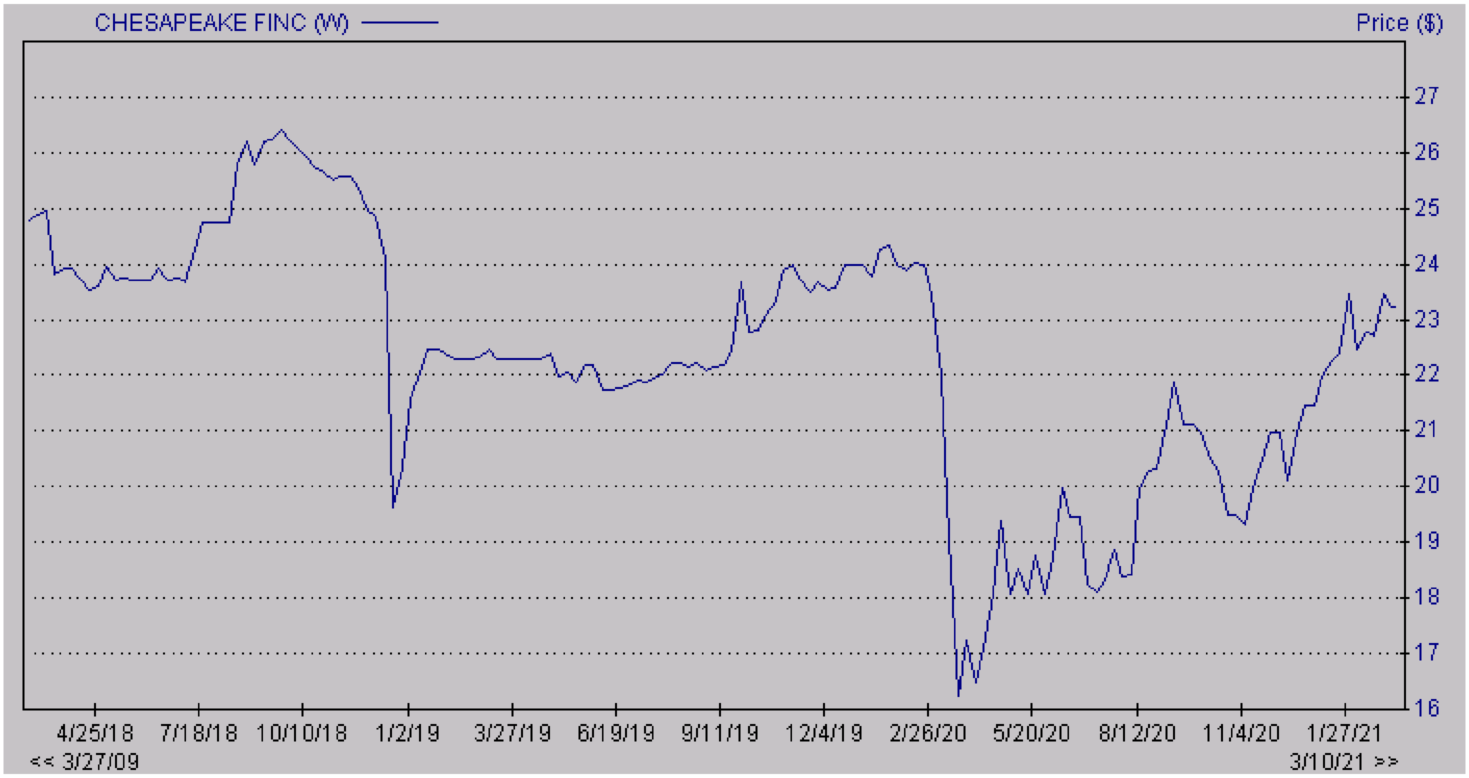
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2019				2020			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**
Net interest income	6.8	7.4	7.5	7.6	7.6	8.2	8.4	9.3
Non-interest income	4.5	5.6	5.4	5.0	5.7	4.0	5.3	4.6
Total net revenue	11.3	13.0	12.9	12.6	13.3	12.2	13.7	13.9
Loan loss provision	0.2	0.2	0.2	-----	0.5	0.6	0.6	0.2
Non-interest expense	7.7	9.1	9.0	10.2	8.8	9.3	9.1	10.2
Income taxes & other	0.4	0.4	0.5	0.5	0.6	0.2	0.6	0.6
Zacks adjusted income before NRI	3.0	3.3	3.2	1.9	3.4	2.1	3.4	2.9
GAAP net income	3.0	3.3	3.2	1.9	3.4	2.1	3.4	2.9
Diluted EPS before NRI	0.60	0.66	0.65	0.39	0.68	0.42	0.69	0.61
Reported EPS	0.60	0.66	0.65	0.39	0.68	0.42	0.69	0.61
Dividends per share	0.12	0.12	0.12	0.13	0.13	0.13	0.13	0.13
Liquid assets	74.4	84.7	83.5	98.0	83.1	96.0	114.1	120.2
Outstandings, gross	557.9	572.0	571.9	566.7	563.2	639.3	639.6	625.0
Total assets	893.4	934.1	943.7	958.3	951.4	1,114.7	1,172.2	1,204.7
Core deposits	730.8	765.4	758.5	799.5	796.4	901.7	955.0	984.2
Purchased funds	50.8	53.5	65.2	39.6	37.6	84.6	84.0	85.3
Long-term debt	6.6	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Shareholders' equity	97.8	101.9	106.1	105.4	104.9	113.2	116.9	122.7
Profitability								
Return on avg assets*	1.36%	1.44%	1.38%	0.81%	1.41%	0.79%	1.18%	0.99%
Return on avg equity *	12.49%	13.14%	12.41%	7.24%	12.81%	7.52%	11.76%	9.84%
Net interest margin*	3.89%	4.09%	4.02%	3.90%	3.79%	3.88%	3.73%	3.83%
Loan loss provision % avg assets*	0.08%	0.08%	0.07%	-----	0.22%	0.24%	0.22%	0.06%
Noninterest income % avg assets*	2.07%	2.47%	2.30%	2.08%	2.37%	1.55%	1.85%	1.55%
Noninterest expense % avg assets*	3.53%	3.97%	3.84%	4.30%	3.68%	3.58%	3.17%	3.44%
Preprovision pretax inc.% avg assets*	1.64%	1.73%	1.68%	0.99%	1.88%	1.14%	1.60%	1.25%
Tangible efficiency ratio	69%	74%	73%	84%	73%	76%	66%	73%
Payout ratio	20%	18%	19%	32%	18%	30%	18%	21%
Asset Quality								
Net charge-offs % avg outstandings*	0.02%	0.01%	0.25%	0.12%	0.01%	(0.07)%	(0.47)%	0.29%
Allowance % outstandings	1.22%	1.23%	1.20%	1.18%	1.28%	1.24%	1.45%	1.47%
NPAs % loans + OREO	1.71%	1.56%	1.45%	1.36%	1.37%	1.18%	1.30%	1.11%
Allowance % NPAs	71%	58%	65%	86%	93%	104%	91%	104%
Liquidity & Funding								
Liquid assets % purchased funds	146%	158%	128%	247%	221%	113%	136%	136%
Core deposits % outstandings	131%	134%	133%	141%	141%	141%	149%	154%
Liquid assets % assets	8%	9%	9%	10%	9%	9%	10%	10%
Outstandings % assets	62%	61%	61%	59%	59%	57%	55%	53%
Capital Adequacy								
Total equity % assets	10.95%	10.91%	11.25%	11.00%	11.03%	10.16%	9.98%	10.18%
Tangible equity % assets	10.95%	10.91%	11.25%	11.00%	11.03%	10.16%	9.98%	10.18%
Tier 1 capital ratio	14.91%	14.62%	14.85%	15.03%	15.05%	14.51%	14.20%	14.03%
Total capital ratio	15.95%	15.65%	15.84%	16.00%	16.07%	15.58%	15.42%	15.20%

*Annualized.

HISTORICAL STOCK PRICE



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