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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTCQX)

CPKF: CPKF Hits a Home Run

We have chosen the \$28.75 midpoint of the range of values based upon CPKF's 2021 P/E of \$28.25 and forward Price/Tangible Book Value of \$29.25 as our new valuation.

Current Price (06/07/21) **\$26.39**
Valuation **\$28.75**

OUTLOOK

CPKF's first quarter net earnings jumped \$1.9 million, or 56%, year over year to a record \$5.3 million, while 2021's first quarter diluted EPS soared by \$0.40, or 60%, to \$1.08 from \$0.68 posted a year ago. This was well above our estimate, which had called for a \$0.4 million decline in net earnings to \$3.0 million and a \$0.07 decrease in diluted EPS to \$0.61. The major factors behind this showing were a \$2.2 million, or 17%, gain in net revenues, as growth in net interest income (up \$3.1 million) was partly offset by a \$0.9 million, or 16%, drop in noninterest income, as well as a \$0.4 million decline in the provision for loans losses. Other contributing factors included a \$0.2 million, or 3%, increase in total noninterest expense, as well as \$0.5 million higher income tax. We are raising our 2021 diluted EPS estimate by \$0.50 to \$2.75 from \$2.25, 15% above 2020's actual diluted EPS of \$2.40. Our initial EPS estimate for 2022 is \$2.50, \$0.25, or 9%, below our 2021 estimate. The main reason for the EPS decline in 2022 reflects the winding down of the PPP, and related decrease in recognition of deferred processing fees. Loan demand, other than for PPP loans, appears to be solid, with our estimate for loan growth in both 2021 and 2022 at 5%. Our loan loss provision estimate is \$0.7 million in both 2021 and 2022, 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, higher depreciation from the opening of a new tech center, 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 2021 for the fourteenth consecutive year, CPKF was included in the American Banker magazine list of the "Top 200 Community Banks".

SUMMARY DATA

52-Week High **\$26.39**
52-Week Low **\$18.11**
One-Year Return (%) **41.97**
Beta **0.84**
Average Daily Volume (sh) **104**

Shares Outstanding (mil) **5**
Market Capitalization (\$mil) **\$128**
Short Interest Ratio (days) **N/A**
Institutional Ownership (%) **3**
Insider Ownership (%) **40**

Annual Cash Dividend **\$0.52**
Dividend Yield (%) **1.97**

5-Yr. Historical Growth Rates

Net Revenue (%) **7.1**
Earnings Per Share (%) **11.9**
Dividend (%) **5.2**

P/E using TTM EPS **9.4**
P/E using 2021 Estimate **9.6**
P/E using 2022 Estimate **10.6**

Zacks Rank **N/A**

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

ZACKS ESTIMATES

Net Revenue

(in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	15.5 A	13.1 E	13.7 E	13.4 E	55.7 E
2022					55.8 E

Earnings per Share*

(EPS is operating earnings before nonrecurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	1.08 A	0.54 E	0.65 E	0.48 E	2.75 E
2022					2.50 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.

FIRST QUARTER

CPKF's first quarter net earnings jumped \$1.9 million, or 56%, year over year to a record \$5.3 million, while 2021's first quarter diluted EPS soared by \$0.40, or 60%, to \$1.08 from \$0.68 posted a year ago.

This was well above our estimate, which had called for a \$0.4 million decline in net earnings to \$3.0 million and a \$0.07 decrease in diluted EPS to \$0.61.

The main factors behind the difference between actual results and our estimate were: (1) noninterest income was \$2.1 million higher than our estimate due to a larger-than expected contribution from PPP income recognized during 2021's first quarter of \$1.87 million; (2) noninterest income was \$0.3 million more than we had estimated due to higher-than-expected mortgage banking income; and (3) compensation expense came in \$0.4 million lower than anticipated. These were offset by: income tax expense that was \$0.5 million greater due to higher pretax earnings and an effective tax rate of 16.6% that was 1.6 points higher than our 15% estimate.

The major reasons for the first quarter's \$1.9 million, or 56%, increase in net earnings versus the prior-year quarter were a \$2.2 million, or 17%, gain in net revenues, as growth in net interest income (up \$3.1 million) was partly offset by a \$0.9 million, or 16%, drop in noninterest income, as well as a \$0.4 million decline in the provision for loans losses. This reflected \$0.5 million growth in mortgage banking income, a \$0.2 million increase in merchant services income, and a \$0.3 million gain in other miscellaneous income. These positives were more than offset by the absence of securities gains (\$1.2 million in 2020's first quarter), a \$0.2 million net loss on foreclosed assets, and a \$0.5 million decline in cash flow income on lower receivables balances. Other contributing factors included a \$0.2 million, or 3%, increase in total noninterest expense, largely stemming from a \$0.1 million rise in compensation costs (up 2%) and a \$0.1 million (up 4%) advance in other miscellaneous expense, as well as \$0.5 million higher income tax payments due to greater pretax earnings and a slightly higher effective tax rate.

We are raising our 2021 diluted EPS estimate by \$0.50 to \$2.75 from \$2.25, 15% above 2020's actual diluted EPS of \$2.40. Our initial diluted EPS estimate for 2022 is \$2.50, \$0.25 or, 9%, below our 2021 estimate. The main reason for the EPS decline in 2022 reflects the winding down of the PPP, and related decrease in recognition of deferred processing fees. Details of our estimates are discussed more fully 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, 2020 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 Appropriations 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. The Paycheck Protection Program ended on May 31, 2021).

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 2020, CPKF had generated about \$77 million of PPP loans, of which \$58 million remained outstanding at March 31, 2021. This included about \$34 million of additional PPP loans that 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 3.30% for full-year 2021 and full-year 2022, 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 \$2.97 million earned during 2020, only \$770,000 was taken into income during 2020 while \$1.89 million was recognized in 2021's first quarter. Moreover, we estimate that deferred processing fees earned from new PPP loans added under the CAA in 2021 generated an additional \$1.52 million of deferred fees in the first quarter and \$420,000 in the second quarter. These deferred processing fees will likely be booked into income during the final three quarters of 2021, with most of this coming in the third and fourth quarters.

For 2021, we are cutting our estimate of the loan loss provision from \$0.9 million to \$0.7 million, about 64% 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). For 2022, our initial estimate for the loan loss provision is also \$0.7 million.

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. CPKF will be opening a new tech center, which will house IT operations, marketing, and merchant card processing, and will add to depreciation expense beginning in 2021's third quarter. 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 both 2021 and 2022 at 5%.

We are maintaining our estimate for merchant services income at \$4.0 million, with \$4.2 million our estimate for 2022. We are cutting our estimate of cash management fee income to \$1.8 million from \$2.0 million, as customers opted for PPP loans, rather than cash flow financing. With the winding down of the PPP, we expect cash management to bounce back in 2022, and are estimating cash flow fee income of \$3.3 million.

For the first time in 2021, CPKF has shown a separate line item for its mortgage banking operations (previously included in other income), while at the same time folding the ATM income line item into other income. Our initial stand-alone estimates for mortgage banking income are \$2.5 million in 2021 and \$2.2 million in 2022.

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 2021 for the fourteenth 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 #117 in the nation out of approximately 479 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 11.14%. 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.

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

Net Interest Income

Net interest income increased \$3.1 million, or 42%, year over year in the first quarter to \$10.8 million (\$2.0 million above our estimate), as a 27% increase in average interest-earning assets added to a 4.21% net interest margin, 42 basis points above the 3.79% earned in the year-ago quarter, but above our 3.40% estimate (which excluded the PPP impact). We note that net interest income (and the net interest margin) benefitted from the recognition of deferred processing fees of \$1.87 million during the quarter.

The NIM will be supplemented by the recognition of deferred processing fees. Of total deferred processing fees of about \$2.97 million earned during 2020, only \$770,000 was taken into income during 2020 while \$1.89 million was recognized in 2021's first quarter. Moreover, we estimate that deferred processing fees earned from new PPP loans added under the CAA in 2021 generated an additional \$1.52 million of deferred fees in the first quarter and \$420,000 in the second quarter. These deferred processing fees will likely be booked into income during the final three quarters of 2021, with most of this coming in the third and fourth quarters.

We have estimated a net interest margin of 3.30% for full-year 2021 and full-year 2022, exclusive of any impact from the recognition of deferred processing fees.

We note CPKF's balance sheet was asset sensitive at the end of the first 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 by \$0.9 million, or 16%, to \$4.8 million from \$5.7 million in the prior-year quarter. This reflected \$0.5 million growth in mortgage banking income, a \$0.2 million increase in merchant services income, and a \$0.3 million gain in other miscellaneous income. These positives were more than offset by the absence of securities gains (\$1.2 million in 2020's first quarter), a \$0.2 million net loss on foreclosed assets, and a \$0.5 million decline in cash flow income on lower receivables balances.

We are maintaining our estimate for merchant services income at \$4.0 million, with \$4.2 million our estimate for 2022. We are cutting our estimate of cash management fee income to \$1.8 million from \$2.0 million before, as customers opted for PPP loans, rather than cash flow financing. With the winding down of the PPP, we expect cash management to bounce back in 2022, and are estimating cash flow fee income of \$3.3 million.

For the first time in 2021, CPKF has shown a separate line item for its mortgage banking operations (previously included in other income), while at the same time folding the ATM income line item into other income. Our initial stand-alone estimates for mortgage banking income are \$2.5 million in 2021 and \$2.2 million in 2022.

Because of these items, we have increased our 2021 estimate for noninterest income \$0.5 million to \$18.3 million from \$17.8 million previously, with our initial estimate for 2022 at \$20.2 million.

Loss Provision

The loan loss provision of \$0.175 million was a bit below our \$0.225 million estimate. Loan loss reserves increased \$1.9 million year over year to \$7.5 million (1.19% of loans), which was above the fourth quarter's loss reserve of \$7.3 million, or 1.20% of loans, as well as above the \$5.6 million (1.04% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance rose \$2.2 million to \$9.4 million (1.46% of loans plus cash flow receivables) compared with \$9.2 million (1.47% of loans plus cash flow receivables) at the end of the previous quarter, and was above the \$7.2 million (1.28% of loans plus cash flow receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF recorded \$21,000 of net loan loss recoveries in the first quarter. This compares to \$15,000 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 cutting our estimate of the loan loss provision from \$0.9 million to \$0.7 million, about 64% 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). For 2022, our initial estimate for the loan loss provision is also \$0.7 million.

We project that the total loss allowance will remain at 1.47% of total loans plus receivables at yearend 2021, the same as the 1.47% at the end of 2020, before rising to 1.60% at yearend 2022.

Noninterest Expense

Noninterest expense rose \$0.2 million, or 3%, year over year to \$9.0 million (\$0.4 million less than we had projected), reflecting a \$0.1 million rise in compensation costs (up 2%) and a \$0.1 million (up 4%) advance in other miscellaneous expense

The efficiency ratio improved, falling to 58.2% from 72.8% in the year-ago quarter, and was better than the fourth quarter's 73.3%.

We project that compensation costs will increase from \$22.7 million actual in 2020 to \$24.0 million in 2021 and \$25.2 million in 2022. Our estimate of noncompensation costs is \$15.2 million for 2021 and \$15.6 million for 2022, compared to \$14.7 million actual in 2020. Our estimate of the efficiency ratio is 70.4% in 2021 and 73.2% in 2022, compared to 72.0% actual in 2020.

Income Taxes

The Company had a 16.6% effective tax rate in the first quarter, a 1.2-point increase from 15.0% in the year-ago quarter. This compares to our estimate of an effective tax rate of 15.0%.

We are using an estimated 15.6% tax rate in 2021 and 15.0% in 2022. This compares to a full-year effective tax rate of 14.8% in 2020.

Net Income

CPKF's first quarter net earnings jumped \$1.9 million, or 56%, year over year to a record \$5.3 million, while 2021's first quarter diluted EPS soared by \$0.40, or 60%, to \$1.08 from \$0.68 posted a year ago.

This was well above our estimate, which had called for a \$0.4 million decline in net earnings to \$3.0 million and a \$0.07 decrease in diluted EPS to \$0.61.

Profitability

CPKF posted a 17.2% ROE and 1.72% ROA for the first quarter of 2021, compared to 12.8% and 1.41%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans increased \$95 million, or about 18%, year over year, and rose \$25 million, or 4%, sequentially to \$631 million.

By category, commercial and industrial loans rose \$7.5 million, or 5%, to \$159 million; other loans gained \$6.6 million, or 25%, to \$33 million; commercial real estate loans increased \$4.3 million, or 2%, to \$252

million; construction and land development loans rose \$3.5 million, or 8%, to \$47 million; and consumer loans increased \$0.35 million, or 5% to \$8 million. Negatively, 1-4 family declined \$1.1 million, or less than 1%, to \$133 million, while cash management receivables dropped \$0.9 million, or 5% to \$18 million.

Loan demand, other than for PPP loans, appears to be solid, with our estimate for loan growth in both 2021 and 2022 at 5%.

Asset quality measures improved during the first quarter. Total nonperforming assets fell \$0.5 million to \$6.5 million from \$7.0 million sequentially. Restructured loans declined \$0.7 million to zero. Nonaccrual loans increased by \$0.3 million to \$2.4 million from \$2.1 million, while other real estate owned decreased \$0.1 million to \$4.1 million. In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreased 12 basis points to 0.99% of outstandings + OREO at March 31, 2021 from 1.11% of outstandings + OREO at December 31, 2020, and fell 38 basis points year over year from 1.37%.

The loss allowance as a percent of nonperforming assets increased to 145% from 104% sequentially, as improvement in nonperforming assets combined with an increase in the loss reserve for loans plus cash flow receivables.

Liquidity and Funding

Cash and equivalents decreased by \$21 million to \$48 million at the end of the first quarter, while the securities portfolio rose \$27 million to \$481 million. By category, the municipal securities portfolio gained \$22 million to \$297 million, the private-label mortgage securities portfolio increased \$3 million to \$88 million, US government-related securities gained \$2 million to flat at \$53 million, and asset-backed securities (primarily student loans under the FFELP program) and other was flat at \$43 million.

On a relative basis, municipal securities were 62% of the entire available-for-sale securities portfolio, the private-label mortgage securities portfolio was 18%, US government-related securities were 11%, and asset-backed securities and other were 9%.

CPKF's liquidity ratios worsened slightly compared to the previous quarter. At March 31, 2021, liquid assets represented 8% of total assets (10% at the end of the fourth quarter) and covered purchased funds by 129% (down from 141%), while loans plus receivables accounted for 52% of total assets (52% at December 31, 2020).

Core deposits rose \$39 million sequentially to \$1,023 million and funded 158% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios were mixed during the first quarter, as growth in risk-weighted assets outpaced growth in Total capital. The Tier 1 capital ratio rose 2 basis points sequentially to 14.05% at the end of 2021's first quarter from 14.03% at December 31, 2020, while the Total capital ratio slumped 1 basis point, falling to 15.19% from 15.20%.

Total shareholders' equity declined \$0.7 million during the first quarter, as a \$4.6 million advance in retained earnings and a positive \$0.1 million in capital changes were more than offset by \$5.4 million decrease in accumulated other comprehensive income.

Reflecting these factors plus a 7,000 increase in common shares outstanding, tangible book value per share fell during the first quarter, by \$.018 per share to \$25.22 from \$25.40. The total equity to total assets ratio worsened, decreasing by 33 basis points to 9.85% from 10.18%, as growth in total assets outpaced growth in common shareholders' equity.

OVERVIEW

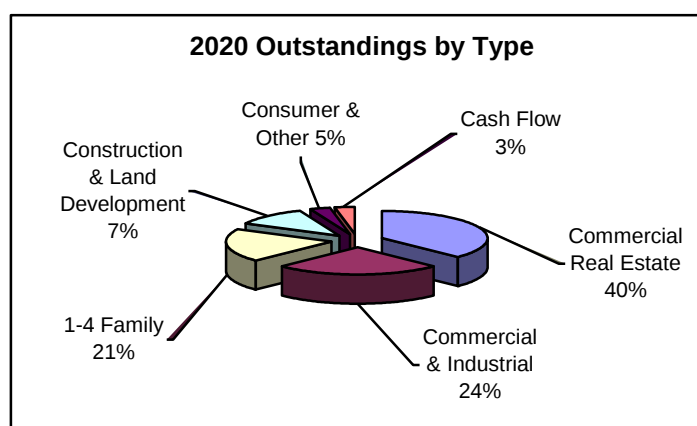
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with \$1,238 million in total assets at March 31, 2021. CPKF is predominantly a small business lender with 16 branch offices that serve customers in the eastern region of Virginia 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.

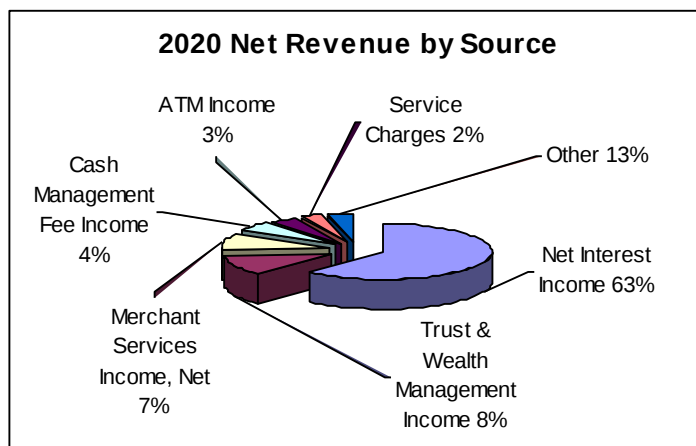
Through Chesapeake's secondary market mortgage banking operation, the Company services a \$292 million loan portfolio (as of December 31, 2020) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately \$667,000 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 22.7% year to date, a better performance than the 12.5% price increase for the S&P 500, but below the 28.8% 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 6%, based upon our current CPKF EPS estimate for 2022. Assuming a small-cap bank industry valuation of 11.3X for 2022, CPKF's target price based upon our 2022 EPS estimate is about \$28.25.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.05X. Assuming CPKF trades at the median 1.13X tangible book value of the small-cap bank industry and based upon our estimated book value for CPKF twelve months out, our target price is about \$29.25, which compares to CPKF's current book value of \$25.22.

We have chosen the \$28.75 midpoint of the range of values based upon CPKF's 2021 P/E of \$28.25 and forward Price/Tangible Book Value of \$29.25 as our new valuation.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2021E	EPS 2022E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	22.7	9.4	9.6	10.6	11.5	10.6	1.15	1.15	2.0
S&P 500	12.5	34.3	21.7	20.6	-----	-----	-----	-----	1.4
Median	28.8	10.8	10.3	11.3	11.2	9.4	1.05	0.97	2.3
Average	31.9	11.4	10.7	11.9	12.0	10.0	1.1	1.0	2.0
High	77.0	22.6	21.4	28.6	32.2	20.6	2.9	2.2	4.4
Low	4.8	3.4	5.3	7.7	4.8	2.3	0.3	0.2	-----

*Trailing twelve months

PROJECTED INCOME STATEMENT & BALANCE SHEET - ANNUAL

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/16	12/17	12/18	12/19	12/20	12/21E	12/22E
Net interest income	24.4	26.0	27.4	29.5	33.5	37.5	35.6
Non-interest income	<u>14.7</u>	<u>18.1</u>	<u>18.6</u>	<u>20.3</u>	<u>19.6</u>	<u>18.2</u>	<u>20.2</u>
Total net revenue	39.1	44.1	46.0	49.8	53.1	55.7	55.8
Loan loss provision	0.5	0.9	0.5	0.5	2.0	0.7	0.7
Non-interest expense	30.4	31.8	33.3	36.0	37.3	39.2	40.8
Income taxes & other	<u>1.2</u>	<u>2.5</u>	<u>1.4</u>	<u>1.9</u>	<u>2.1</u>	<u>2.4</u>	<u>2.2</u>
Zacks adjusted income before NRI	7.0	8.9	10.8	11.4	11.7	13.4	12.1
GAAP net income	7.0	8.9	10.8	11.4	11.7	13.4	12.1
Diluted EPS before NRI	1.42	1.80	2.17	2.29	2.40	2.75	2.50
Reported EPS	1.42	1.80	2.17	2.29	2.40	2.75	2.50
Dividends per share	0.41	0.43	0.46	0.49	0.50	0.52	0.52
Liquid assets	40.6	50.6	73.1	98.0	120.2	96.5	89.0
Outstandings, gross	481.4	523.7	546.0	566.7	625.0	602.8	633.5
Total assets	720.8	785.2	854.8	958.3	1,204.7	1,205.5	1,257.5
Core deposits	522.3	632.4	702.0	799.5	984.2	984.2	1,029.2
Purchased funds	97.4	53.1	47.2	39.6	85.3	79.5	80.8
Long-term debt	16.1	5.2	5.2	5.2	5.2	5.2	5.2
Shareholders' equity	77.9	86.8	92.7	105.4	122.7	128.2	137.8
Profitability							
Return on avg assets	0.99%	1.16%	1.32%	1.22%	1.06%	1.09%	0.98%
Return on avg equity	8.89%	10.64%	12.07%	11.09%	10.27%	10.73%	9.10%
Net interest margin	4.38%	4.30%	4.10%	3.98%	3.80%	3.53%	3.30%
Loan loss provision % avg assets	0.08%	0.12%	0.06%	0.06%	0.18%	0.06%	0.06%
Noninterest income % avg assets	2.06%	2.34%	2.27%	2.18%	1.76%	1.48%	1.64%
Noninterest expense % avg assets	4.28%	4.11%	4.06%	3.86%	3.36%	3.19%	3.31%
Preprovision pretax income % avg assets	1.23%	1.59%	1.55%	1.48%	1.42%	1.34%	1.21%
Tangible efficiency ratio	78%	72%	73%	75%	72%	70%	73%
Payout ratio	29%	24%	21%	21%	21%	19%	21%
Asset Quality							
Net charge-offs % avg outstandings	0.18%	0.27%	0.02%	0.10%	(0.05)%	0.19%	0.24%
Allowance % outstandings	1.34%	1.17%	1.22%	1.18%	1.47%	1.47%	1.60%
NPAs % loans + OREO	2.21%	1.73%	1.93%	1.36%	1.11%	1.17%	1.24%
Allowance % NPAs	60%	68%	63%	86%	132%	125%	128%
Liquidity & Funding							
Liquid assets % purchased funds	42%	95%	155%	247%	141%	121%	110%
Core deposits % outstandings	108%	121%	129%	141%	157%	163%	162%
Liquid assets % assets	6%	6%	9%	10%	10%	8%	7%
Outstandings % assets	67%	67%	64%	59%	52%	50%	50%
Capital Adequacy							
Total equity % assets	10.81%	11.05%	10.85%	11.00%	10.18%	10.63%	10.96%
Tangible equity % assets	10.81%	11.05%	10.85%	11.00%	10.18%	10.63%	10.96%
Tier 1 capital ratio	14.16%	14.35%	15.04%	15.03%	14.03%		
Total capital ratio	15.30%	15.37%	16.08%	16.00%	15.20%		
Parent Company Statistics							
Interest coverage	9.6X	12.7X	8.2X	12.4X	41.2X	25.5X	25.5X
Interest & dividend coverage	0.5X	0.8X	0.6X	1.0X	2.0X	1.9X	1.9X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.2X	2.8X	2.7X	5.0X	4.8X	5.1X	5.1X
Double leverage	102.6%	102.3%	102.6%	102.5%	102.1%	108.1%	109.4%

PROJECTED INCOME STATEMENT & BALANCE SHEET - QUARTERLY

Chesapeake Financial Shares, Inc.

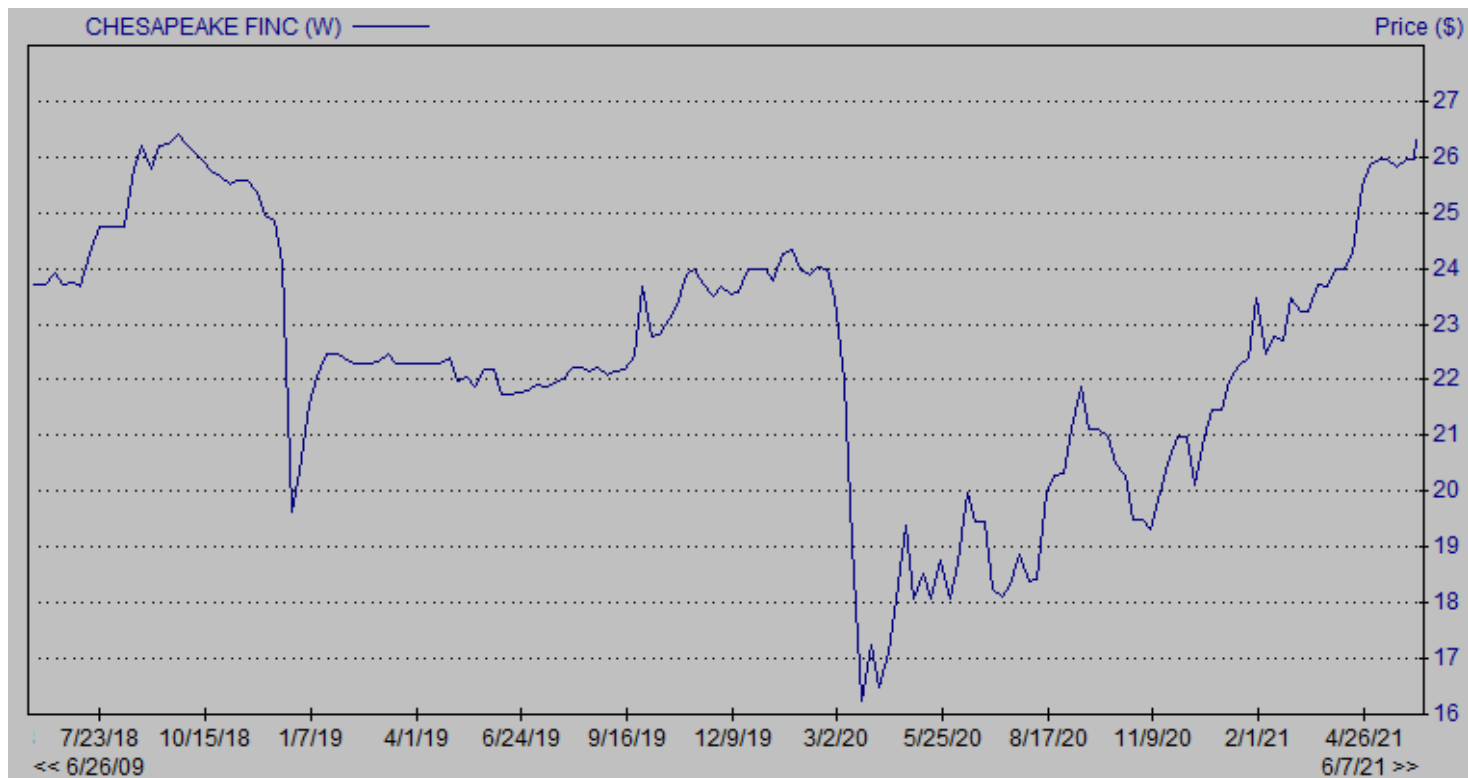
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2020				2021			
Summary Financial Data	Q1 A	Q2 A	Q3 A	Q4 A	Q1 A	Q2 E	Q3 E	Q4 E
Net interest income	7.6	8.2	8.4	9.3	10.8	8.5	9.2	9.0
Non-interest income	5.7	4.0	5.3	4.6	4.7	4.6	4.5	4.4
Total net revenue	13.3	12.2	13.7	13.9	15.5	13.1	13.7	13.4
Loan loss provision	0.5	0.6	0.6	0.2	0.2	0.2	0.2	0.2
Non-interest expense	8.8	9.3	9.1	10.2	9.0	9.9	9.8	10.6
Income taxes & other	0.6	0.2	0.6	0.6	1.0	0.4	0.5	0.3
Zacks adjusted income before NRI	3.4	2.1	3.4	2.9	5.3	2.6	3.2	2.3
GAAP net income	3.4	2.1	3.4	2.9	5.3	2.6	3.2	2.3
Diluted EPS before NRI	0.68	0.42	0.69	0.61	1.08	0.54	0.65	0.48
Reported EPS	0.68	0.42	0.69	0.61	1.08	0.54	0.65	0.48
Dividends per share	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Liquid assets	83.1	96.0	114.1	120.2	101.4	100.4	98.4	96.5
Outstandings, gross	563.2	639.3	639.6	625.0	648.6	656.7	630.0	602.8
Total assets	951.4	1,114.7	1,172.2	1,204.7	1,238.3	1,250.7	1,228.2	1,205.5
Core deposits	796.4	901.7	955.0	984.2	1,023.5	1,033.7	1,009.1	984.2
Purchased funds	37.6	84.6	84.0	85.3	78.5	78.9	79.2	79.5
Long-term debt	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Shareholders' equity	104.9	113.2	116.9	122.7	122.0	124.0	126.5	128.2
Profitability								
Return on avg assets*	1.41%	0.79%	1.18%	0.99%	1.72%	0.84%	1.02%	0.76%
Return on avg equity *	12.81%	7.52%	11.76%	9.84%	17.21	8.48%	10.13	7.26%
Net interest margin*	3.79%	3.88%	3.73%	3.83%	4.21%	3.30%	3.30%	3.30%
Loan loss provision % avg assets*	0.22%	0.24%	0.22%	0.06%	0.06%	0.06%	0.06%	0.06%
Noninterest income % avg assets*	2.37%	1.55%	1.85%	1.55%	1.56%	1.49%	1.43%	1.45%
Noninterest expense % avg assets*	3.68%	3.58%	3.17%	3.44%	2.96%	3.17%	3.15%	3.47%
Preprovision pretax inc.% avg assets*	1.88%	1.14%	1.60%	1.25%	2.12%	1.04%	1.26%	0.95%
Tangible efficiency ratio	73%	76%	66%	73%	58%	75%	71%	78%
Payout ratio	18%	30%	18%	21%	12%	24%	20%	27%
Asset Quality								
Net charge-offs % avg outstandings*	0.01%	(0.07)%	(0.47)%	0.29%	(0.01)%	0.25%	0.19%	0.32%
Allowance % outstandings	1.28%	1.24%	1.45%	1.47%	1.46%	1.41%	1.45%	1.47%
NPAs % loans + OREO	1.37%	1.18%	1.30%	1.11%	0.99%	1.01%	1.09%	1.17%
Allowance % NPAs	93%	104%	91%	104%	145%	138%	133%	125%
Liquidity & Funding								
Liquid assets % purchased funds	221%	113%	136%	136%	129%	127%	124%	121%
Core deposits % outstandings	141%	141%	149%	154%	158%	157%	160%	163%
Liquid assets % assets	9%	9%	10%	10%	8%	8%	8%	8%
Outstandings % assets	59%	57%	55%	53%	52%	53%	51%	50%
Capital Adequacy								
Total equity % assets	11.03%	10.16%	9.98%	10.18%	9.85%	9.91%	10.30	10.63%
Tangible equity % assets	11.03%	10.16%	9.98%	10.18%	9.85%	9.91%	10.30	10.63%
Tier 1 capital ratio	15.05%	14.51%	14.20%	14.03%	14.05%			
Total capital ratio	16.07%	15.58%	15.42%	15.20%	15.19%			

*Annualized.

HISTORICAL STOCK PRICE



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