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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTCQX)

CPKF: Another Great Quarter and Another Great Year

We have chosen $28.50 as our new valuation, based upon CPKF's 2023 P/E of $29.00 and forward Price/Tangible Book Value of $28.00.
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Current Price (03/01/23)	$23.60
Valuation	**$28.50**

OUTLOOK

We are raising our diluted EPS estimate for 2023 by $0.14, to $3.45 from $3.31, which is 2% above 2022's diluted EPS of $3.37. Results in 2022 exclude a third quarter one-time gain on the sale of a partial interest in a brokerage firm of $2.2 million pretax and $1.7 million aftertax, or $0.36 per diluted share. Reported net earnings were much higher at $17.6 million, or $3.73 per diluted share. The main drivers of record 2022 earnings included a strong turnaround in cash management as well as a large decrease in the cash management loss provision partly offset by the winding down of the PPP, a loss provision compared to a credit in 2021, and drop in mortgage banking income. Looking forward, we expect most operations to post solid improvement in 2023, with the exception of mortgage banking, which should experience some pressure due to rising rates. Loan demand was stronger than expected in the fourth quarter, as was the net interest margin. Consequently, we are raising our estimate of loan growth in 2023 to 8% from 5% and our net interest margin estimate to 3.60% from 3.52%. This compares to 11% loan growth and a 3.70% net interest margin in 2022. We are maintaining our loan loss provision estimate for 2023, as asset quality continues strong. CPKF raised the quarterly dividend by 7% to $0.15 per share from $0.14 per share, and has raised its annual dividend payment every year for the past thirty years since 1991. In 2022 for the fifteenth consecutive year, CPKF was included in the American Banker magazine list of the "Top 200 Community Banks".

SUMMARY DATA

52-Week High	**$30.00**
52-Week Low	**$19.15**
One-Year Return (%)	**-18.79**
Beta	**0.62**
Average Daily Volume (sh)	**306**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$111**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.60**
Dividend Yield (%)	**2.54**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.7**
Earnings Per Share (%)	**13.3**
Dividend (%)	**6.4**
P/E using TTM EPS	**7.0**
P/E using 2022 Actual	**7.0**
P/E using 2023 Estimate	**6.8**
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)
2020	13.3 A	12.2 A	13.7 A	13.9 A	53.1 A
2021	15.5 A	15.3 A	15.3 A	14.4 A	60.5 A
2022	15.5 A	16.0 A	16.6 A	15.9 A	64.0 A
2023					67.2 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	0.68 A	0.42 A	0.69 A	0.61 A	2.40 A
2021	1.08 A	0.82 A	0.78 A	0.42 A	3.11 A
2022	0.90 A	0.86 A	0.90 A	0.71 A	3.37 A
2023					3.45 E

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

FOURTH QUARTER

CPKF's fourth quarter net earnings increased $1.3 million, or 67%, year over year to $3.3 million, while 2022's fourth quarter diluted EPS rose by $0.29, or 69%, to $0.71 from $0.42 posted a year ago.

This was better than our estimate, which had called for a $0.6 million increase in net earnings to $2.6 million and a $0.12 gain in diluted EPS to $0.54.

We note that last year's fourth quarter benefitted from the inclusion of $306,000 of Paycheck Protection Program fees, which this quarter did not.

The main factors behind the difference between actual results and our estimate were: (1) net interest income was $0.5 million higher than our estimate due to a larger-than-expected net interest margin of 3.93% (versus our 3.65% estimate); (2) cash management fee income was $0.4 million higher than expected due to strong receivables growth; (3) income from merchant services as well as trust and wealth management were each $0.1 million more than projected; and (4) income tax expense was $0.4 million lower than our estimate due to a much reduced effective tax rate of 1.8% versus our 15.0% estimate. These positives were partly offset by other miscellaneous expense that was $0.7 million more than projected.

The major reasons for the fourth quarter's $1.3 million, or 67%, increase in net earnings versus the prior-year quarter were a $1.5 million, or 11%, rise in net revenues, as a $1.2 million, or 12%, gain in net interest income combined with a $0.3 million, or 8%, increase in other noninterest income. In addition, total noninterest expense was $0.3 million less than last year's fourth quarter as a $0.7 million decline in the provision for cash management losses and a $0.3 million reduction in occupancy expense more than offset growth in miscellaneous other expense (up $0.7 million). Partly offsetting were a $0.4 million swing in the provision for loan losses to $175,000 from a reversal of $225,000 in the prior year as well as higher income taxes, which were $0.1 million more than those a year ago.

For the year, CPKF posted record net income of $15.9 million, or $3.37 per diluted share, up from the $15.0 million, or $3.11 per diluted share, posted in 2021. Results exclude a third quarter one-time gain on the sale of a partial interest in a brokerage firm of $2.2 million pretax and $1.7 million aftertax, or $0.36 per diluted share. Reported net earnings were considerably higher at $17.6 million, or $3.73 per diluted share.

Primary contributors to this result were a $3.5 million, or 6%, gain in net revenues stemmimg from a $2.5 million, or 6%, rise in net interest income, aided by a $1.0 million, or 5%, rise in noninterest income as most business segments showed improvement. This was partly offset by a $1.1 million negative swing in the provision for loan losses as well as a $1.5 million, or 3%, increase in total noninterest expense. This largely resulted from a $1.8 million rise in compensation costs (up 8%) plus a $1.5 million advance in other miscellaneous expense (up 10%), partly offset by a $1.6 million reduction in the provision for cash management losses (down 87%) and a $0.2 million decrease (down 6%) in occupancy costs.

We are increasing our diluted EPS estimate for 2023 by $0.14, from $3.31 to $3.45, a 2% gain over 2022's actual diluted EPS of $3.37, which excludes a third quarter one-time gain on the sale of a partial interest in a brokerage firm of $1.7 million aftertax, or $0.36 per diluted share. We expect most operations to post solid improvement in 2023, with the exception of mortgage banking, which should experience some pressure due to rising interest rates. We are not projecting any one-time gains or losses from sales of securities or interest-rate caps, as occurred in 2022's first quarter.

Loan demand was stronger than expected in the fourth quarter, as was the net interest margin. Consequently, we are raising our estimate of loan growth in 2023 to 8% from 5% and our net interest margin estimate to 3.60% from 3.52%. This compares to 11% loan growth and a 3.70% net interest margin in 2022. We note the net interest margin decline in 2023 is due to expected pressure on deposit rates, reflecting rising interest rate levels at the Fed.

We are increasing our estimate of merchant services income by $0.2 million to $5.4 million in 2023, which compares with $4.9 million actual in 2022 and our previous $5.2 million estimate. We are sharply increasing our estimate of cash management income by $1.0 million in 2023 to $4.0 million, which compares with $3.2 million earned in 2022 and our prior $3.0 estimate, as we expect solid receivables growth. This reflects the addition of new clients, as well as growth in existing client credit lines, following the stoppage of the PPP program.

Our estimate for mortgage banking income is reduced by $0.2 million to $1.0 million versus $1.7 million earned in 2022, and reflects decreased activity due to the impact of higher mortgage rates.

For 2023, our estimate for the loan loss provision remains $0.7 million, the same as the loss provision in 2022. Importantly, the Financial Accounting Standards Board's Current Expected Credit Loss (CECL) impairment standard, which requires "life-of-loan" estimates of losses to be recorded for unimpaired loans will be adopted in 2023. Adoption of CECL is not expected to have a material impact on loss provisions in 2023.

The provision for cash management losses, a separate line item listed under other noninterest expense, is expected to remain stable and we estimate the cash management provision at $240,000 again in 2023, the same as it was in 2022.

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 recently opened a new tech center, which houses IT operations, marketing, and merchant card processing, adding to depreciation expense.

At the July 15, 2022 Chesapeake Financial Shares Board of Directors meeting, the Board raised the quarterly dividend to $0.15 per share from $0.14 per share (a 7% increase), paid on or before September 15, 2022. This follows two dividend increases in 2021. Notably, CPKF has increased the annual dividend payment every year for the past thirty years since 1991.

In 2022 for the fifteenth 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 #130 in the nation out of approximately 6,000 community banks 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 11.07%.

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

<u>Net Interest Income</u>
Net interest income increased $1.2 million, or 12%, year over year in the fourth quarter, rising to $11.5 million ($0.5 million above our estimate), primarily due to a 3.93% net interest margin, 35 basis points above the 3.58% earned in the year-ago quarter and well above our 3.65% estimate. We note that net interest income (and the net interest margin) this year did not benefit from the recognition of deferred processing fees on PPP loans of $306,000, as it did in last year's fourth quarter.

We have estimated a net interest margin of 3.60% for full-year 2023, compared to our 3.52% estimate previously and a 3.70% net interest margin in 2022. We note the net interest margin decline in 2023 is due to expected pressure on deposit rates, reflecting rising interest rate levels at the Fed.

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 by $0.3 million, or 8%, to $4.4 million from $4.1 million in the prior-year quarter. The growth in noninterest income largely reflected increases in: (1) merchant card income of $0.4 million and (2) cash management fee income of $0.3 million. These were partly offset by declines in: (1) mortgage banking income of $0.3 million and (2) trust and wealth management income of $0.1 million.

We are increasing our estimate of merchant services income by $0.2 million to $5.4 million in 2023, which compares with $4.9 million actual in 2022 and our previous $5.2 million estimate. We are sharply increasing our estimate of cash management income by $1.0 million in 2023 to $4.0 million, which compares with $3.2 million earned in 2022 and our prior $3.0 estimate, as we expect solid receivables growth. This reflects the addition of new clients, as well as growth in existing client credit lines, following the stoppage of the PPP program.

Our estimate for mortgage banking income is reduced by $0.2 million to $1.0 million versus $1.7 million earned in 2022, and reflects decreased activity due to the impact of higher mortgage rates.

Our estimate for total noninterest income is $21.6 million in 2023 and compares to $19.9 million in 2022.

Loss Provision

The loan loss provision posted a negative swing of $0.4 million rising to $175,000 (the same as our estimate) from a credit or reversal of $225,000 in the prior year. Loan loss reserves rose $0.7 million from $6.8 million (1.01% of loans) year over year, and grew $0.1 million sequentially from $7.4 million (1.02% of loans) to $7.5 million (1.00% of loans) as of December 31, 2022.

Including the loss allowance for cash management receivables, the total loss allowance increased $0.2 million to $9.4 million (1.21% of loans plus cash management receivables) compared with $9.2 million (1.22% of loans plus cash management receivables) at the end of the previous quarter, and was above the $8.2 million (1.17% of loans plus cash management receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF had net losses of $34,000 of loans in the fourth quarter. This is $20,000 more than the $14,000 of net losses in the year-ago quarter and compares to net loan loss recoveries of $19,000 for full-year 2022.

For 2023, our estimate for the loan loss provision remains $0.7 million, the same as the loss provision in 2022. Importantly, the Financial Accounting Standards Board's Current Expected Credit Loss (CECL) impairment standard, which requires "life-of-loan" estimates of losses to be recorded for unimpaired loans will be adopted in 2023. Adoption of CECL is not expected to have a material impact on loss provisions in 2023.

We project that the total loss allowance will decrease slightly to 1.17% of total loans plus receivables at yearend 2023 from 1.21% actual at the end of 2022.

Noninterest Expense

Total noninterest expense was $0.3 million less than last year's fourth quarter as a $0.7 million decline in the provision for cash management losses and a $0.3 million reduction in occupancy expense more than offset growth in miscellaneous other expense (up $0.7 million). Reflecting lower expenses, the efficiency ratio improved, decreasing to 77.1% from 87.9% in the year-ago quarter, but was worse than the third quarter's 69.6%.

We project that compensation costs will increase from $25.6 million actual in 2022 to $27.4 million in 2023, reflecting a number of new hires.

Our estimate of noncompensation costs in 2023 is $20.2 million, compared to 2022's $19.4 million actual.

Our estimate of the efficiency ratio is 71% 2023, compared to 67% actual in 2022.

Income Taxes

The Company had a 1.8% effective tax rate in the fourth quarter. This compares to a 2.3% tax credit in the year-ago quarter and our estimate of an effective tax rate of 15.0%.

For the year, we are estimating an effective tax rate of 15.0% in 2023. This compares to a full-year effective tax rate of 12.7% in 2022.

Net Income

CPKF's fourth quarter net earnings increased $1.3 million, or 67%, year over year to $3.3 million, while 2022's fourth quarter diluted EPS rose by $0.29, or 69%, to $0.71 from $0.42 posted a year ago.

This was better than our estimate, which had called for a $0.6 million increase in net earnings to $2.6 million and a $0.12 gain in diluted EPS to $0.54.

We note that last year's fourth quarter benefitted from the inclusion of $306,000 of Paycheck Protection Program fees, which this quarter did not.

Profitability

CPKF posted a 17.7% ROE and 1.00% ROA for the fourth quarter of 2022, compared to 6.3% and 0.59%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding increased $77 million, or about 11%, year over year, and rose $25 million, or 3%, sequentially to $749 million.

By category, 1-4 family gained $12.8 million, or 7%, to $188 million; commercial and industrial loans rose $5.3 million, or 4%, to $145 million; construction and land development loans increased $4.9 million, or 7%, to $70 million; cash management receivables gained $1.4 million, or 5%, to $29 million; consumer loans expanded $1.1 million, or 14%, to $9 million; commercial real estate loans increased $0.4 million, or less than 1%, to $305 million; and other loans grew $0.4 million, or 1%, to $33 million.

Loan demand was stronger than expected in the fourth quarter. Consequently, we are raising our estimate of loan growth in 2023 to 8% from 5%.

Asset quality measures worsened during the fourth quarter, but remained strong. Total nonperforming assets rose $0.9 million to $4.0 million from $3.1 million sequentially. Nonaccrual loans increased $1.0 million to $3.1 million, while other real estate owned fell $0.1 million to $0.9 million. There were no restructured loans in the third and fourth quarters. In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, increased 10 basis points to 0.52% of outstandings + OREO at December 31, 2022 from 0.42% of outstandings + OREO at September 30, 2022, but fell 9 basis points year over year from 0.61%.

The loss allowance as a percent of nonperforming assets decreased to 232% from 293% sequentially, as deterioration in nonperforming assets was offet by an increase in the loss reserve for loans plus cash management receivables.

Liquidity and Funding

Cash and equivalents were flat at $26 million at the end of the fourth quarter, while the securities portfolio fell $28 million to $446 million. By category, the municipal securities portfolio decreased $29 million to

$238 million, US government-related securities fell $1 million to $53, and asset-backed securities (primarily student loans under the FFELP program) were up $1 million to $44 million. The private-label mortgage securities portfolio was flat at $111 million.

On a relative basis, municipal securities were 53% of the entire available-for-sale securities portfolio, the private-label mortgage securities portfolio was 25%, US government-related securities were 12%, and asset-backed securities and other were 10%.

CPKF's liquidity ratios were relatively stable compared to the previous quarter. At December 31, 2022, liquid assets represented 6% of total assets (6% at the end of the third quarter) and covered purchased funds by 117% (down from 134%), while loans plus receivables accounted for 56% of total assets (56% at September 30, 2022).

Core deposits fell $21 million sequentially to $1.145 billion and funded 147% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved during the fourth quarter, as growth in Tier 1 capital outpaced growth in risk-weighted assets. The Tier 1 capital ratio gained 43 basis points sequentially to 13.04% at the end of 2022's fourth quarter from 12.61% at September 30, 2022, while the Total capital ratio increased 48 basis points, rising to 15.89% from 15.41%.

Total shareholders' equity increased $6.9 million during the fourth quarter, as a $2.6 million advance in retained earnings was aided by a $4.2 million positive swing in accumulated other comprehensive income plus a positive $0.1 million in capital changes.

Reflecting these factors plus a 1,000 decrease in common shares outstanding, tangible book value per share increased during the fourth quarter, by $1.47 per share, to $16.78 from $15.31. The total equity to total assets ratio improved, increasing by 54 basis points to 5.95% from 5.41%, reflecting the reduction in total equity, as well as in total assets. Notably, CPKF does not expect the recently-enacted 1% share buyback tax (via the Inflation Reduction Act) to have a signficant impact on CPKF's results or share repurchase program.

OVERVIEW

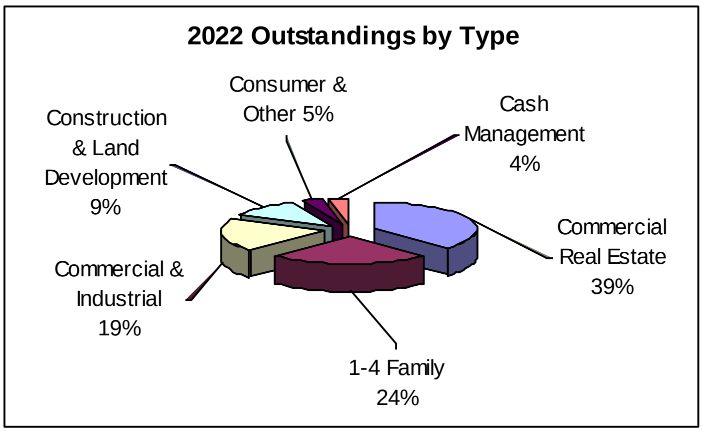
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $1,329 million in total assets at December 31, 2022. CPKF is predominantly a small business lender with 16 branch offices that serve customers in the eastern region of Virginia 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 $431 million in assets (at 2022 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 management program (now branded as Flexent) 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 2022, Chesapeake Payment Systems had 893 direct merchants in its system and processed over $381 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with eight independent sales organizations (ISOs) to expand its processing footprint.

The Flexent program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash management program is currently offered in the Eastern half of the United States and had 49 customers at the end of 2022.

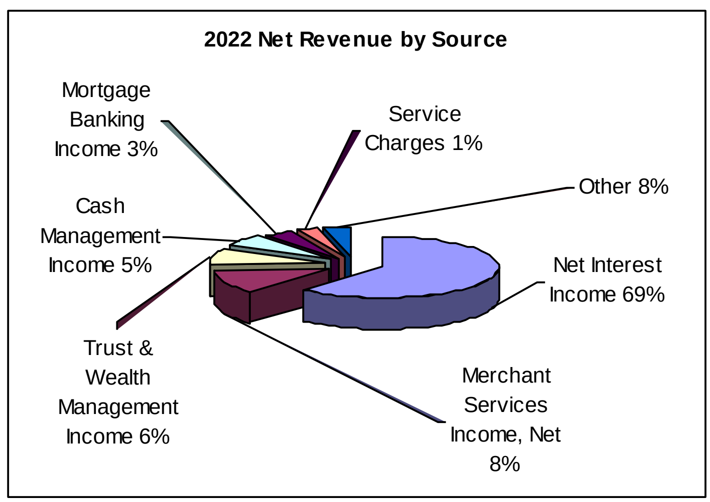
Through Chesapeake's secondary market mortgage banking operation, the Company services a $304 million loan portfolio (as of December 31, 2022 of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $763,000 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 $916,000 to revenues in 2022 (both types of fees are included in other noninterest income in the Company's financial statements).



Source: Zacks Analyst

The lending portfolio is dominated by real estate loans, as shown in the chart at left. At December 31, 2022, the lending book consisted of commercial real estate (accounting for 39% of total gross outstandings), 1-4 family (24%), commercial and industrial (19%), construction and land development (9%), consumer and other (5%), and cash management (4%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2022, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 6% of total assets and 12% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal at 53% of the total, private label mortgage securities at 25%, and asset-backed and other securities at 10%. Core deposits represented 98% of total deposits at December 31, 2022, with certificates of deposit larger than $250,000 at 2%.

Source: Zacks Analyst


In 2022, net interest income contributed 69% of net revenue, with a significant 31% coming from noninterest income sources. Major contributors to noninterest income include merchant services income, net (8% of net revenue) trust and wealth management income (6%), cash management fee income (5%), mortgage banking income (3%), and service charges (1%).

VALUATION

CPKF stock is up 15.5% year to date, a much better performance than the 2.9% price increase for the S&P 500 and the 0.3% median price decline for the small-cap bank industry, as shown in the following table.

At its current price, CPKF is trading at a 19% discount to the industry median P/E, based upon our current CPKF EPS estimate for 2023. Assuming a small-cap bank industry valuation of 8.4X for 2023, CPKF's target price based upon our 2023 EPS estimate is about $29.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.41X. Assuming CPKF trades at the median 1.23X 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 $28.00, which compares to CPKF's current book value of $16.78.

We have chosen $28.50 as our new valuation, based upon CPKF's 2023 P/E of $29.00 and forward Price/Tangible Book Value of $28.00.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2023E	EPS 2024E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	**15.5**	**7.0**	**6.8**		**20.9**	**12.2**	**1.32**	**1.20**	**2.5**
S&P 500	**2.9**	**19.4**	**18.8**	**15.8**	-----	-----	-----	-----	**1.7**
Median	**(0.3)**	**9.0**	**8.4**	**8.3**	**13.7**	**11.0**	**1.16**	**1.09**	**2.7**
Average	0.4	9.1	8.7	8.5	13.4	11.5	1.2	1.1	2.5
High	20.3	19.7	12.8	13.0	22.4	19.2	2.0	2.0	4.9
Low	(18.0)	5.9	5.3	6.0	4.7	3.3	0.4	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	**12/17**	**12/18**	**12/19**	**12/20**	**12/21**	**12/22P**	**12/23E**
Net interest income	26.0	27.4	29.5	33.5	41.6	44.1	45.6
Non-interest income	18.1	18.6	20.3	19.6	18.9	19.9	21.6
Total net revenue	44.1	46.0	49.8	53.1	60.5	64.0	67.2
Loan loss provision	0.9	0.5	0.5	2.0	(0.4)	0.7	0.7
Non-interest expense	31.8	33.3	36.0	37.3	43.6	45.1	47.7
Income taxes & other	2.5	1.4	1.9	2.1	2.3	2.3	2.8
Zacks adjusted income before NRI	8.9	10.8	11.4	11.7	15.0	15.9	16.0
GAAP net income	8.9	10.8	11.4	11.7	15.0	17.6	16.0
Diluted EPS before NRI	1.80	2.17	2.29	2.39	3.11	3.37	3.45
Reported EPS	1.80	2.17	2.29	2.39	3.11	3.73	3.45
Dividends per share	0.43	0.46	0.49	0.50	0.53	0.58	0.60
Liquid assets	50.6	73.1	98.0	120.2	98.8	79.6	76.4
Outstandings, gross	523.7	546.0	566.7	625.0	699.7	778.1	842.2
Total assets	785.2	854.8	958.3	1,204.7	1,385.8	1,329.0	1,337.2
Core deposits	632.4	702.0	799.5	984.2	1,101.6	1,144.5	1,110.5
Purchased funds	53.1	47.2	39.6	85.3	122.4	67.8	82.4
Long-term debt	5.2	5.2	5.2	5.2	25.2	25.2	25.2
Shareholders' equity	86.8	92.7	105.4	122.7	126.1	79.1	110.3
Profitability							
Return on avg assets	1.16%	1.32%	1.22%	1.06%	1.14%	1.18%	1.20%
Return on avg equity	10.64%	12.07%	11.09%	10.27%	11.87%	17.65%	16.23%
Net interest margin	4.30%	4.10%	3.98%	3.80%	3.80%	3.72%	3.65%
Loan loss provision % avg assets	0.12%	0.06%	0.06%	0.18%	(0.03)%	0.05%	0.05%
Noninterest income % avg assets	2.34%	2.27%	2.18%	1.76%	1.44%	1.48%	1.63%
Noninterest expense % avg assets	4.11%	4.06%	3.86%	3.36%	3.32%	3.35%	3.58%
Preprovision pretax income % avg assets	1.59%	1.55%	1.48%	1.42%	1.29%	1.41%	1.47%
Tangible efficiency ratio	72%	73%	75%	72%	73%	67%	71%
Payout ratio	24%	21%	21%	21%	17%	16%	17%
Asset Quality							
Net charge-offs % avg outstandings	0.27%	0.02%	0.10%	(0.05)%	0.38%	(0.03)%	0.07%
Allowance % outstandings	1.17%	1.22%	1.18%	1.47%	1.17%	1.21%	1.16%
NPAs % loans + OREO	1.73%	1.93%	1.36%	1.11%	0.61%	0.52%	0.57%
Allowance % NPAs	68%	63%	86%	132%	194%	232%	201%
Liquidity & Funding							
Liquid assets % purchased funds	95%	155%	247%	141%	81%	117%	93%
Core deposits % outstandings	121%	129%	141%	157%	157%	147%	132%
Liquid assets % assets	6%	9%	10%	10%	7%	6%	6%
Outstandings % assets	67%	64%	59%	52%	50%	59%	63%
Capital Adequacy							
Total equity % assets	11.05%	10.85%	11.00%	10.18%	9.10%	5.95%	8.25%
Tangible equity % assets	11.05%	10.85%	11.00%	10.18%	9.10%	5.95%	8.25%
Tier 1 capital ratio	14.35%	15.04%	15.03%	14.03%	12.28%	13.04%	
Total capital ratio	15.37%	16.08%	16.00%	15.20%	15.16%	15.89%	
Parent Company Statistics							
Interest coverage	12.7X	8.2X	12.4X	41.2X	3.7X	6.5X	6.5X
Interest & dividend coverage	0.8X	0.6X	1.0X	2.0X	0.5X	0.4X	0.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	2.8X	2.7X	5.0X	4.8X	0.7X	1.0X	1.0X
Double leverage	102.3%	102.6%	102.5%	102.1%	117.5%	191.9%	154.8%

Chesapeake Financial Shares, Inc.

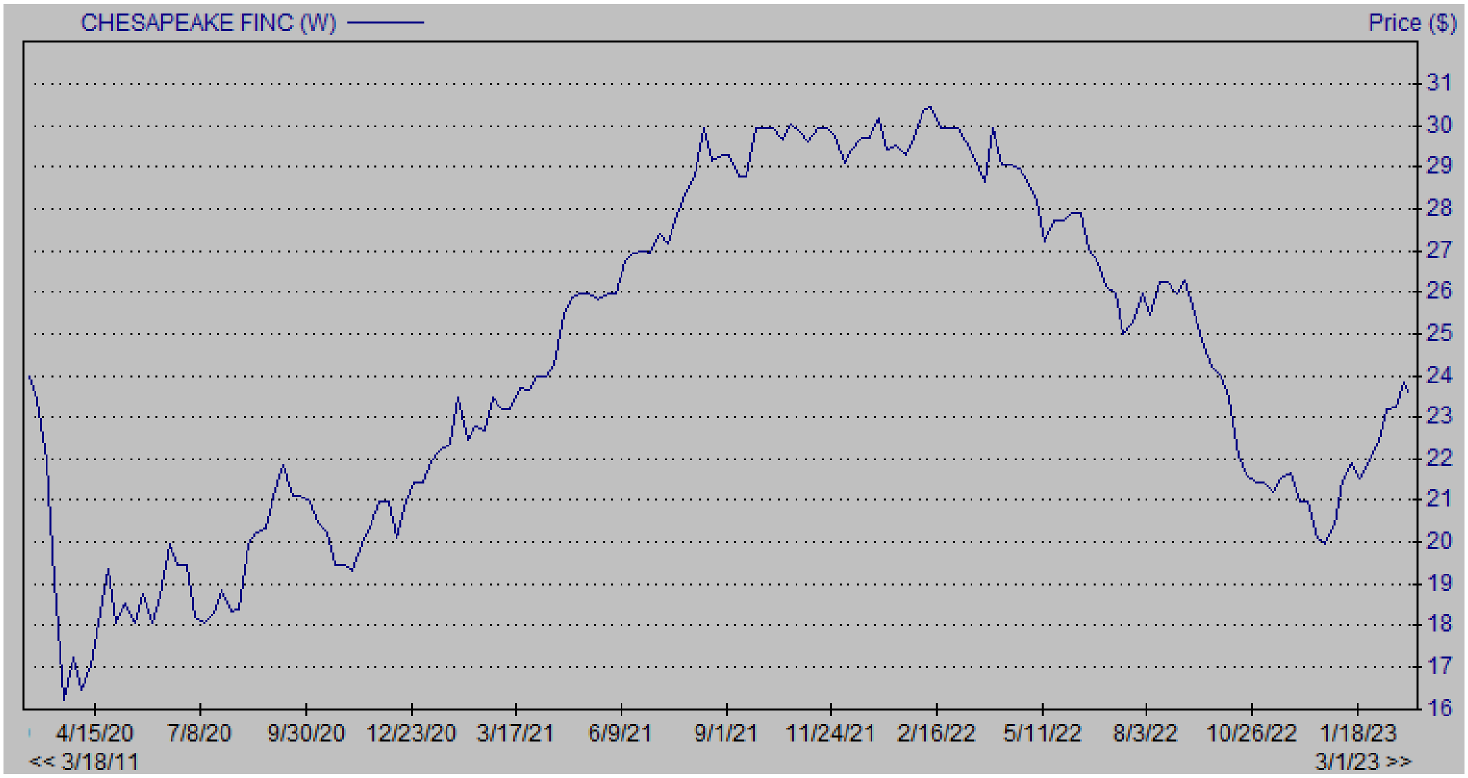
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2021				2022			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**
Net interest income	10.8	9.7	10.8	10.3	10.5	10.8	11.3	11.5
Non-interest income	4.7	5.6	4.5	4.1	5.0	5.2	5.3	4.4
Total net revenue	15.5	15.3	15.3	14.4	15.5	16.0	16.6	15.9
Loan loss provision	0.2	0.2	(0.5)	(0.2)	0.2	0.2	0.2	0.2
Non-interest expense	9.0	9.9	11.9	12.7	10.3	11.0	11.4	12.3
Income taxes & other	1.0	1.2	0.1	(0.1)	0.7	0.7	0.8	0.1
Zacks adjusted income before NRI	5.3	4.0	3.8	2.0	4.3	4.1	4.2	3.3
GAAP net income	5.3	4.0	3.8	2.0	4.3	4.1	5.9	3.3
Diluted EPS before NRI	1.08	0.82	0.78	0.42	0.90	0.86	0.90	0.71
Reported EPS	1.08	0.82	0.78	0.42	0.90	0.86	1.26	0.71
Dividends per share	0.13	0.13	0.13	0.14	0.14	0.14	0.15	0.15
Liquid assets	101.4	128.1	107.6	98.8	93.2	92.0	80.3	79.6
Outstandings, gross	648.6	637.8	651.8	699.7	719.3	734.0	751.8	778.1
Total assets	1,238.3	1,292.7	1,328.8	1,385.8	1,346.1	1,342.0	1,333.9	1,329.0
Core deposits	1,023.5	1,045.3	1,074.1	1,101.6	1,138.1	1,172.6	1,165.3	1,144.5
Purchased funds	78.5	84.4	93.2	122.4	73.0	49.0	59.7	67.8
Long-term debt	5.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2
Shareholders' equity	122.0	129.7	128.0	126.1	101.0	85.2	72.2	79.1
Profitability								
Return on avg assets*	1.72%	1.25%	1.15%	0.59%	1.25%	1.21%	1.27%	1.00%
Return on avg equity *	17.21%	12.61%	11.71%	6.32%	15.05%	17.45%	21.59	17.69%
Net interest margin*	4.21%	3.66%	3.88%	3.58%	3.53%	3.64%	3.79%	3.93%
Loan loss provision % avg assets*	0.06%	0.06%	(0.16)%	(0.07)%	0.05%	0.05%	0.05%	0.05%
Noninterest income % avg assets*	1.56%	1.76%	1.38%	1.20%	1.48%	1.54%	1.59%	1.32%
Noninterest expense % avg assets*	2.96%	3.14%	3.64%	3.73%	3.02%	3.26%	3.42%	3.71%
Preprovision pretax inc.% avg assets*	2.12%	1.69%	1.02%	0.51%	1.51%	1.50%	1.55%	1.08%
Tangible efficiency ratio	58%	68%	78%	88%	67%	69%	70%	77%
Payout ratio	12%	16%	17%	33%	16%	16%	12%	21%
Asset Quality								
Net charge-offs % avg outstandings*	(0.01)%	(0.03)%	1.55%	0.00%	(0.02)%	(0.12)%	0.01%	(0.00)%
Allowance % outstandings	1.46%	1.52%	1.18%	1.17%	1.18%	1.22%	1.22%	1.21%
NPAs % loans + OREO	0.99%	0.95%	0.89%	0.61%	0.57%	0.49%	0.42%	0.52%
Allowance % NPAs	145%	160%	131%	194%	208%	250%	293%	232%
Liquidity & Funding								
Liquid assets % purchased funds	129%	152%	115%	81%	128%	188%	134%	117%
Core deposits % outstandings	158%	164%	165%	157%	158%	160%	155%	147%
Liquid assets % assets	8%	10%	8%	7%	7%	7%	6%	6%
Outstandings % assets	52%	49%	49%	50%	53%	55%	56%	59%
Capital Adequacy								
Total equity % assets	9.85%	10.03	9.64%	9.10%	7.51%	6.35%	5.41%	5.95%
Tangible equity % assets	9.85%	10.03	9.64%	9.10%	7.51%	6.35%	5.41%	5.95%
Tier 1 capital ratio	14.05%	13.83%	13.34%	12.28%	12.37%	12.47%	12.61%	13.04%
Total capital ratio	15.19%	17.29%	16.40%	15.16%	15.23%	15.34%	15.41%	15.89%

*Annualized.

HISTORICAL STOCK PRICE



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