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Chesapeake Financial Shares, Inc. (CPKF – OTCQX)

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October 24, 2024

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Price:	$ 19.19	**Diluted EPS**	**2023A:**	$2.15	**P/E**	**2023A:**	8.9 x
52 Wk. Range:	$16.25 - $20.25	(FY: DEC)	**2024E:**	$2.27		**2024E:**	8.5 x
Div/Div Yld:	$0.64 /3.3%		**2025E:**	$2.40		**2025E:**	8.0 x
Shrs/Mkt Cap:	4.7 mm/ $91 mm	**Book Value: ***		$23.84	**Price/Book Value:**		0.80 x

* Book value includes $6.20 per share in accumulated other comprehensive losses (unrealized losses on available for sale securities).

SYMBOL: CPKF

ASSETS: $1.6 B

HQ: KILMARNOCK, VA

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3RD QUARTER HIGHLIGHTS:

EARNINGS GREW 5%

BALANCE SHEET GROWTH WAS GOOD

NEW PARTNERSHIP FORGED WITH SILVERFLOW

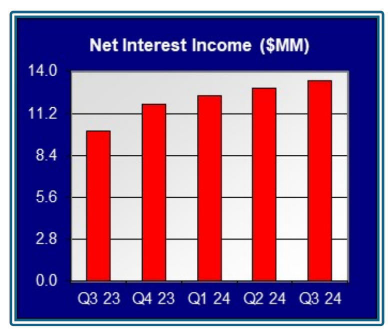
CASH DIVIDEND INCREASED

Background

Chesapeake Financial Shares, Inc. is a one-bank holding company originally chartered in 1900 and is based in Kilmarnock, VA. As of September 30, 2024, the Company had $1.6 billion in total assets. The holding company operates two subsidiaries, Chesapeake Bank and Chesapeake Wealth Management, Inc. Chesapeake Bank is primarily a lender to small businesses. Personal and business products and services offered include checking, savings, CDs, mortgages, mobile and online banking with account opening and a business cash management program. The Bank currently operates 17 branches located in the Northern Neck, Middle Peninsula, Peninsula and Richmond markets. The Bank also offers merchant processing services for credit and debit card transactions. Chesapeake Wealth Management is an independent wealth management firm which offers investment, wealth management and trust services. Chesapeake Financial Shares, Inc.'s stock trades on the over-the-counter market (OTCQX) under the symbol "CPKF." The Company's Chairman, President, and CEO, Jeffrey M. Szyperski, is a former Chairman of the Virginia Bankers Association, as well as the former Chairman of American Bankers Association Board of Directors. Finally, for the 17th consecutive year, Chesapeake Financial Shares has been included in *American Banker* magazine's "Top 100 Community Banks" in the U.S.

Third Quarter Results Were Strong

Chesapeake Financial reported solid results for the third quarter of 2024. Earnings saw a solid 5% increase compared to the same quarter last year, supported by a notable increase in net interest income (as seen in the chart at the right), reflecting strong ongoing increases in average earning assets. Relatedly, we would note that loan growth remains excellent, as does most other areas of the balance sheet. And from an asset quality standpoint, it was also a solid quarter, as nonperforming assets were down relative to the year-ago quarter and the linked sequential quarter.



The significance of the quarter was not limited to the Company's financial performance, though. Indeed, during the quarter, Chesapeake Bank partnered with Silverflow, a cloud-native payment processing company to offer an enhanced payment processing solution to the Bank's ISOs. ["ISOs" or Independent Sales Organizations, are businesses that typically act as a one-stop-shop for all things merchant services (i.e., credit cards)]. Silverflow is a very innovative company, and Chesapeake's pairing its Merchant Card capability to Silverflow should provide many long-term benefits to its customers, as well as being a point of differentiation from a competitive standpoint. We discuss the Silverflow affiliation in more detail on the opposite page. Finally, we would note that the Board recently approved a half-cent increase in the Company's quarterly dividend to $0.16 per share, effective December 1, 2024, and payable by December 15, 2024. The Company has now raised its dividend for 32 consecutive years, and the stock currently yields 3.34%.

EPS: $0.55 VS. $0.53

NET INTEREST INCOME WAS UP 18%, DUE TO HIGHER MARGINS AND AVERAGE EARNING ASSETS

ALL COMPONENTS OF NONINTEREST INCOME EXCEPT FOR OTHER INCOME HAD SOLID GROWTH FROM THE YEAR-AGO QUARTER

Earnings Were Up 5% Over the Past Year

In terms of specific results, Chesapeake earned $2,600,000, or $0.55 per diluted share, for the three months ended September 30, 2024, up from $2,478,000, or $0.53 per diluted share, in the year-ago quarter. As was alluded to earlier, the primary impetus for the earnings growth was net interest income, which was up 18% to $11,801,000 in 2024's third quarter from $10,036,000 in the year-ago quarter. Both higher margins and double-digit growth in average earning assets contributed to the increase. Earnings also benefited from a slightly lower provision for credit losses, which was $200,000 in the third quarter of 2024, as compared to $265,000 in 2023's third quarter. Noninterest income was down slightly due to a decrease in other income from the year-ago quarter, though all other components had commendable growth over this period. Excluding security losses of $96,000 in the year-ago quarter, noninterest income was $6,360,000 in 2024's third quarter, versus $6,574,000 in 2023's third quarter. Deposit service charges had particularly strong growth of 25% from the year-ago quarter. Excluding net loss on foreclosed assets and amortization of intangibles, noninterest expense grew 11%.

YEAR-TO-DATE HIGHLIGHTS:

EPS: $1.78 VS. $1.96

NET INTEREST INCOME WAS UP 10%

FROM 9/30/23 TO 9/30/24: DEPOSITS AND TOTAL ASSETS WERE UP 15% AND NET LOANS INCREASED 10%

EQUITY/ASSETS: 7.10%

Results for the first nine months of 2023 and 2024 were impacted by several nonrecurring factors, such as security losses of $1.8 million and a one-time pretax gain of $1.9 million in the year-ago period. Reported net income was $8,387,000, or $1.78 per diluted share, versus $9,214,000, or $1.96 per diluted share, year-to-date in 2023. Net interest income grew 10%, noninterest income (excluding the nonrecurring items) was down about 2% and noninterest expense (before net loss on foreclosed assets and amortization of intangibles) increased 10%. As was stated earlier, balance sheet growth was robust, with deposits and assets up 15% and net loans increasing 10% from September 30, 2023 to September 30, 2024. Shareholders' equity was $113 million, or 7.10% of total assets, as of September 30, 2024, and the losses on accumulated other comprehensive income (which are unrealized losses on the Bank's "available for sale" investment portfolio) were $29 million, down $21 million from the year-ago date. These losses are expected to moderate over time and are purely rate environment driven.

PARTNERSHIP WITH SILVERFLOW WILL BENEFIT ISO CLIENTS

BENEFITS INCLUDE STREAMLINING OPERATIONS, REDUCING COSTS AND IMPROVING OVERALL TRANSACTION PROCESSING SPEED

Chesapeake Bank Enters Into Partnership with Payment Innovator Silverflow

As was stated earlier in this report, Chesapeake Bank is partnering with Silverflow, a payment processing company with a cloud-based platform, to offer an enhanced payment processing solution to the Bank's ISO (Independent Sales Organization) clients. This partnership will upgrade the Bank's service offerings with a modern, scalable infrastructure and will allow the Bank to provide its ISO clients with modern solutions that streamline operations, reduce costs, and improve overall transaction processing speed. Among other things, the partnership reflects Chesapeake Bank's commitment to adopt new technologies and also to ensure that its clients (especially ISOs) benefit from enhanced services and support.

NPA WERE DOWN FROM 6/30/24 AND THE YEAR-AGO DATE

NPAS/ASSETS: 0.12%, DOWN FROM 0.22% AT THE YEAR-AGO DATE

RESERVES/LOANS: 0.97%

Nonperforming Assets Dropped 36%, Asset Quality Is Better Than VA Peers

Chesapeake's nonperforming assets were down from the year-ago date and from June 30, 2024. Nonperforming assets ("NPAs", which excludes restructured loans) were $1.9 million, or 0.12% of total assets, at September 30, 2024, down from $2.1 million, or 0.14% of total assets, at June 30, 2024, and $3.0 million, or 0.22% of total assets, at the year-ago date. The allowance for loan losses increased 8% to $8.5 million (0.97% of loans held for investment), from $7.8 million (0.98% of loans) at the year-ago date. The Company compares favorably to its Virginia peer group in terms of asset quality, as can be seen from the adjacent table.

ASSET QUALITY VS. VA BANKS

	CPKF	VA Peer Group Median
NPAs/Assets (%)	0.12	0.14
Reserves/NPAs (x)	4.38	1.66
Reserves/Loans (%)	0.97	1.05

EPS:
2023A: $2.15
2024E: $2.27
2025E: $2.40

Projections

For 2024, we are estimating Chesapeake will have net income of $10.7 million, or $2.27 per diluted share, and for the year 2025, we are projecting earnings of $11.4 million, or $2.40 per diluted share, Actual results are likely to vary considerably from these projections given economic uncertainties.

ADDITIONAL INFORMATION UPON REQUEST