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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTCQX)

CPKF: Strong Third Quarter Was Better than Expected

We have chosen the $27.00 midpoint of the range of values based upon CPKF's 2021 P/E of $28.00 and forward Price/Tangible Book Value of $26.00 as our new valuation.

Current Price (12/15/20)	$20.25
Valuation	**$27.00**

OUTLOOK

CPKF's third quarter net earnings rose $0.2 million, or 5%, year over year to $3.4 million, while 2020's third quarter diluted EPS decreased by $0.04, or 6%, to $0.69 from $0.65 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 significantly better than our estimate, which had called for a $0.9 million decline in net earnings to $2.3 million and $0.19 drop in diluted EPS to $0.46 (off by $0.23). The main factors behind the difference between actual results and our estimate were: (1) a $0.9 million jump in other miscellaneous income due to large gains in refinancing fees stemming from strong mortgage loan origination; (2) merchant card income growth that was $0.3 million more than expected; and (3) compensation costs that were $0.2 million below our estimate. These were offset by: (1) net interest income that was $0.1 million less than we had estimated as the net interest margin was a bit lower than expected and (2) income tax expense that was $0.2 million higher due to greater-than-estimated pretax earnings. The major reasons for the third quarter's 5% increase in net earnings versus the prior-year quarter were a $0.7 million, or 5%, gain in net revenues, as growth in net interest income (up $0.8 million) was partly offset by a $0.1 million, or 2%, drop in noninterest income. Other contributing factors included a $0.1 million, or 2%, rise in total noninterest expense, as well as $0.4 million more in the loan loss provision. We are reducing our 2020 diluted EPS estimate by a nickel from $2.45 to $2.40, an $0.11, or 5%, increase over 2019's $2.29. However, we are maintaining our 2021 diluted EPS 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. The PPP loans will have countervailing impacts on the CPKF's net interest margin. Our estimate of the provision for loan losses in 2020 has been increased to allow for asset quality deterioration that may occur as a result of the pandemic. Other 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. Loan demand, other than for PPP loans, has softened, and we have reduced our loan growth estimates for 2020. Finally, we have cut back our estimates of net merchant card income and cash flow income, reflecting pandemic-induced weakness in these divisions. CPKF approved a 3% quarterly dividend increase last year to $0.125 per share from $0.121 per share. Notably, CPKF has increased the annual dividend payment every year for the past twenty-nine 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	**$24.35**
52-Week Low	**$14.51**
One-Year Return (%)	**-12.45**
Beta	**0.79**
Average Daily Volume (sh)	**1,331**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$98**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.50**
Dividend Yield (%)	**2.47**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.3**
Earnings Per Share (%)	**14.0**
Dividend (%)	**4.1**
P/E using TTM EPS	**9.3**
P/E using 2020 Estimate	**8.4**
P/E using 2021 Estimate	**9.0**
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	13.6 A	14.7 E	53.8 E
2021					53.4 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	0.62 E	2.40 E
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.

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THIRD QUARTER

CPKF's third quarter net earnings rose $0.2 million, or 5%, year over year to $3.4 million, while 2020's third quarter diluted EPS decreased by $0.04, or 6%, to $0.69 from $0.65 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 significantly better than our estimate, which had called for a $0.9 million decline in net earnings to $2.3 million and $0.19 drop in diluted EPS to $0.46 (off by $0.23).

The main factors behind the difference between actual results and our estimate were: (1) a $0.9 million jump in other miscellaneous income due to large gains in refinancing fees stemming from strong mortgage loan origination; (2) merchant card income growth that was $0.3 million more than expected; and (3) compensation costs that were $0.2 million below our estimate. These were offset by: (1) net interest income that was $0.1 million less than we had estimated as the net interest margin was a bit lower than expected and (2) income tax expense that was $0.2 million higher due to greater-than-estimated pretax earnings.

The major reasons for the third quarter's 5% increase in net earnings versus the prior-year quarter were a $0.7 million, or 5%, gain in net revenues, as growth in net interest income (up $0.8 million) was partly offset by a $0.1 million, or 2%, drop in noninterest income, which reflected $1.1 million growth in miscellaneous income from higher mortgage refinancing fees that was more than offset by the absence of securities gains ($0.7 million in 2019's third quarter), a $0.1 million fall in merchant card income, and $0.4 million decline in cash flow income. Other contributing factors included a $0.1 million, or 2%, rise in total noninterest expense, primarily from greater compensation costs (up $0.2 million) offset by reduced other miscellaneous expense (down by $0.1 million), as well as $0.4 million more in the loan loss provision.

We are reducing our 2020 diluted EPS estimate by a nickel from $2.45 to $2.40, an $0.11, or 5%, increase over 2019's $2.29. However, we are maintaining our 2021 diluted EPS 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. Through the end of September, CPKF had generated about $77 million of PPP loans. 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 (60% of the forgiven amount must have been 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. 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.

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 3.55% for the fourth quarter of 2020, exclusive of any impact from the recognition of defered processing fees.

The NIM will be supplemented by the recognition of deferered processing fees. Originally,we had estimated that the majority of the deferred processing fees (estimated at $2.96 million) would be recognized during 2020's fourth quarter. We are now estimating that aproximately $1 million of deferred processing fees will be booked in 2020's fourth quarter, while the balance will be recognized in 2021's first quarter. At the same time, we are cutting our 2021 NIM estimate, exclusive of any impact from the recognition of deferred processing fees, to 3.45% from 3.70%, stemming from the effect of continuing low interest rates.

Secondly, our estimate of the provision for loan losses in 2020 is $2.4 million, about 4.5 times higher than in 2019, to allow for any asset quality deterioration that may occur as a result of the pandemic. Though asset quality remained strong in the third quarter, CPKF has wisely chosen to beef up its loan loss reserves in preparation for the possibility of asset quality deterioration due to economic distress caused by COVID-19. Positively, certain loans, which had previously been on deferral though still accruing interest (with deferred payments added onto the back end of the loan), are no longer in deferral. This means these loans are paying full principal and interest unless granted an interest only period.

For 2021, we are reducing our estimate of the loan loss provision to $0.9 million from our initial estimate of $1.2 million, about 40% of the level of 2020. 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, which will also increase expenses.

Loan demand, other than for PPP loans, has softened somewhat, and we have again reduced our loan growth estimate for 2020 by one-half, to 2% from 4%. Our estimate for loan growth in 2021 remains 5%.

Our estimate of net merchant card income has been increased due to recent improvement in card volumes. For 2020, our new estimate for net merchant card income is $3.8 million, up from $3.2 million before, while our 2021 estimate is now $4.2 million versus $3.4 million before.

Finally, we had previously slashed our estimates of cash flow income, as customers opted for PPP loans, rather than cash flow financing. We are maintaining these reduced estimates of $2.5 million in 2020 and $2.0 million in 2021.

On October 18, 2019, Chesapeake Financial Shares, Inc. approved a 3% quarterly dividend increase to $0.125 per share from $0.121 per share, payable on or about December 15, 2019 to shareholders of record on December 1, 2019. Notably, CPKF has increased the annual dividend payment every year for the past twenty-nine 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", moving up to a #19 spot in 2019, out of the 85 banks listed, from a #25 place in 2018.

In other news, Chesapeake Financial Shares, Inc. graduated in 2019 from the OTCQB Venture Market to the OTCQX Best Market, trading on OTCQX under the symbol CPKF.

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

Net Interest Income

Net interest income increased $0.8 million, or 10%, year over year in the third quarter to $8.4 million ($0.1 million less than our estimate), as a 17% increase in average interest-earning assets offset a 3.73% net interest margin, 29 basis points lower than the 4.02% earned in the year-ago quarter, and below our 3.73% estimate.

We have estimated a net interest margin of 3.55% for the fourth quarter of 2020, exclusive of any impact from the recognition of defered processing fees. The NIM will be supplemented by the recognition of deferered processing fees. Originally,we had estimated that the majority of the deferred processing fees (estimated at $2.96 million) would be recognized during 2020's fourth quarter. We are now estimating that aproximately $1 million of deferred processing fees will be booked in 2020's fourth quarter, while the balance will be recognized in 2021's first quarter. At the same time, we are cutting our 2021 NIM estimate, exclusive of any impact from the recognition of deferred processing fees, to 3.45% from 3.70%, stemming from the effect of continuing low interest rates.

We note CPKF's balance sheet was asset sensitive at the end of the third 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 $0.1 million, or 2%, year over year to $5.3 million ($1.3 million above than our $4.0 million estimate), which reflected $1.1 million growth in miscellaneous income from higher mortgage refinancing fees that was more than offset by the absence of securities gains ($0.7 million in 2019's third quarter), a $0.1 million fall in merchant card income, and $0.4 million decline in cash flow income.

Our estimate of net merchant card income has been increased due to recent improvement in card volumes. For 2020, our new estimate for net merchant card income is $3.8 million, up from $3.2 million before, while our 2021 estimate is now $4.2 million versus $3.4 million before.

Finally, we had previously slashed our estimates of cash flow income, as customers opted for PPP loans, rather than cash flow financing. We are maintaining these reduced estimates of $2.5 million in 2020 and $2.0 million in 2021.

Because of these items, we have increased our 2020 estimate for noninterest income to $20.3 million from $17.8 million previously and our 2021 estimate to $17.9 million from $16.8 million.

Loss Provision

The loan loss provision of $0.6 million was the same as our estimate. Loan loss reserves increased $2.3 million year over year to $7.6 million (1.22% of loans), which was better than the second quarter's loss reserve of $6.2 million, or 1.00% of loans, and the $5.2 million (1.00% of loans) posted in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loss allowance rose $2.4 million to $9.3 million (1.45% of loans plus cash flow receivables) compared with $7.9 million (1.24% of loans plus cash flow receivables) at the end of the previous quarter, and was above the $6.9 million (1.20% of loans plus cash flow receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF recorded $747,000 of net loan loss recoveries in the third quarter. This compares to $329,000 of net charge-offs in the year-ago quarter and net charge-offs of $547,000 for the full year in 2019.

We are maintaining our recently increased estimate of the provision for loan losses in 2020 at $2.4 million, to allow for any asset quality deterioration that may occur as a result of the pandemic. This compares with an actual loan loss provision of $525,000 in 2019.

For 2021, we are reducing our estimate of the loan loss provision to $0.9 million from our initial estimate of $1.2 million, about 40% of the level of 2020. 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 increase in 2020 to 1.51% of total loans plus receivables at yearend 2020 from 1.18% at the end of 2019, and remain at 1.51% in 2021.

Noninterest Expense

Noninterest expense advanced $0.1 million, or 1%, to $9.0 million ($0.2 million more than we had projected) from the prior-year quarter, primarily stemming from greater compensation costs (up $0.2 million, or 4%), partly offset by higher other miscellaneous expense (up by $0.1 million, or 1%).

The efficiency ratio improved, falling to 66.4% from 73.3% in the year-ago quarter, and was better than the second quarter's 75.8%.

We project that compensation costs will increase from $21.5 million actual in 2019 to $22.8 million in 2020 and $24.0 million in 2021. Our estimate of noncompensation costs is $14.9 million for 2020 and $15.6 million our estimate for 2021, compared to $14.5 million actual in 2019. Our estimate of the efficiency ratio is 71.6% in 2020 and 74.0% in 2021, compared to 75.1% actual in 2019.

Income Taxes

The Company had a 14.5% effective tax rate in the third quarter, a 0.1-point increase from 14.4% in the year-ago quarter. This compares to our estimate of an effective tax rate of 15.0%.

We are reducing our estimate of the effective tax rate for 2020 to 14.3% from 14.5% and using an estimated 15.0% tax rate in 2021. This compares to a full-year effective tax rate of 14.3% in 2019.

Net Income

CPKF's third quarter net earnings rose $0.2 million, or 5%, year over year to $3.4 million, while 2020's third quarter diluted EPS decreased by $0.04, or 6%, to $0.69 from $0.65 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 significantly better than our estimate, which had called for a $0.9 million decline in net earnings to $2.3 million and $0.19 drop in diluted EPS to $0.46 (off by $0.23).

Profitability

CPKF posted an 11.8% ROE and 1.18% ROA for the third quarter of 2020, compared to 12.4% and 1.38%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans increased $80 million, or about 15%, year over year, and fell $2 million, or less than 1%, sequentially to $621 million.

By category, cash management receivables rose by $2.4 million, or 14%, to $19 million and commercial and industrial loans improved $2.1 million, or 1%, to $175 million. Negatively, other loan categories declined: construction and land development loans lost $1.5 million, or 4%, to $41 million; other loans dropped by $0.8 million, or 3%, to $28 million; commercial real estate loans decreased $0.6 million, or less than 1%, to $234 million; 1-4 family fell $0.6 million, or less than 1%, to $133 million; and consumer loans decreased $0.5 million, or 6%, to $8 million.

Loan demand, other than for PPP loans, has softened, and we again reduced our loan and receivables growth estimate for 2020 by one-half, to 2% from 4%. Our estimate for growth in 2021 remains 5%.

Asset quality measures were mixed during the third quarter. Total nonperforming assets rose $0.7 million to $8.3 million from $7.6 million sequentially. Restructured loans were flat at $3.0 million. Nonaccrual loans increased by $0.8 million to $1.2 million from $0.4 million, while other real estate owned fell $0.1 million to $4.2 million.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, increased 12 basis points to 1.30% of outstandings + OREO at September 30, 2020 from 1.18% of outstandings + OREO at June 30, 2020, but fell 15 basis points year over year from 1.45%.

The loss allowance as a percent of nonperforming assets increased to 91% from 82% sequentially, as deterioration in nonperforming assets was more than offset by an increase in the loss reserve for loans plus cash flow receivables.

Liquidity and Funding

Cash and equivalents increased by $20 million to $64 million at the end of the third quarter, while the securities portfolio rose $38 million to $413 million. By category, the municipal securities portfolio gained $24 million to $249 million, the private-label mortgage securities portfolio increased $9 million to $80 million, US government-related securities fell $2 million to $50 million, and asset-backed securities (primarily student loans under the FFELP program) and other rose $7 million to $34 million.

On a relative basis, municipal securities were 60% of the entire available-for-sale securities portfolio, the private-label mortgage securities portfolio was 20%, US government-related securities were 12%, and asset-backed securities and other were 8%.

CPKF's liquidity ratios strengthened compared to the previous quarter. At September 30, 2020, liquid assets represented 10% of total assets (9% at the end of the second quarter) and covered purchased funds by 136% (up from 113%), while loans plus receivables accounted for 55% of total assets (57% at June 30, 2020).

Core deposits rose $53 million sequentially to $955 million and funded 149% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios decreased during the third quarter, as growth in risk-weighted assets outpaced growth in capital. The Tier 1 capital ratio fell 31 basis points sequentially to 14.20% at the end of 2020's third quarter from 14.51% at June 30, 2020, while the Total capital ratio slumped 16 basis points, falling to 15.42% from 15.58%.

Total shareholders' equity gained $3.7 million during the third quarter, as a $2.8 million advance in retained earnings and a $2.1 million gain in accumulated other comprehensive income were only partly offset by a negative $1.2 million in capital changes.

Reflecting these factors plus a 63,000 decrease in common shares outstanding, tangible book value per share jumped during the third quarter, by $1.07 per share to $24.21 from $23.14. The total equity to total assets ratio worsened, decreasing by 18 basis points to 9.98% from 10.16%, as growth in total assets outstripped growth in common shareholders' equity.

OVERVIEW

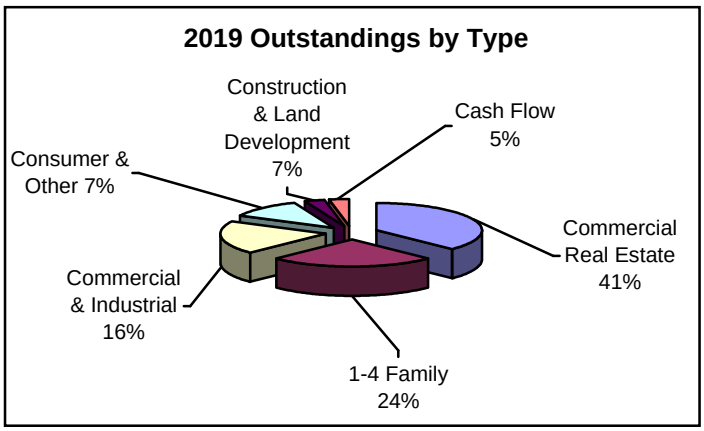
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $1,172 million in total assets at September 30, 2020. CPKF is predominantly a small business lender with 16 branch offices and one loan production office that serve customers in the eastern region of Virginia between the Potomac and James Rivers. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Wealth Management, an independent wealth management firm with trust powers that manages about $472 million in assets (at 2019 yearend) through its subsidiaries involved in asset management (Chesapeake Wealth Management is a registered investment adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, and its secondary market mortgage banking operation.

Chesapeake Payment Systems offers merchant processing services such as credit card and debit card processing, electronic benefits transfers, and loyalty and gift card processing to companies involved in travel, entertainment, restaurant, hospitality, retail, mail order, and e-commerce. At yearend 2019, Chesapeake Payment Systems had 571 direct merchants in its system and processed over $637 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with five independent sales organizations (ISOs) to expand its processing footprint.

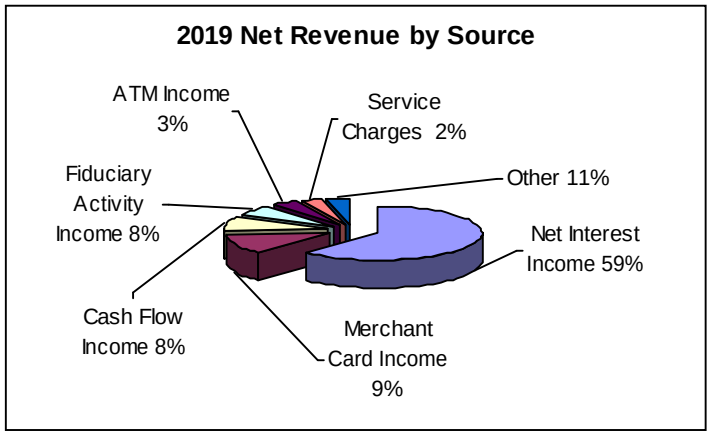
The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and had 70 customers at the end of 2019.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $248 million loan portfolio (as of December 31, 2019) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $595,000 annually) on the outstanding loan portfolio balance. Additionally, CPKF earns a pare-off fee for residential mortgage loans that are originated and closed with FHLMC, which added $779,000 to revenues in 2019 (both types of fees are included in other noninterest income in the Company's financial statements).



The lending portfolio is dominated by real estate loans, as shown in the chart at left. At December 31, 2019, the lending book consisted of commercial real estate (accounting for 41% of total gross outstandings), 1-4 family (24%), commercial and industrial (16%), consumer and other (7%), construction and land development (7%), and cash flow (5%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

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



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

VALUATION

CPKF stock is down 15.6% year to date, a better performance than the 21.9% median price decline for the small-cap bank industry, but below the 14.4% price increase for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a discount to the industry median P/E of 28%, based upon our current CPKF EPS estimate for 2021. Assuming a small-cap bank industry valuation of 12.5X for 2021, CPKF's target price based upon our 2021 EPS estimate is about $28.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 0.84X. 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 $26.00, which compares to CPKF's current book value of $24.21.

We have chosen the $27.00 midpoint of the range of values based upon CPKF's 2021 P/E of $28.00 and forward Price/Tangible Book Value of $26.00 as our new valuation.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2020E	EPS 2021E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	**(15.6)**	**9.3**	**8.4**	**9.0**	**9.7**	**10.4**	**1.02**	**1.14**	**2.5**
S&P 500	14.4	26.7	28.2	23.1	-----	-----	-----	-----	1.5
Median	**(21.9)**	**10.9**	**10.8**	**12.5**	**8.6**	**9.5**	**0.90**	**1.00**	**3.3**
Average	(21.4)	14.0	13.7	13.2	9.0	9.5	0.9	1.0	3.0
High	0.7	96.3	41.8	28.9	15.5	18.2	1.6	2.1	5.9
Low	(39.8)	6.7	8.3	8.2	0.8	1.1	0.1	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	12/20E	12/21E
Net interest income	23.4	24.4	26.0	27.4	29.5	33.5	35.5
Non-interest income	14.2	14.7	18.1	18.6	20.3	20.3	17.9
Total net revenue	37.6	39.1	44.1	46.0	49.8	53.8	53.4
Loan loss provision	0.2	0.5	0.9	0.5	0.5	2.4	0.9
Non-interest expense	29.5	30.4	31.8	33.3	36.0	37.6	39.5
Income taxes & other	1.2	1.2	2.5	1.4	1.9	2.0	2.0
Zacks adjusted income before NRI	6.7	7.0	8.9	10.8	11.4	11.8	11.0
GAAP net income	7.4	7.0	8.9	10.8	11.4	11.8	11.0
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	0.50
Liquid assets	43.2	40.6	50.6	73.1	98.0	114.5	116.4
Outstandings, gross	439.0	481.4	523.7	546.0	566.7	623.6	591.3
Total assets	679.1	720.8	785.2	854.8	958.3	1,179.7	1,178.0
Core deposits	489.1	522.3	632.4	702.0	799.5	958.1	1,037.0
Purchased funds	92.4	97.4	53.1	47.2	39.6	84.4	85.7
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	119.3	127.9
Profitability							
Return on avg assets	0.99%	0.99%	1.16%	1.32%	1.22%	1.10%	0.95%
Return on avg equity	9.08%	8.89%	10.64%	12.07%	11.09%	10.56%	8.84%
Net interest margin	4.38%	4.38%	4.30%	4.10%	3.98%	3.74%	3.45%
Loan loss provision % avg assets	0.04%	0.08%	0.12%	0.06%	0.06%	0.22%	0.08%
Noninterest income % avg assets	2.11%	2.06%	2.34%	2.27%	2.18%	1.88%	1.55%
Noninterest expense % avg assets	4.38%	4.28%	4.11%	4.06%	3.86%	3.50%	3.42%
Preprovision pretax income % avg assets	1.21%	1.23%	1.59%	1.55%	1.48%	1.50%	1.20%
Tangible efficiency ratio	80%	78%	72%	73%	75%	72%	74%
Payout ratio	26%	29%	24%	21%	21%	21%	22%
Asset Quality							
Net charge-offs % avg outstandings	0.36%	0.18%	0.27%	0.02%	0.10%	(0.04)%	0.26%
Allowance % outstandings	1.51%	1.34%	1.17%	1.22%	1.18%	1.51%	1.51%
NPAs % loans + OREO	3.09%	2.21%	1.73%	1.93%	1.36%	1.26%	1.53%
Allowance % NPAs	49%	60%	68%	63%	86%	120%	99%
Liquidity & Funding							
Liquid assets % purchased funds	47%	42%	95%	155%	247%	136%	136%
Core deposits % outstandings	111%	108%	121%	129%	141%	154%	175%
Liquid assets % assets	6%	6%	6%	9%	10%	10%	10%
Outstandings % assets	65%	67%	67%	64%	59%	53%	50%
Capital Adequacy							
Total equity % assets	11.19%	10.81%	11.05%	10.85%	11.00%	10.12%	10.86%
Tangible equity % assets	11.19%	10.81%	11.05%	10.85%	11.00%	10.12%	10.86%
Tier 1 capital ratio	13.95%	14.16%	14.35%	15.04%	15.03%		
Total capital ratio	15.19%	15.30%	15.37%	16.08%	16.00%		
Parent Company Statistics							
Interest coverage	61.5X	9.6X	12.7X	8.2X	12.4X	12.5X	12.5X
Interest & dividend coverage	3.5X	0.5X	0.8X	0.6X	1.0X	0.9X	0.9X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.1X	1.2X	2.8X	2.7X	5.0X	5.1X	5.1X
Double leverage	101.7%	102.6%	102.3%	102.6%	102.5%	100.4%	102.3%

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 E**
Net interest income	6.8	7.4	7.5	7.6	7.6	8.2	8.3	9.4
Non-interest income	4.5	5.6	5.4	5.0	5.7	4.0	5.3	5.3
Total net revenue	11.3	13.0	12.9	12.6	13.3	12.2	13.6	14.7
Loan loss provision	0.2	0.2	0.2	-----	0.5	0.6	0.6	0.6
Non-interest expense	7.7	9.1	9.0	10.2	8.8	9.3	9.1	10.5
Income taxes & other	0.4	0.4	0.5	0.5	0.6	0.2	0.5	0.5
Zacks adjusted income before NRI	3.0	3.3	3.2	1.9	3.4	2.1	3.4	3.0
GAAP net income	3.0	3.3	3.2	1.9	3.4	2.1	3.4	3.0
Diluted EPS before NRI	0.60	0.66	0.65	0.39	0.68	0.42	0.69	0.62
Reported EPS	0.60	0.66	0.65	0.39	0.68	0.42	0.69	0.62
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	114.5
Outstandings, gross	557.9	572.0	571.9	566.7	563.2	639.3	639.6	623.6
Total assets	893.4	934.1	943.7	958.3	951.4	1,114.7	1,172.2	1,179.7
Core deposits	730.8	765.4	758.5	799.5	796.4	901.7	955.0	958.1
Purchased funds	50.8	53.5	65.2	39.6	37.6	84.6	84.0	84.4
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	119.3
Profitability								
Return on avg assets*	1.36%	1.44%	1.38%	0.81%	1.41%	0.79%	1.18%	1.03%
Return on avg equity *	12.49%	13.14%	12.41%	7.24%	12.81%	7.52%	11.76%	10.21%
Net interest margin*	3.89%	4.09%	4.02%	3.90%	3.79%	3.88%	3.73%	3.55%
Loan loss provision % avg assets*	0.08%	0.08%	0.07%	-----	0.22%	0.24%	0.22%	0.20%
Noninterest income % avg assets*	2.07%	2.47%	2.30%	2.08%	2.37%	1.55%	1.85%	1.81%
Noninterest expense % avg assets*	3.53%	3.97%	3.84%	4.30%	3.68%	3.58%	3.17%	3.59%
Preprovision pretax inc.% avg assets*	1.64%	1.73%	1.68%	0.99%	1.88%	1.14%	1.60%	1.41%
Tangible efficiency ratio	69%	74%	73%	84%	73%	76%	66%	72%
Payout ratio	20%	18%	19%	32%	18%	30%	18%	20%
Asset Quality								
Net charge-offs % avg outstandings*	0.02%	0.01%	0.25%	0.12%	0.01%	(0.07)%	(0.47)%	0.32%
Allowance % outstandings	1.22%	1.23%	1.20%	1.18%	1.28%	1.24%	1.45%	1.51%
NPAs % loans + OREO	1.71%	1.56%	1.45%	1.36%	1.37%	1.18%	1.30%	1.26%
Allowance % NPAs	71%	58%	65%	86%	93%	104%	91%	120%
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%	10.12%
Tangible equity % assets	10.95%	10.91%	11.25%	11.00%	11.03%	10.16%	9.98%	10.12%
Tier 1 capital ratio	14.91%	14.62%	14.85%	15.03%	15.05%	14.51%	14.20%	
Total capital ratio	15.95%	15.65%	15.84%	16.00%	16.07%	15.58%	15.42%	

*Annualized.

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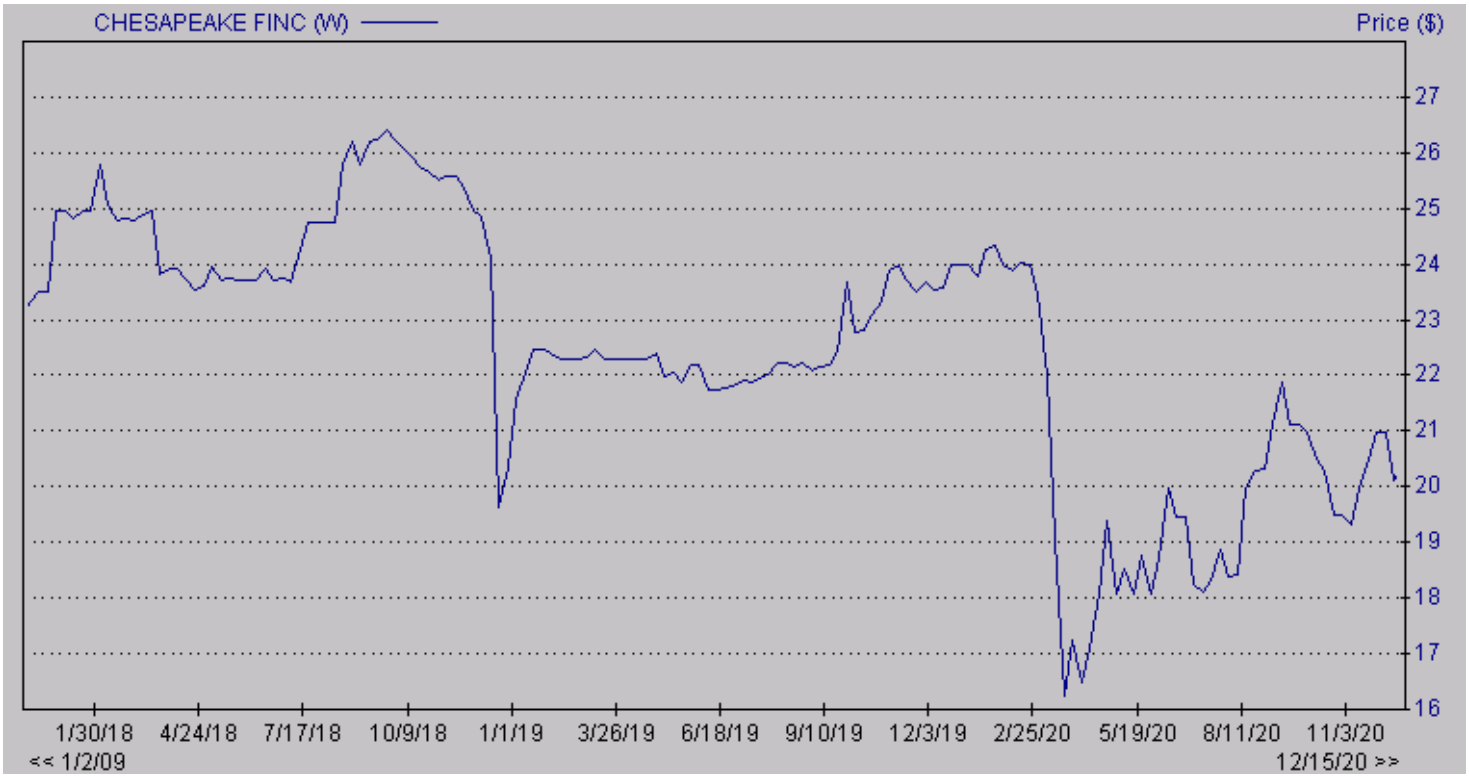

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