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Zacks Small-Cap Research

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

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Chesapeake Financial Shares, Inc. (CPKF-OTCQX)

CPKF: Asset Quality Is Stellar, but Rising Deposit Costs Pressure Results

We have chosen $24.25 as our new valuation, based upon CPKF's 2024 P/E of $26.00 and forward Price/Tangible Book Value of $22.50.

Current Price (08/25/23)	$18.20
Valuation	**$24.25**

OUTLOOK

We are cutting our diluted EPS estimate for 2023 by $0.10, from $3.10 to $3.00, an 11% fall from 2022's diluted EPS of $3.37, which excludes a 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. The main reasons for the reduction in our 2023 diluted EPS estimate are declines in net interest income and mortgage banking income. As to net interest income, we have cut our net interest margin estimate to 3.43% from 3.48% in 2023 (and 3.72% actual in 2022) and to 3.30% from 3.40% in 2024, primarily due to a larger-than-expected increase in deposit funding costs, reflecting rising interest rate levels at the Fed. Positively, CPKF's deposit base held steady following the industry turmoil caused by the failures of several banks earlier in the year. The contribution from mortgage banking is estimated to decline by 58% in 2023 and remain flat in 2024 due to the impact of rising interest rates on mortgage activity. Our diluted EPS estimate for 2024 is now $3.10 (down from $3.25), a 3% gain over our revised 2023 EPS estimate of $3.00. We expect most operations to post improvement in 2024. Loan demand growth is expected to be 10% in 2023 and 8% in 2024, with the loan loss provision estimate flat at $750,000 for both years. 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 2023 for the sixteenth consecutive year, CPKF was included in the American Banker magazine list of the "Top 200 Community Banks".

SUMMARY DATA

52-Week High	**$26.40**
52-Week Low	**$18.20**
One-Year Return (%)	**-26.70**
Beta	**0.59**
Average Daily Volume (sh)	**689**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$85**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.60**
Dividend Yield (%)	**3.30**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.7**
Earnings Per Share (%)	**13.3**
Dividend (%)	**6.4**
P/E using TTM EPS	**6.0**
P/E using 2023 Estimate	**6.1**
P/E using 2024 Estimate	**5.9**
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)
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	15.6 A	16.3 A	16.2 E	16.2 E	64.3 E
2024					66.3 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	0.78 A	0.65 A	0.78 E	0.79 E	3.00 E
2024					3.10 E

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

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SECOND QUARTER

CPKF's second quarter net earnings decreased $1.0 million, or 25%, year over year to $3.0 million, while 2023's second quarter diluted EPS fell by $0.21, or 25%, to $0.65 from $0.86 posted a year ago.

This was worse than our estimate, which had called for a $0.3 million decrease in net earnings to $3.8 million and a $0.06 fall in diluted EPS to $0.80.

We note that this year's second quarter included a one-time $1.9 million gain from the sale of VISA B stock (included in other miscellaneous income), which was offset by a $1.5 million loss on sales of securities and several one-time expenses totalling $0.4 million (included in other miscellaneous expense).

The main factors behind the difference between actual results and our estimate were: (1) net interest income was $0.5 million less than our estimate due to a lower-than-expected net interest margin of 3.45% (versus our 3.50% estimate); (2) there was a $1.5 million net loss on sales of securities (versus no securities gain or loss in our estimate); (3) other miscellaneous expense was $0.6 million worse than our estimate due to several one-time expenses totalling $0.4 million; (4) compensation expense was $0.2 million more than our estimate and (5) income tax expense was $0.1 million higher than our estimate, the result of a greater effective tax rate of 18.3% compared to our 14.2% estimate. Partially offsetting these negatives were: (1) cash management fee income was $0.4 million better than our $1.0 million estimate, due to the acquisition of a factoring company on May 1 and (2) other miscellaneous income was $1.7 million more than our estimate, reflecting a one-time $1.9 million gain from the sale of VISA B stock.

The major reasons for the second quarter's $1.0 million, or 25%, decrease in net earnings versus the prior-year quarter were a $0.3 million, or 2%, rise in net revenues, due to a $0.9 million, or 17%, gain in other noninterest income partly offset by a $0.6 million, or 6%, decline in net interest income. In addition, total noninterest expense was $1.4 million more than last year's second quarter as a $0.3 million, or 5%, increase in compensation costs added to a $1.1 million, or 33%, rise in other miscellaneous expense. Moreover, earnings benefitted from reduced income tax expense of $0.1 million, reflecting lower pretax earnings.

We are decreasing our diluted EPS estimate for 2023 by $0.10, from $3.10 to $3.00, an 11% fall from 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.

The main reasons for the reduction in our 2023 diluted EPS estimate are declines in net interest income and mortgage banking income. As to net interest income, we have cut our net interest margin estimate to 3.43% from 3.48% in 2023 (and 3.72% actual in 2022), primarily due to a larger-than-expected increase in deposit funding costs, reflecting rising interest rate levels at the Fed. Positively, CPKF's deposit base held steady following the industry turmoil caused by the failures of several banks earlier in the year. The contribution from mortgage banking is estimated to decline by about $0.9 million, or 51%, in 2023 due to the impact of rising interest rates on mortgage activity.

We are also lowering our diluted EPS estimate for 2024 from $3.25 to $3.10, a 3% gain over our revised 2023 EPS estimate of $3.00. We expect most operations to post improvement in 2024 except mortgage banking, which should be flat year over year.

Loan demand appears solid and was stronger than expected in the first and second quarters. Therefore, we are increasing our estimates of loan growth to 10% from 6% in 2023 and to 8% from 6% in 2024, as well. Our initial net interest margin estimate for 2024 is now 3.30% (down from 3.40%), 13 basis points below our 2023 estimate of 3.43%.

We are maintaining our estimates of merchant services income, as well as trust and wealth management income for 2023 and estimating moderate increases for 2024.

As to cash management, we have significantly increased our estimates for both 2023 and 2024, following the acquisition of a factoring company in the Flexent division, which is expected to increase Flexent revenues by about 35% going forward. This acquisition will also improve industry concentration risk making it especially attractive. Valuation accounting adjustments are expected to be minimal.

On the expense side, we are increasing our estimates for 2023 for occupancy expense and other miscellaneous expense and projecting moderate expense growth in 2024.

For 2023 and 2024, 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, has not had a material impact on loss provisions in 2023. We note, however, there were some minor retroactive changes to CPKF's capital account ($400,000) and the allowance for credit losses ($37,000) as a result of its adoption.

The provision for cash management losses, a separate line item listed under other noninterest expense, is expected to be stable at about $240,000 in both 2023 and 2024, the same as it was in 2022.

During the second quarter, CPKF opened another branch, this time in a retirement community in Richmond, Virginia. It is CPKF's sixth branch in a retirement community, which is attractive due to its low cost of entry, as well as being a feeder for the Company's investment management and deposit-gathering activities. In addition, in August CPKF opened a loan production office in Newport News, Virginia.

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 2023 for the sixteenth 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 #58 in the nation out of approximately 6,000 community banks in the study, up from #130 last year and #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 14.34%.

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

Net Interest Income

Net interest income decreased $0.6 million, or 6%, year over year in the second quarter falling to $10.2 million ($0.5 million below our estimate), reflecting a 2% decrease in average interest-earning assets (versus our estimate of a 1% decrease) and a reduced 3.45% net interest margin, 19 basis points below the 3.64% earned in the year-ago quarter, as well as 5 basis points below our 3.50% estimate.

We have estimated a net interest margin of 3.43% for full-year 2023, down from 3.70% in 2022 due to higher deposit funding costs, and of 3.30% for 2024.

Noninterest Income

Noninterest income rose $0.9 million, or 17% year over year to $6.1 million. We note that this year's second quarter included a one-time $1.9 million gain from the sale of VISA B stock (included in other miscellaneous income), which was partly offset by a $1.5 million loss on sales of securities.

Most segments posted higher results in 2023's second quarter, except trust and wealth management, hurt by market weakness, and mortgage banking, hurt by reduced activity from higher interest rates. Of special note, cash management income jumped $0.6 million, or 83% to $1.4 million following the acquisition of a factoring company in the Flexent division, which is expected to increase Flexent revenues by about 35% going forward.

Our estimate for total noninterest income is $22.2 million in 2023, which compares to $19.9 million in 2022, and $23.4 million for 2024 with gains in both years largely driven by the cash management division.

Loss Provision

The loan loss provision was flat at $175,000 (the same as our estimate). Loan loss reserves rose $0.5 million from $7.2 million (1.03% of loans) year over year, and grew $0.1 million sequentially from $7.6 million (0.99% of loans) to $7.7 million (0.98% of loans) as of June 30, 2023.

Including the loss allowance for cash management receivables, the total loss allowance increased $0.2 million to $9.8 million (1.20% of loans plus cash management receivables) compared with $9.6 million (1.21% of loans plus cash management receivables) at the end of the previous quarter and was above the $8.9 million (1.22% of loans plus cash management receivables) at the end of the comparable year-ago quarter.

As to other asset quality measures, CPKF had net loan charge-offs of $40,000 in the second quarter. This is $10,000 more than the $30,000 of net loan charge-offs in the year-ago quarter and compares to net loan loss recoveries of $19,000 for full-year 2022.

For 2023 and 2024, 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, has not had a material impact on loss provisions in 2023. We note, however, there were some minor retroactive changes to CPKF's capital account ($400,000) and the allowance for credit losses ($37,000) as a result of its adoption.

We project that the total loss allowance will decrease to 1.17% of total loans plus receivables at yearend 2023 from 1.21% actual at the end of 2022 and to 1.12% by yearend 2024.

Noninterest Expense

Total noninterest expense was $1.4 million more than last year's second quarter as a $0.3 million, or 5%, increase in compensation costs added to a $1.1 million, or 33%, rise in other miscellaneous expense which includes $0.4 million of one-time expenses. Reflecting lower revenues and higher expenses, the efficiency ratio deteriorated, increasing to 69.5% from 68.8% in the year-ago quarter, but was better than the first quarter's 70.4%.

We project that compensation costs will increase from $25.6 million actual in 2022 to $26.4 million in 2023 and $27.6 million in 2024.

Our estimate of noncompensation costs in 2023 is $20.4 million, compared to 2022's $19.4 million actual and $20.8 million in 2024.

Our estimate of the efficiency ratio is 71% in 2023 and 73% in 2024, compared to 67% actual in 2022.

Income Taxes

The Company had an 18.3% effective tax rate in the second quarter. This compares to a 16.2% tax rate in the year-ago quarter and our estimate of an effective tax rate of 14.2%.

For the year, we are estimating an effective tax rate of 17.0% in 2023 and 2024. This compares to a full-year effective tax rate of 12.7% in 2022.

Net Income

CPKF's second quarter net earnings decreased $1.0 million, or 25%, year over year to $3.0 million, while 2023's second quarter diluted EPS fell by $0.21, or 25%, to $0.65 from $0.86 posted a year ago.

This was worse than our estimate, which had called for a $0.3 million decrease in net earnings to $3.8 million and a $0.06 fall in diluted EPS to $0.80.

We note that this year's second quarter included a one-time $1.9 million gain from the sale of VISA B stock (included in other miscellaneous income), which was offset by a $1.5 million loss on sales of securities and several one-time expenses totalling $0.4 million (included in other miscellaneous expense).

Profitability

CPKF posted a 13.5% ROE and 0.91% ROA for the second quarter of 2023, compared to 17.5% and 1.21%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding increased $80 million, or about 11%, year over year, and rose $24 million, or 3%, sequentially to $785 million.

By category, 1-4 family loans gained $12.9 million, or 7%, to $205 million; commercial real estate loans increased $5.8 million, or 2%, to $314 million; construction and land development loans grew $2.4 million, or 4%, to $67 million; other loans expanded $1.8 million, or 5%, to $38 million; consumer loans rose $0.7 million, or 8%, to $9 million; and commercial and industrial loans climbed $0.5 million, or less than 1%, to $152 million. Negatively, cash management receivables declined $2.4 million, or 7%, to $34 million, the result of a few large credits paying off.

Loan demand appears solid and was stronger than expected in the first and second quarters. Therefore, we are increasing our estimates of loan growth to 10% from 6% in 2023 and to 8% from 6% in 2024, as well.

Asset quality measures improved significantly during the second quarter. Total nonperforming assets fell $1.2 million to $2.9 million from $4.1 million sequentially. Nonaccrual loans decreased $1.4 million to $1.7 million, while other real estate owned slid $0.1 million to $0.8 million. Restructured loans rose to $0.4 million in the second quarter. In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreased 15 basis point to 0.36% of outstandings + OREO at June 30, 2023 from 0.51% of outstandings + OREO at March 31, 2023, and fell 13 basis points year over year from 0.49%.

The loss allowance as a percent of nonperforming assets increased to 337% from 237% sequentially, as the decline in nonperforming assets was helped by an increase in the loss reserve for loans plus cash management receivables.

Liquidity and Funding

Cash and equivalents increased $6 million to $33 million from $27 million at the end of the second quarter, while the securities portfolio fell $13 million to $418 million, mostly due to asset sales. By category, asset-backed securities (primarily student loans under the FFELP program) were up $12 million to $63 million, the private-label mortgage securities portfolio fell $2 million to $111 million and US government-related securities slid $1 million to $53. The municipal securities portfolio decreased $23 million to $191 million.

On a relative basis, municipal securities were 46% of the entire available-for-sale securities portfolio, the private-label mortgage securities portfolio was 26%, US government-related securities were 13%, and asset-backed securities and other were 15%.

CPKF's liquidity ratios were relatively stable compared to the previous quarter. At June 30, 2023, liquid assets represented 6% of total assets (6% at the end of the first quarter) and covered purchased funds by 102% (down from 115%), while loans plus receivables accounted for 60% of total assets (60% at March 31, 2023).

Core deposits rose $9 million sequentially to $1.141 billion and funded 139% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios worsened during the second quarter, as growth in risk-weighted assets outpaced growth in Tier 1 capital. The Tier 1 capital ratio declined 47 basis points sequentially to 12.66% at the end of 2023's second quarter from 13.13% at March 31, 31, 2022, while the Total capital ratio decreased 57 basis points, falling to 15.41% from 15.98%.

Total shareholders' equity increased 1.6 million during the second quarter, as a $2.3 million advance in retained earnings was partly offset by a $0.4 million decline in accumulated other comprehensive income plus a negative $0.3 million in capital changes.

Reflecting these factors plus an 11,000 decrease in common shares outstanding, tangible book value per share increased during the second quarter, by $0.39 per share, to $19.36 from $18.97. The total equity to total assets ratio was flat at 6.71% at the end of both the second and first quarters. Notably, CPKF does not expect the recently enacted 1% share buyback tax (via the Inflation Reduction Act) to have a significant impact on CPKF's results or share repurchase program.

OVERVIEW

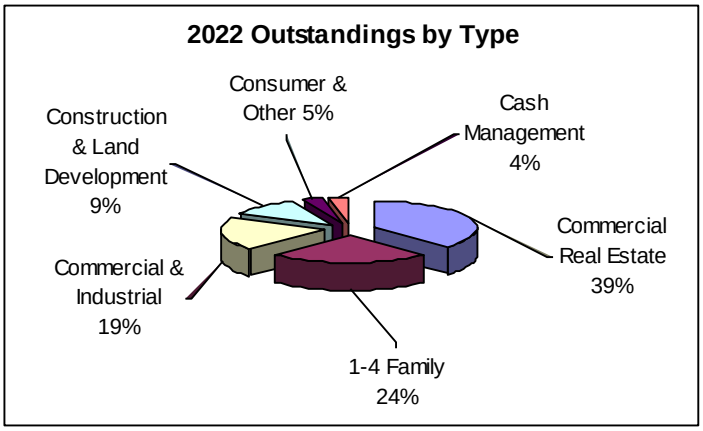
Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $1,355 million in total assets at June 30, 2023. CPKF is predominantly a small business lender with 17 branch offices and one loan production office that serve customers 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 $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).



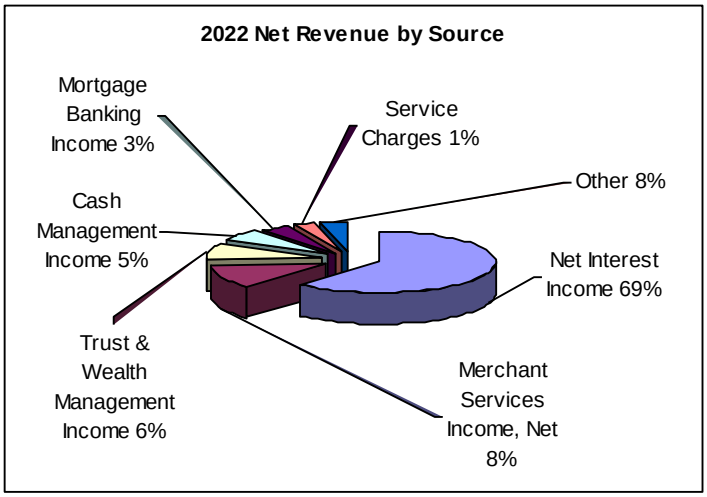
Source: Zacks Analyst

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%.

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%).

Source: Zacks Analyst



VALUATION

CPKF stock is down 11.0% year to date, a much better performance than the 17.1% median price decline for the small-cap bank industry, but worse than the 14.7% price increase for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a 30% discount to the industry median P/E, based upon our current CPKF EPS estimate for 2024. Assuming a small-cap bank industry valuation of 8.4X for 2024, CPKF's target price based upon our 2024 EPS estimate is about $26.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 0.94X. Assuming a 1.0X multiple based upon our estimated book value twelve months out, our target price is about $22.50, which compares to CPKF's current book value of $19.36.

We have chosen $24.25 as our new valuation, based upon CPKF's 2024 P/E of $26.00 and forward Price/Tangible Book Value of $22.50.

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	**(11.0)**	**6.0**	**6.1**	**5.9**	**19.3**	**13.1**	**1.20**	**1.20**	**3.3**
S&P 500	**14.7**	**22.0**	**20.6**	**17.6**	**-----**	**-----**	**-----**	**-----**	**1.6**
Median	**(17.1)**	**7.1**	**8.7**	**8.4**	**12.5**	**11.7**	**1.10**	**1.16**	**3.5**
Average	(19.3)	7.5	9.1	8.9	12.8	12.0	1.1	1.2	3.4
High	6.4	10.7	18.3	14.9	24.0	19.6	2.2	2.0	6.0
Low	(87.9)	4.3	5.3	5.6	6.8	3.6	0.5	0.2	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/18	12/19	12/20	12/21	12/22	12/23E	12/24E
Net interest income	27.4	29.5	33.5	41.6	44.1	42.1	42.9
Non-interest income	18.6	20.3	19.6	18.9	19.9	22.2	23.4
Total net revenue	46.0	49.8	53.1	60.5	64.0	64.3	66.3
Loan loss provision	0.5	0.5	2.0	(0.4)	0.7	0.7	0.7
Non-interest expense	33.3	36.0	37.3	43.6	45.1	46.8	48.4
Income taxes & other	1.4	1.9	2.1	2.3	2.3	2.8	2.9
Zacks adjusted income before NRI	10.8	11.4	11.7	15.0	15.9	14.0	14.2
GAAP net income	10.8	11.4	11.7	15.0	17.6	14.0	14.2
Diluted EPS before NRI	2.17	2.29	2.39	3.11	3.37	3.00	3.10
Reported EPS	2.17	2.29	2.39	3.11	3.73	3.00	3.10
Dividends per share	0.46	0.49	0.50	0.53	0.58	0.60	0.60
Liquid assets	73.1	98.0	120.2	98.8	79.6	89.1	92.7
Outstandings, gross	546.0	566.7	625.0	699.7	778.1	856.0	926.6
Total assets	854.8	958.3	1,204.7	1,385.8	1,329.0	1,402.7	1,503.4
Core deposits	702.0	799.5	984.2	1,101.6	1,144.5	1,158.1	1,193.2
Purchased funds	47.2	39.6	85.3	122.4	67.8	107.8	150.7
Long-term debt	5.2	5.2	5.2	25.2	25.2	25.2	25.2
Shareholders' equity	92.7	105.4	122.7	126.1	79.1	100.8	120.2
Profitability							
Return on avg assets	1.32%	1.22%	1.06%	1.14%	1.19%	1.03%	0.98%
Return on avg equity	12.07%	11.09%	10.27%	11.87%	18.88%	15.27%	12.86%
Net interest margin	4.10%	4.00%	3.80%	3.80%	3.70%	3.43%	3.30%
Loan loss provision % avg assets	0.06%	0.06%	0.18%	(0.03)%	0.05%	0.05%	0.05%
Noninterest income % avg assets	2.27%	2.18%	1.76%	1.44%	1.49%	1.64%	1.61%
Noninterest expense % avg assets	4.06%	3.86%	3.36%	3.32%	3.37%	3.44%	3.33%
Preprovision pretax income % avg assets	1.55%	1.48%	1.42%	1.29%	1.42%	1.29%	1.23%
Tangible efficiency ratio	73%	75%	72%	73%	67%	71%	73%
Payout ratio	21%	21%	21%	17%	16%	20%	19%
Asset Quality							
Net charge-offs % avg outstandings	0.02%	0.10%	(0.05)%	0.38%	(0.03)%	0.05%	0.07%
Allowance % outstandings	1.22%	1.18%	1.47%	1.17%	1.21%	1.17%	1.12%
NPAs % loans + OREO	1.93%	1.36%	1.11%	0.61%	0.52%	0.39%	0.44%
Allowance % NPAs	63%	86%	132%	194%	232%	301%	251%
Liquidity & Funding							
Liquid assets % purchased funds	155%	247%	141%	81%	117%	83%	62%
Core deposits % outstandings	129%	141%	157%	157%	147%	135%	129%
Liquid assets % assets	9%	10%	10%	7%	6%	6%	6%
Outstandings % assets	64%	59%	52%	50%	59%	61%	62%
Capital Adequacy							
Total equity % assets	10.85%	11.00%	10.18%	9.10%	5.95%	7.18%	8.00%
Tangible equity % assets	10.85%	11.00%	10.18%	9.10%	5.95%	7.18%	8.00%
Tier 1 capital ratio	15.04%	15.03%	14.03%	12.28%	13.04%		
Total capital ratio	16.08%	16.00%	15.20%	15.16%	15.89%		
Parent Company Statistics							
Interest coverage	8.2X	12.4X	41.2X	3.7X	4.7X	11.0X	11.0X
Interest & dividend coverage	0.6X	1.0X	2.0X	0.5X	1.1X	0.7X	0.7X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	2.7X	5.0X	4.8X	0.7X	1.3X	1.3X	1.3X
Double leverage	102.6%	102.5%	102.1%	117.5%	128.2%	114.4%	107.7%

Chesapeake Financial Shares, Inc.

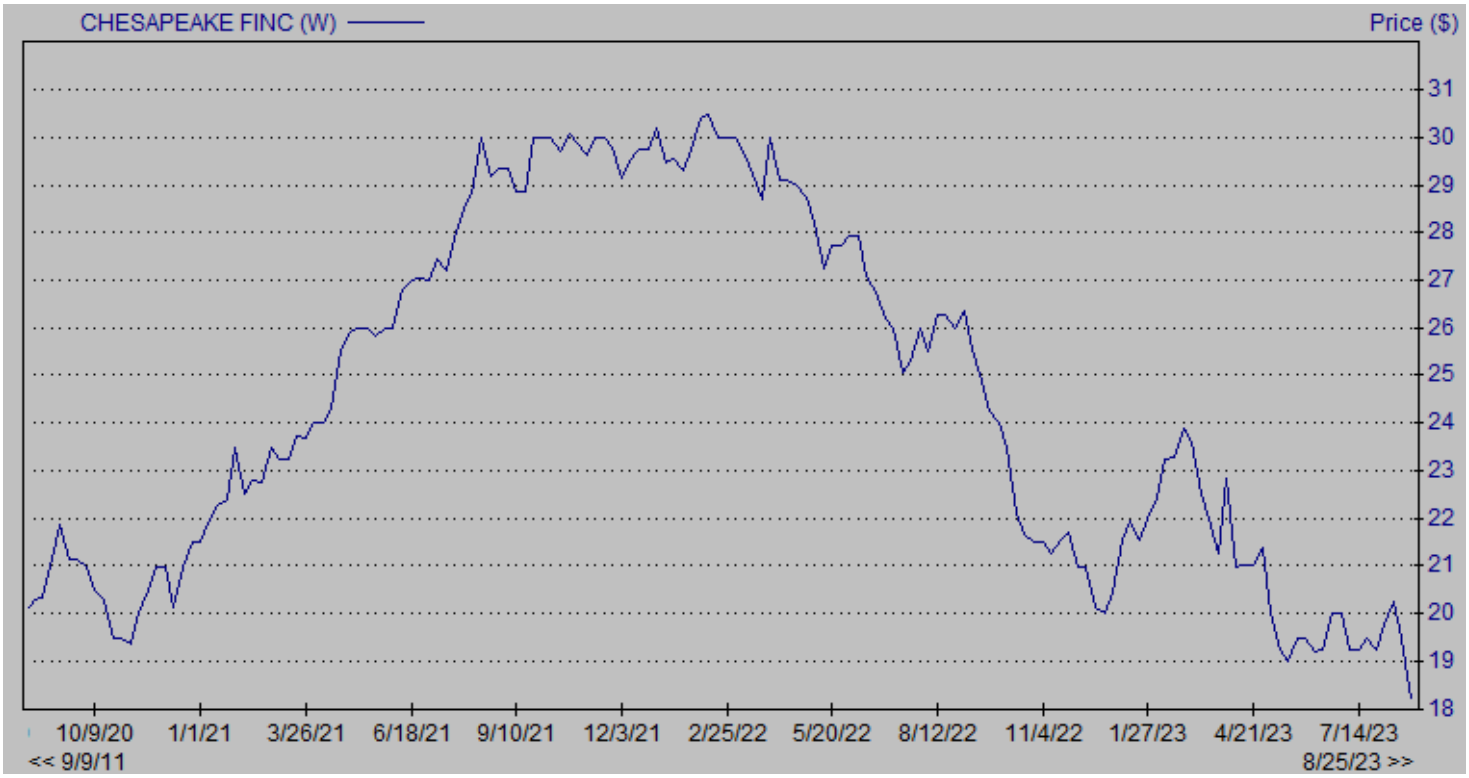
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2022				2023			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**
Net interest income	10.5	10.8	11.3	11.5	10.6	10.2	10.6	10.7
Non-interest income	5.0	5.2	5.3	4.4	5.0	6.1	5.6	5.6
Total net revenue	15.5	16.0	16.6	15.9	15.6	16.3	16.2	16.3
Loan loss provision	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-interest expense	10.3	11.0	11.4	12.3	11.0	12.4	11.7	11.8
Income taxes & other	0.7	0.7	0.8	0.1	0.7	0.7	0.7	0.7
Zacks adjusted income before NRI	4.3	4.1	4.2	3.3	3.7	3.0	3.6	3.6
GAAP net income	4.3	4.1	5.9	3.3	3.7	3.0	3.6	3.6
Diluted EPS before NRI	0.90	0.86	0.90	0.71	0.78	0.65	0.78	0.79
Reported EPS	0.90	0.86	1.26	0.71	0.78	0.65	0.78	0.79
Dividends per share	0.14	0.14	0.15	0.15	0.15	0.15	0.15	0.15
Liquid assets	93.2	92.0	80.3	79.6	82.2	87.3	88.2	89.1
Outstandings, gross	719.3	734.0	751.8	778.1	797.1	818.7	837.2	856.0
Total assets	1,346.1	1,342.0	1,333.9	1,329.0	1,331.4	1,354.8	1,378.5	1,402.7
Core deposits	1,138.1	1,172.6	1,165.3	1,144.5	1,132.4	1,140.9	1,149.5	1,158.1
Purchased funds	73.0	49.0	59.7	67.8	71.3	85.2	98.0	107.8
Long-term debt	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2
Shareholders' equity	101.0	85.2	72.2	79.1	89.3	90.9	95.8	100.8
Profitability								
Return on avg assets*	1.25%	1.21%	1.27%	1.00%	1.11%	0.91%	1.05%	1.05%
Return on avg equity *	15.05%	17.45%	21.59	17.69%	17.56%	13.50%	15.42%	14.79%
Net interest margin*	3.53%	3.64%	3.79%	3.93%	3.58%	3.45%	3.40%	3.30%
Loan loss provision % avg assets*	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
Noninterest income % avg assets*	1.48%	1.54%	1.59%	1.32%	1.51%	1.81%	1.63%	1.60%
Noninterest expense % avg assets*	3.02%	3.26%	3.42%	3.71%	3.30%	3.68%	3.41%	3.38%
Preprovision pretax inc.% avg assets*	1.51%	1.50%	1.55%	1.08%	1.39%	1.16%	1.32%	1.29%
Tangible efficiency ratio	67%	69%	70%	77%	70%	70%	72%	72%
Payout ratio	16%	16%	12%	21%	19%	23%	19%	19%
Asset Quality								
Net charge-offs % avg outstandings*	(0.02)%	(0.12)%	0.01%	(0.00)%	0.02%	0.02%	0.07%	0.07%
Allowance % outstandings	1.18%	1.22%	1.22%	1.21%	1.21%	1.20%	1.19%	1.17%
NPAs % loans + OREO	0.57%	0.49%	0.42%	0.52%	0.51%	0.36%	0.37%	0.39%
Allowance % NPAs	208%	250%	293%	232%	237%	337%	318%	301%
Liquidity & Funding								
Liquid assets % purchased funds	128%	188%	134%	117%	115%	102%	90%	83%
Core deposits % outstandings	158%	160%	155%	147%	142%	139%	137%	135%
Liquid assets % assets	7%	7%	6%	6%	6%	6%	6%	6%
Outstandings % assets	53%	55%	56%	59%	60%	60%	61%	61%
Capital Adequacy								
Total equity % assets	7.51%	6.35%	5.41%	5.95%	6.71%	6.71%	6.95%	7.18%
Tangible equity % assets	7.51%	6.35%	5.41%	5.95%	6.71%	6.71%	6.95%	7.18%
Tier 1 capital ratio	12.37%	12.47%	12.61%	13.04%	13.13%	12.66%		
Total capital ratio	15.23%	15.34%	15.41%	15.89%	15.98%	15.41%		

*Annualized.

HISTORICAL STOCK PRICE



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