Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Reducing 2014 EPS Estimate

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/09/2014
Current Price (04/18/14)	$18.01
Twelve-Month Target Price	**$18.00**

OUTLOOK

We are slicing our diluted EPS estimate for CPKF by $0.25 to $1.70 from $1.95 primarily for two reasons. First, we are decreasing our estimate for the net interest margin by 5 basis points to 4.40% from 4.45%. Second, we have lopped off $450,000 from our projection for noninterest income as we have doubled our estimate for the combined loss from sales of securities and OREO to $900,000 from $450,000. In total, these two changes have caused our estimates for pretax earnings and net earnings to decline by $1 million and $800,000, respectively. We also note that while our estimate for total noninterest expense, including compensation costs, remains $29.3 million, the composition has shifted somewhat. We have cut our estimate for total compensation costs by $0.6 million, as we have significantly reduced our expectations for 2014 bonus accruals. This is totally offset by a $0.6 million rise in miscellaneous noninterest expense for increased legal costs associated with credit issues. In 2013, CPKF hiked its quarterly dividend by 13% to $0.135 per share from $0.12 per share, following two dividend increases in 2012 totalling 20%. The total 2013 dividend payment of $0.51 represents a 13% rise over 2012's payment of $0.45. Notably, CPKF has increased the annual dividend payment every year for the past twenty-three years since 1991. This feat was recently recognized by SNL Financial in a report that cited CPKF as one of only 20 banks in the country (and only two in Virginia) to increase dividends by at least 2% per year and at least a cumulative 30% over the past five years. The company recorded cumulative dividend growth of 51.1% over the 2008-2013 period.

SUMMARY DATA

52-Week High	**$19.97**
52-Week Low	**$16.90**
One-Year Return (%)	**5.91**
Beta	**0.14**
Average Daily Volume (sh)	**124**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$59**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.54**
Dividend Yield (%)	**3.00**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**4.4**
Earnings Per Share (%)	**8.3**
Dividend (%)	**8.6**
P/E using TTM EPS	**9.1**
P/E using 2013 Actual	**9.1**
P/E using 2014 Estimate	**10.6**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**47 of 64**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	8.8 A	9.4 A	9.2 A	9.1 A	36.5 A
2012	9.0 A	9.4 A	10.1 A	9.6 A	38.1 A
2013	9.6 A	10.0 A	9.7 A	9.7 A	39.0 A
2014					38.9 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	0.47 A	0.63 A	0.56 A	0.49 A	2.16 A
2012	0.57 A	0.62 A	0.74 A	0.39 A	2.32 A
2013	0.63 A	0.55 A	0.45 A	0.36 A	1.99 A
2014					1.70 E

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

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FOURTH QUARTER

We are reducing our 2014 diluted EPS estimates, following fourth quarter results and discussions with CPKF management.

We are slicing our diluted EPS estimate by $0.25 to $1.70 from $1.95 primarily for two reasons. First, we are decreasing our estimate for the net interest margin by 5 basis points to 4.40% from 4.45%, with this cutting net interest income by about $550,000. Second, we have lopped off $450,000 from our projection for noninterest income as we have doubled our estimate for the combined loss from sales of securities and OREO to $900,000 from $450,000. In total, these two changes have caused our estimates for pretax earnings and net earnings to decline by $1 million and $800,000, respectively.

We also note that while our estimate for total noninterest expense, including compensation costs, remains $29.3 million, the composition has shifted somewhat. We have cut our estimate for total compensation costs by $0.6 million, as we have significantly reduced our expectations for 2014 bonus accruals. This is totally offset by a $0.6 million rise in miscellaneous noninterest expense for increased legal costs associated with credit issues.

To review the fourth quarter, CPKF's net earnings fell 9% to $1.2 million, while 2013's fourth quarter diluted EPS slumped by $0.03, or 9%, to $0.36 from $0.39 posted in 2012's fourth quarter. We had been expecting a better quarter and had estimated that the Company would earn $0.47 per diluted share, roughly on par with the third quarter's $0.45, but $0.11 more than CPKF actually posted.

While our net revenue estimate was right on target at $9.7 million, we were wrong in a number of areas. First, the provision for loan losses was $283,000, about $183,000 more than the $100,000 we had anticipated. Second, total noninterest expense was $8.2 million, about $0.6 million higher than our $7.6 million projection, with total compensation coming in $0.5 million lower than we had expected due to a cut in bonus accruals and other expense coming in $0.9 million higher due to increased legal fees associated with credit issues. Finally on the positive side, CPKF posted a $19,000 income tax credit versus our estimate of $438,000 in income tax expense.

For the year, CPKF reported $7.4 million, or $2.21 per diluted share, down 4% from the $7.7 million, or $2.32 per diluted share, posted in 2012. This includes a one-time $1.06 million pretax gain on the sale of securities ($710,000 or $0.21 per share on an aftertax basis) in the second quarter. Excluding this item, net earnings were $6.6 million or $1.99 per share, down 14% from 2012. Primary contributors to this result were an almost doubling in the loan loss provision to $1.13 million from $0.6 million in the prior year and a $2.0 million, or 7%, rise in noninterest expense to $29.8 million, partially offset by a 3-point decline in the effective tax rate to 17.9% from 20.9%.

Relative to the year-ago quarter, net income tumbled $0.1 million, or 9%, from last year's's $1.3 million and diluted EPS slid $0.03, or 9%, from the $0.39 posted in the fourth quarter of 2012.

The major reasons for the fourth quarter's decline versus the prior-year quarter were: (1) a $0.2 million positive swing in the combined gain/loss from the sales of securities and OREO to a loss of $0.3 million from a loss of $0.5 million; (2) a $0.1 million, or 22%, increase in income from fiduciary activities to $0.6 million; (3) a $0.6 million, or 15%, decrease in compensation expense to $3.4 million on lower bonus accruals; and (4) income taxes that dipped $0.2 million to a $19,000 tax credit. This was more than offset by: (1) a $0.1 million, or 89%, climb in the loan loss provision to $0.3 million; (2) a $0.4 million decrease in other income to $0.7 million from $1.1 million resulting from lower pare-off fees related to residential mortgage loans that are originated and closed with FHLMC; (3) a more than doubling in cash flow expense to $0.4 million on credit-related problems; and (4) a $0.5 million, or 24%, advance in other expense due to higher legal fees stemming from credit issues.

In 2013, CPKF hiked its quarterly dividend by 13% to $0.135 per share from $0.12 per share, following two dividend increases in 2012 totalling 20%. The total 2013 dividend payment of $0.51 represents a 13% rise over 2012's payment of $0.45. Notably, CPKF has increased the annual dividend payment every year for the past twenty-three years since 1991.

This feat was recently recognized by SNL Financial in a report that cited CPKF as one of only 20 banks in the country (and only two in Virginia) to increase dividends by at least 2% per year and at least a cumulative 30% over the past five years. The company recorded cumulative dividend growth of 51.1% over the 2008-2013 period.

We note that American Banker recently ranked CPKF 17th (down one notch from 16th a year ago) out of all banks nationally with less than $2 billion in total assets, which includes approximately 6,000 banks, and #2 of all banks in Virginia. This ranking was based upon three-year average returns on equity, which for Chesapeake Financial was 14.10%. The Company has steadily risen through the rankings in the past five years, reflecting its solid financial performance during this difficult banking environment.

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

Net Interest Income

Net interest income grew 2% year over year to $5.9 million ($0.1 million above our estimate), as a slight 1% decline in average-interest-earning assets was more than offset by a net interest margin that rose 12 basis points to 4.61% from 4.49% earned in the year-ago quarter. The 4.61% net interest margin was flat with the third quarter and was 11 basis points above our 4.50% estimate.

We are cutting our 2014 NIM estimate to 4.40% from 4.45% with this reducing net interest income by about $550,000. This compares to a 4.60% NIM in 2013. We note that CPKF's balance sheet was slightly liability sensitive at the end of the fourth quarter, which could hurt the net interest margin in a rising interest-rate environment.

Noninterest Income

Noninterest income was flat year over year at $3.8 million ($0.1 million below our projection), as a $0.4 million decline in other income resulting from lower pare-off fees related to residential mortgage loans that are originated and closed with FHLMC was offset by a $0.2 million positive swing in the combined gain/loss from the sales of securities and OREO and good growth in income from fiduciary activities (up $0.1 million, or 22%) and cash flow income (up $0.1 million, or 8%).

We have reduced our projection for 2014 noninterest income by $450,000 as we have doubled our estimate for the combined loss from sales of securities and OREO to $900,000 from $450,000.

Loss Provision

The loan loss provision jumped 89% to $0.3 million (above our $0.1 million estimate). Loan loss reserves increased $0.2 million from $6.1 million (1.62% of loans) at the end of the third quarter to $6.3 million (1.66% of loans) at December 31, 2013, and were below the $6.4 million (1.69% of loans) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell to $7.0 million (1.75% of loans plus cash flow receivables) from $7.5 million (1.88% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and from $7.5 million (1.85% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $88,000 of loans in the fourth quarter. This is $83,000 less than the $171,000 charged off in the year-ago quarter and compares to net charge-offs of $225,000 in 2013's third quarter and $1,179,000 for full-year 2013. In addition, CPKF wrote off $1.1 million in cash flow receivables to net realizable value during the fourth quarter due to credit problems associated with one account, with the remaining balance transferred to nonaccrual status.

We are estimating that the loss provision will drop sharply to $0.6 million in 2014 (the same level as 2012) from $1.1 million in 2013.

We also estimate that the total loss allowance will rise to 1.80% at the end of 2014 from 1.75% at the end of 2013 as CPKF rebuilds loss reserves in the cash flow program.

Noninterest Expense

Total noninterest expense increased $0.3 million, or about 4%, year over year to $8.2 million ($0.6 million higher than our estimate), largely due to a $0.9 million, or 24%, increase in other noninterest expense primarily from growth in merchant card, ATM, cash flow, and other expenses partly offset by $0.6 million slide in compensation costs to $3.4 million from lower bonus accruals. The efficiency ratio deteriorated, rising to 84.0% from 79.7% in the year-ago quarter and 75.0% in the third quarter.

While our estimate for total noninterest expense, including compensation costs, remains $29.3 million, the composition has shifted somewhat. We have cut our estimate for total compensation costs by $0.6 million, as we have significantly reduced our expectations for 2014 bonus accruals. This is totally offset by a $0.6 million rise in miscellaneous noninterest expense for increased legal costs associated with credit issues. As a consequence, we believe that the efficiency ratio will deteriorate to an estimated 78.0% for 2014 from 75.0% for 2013. This compares to 71.3% in 2012.

Income Taxes

The Company posted a $19,000 tax credit in the fourth quarter versus a 14.4% effective tax rate in the year-ago quarter and our 22.0% estimate for the effective tax rate.

We are estimating an effective tax rate of 22.0% for all of 2014, which compares to a full-year effective tax rate of 17.9% in 2013.

Net Income

CPKF posted fourth quarter net earnings of $1.2 million (or $0.36 per diluted share). This was down 9% from the $1.3 million ($0.39 per diluted share) earned in the year-ago quarter, and compares to our $1.55 million net income estimate ($0.47 per diluted share).

Profitability

CPKF posted a 7.8% ROE and 0.73% ROA for the fourth quarter of 2013, compared to 8.7% and 0.81%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding increased $5 million, or about 1 ½%, year over year and $3 million, or almost 1%, sequentially to $381 million. Compared to the third quarter, all loan categories posted modest declines in lending, with the exception of commercial and industrial loans that grew about $10 million, or 14%, largely due to the reclassification of about $8 million in receivables from the cash flow program. Consequently, cash flow receivables dropped about 31% to $20.4 million.

By category, commercial real estate fell $3.5 million, or 2 ½%, to $137.8 million, 1-4 family loans slid $1.4 million, or 1 ½%, to $97.6 million; construction and land development dipped $0.8 million, or 1 ½%, to $48.2 million; consumer loans dropped $0.7 million, or 6% to $10.2 million; and other loans declined $0.4 million, or 4%, to $9.2 million.

We are maintaining our estimate for loan growth at 3% in 2014. This compares to actual growth of 1% in full-year 2013, which was hurt by effects of the sequestration on lending operations that have taken hold in some of CPKF's key markets, given Viriginia's large exposure to the US military.

Asset quality measures deteriorated in the fourth quarter, reflecting problems related to a single cash flow program borrower (it was reclassified to commercial and industrial loans in the fourth quarter), and a portion of these loans is expected to be refinanced with another financial institution this year. Thus,

nonaccrual loans rose $6.0 million, or 65%, to $15.1 million from $9.1 million. Positively, restructured loans dropped by $1.8 million, or 48%, to $1.9 million, and other real estate owned was flat at the $4 million level.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, rose 109 basis points to 5.20% of outstandings + OREO at December 31, 2013 from 4.11% of outstandings + OREO at September 30, 2013 and increased 28 basis points year over year from 4.93%.

The loss allowance as a percent of nonperforming assets declined sequentially to 30.0% from 44.5%, reflecting the increase in nonaccrual loans and the decrease in the loss reserve for loans and cash flow receivables.

Liquidity and Funding

Cash and equivalents jumped $9 million to $60 million sequentially, while the securities portfolio was flat at $164 million. By category, the municipal securities portfolio fell $4.6 million to $106.6 million, US government-related securities increased $5.5 milion to $30.1 million, and the private-label mortgage securities portfolio declined about $0.9 million to $27.7 million. These changes had the effect of reducing the municipal securities portfolio by 300 basis points to 65% of the total, while increasing the US government-related securities a like amount to 18%. The private-label mortgage securities portfolio was flat at 17% of the entire available-for-sale securities portfolio.

CPKF's liquidity ratios improved compared to the previous quarter, reflecting the increase in cash and equivalents. At December 31, 2013, liquid assets represented 14% of total assets (up from 11% at the end of the third quarter), while loans plus receivables accounted for 61% of total assets (down from 62% at September 30, 2013).

Core deposits edged down by $6 million, or 1%, sequentially to $467 million and funded 116% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved moderately during the quarter, primarily due to growth in retained earnings. The Tier 1 capital ratio rose 31 basis points sequentially to 14.23% at the end of 2013's fourth quarter from 13.92% at September 30, 2013, and the Total capital ratio increased 31 basis points to 15.48% from 15.17%.

Total shareholders' equity increased $0.4 million during the fourth quarter, largely due to $1.0 million growth in retained earnings and $0.3 million rise in other capital accounts, partly offset by a $0.9 million decrease in accumulated comprehensive income to $2.5 million.

Reflecting these factors plus a 20,000 increase in common shares outstanding, tangible book value per share rose during the fourth quarter, by $0.02 per share to $18.91 from $18.89. The total equity to total assets ratio also improved slightly due to growth in total common shareholders' equity, rising by 2 basis points to 9.34% from 9.32%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $662 million in total assets at December 31, 2013. CPKF is predominantly a small business lender with 12 branch offices that serve customers in the eastern region of Virginia between the Potomac and James Rivers. These offices are located in Kilmarnock, Lively, Irvington, Mathews, Hayes, and Gloucester, with five branches in Williamsburg. CPKF, which began as

Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves. In addition, CPKF opened a commercial loan production office in Richmond, Virginia in 2011.

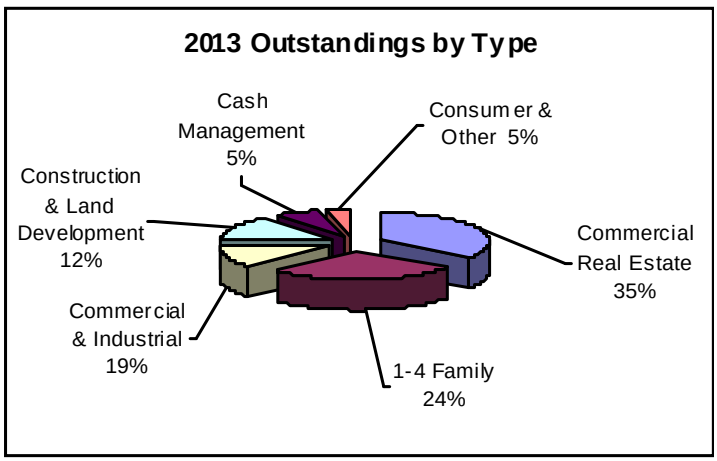
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $313 million in assets (at 2013 yearend) through its subsidiaries involved in asset management (CIG is a registered investment adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, Clear Sky accounts, 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 2013, Chesapeake Payment Systems had 571 merchants in its system and processed over $132 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with four 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 79 customers at the end of 2013.

Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2013, Clear Sky deposits totalled $38 million, with customers in all 50 states.

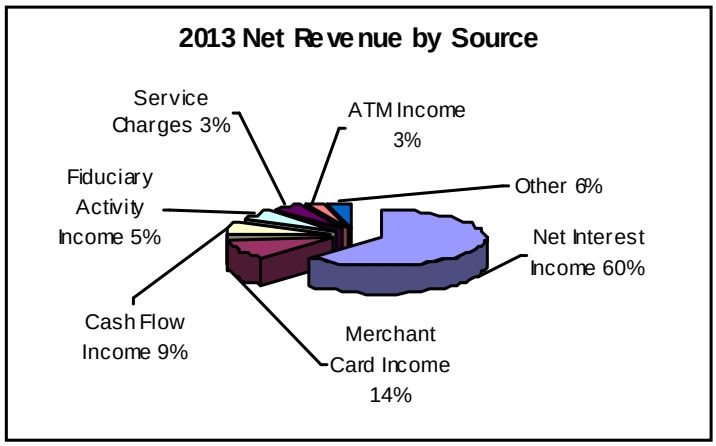
Through Chesapeake's secondary market mortgage banking operation, the Company services a $225 million loan portfolio (as of December 31, 2013) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $562,500 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 $964,000 to revenues in 2013 (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, 2013, the lending book consisted of commercial real estate (accounting for 35% of total gross outstandings), 1-4 family (24%), commercial and industrial (19%), construction and land development (12%), cash flow (5%), and consumer and other (5%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2013, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 14% of total assets and 18% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 65% and 17%, respectively, of the total. Core deposits represented 82% of total deposits at December 31, 2013, with certificates of deposit larger than $100,000 at 18%.

In 2013, net interest income contributed 60% of net revenue, with a significant 40% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (14% of net revenues), cash flow income (9%), income from fiduciary activities (5%), service charges on deposit accounts (3%), and ATM income (3%).



VALUATION

CPKF stock is up 0.1% year to date, a moderately worse performance than the small-cap bank industry's median price increase of 3.2% and the 0.9% gain 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 20% in 2014, based upon our most recent CPKF EPS estimate for 2014. This is below the average 56% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 56% to our 2014 EPS estimate results in a price of about $10.00.

Turning to Price/Tangible Book Value, CPKF is valued at 0.97X versus the industry median of 1.26X. This represents a 23% discount, well below the average historical premium of 27% for CPKF since mid-2008. Applying the historical premium of 26% to our estimated book value for CPKF twelve months out results in a price of approximately $26.00.

While we recognize that CPKF is still undervalued particularly on a book value basis, we believe that there is no immediate catalyst to drive the stock price higher over the near term, especially in view of what we imagine will be a tough 2014.

Accordingly, we have chosen the $18.00 midpoint of the wide range of values based upon CPKF's 2014 P/E of $10.00 and Price/Tangible Book Value of $26.00 as our new target price.

Industry Comparables - Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2014E	2015E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**0.1**	**9.1**	**10.6**		**7.2**	**0.97**	**12.0**	**14.0**	**1.13**	**1.04**	**3.0**
S&P 500	0.9	18.2	16.0	14.9	16.7	4.4	21.8	-----	8.0	-----	2.0
Median	**3.2**	**13.7**	**13.2**	**12.3**	**16.4**	**1.26**	**9.2**	**5.0**	**0.90**	**0.45**	**1.3**
Average	6.0	14.2	15.2	12.9	23.5	1.2	8.9	2.7	0.9	0.4	1.4
High	38.8	24.6	36.1	22.5	91.5	2.3	28.8	14.0	3.7	2.0	4.1
Low	(12.5)	4.5	9.2	9.0	6.5	0.7	(14.7)	(72.8)	(1.8)	(1.8)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/08	12/09	12/10	12/11	12/12	12/13	12/14E
Net interest income	16.5	18.9	21.8	22.8	23.1	23.3	22.9
Non-interest income	15.0	14.1	13.8	13.7	15.0	15.7	15.0
Total net revenue	31.5	33.0	35.6	36.5	38.1	39.0	37.9
Loan loss provision	0.4	0.9	2.5	1.2	0.6	1.1	0.6
Non-interest expense	25.0	25.9	26.2	26.4	27.8	29.8	30.0
Income taxes & other	1.5	1.4	1.5	1.9	2.0	1.5	1.6
Zacks adjusted income before NRI	4.6	4.8	5.4	7.0	7.7	6.6	5.7
GAAP net income	4.6	4.8	5.4	7.0	7.7	7.4	5.7
Diluted EPS before NRI	1.34	1.48	1.69	2.16	2.32	1.99	1.70
Reported EPS	1.34	1.48	1.69	2.16	2.32	2.21	1.70
Dividends per share	0.34	0.35	0.36	0.40	0.45	0.51	0.54
Liquid assets	45.4	57.8	73.2	97.9	92.1	89.9	91.3
Outstandings, gross	396.2	391.3	382.3	373.1	397.6	401.0	413.2
Total assets	538.0	586.7	607.7	638.0	667.7	661.8	688.6
Core deposits	317.0	370.0	396.2	430.4	459.0	467.2	486.1
Purchased funds	121.9	131.3	127.2	113.3	118.4	105.3	107.1
Long-term debt	65.5	47.4	40.0	39.6	26.0	25.9	25.0
Shareholders' equity	30.6	35.3	41.1	51.2	60.9	61.8	65.7
Profitability							
Return on avg assets	0.89%	0.84%	0.90%	1.13%	1.19%	1.01%	0.85%
Return on avg equity	13.51%	13.14%	13.55%	15.31%	14.87%	10.74%	8.98%
Net interest margin	4.00%	4.10%	4.40%	4.70%	4.60%	4.60%	4.40%
Loan loss provision % avg assets	0.08%	0.16%	0.41%	0.19%	0.09%	0.17%	0.09%
Noninterest income % avg assets	2.91%	2.45%	2.30%	2.21%	2.33%	2.40%	2.22%
Noninterest expense % avg assets	4.84%	4.51%	4.34%	4.27%	4.32%	4.55%	4.43%
Preprovision pretax income % avg assets	1.26%	1.24%	1.57%	1.62%	1.60%	1.41%	1.18%
Tangible efficiency ratio	80%	77%	73%	71%	71%	75%	78%
Payout ratio	25%	24%	21%	18%	19%	23%	32%
Asset Quality							
Net charge-offs % avg outstandings	0.27%	0.34%	0.48%	0.22%	0.18%	0.29%	0.20%
Allowance % outstandings	1.43%	1.59%	1.90%	2.01%	1.88%	1.75%	1.80%
NPAs % loans + OREO	0.35%	1.20%	3.91%	4.48%	4.93%	5.20%	4.74%
Allowance % NPAs	411%	131%	48%	44%	32%	30%	38%
Liquidity & Funding							
Liquid assets % purchased funds	37%	44%	58%	86%	78%	85%	85%
Core deposits % outstandings	80%	95%	104%	115%	115%	117%	118%
Liquid assets % assets	8%	10%	12%	15%	14%	14%	13%
Outstandings % assets	74%	67%	63%	58%	60%	61%	60%
Capital Adequacy							
Total equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	9.34%	9.55%
Tangible equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	9.34%	9.55%
Tier 1 capital ratio	10.60%	10.10%	12.07%	12.20%	13.55%	14.23%	
Total capital ratio	12.50%	11.70%	13.54%	13.40%	14.80%	15.48%	
Parent Company Statistics							
Interest coverage	0.6X	0.8X	2.6X	2.1X	4.4X	9.2X	7.5X
Interest & dividend coverage	0.3X	0.4X	1.1X	0.9X	1.5X	1.5X	1.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.9X	0.8X	0.8X	0.8X	0.9X	1.0X	1.5X
Double leverage	139.8%	142.1%	134.7%	127.2%	121.7%	119.7%	121.3%

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2012				2013			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**
Net interest income	5.9	5.7	5.7	5.7	5.8	5.8	5.8	5.9
Non-interest income	3.1	3.7	4.4	3.9	3.8	4.2	3.9	3.8
Total net revenue	9.0	9.4	10.1	9.6	9.6	10.0	9.7	9.7
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.7	0.1	0.3
Non-interest expense	6.4	6.6	6.8	7.9	6.8	7.1	7.7	8.2
Income taxes & other	0.6	0.5	0.6	0.2	0.6	0.4	0.4	(0.0)
Zacks adjusted income before NRI	1.8	2.1	2.5	1.3	2.1	1.8	1.5	1.2
GAAP net income	1.8	2.1	2.5	1.3	2.1	2.5	1.5	1.2
Diluted EPS before NRI	0.57	0.62	0.74	0.39	0.64	0.55	0.45	0.36
Reported EPS	0.57	0.62	0.74	0.39	0.64	0.76	0.45	0.36
Dividends per share	0.11	0.11	0.11	0.12	0.12	0.12	0.14	0.14
Liquid assets	99.0	85.3	74.5	92.1	67.0	58.8	75.2	89.9
Outstandings, gross	372.0	379.5	386.9	397.6	395.7	404.5	407.1	401.0
Total assets	640.7	635.4	633.9	667.7	643.5	643.0	658.6	661.8
Core deposits	432.9	424.9	422.5	459.0	453.2	455.6	473.6	467.2
Purchased funds	122.9	122.5	119.9	118.4	98.9	96.2	93.3	105.4
Long-term debt	27.1	26.9	26.8	26.0	26.5	26.4	26.2	25.9
Shareholders' equity	55.0	57.4	60.8	60.9	61.9	60.7	61.4	61.8
Profitability								
Return on avg assets*	1.15%	1.29%	1.55%	0.81%	1.29%	1.13%	0.93%	0.73%
Return on avg equity *	13.88%	14.61%	16.63%	8.70%	13.72%	11.86%	9.91%	7.81%
Net interest margin*	4.67%	4.53%	4.50%	4.49%	4.54%	4.56%	4.61%	4.61%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.06%	0.40%	0.06%	0.17%
Noninterest income % avg assets*	1.96%	2.28%	2.75%	2.37%	2.29%	2.63%	2.37%	2.33%
Noninterest expense % avg assets*	4.06%	4.13%	4.28%	4.85%	4.12%	4.41%	4.71%	4.99%
Preprovision pretax inc.% avg assets*	1.57%	1.74%	2.09%	1.04%	1.71%	1.82%	1.25%	0.89%
Tangible efficiency ratio	70%	69%	67%	80%	70%	71%	75%	84%
Payout ratio	19%	18%	15%	30%	19%	16%	30%	37%
Asset Quality								
Net charge-offs % avg outstandings*	0.08%	0.17%	0.35%	0.14%	0.64%	0.21%	0.22%	0.09%
Allowance % outstandings	2.04%	2.00%	1.92%	1.88%	1.77%	1.81%	1.85%	1.75%
NPAs % loans + OREO	4.20%	4.11%	4.39%	4.93%	5.25%	3.66%	4.11%	5.20%
Allowance % NPAs	48%	48%	43%	32%	28%	49%	45%	30%
Liquidity & Funding								
Liquid assets % purchased funds	81%	70%	62%	78%	68%	61%	81%	85%
Core deposits % outstandings	116%	112%	109%	115%	115%	113%	116%	116%
Liquid assets % assets	15%	13%	12%	14%	10%	9%	11%	14%
Outstandings % assets	58%	60%	61%	60%	61%	63%	62%	61%
Capital Adequacy								
Total equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.43%	9.32%	9.34%
Tangible equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.43%	9.32%	9.34%
Tier 1 capital ratio	13.20%	13.38%	13.81%	13.55%	13.70%	13.74%	13.92%	14.23%
Total capital ratio	14.45%	14.63%	15.06%	14.80%	14.94%	14.99%	15.17%	15.48%

*Annualized.

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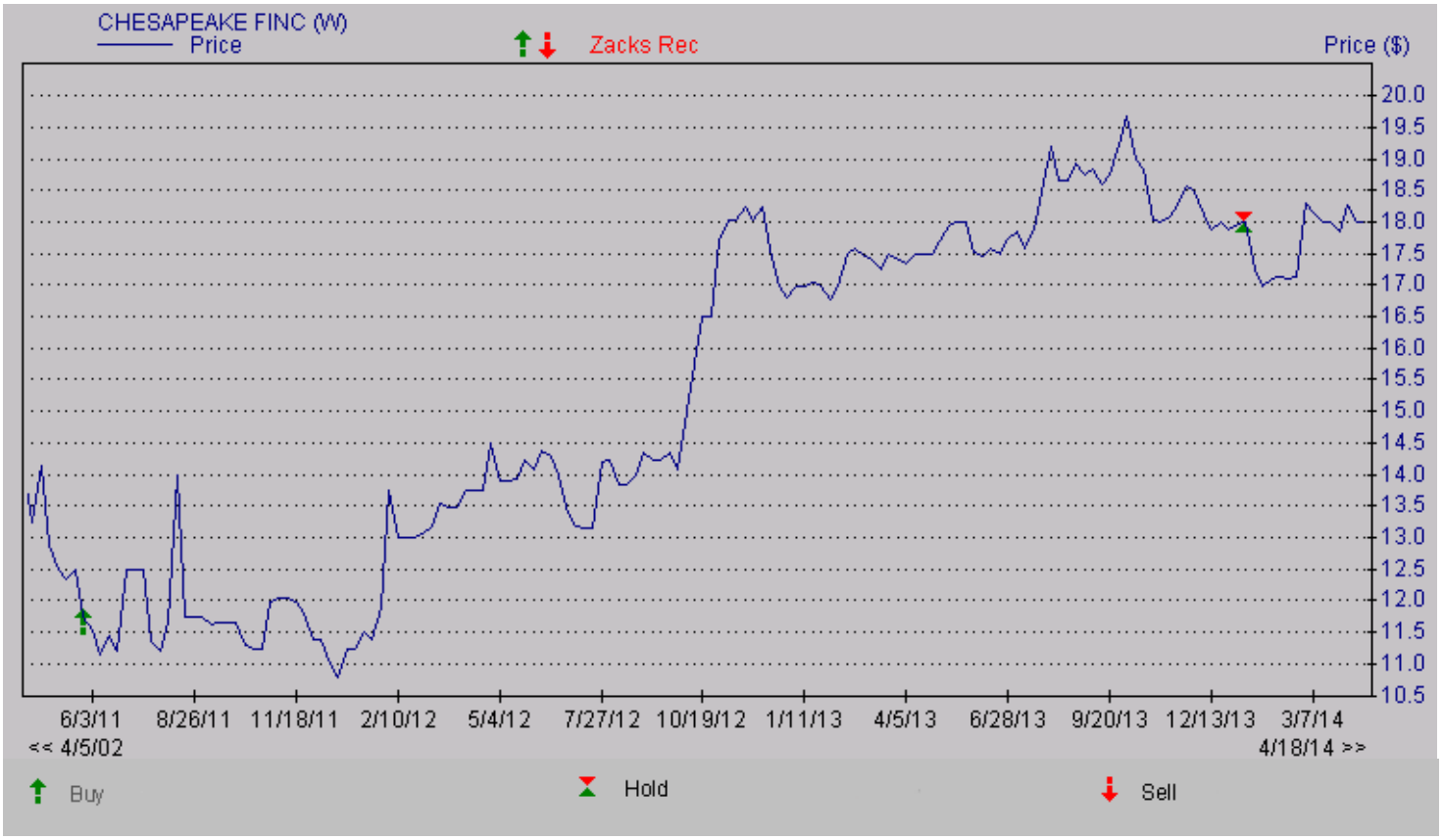

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