Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF - OTC)

CPKF: Raising Estimates Following Strong Third Quarter

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/26/2011
Current Price (12/19/12)	$17.00
Twelve-Month Target Price	**$18.75**

OUTLOOK

We are raising our diluted EPS estimates following the third quarter's strong showing. For 2012, our new EPS estimate is $2.42, up from $2.25 previously and a 12% increase over 2011's $2.16. For 2013, we have raised our estimate by a dime, to $2.45 from $2.35 before. This represents a 1% gain over our 2012 estimate, with projected EPS dynamics hurt by a contracting net interest margin and the absence of a couple of beneficial items as occurred in 2012, including a one-time accounting adjustment in recognizing merchant card income and higher-than-normal levels of pare-off fees from residential mortgage loans that are originated and closed with FHLMC. CPKF reported third quarter diluted EPS of $0.75, which was 27% higher than our $0.59 estimate and a record quarter for the Company as noninterest revenue and noninterest expense were better than our estimates. Diluted EPS rose 33% over the $0.56 posted in 2011's third quarter and was up 20% sequentially from $0.62 in the second quarter. CPKF hiked its quarterly dividend by 9% to $0.12, following a 10% increase earlier this year. Notably, CPKF has increased the annual dividend payment every year for the past twenty years since 1991. On October 29, CPKF announced a tender offer to repurchase up to $1.5 million of company stock. Assuming the entire $1.5 million was repurchased, this would reduce shares outstanding by 2%, and increase diluted EPS by a penny. CPKF was ranked 16th (up from 20th a year ago) out of all banks nationally with less than $2 billion in total assets by the ABA.

SUMMARY DATA

52-Week High	**$18.70**
52-Week Low	**$10.80**
One-Year Return (%)	**57.37**
Beta	**0.13**
Average Daily Volume (sh)	**648**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$56**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.48**
Dividend Yield (%)	**2.82**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.1**
Earnings Per Share (%)	**14.1**
Dividend (%)	**8.2**
P/E using TTM EPS	**7.6**
P/E using 2012 Estimate	**7.0**
P/E using 2013 Estimate	**6.9**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**18 of 67**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	8.2 A	8.6 A	10.1 A	9.1 A	36.1 A
2011	8.8 A	9.4 A	9.2 A	9.1 A	36.5 A
2012	8.9 A	9.4 A	10.1 A	9.7 E	38.1 E
2013					39.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	0.35 A	0.40 A	0.59 A	0.31 A	1.69 A
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	0.49 E	2.42 E
2013					2.45 E

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

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THIRD QUARTER RESULTS

We are raising our diluted EPS estimates following the third quarter's strong showing. For 2012, our new EPS estmate is $2.42, up from $2.25 previously and a 12% increase over 2011's $2.16. For 2013, we have raised our estimate by a dime, to $2.45 from $2.35 before. This represents a 1% gain over our 2012 estimate, with projected EPS dynamics hurt by a contracting net interest margin and the absence of a couple of beneficial items as occurred in 2012, including a one-time accounting adjustment in recognizing merchant card income and higher-than-normal levels of pare-off fees from residential mortgage loans that are originated and closed with FHLMC.

CPKF reported third quarter diluted EPS of $0.75, which was 27% higher than our $0.59 estimate and a record quarter for the Company as noninterest revenue and noninterest expense were better than our estimates.

Relative to the year-ago quarter, net earnings jumped 36% to $2.5 million, while 2012's third quarter diluted EPS advanced 33% over the $0.56 posted in 2011's third quarter due to a greater number of shares outstanding.

Sequential net income advanced 20% from $2.1 million and diluted EPS also gained 20% from $0.62 in the second quarter of 2012. The primary reasons for the third quarter's outperformance versus the second quarter were strong growth in merchant card income (up $0.3 million, or 26%) and income from fiduciary activities (up $0.2 million, or 29%; we note that the third quarter typically represents the peak for the year due to income recognition on certain trust accounts), as well as a $0.2 million positive swing in the combined loss from the sales of securities and OREO to a loss of $0.1 million from a loss of $0.3 million. These items were partially offset by a $0.2 million increase in noninterest expense, related to higher employee benefits, occupancy, and cash flow expense.

Compared to our projections, net income was $0.5 million, or $0.16 per diluted share, above our $2.0 million, or $0.59 per share, estimate, respectively. This primarily reflected merchant card income and other noninterest income that were each $0.250 million higher than our estimates and a combined loss from the sales of securities and OREO and salary expense that were each $0.1 million lower than our estimates, partly offset by net interest income that fell $0.2 million shy of our estimate.

On October 23, 2012, CPKF hiked its quarterly dividend by 9% to $0.12 per share from $0.11 per share, payable on December 15, 2012 to shareholders of record on December 1, 2012. This represents the second dividend increase this year—earlier in the year, CPKF hiked the dividend 10% from the $0.10 quarterly rate. Notably, CPKF has increased the annual dividend payment every year for the past twenty years since 1991.

On October 29, 2012, CPKF announced a tender offer to repurchase up to $1.5 million of company stock at a price of $18.50 per share for shareholders of record (a 12% premium to the $16.50 share price at that time) as of October 25, 2012, with shares tendered by the close of business on December 10, 2012. Assuming the entire $1.5 million was repurchased, this would reduce shares outstanding by 2% and increase diluted EPS by a penny.

In other news, Jeffrey M. Szyperski, Chairman, President & CEO, Chesapeake Bank, has been named Chairman of the Virginia Bankers Association.

We note that American Banker recently ranked CPKF 16th (up from 20th a year ago) out of all banks nationally with less than $2 billion in total assets, which includes approximately 6,000 banks, and #1 of all banks in Virginia for the second year in a row. This ranking was based upon three-year average returns on equity, which for Chesapeake Financial was 14.00%. The Company has steadily risen through the rankings in the past five years, reflecting its solid financial performance during this difficult banking environment.

Net Interest Income

Net interest income rose 2% year over year (and was flat sequentially) to $5.7 million ($0.2 million below our estimate), due to good 4% growth in loans and receivables outstanding partially offset by a net interest margin of 4.50% that was 6 basis points below the 4.56% earned in the year-ago quarter. The 4.50% net interest margin was down from 4.53% in the second quarter and was 10 basis points below our 4.60% estimate.

We are reducing our NIM estimates—in 2012 to 4.54% from 4.59% previously and in 2013 to 4.45% from 4.53%. This compares to 4.70% for full-year 2011. Our decreases reflect fierce competitive pricing pressures, particularly from larger national and regional banks. Moreover, CPKF is beginning to experience tight pricining in its high-margin cash flow business.

Noninterest Income

Noninterest income advanced $1.0 million, or 28%, year over year to $4.4 million, largely the result of strong growth in merchant card income (up $0.4 million, or 32%) as the Company added new clients and benefitted from a one-time accounting change in the recognition of revenues and in other noninterest income (up $0.3 million, or 54%) due to higher-than-normal levels of pare-off fees from residential mortgage loans that are originated and closed with FHLMC, as well as a $0.3 million positive swing in the combined loss from the sales of securities and OREO to a loss of $0.1 million from a loss of $0.4 million.

While merchant card income is expected to continue to benefit from the addition of a new service to its line-up, and the cash flow business from new products and a recent new hire, in 2013 the Company faces headwinds in trying to top 2012's excellent performance. One-time benefits from the merchant card revenue recognition and higher-than-normal pare-off fees will likely not recur.

On the positive side, we estimate that net losses on foreclosed assets combined with net losses on securities sales (including the provision for other-than-temporary impairment losses) will drop by $0.4 million to $0.6 million in 2013 from an estimated $1.0 million in 2012 and $1.0 million actual in 2011.

Loss Provision

The loan loss provision decreased 25% to $0.15 million (the same as our estimate). Loan loss reserves fell $0.3 million from $6.7 million (1.89% of loans) year over year and $0.2 million from $6.5 million (1.82% of loans) sequentially to $6.3 million (1.73% of loans) as of September 30, 2012.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell to $7.4 million (1.92% of loans plus cash flow receivables) from $7.9 million (2.12% of loans plus cash flow receivables) at the end of the comparable year-ago quarter, and was the down from $7.6 million (2.00% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $340,000 of loans in the third quarter. This is $283,000 more than the $57,000 charged off in the year-ago quarter and compares to net charge-offs of $0.9 million for full-year 2011.

We are estimating that CPKF will continue to experience improvement in the loss provision, falling by 48% to $0.60 million in 2012, before rising modestly to $0.63 million in 2013. This compares to 2011's 52% decline to $1.2 million.

We estimate that the total loss allowance will drop from 2.01% of loans plus receivables at the end of 2011 to 1.87% at yearend 2012 and 1.82% at the end of 2013.

Noninterest Expense

Total noninterest expense increased $0.3 million, or about 2%, year over year to $6.9 million ($0.1 million below our estimate), as total compensation expense climbed 3% and other noninterest expense rose 10%. The efficiency ratio improved, falling 320 basis points to 66.6% from 69.8% in the prior-year quarter, and 230 basis points and from 68.9% 2012's second quarter.

Income Taxes
The Company's effective tax rate in the first quarter was 22.4%, compared to 24.4% in the year-ago quarter and our 22.0% estimate.

We are estimating an effective tax rate of roughly 22% for both 2012 and 2013, which compares to a full-year effective tax rate of 21.4% in 2011.

Net Income
CPKF posted net earnings of $2.5 million (or $0.74 per diluted share), a record for the Company. This was up 36% from the $1.8 million ($0.56 per diluted share) earned in the year-ago quarter. This compares to our $2.0 million net income estimate ($0.59 per diluted share).

Profitability
CPKF posted a 16.6% ROE and 1.55% ROA for the third quarter of 2012, compared to 14.9% and 1.16%, respectively, in the prior-year quarter.

Loans and Asset Quality
Gross loans outstanding increased $15 million, or about 4%, year over year and $7 million, or 2%, sequentially to $367 million, as the Company witnessed better loan demand. Categories that posted the largest increases were construction and land development, which rose $2.5 million, or almost 5%, to $56.3 million, commercial real estate, which increased $5.0 million, or 4%, to $128.2 million, and consumer loans, up 3.7% sequentially to $11.5 million). All other loan categories were down modestly (0.5% or less).

We continue to expect annual loan growth of 4% in 2012, but have reduced our estimate for 2013 to 4% from 6% in 2013. CPKF opened a commercial loan production office in Richmond, Virginia in mid-August 2011, which should contribute to additional commercial and industrial lending gains for 2012. Moreover, a new array of more attractive offerings, designed specfically for customers in the cash flow business, should contribute to substantial gains in this segment.

Asset quality measures deteriorated on a sequential basis, due to a change in accounting for nonaccrual loans following CPKF's third quarter regulatory exam. This change required that CPKF maintain loans on nonaccrual status for about six months following receipt of payment versus CPKF's prior method of immediately transferring the loans back to accrual status once payment had been received. Thus, nonperforming loans posted a one-time sequential $3.2 million, or 91%, increase to $6.7 million. Positively, this was partially offset by a $1.6 million, or 21%, decline in restructured loans and a $0.3 million, or 6%, decrease in other real estate owned.

Thus, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, rose 27 basis points to 4.39% of outstandings + OREO at September 30, 2012 from 4.11% at June 30, 2012, but were down 33 basis points from 4.71% year over year.

The loss allowance as a percent of nonperforming assets fell 460 basis points sequentially to 43.3% from 47.9%, mainly reflecting the jump in nonaccrual loans and to a lesser extent lower loss reserves. The loan loss reserve for both loans and cash flow receivables was $7.4 million, or 1.92% of gross outstandings, versus $7.6 million, or 2.00% of gross outstandings at the end of the June quarter.

Liquidity and Funding
Cash and equivalents rose by about $2 million to $25 million, while the securities portfolio fell by roughly $10 million sequentially, reflecting the $13 million paydown of the US government-related mortgage-backed securities portfolio. This had the effect of reducing the total US government-related securities portfolio by 500 basis points to 27% of the entire available-for-sale securities portfolio and simultaneously raising the municpal securities portfolio by a like amount to 59%. The private-label mortgage securities portfolio was flat at 15%.

CPKF's liquidity ratios deteriorated compared to a year ago, due to the $13 million paydown of the US government-related mortgage-backed securities portfolio. At September 30, 2012, liquid assets represened 12% of total assets (down from 16% a year ago), while loans plus receivables accounted for 61% of total assets (up from 59% at the end of the prior-year quarter).

Core deposits rose $3 million, or 1%, year over year to $422 million and funded 109% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved during the quarter due to strong growth in Tier 1 capital and a decrease in risk-weighted assets. The Tier 1 capital ratio rose 43 basis points sequentially to 13.81% at the end of 2012's third quarter from 13.38% at June 30, 2012, and the Total capital ratio also increased 43 basis points to 15.06% from 14.63%.

Total shareholders' equity advanced $3.4 million during the second quarter, due to a combination of $2.0 million growth in retained earnings and a $1.4 million gain in accumulated comprehensive income to $7.6 million at the end of the second quarter from $6.2 million at the end of the first quarter. This was the result of a positive market adjustment in the fair value of the securities portfolio. Reflecting these factors, tangible book value per share also increased during the first quarter, by $1.06 per share to $18.51 from $17.45.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a bank holding company headquartered in Kilmarnock, Virginia, with $634 million in total assets at September 30, 2012. CPKF is predominantly a small business lender with 11 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 four 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.

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 $301 million in assets (at 2011 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.

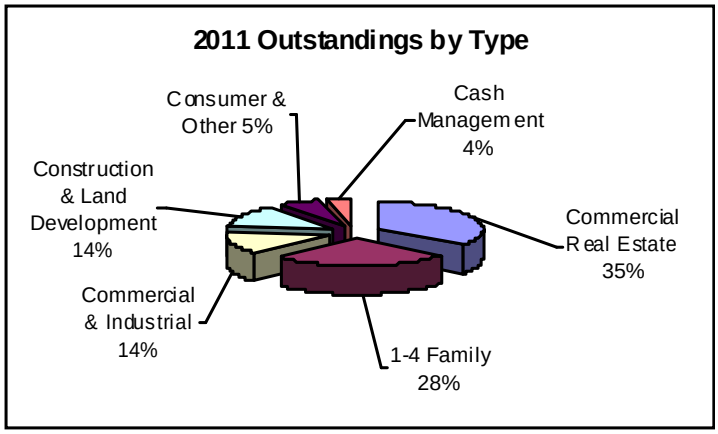
Chesapeake Payment Systems offers merchant processing services such as credit card and debit card processing, electronic benefits transfers, and loyalty and gift card processing to companies involved in travel, entertainment, restaurant, hospitality, retail, mail order, and e-commerce. At yearend 2011, Chesapeake Payment Systems had 632 merchants in its system and processed over $124 million in merchant card transactions.

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 has approximately 63 customers.

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, 2011, Clear Sky deposits totalled $51 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $177 million loan portfolio (as of December 31, 2011) of residential mortgage loans for Federal Home Loan

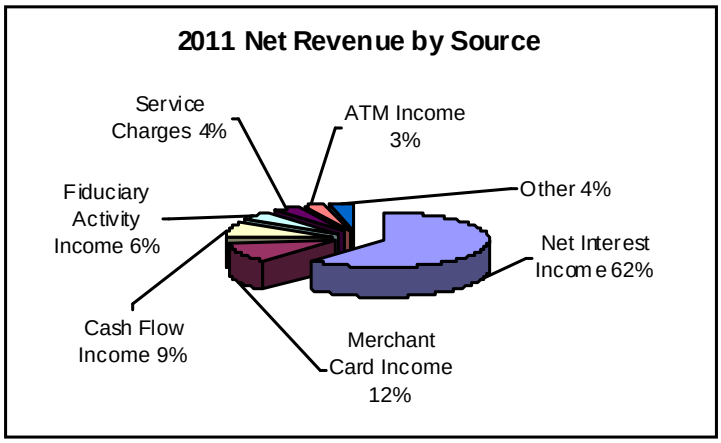
Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $440,000 annually) on the outstanding loan portfolio balance. Additionally, CPKF earns a pare-off fee for residential mortgage loans that are originated and closed with FHLMC, which added $474,000 to revenues in 2011 (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, 2011, the lending book consisted of commercial real estate (accounting for 35% of total gross outstandings), 1-4 family (28%), commercial and industrial (14%), construction and land development (14%), consumer and other (5%), and cash flow (4%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2011, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 15% of total assets and 32% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 53% and 15%, respectively, of the total. Core deposits represented 79% of total deposits at December 31, 2011, with certificates of deposit larger than $100,000 at 21%.

In 2011, net interest income contributed 62% of net revenue, with a significant 38% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (12% of net revenues), cash flow income (9%), income from fiduciary activities (6%), service charges on deposit accounts (4%), and ATM income (3%).



VALUATION

CPKF stock has risen 52.9% year to date, and has outperformed the small-cap bank industry's median price increase of 33.6%, as shown in the following table, as well as the 12.4% gain for the S&P 500.

On October 29, 2012, CPKF announced a tender offer to repurchase up to $1.5 million of company stock at a price of $18.50 per share for shareholders of record (a 12% premium to the $16.50 share price at that time) as of October 25, 2012, with shares tendered by the close of business on December 10, 2012. Assuming the entire $1.5 million was repurchased, this would reduce shares outstanding by 2% and increase diluted EPS by a penny. This has also had a positive impact on the stock price, which is now trading $0.50 higher than before the announcement.

At its current price, CPKF is trading at a discount to the industry median P/E of 39% in 2013, based upon our most recent CPKF EPS estimate for 2013. This is below the average 50% P/E discount for CPKF,

based upon 5-year historical P/E averages. Applying the historical discount of 50% to our 2013 EPS estimate results in a price of about $14.00.

Turning to Price/Tangible Book Value, CPKF is valued at 0.92X versus the industry median of 0.91X. This represents a 1% premium, well below the average historical premium of 20% for CPKF since the end of 2005. We believe a higher premium is justified given CPKF's strong performance throughout the financial crisis, its superior profitability measures, and its above-average yield on the recently increased dividend. Applying the historical premium of 20% to our estimated book value for CPKF twelve months out results in a price of approximately $23.50.

Taking the midpoint of the $14.00-23.50 stock price range determined above results in a target price of roughly $18.75, or about 1% above CPKF's current tangible book value of $18.51 at September 30, 2012. This compares to CPKF's current stock price of $17.00, indicating a 10% gain. When combined with the dividend yield, this represents a total return of 13%, above our expectations for gains in the broader market index over the next year. Therefore, we are maintaining our recommendation on CPKF at Outperform.

Industry Comparables- Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2012E	2013E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**52.9**	**7.7**	**7.1**	**7.0**	**8.3**	**0.92**	**14.1**	**14.2**	**1.25**	**0.96**	**2.8**
S&P 500	12.4	14.4	13.9	13.0	17.0	3.6	42.5	-----	9.7	-----	2.1
Median	**33.6**	**12.0**	**11.5**	**11.4**	**16.6**	**0.91**	**7.4**	**3.9**	**0.70**	**0.33**	**0.3**
Average	39.2	14.8	14.5	12.8	25.0	0.9	5.7	1.8	0.6	0.3	1.1
High	148.3	55.1	49.5	46.6	103.7	1.9	19.0	14.2	1.7	2.1	5.4
Low	(11.2)	4.7	4.8	4.6	6.8	0.4	(30.5)	(73.5)	(2.1)	(2.2)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/07	12/08	12/09	12/10	12/11	12/12E	12/13E
Net interest income	14.5	16.5	18.9	21.8	22.8	23.1	23.6
Non-interest income	13.5	15.0	14.1	13.8	13.7	15.0	15.4
Total net revenue	28.0	31.5	33.0	35.6	36.5	38.1	39.0
Loan loss provision	0.2	0.4	0.9	2.5	1.2	0.6	0.6
Non-interest expense	21.8	25.0	25.9	26.2	26.4	27.3	28.0
Income taxes & other	1.7	1.5	1.4	1.5	1.9	2.2	2.3
Zacks adjusted income before NRI	4.3	4.6	4.8	5.4	7.0	8.0	8.1
GAAP net income	4.3	4.6	4.8	5.4	7.0	8.0	8.1
Diluted EPS before NRI	1.24	1.34	1.48	1.69	2.16	2.42	2.45
Reported EPS	1.24	1.34	1.48	1.69	2.16	2.42	2.45
Dividends per share	0.29	0.34	0.35	0.36	0.40	0.45	0.48
Liquid assets	58.4	45.4	57.8	73.2	97.9	75.3	78.3
Outstandings, gross	361.6	396.2	391.3	382.3	373.1	389.8	406.7
Total assets	483.0	538.0	586.7	607.7	638.0	640.2	667.9
Core deposits	308.8	317.0	370.0	396.2	430.4	425.7	444.1
Purchased funds	94.0	121.9	131.3	127.2	113.3	121.1	128.5
Long-term debt	44.4	65.5	47.4	40.0	39.6	26.5	25.0
Shareholders' equity	33.7	30.6	35.3	41.1	51.2	61.8	66.3
Profitability							
Return on avg assets	0.97%	0.89%	0.84%	0.90%	1.13%	1.25%	1.24%
Return on avg equity	13.68%	13.51%	13.14%	13.55%	15.31%	13.87%	12.69%
Net interest margin	4.10%	4.00%	4.10%	4.40%	4.70%	4.54%	4.45%
Loan loss provision % avg assets	0.04%	0.08%	0.16%	0.41%	0.19%	0.09%	0.10%
Noninterest income % avg assets	3.01%	2.91%	2.45%	2.30%	2.21%	2.36%	2.36%
Noninterest expense % avg assets	4.87%	4.84%	4.51%	4.34%	4.27%	4.28%	4.28%
Preprovision pretax income % avg assets	1.39%	1.26%	1.24%	1.57%	1.62%	1.70%	1.68%
Tangible efficiency ratio	78%	80%	77%	73%	71%	70%	71%
Payout ratio	23%	25%	24%	21%	18%	19%	20%
Asset Quality							
Net charge-offs % avg outstandings	0.04%	0.27%	0.34%	0.48%	0.22%	0.21%	0.16%
Allowance % outstandings	1.50%	1.43%	1.59%	1.90%	2.01%	1.87%	1.82%
NPAs % loans + OREO	0.61%	0.35%	1.20%	3.91%	4.48%	4.28%	3.79%
Allowance % NPAs	245%	411%	131%	48%	44%	43%	48%
Liquidity & Funding							
Liquid assets % purchased funds	62%	37%	44%	58%	86%	62%	61%
Core deposits % outstandings	85%	80%	95%	104%	115%	109%	109%
Liquid assets % assets	12%	8%	10%	12%	15%	12%	12%
Outstandings % assets	75%	74%	67%	63%	58%	61%	61%
Capital Adequacy							
Total equity % assets	6.97%	5.68%	6.01%	6.76%	8.03%	9.65%	9.93%
Tangible equity % assets	6.97%	5.68%	6.01%	6.76%	8.03%	9.65%	9.93%
Tier 1 capital ratio	10.80%	10.60%	10.10%	12.07%	12.20%		
Total capital ratio	15.50%	12.50%	11.70%	13.54%	13.40%		
Parent Company Statistics							
Interest coverage	0.4X	0.6X	0.8X	2.6X	2.1X	1.0X	1.0X
Interest & dividend coverage	0.3X	0.3X	0.4X	1.1X	0.9X	0.4X	0.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.0X	0.9X	0.8X	0.8X	0.8X	1.2X	1.6X
Double leverage	133.2%	139.8%	142.1%	134.7%	127.2%	118.4%	122.6%

Chesapeake Financial Shares, Inc.

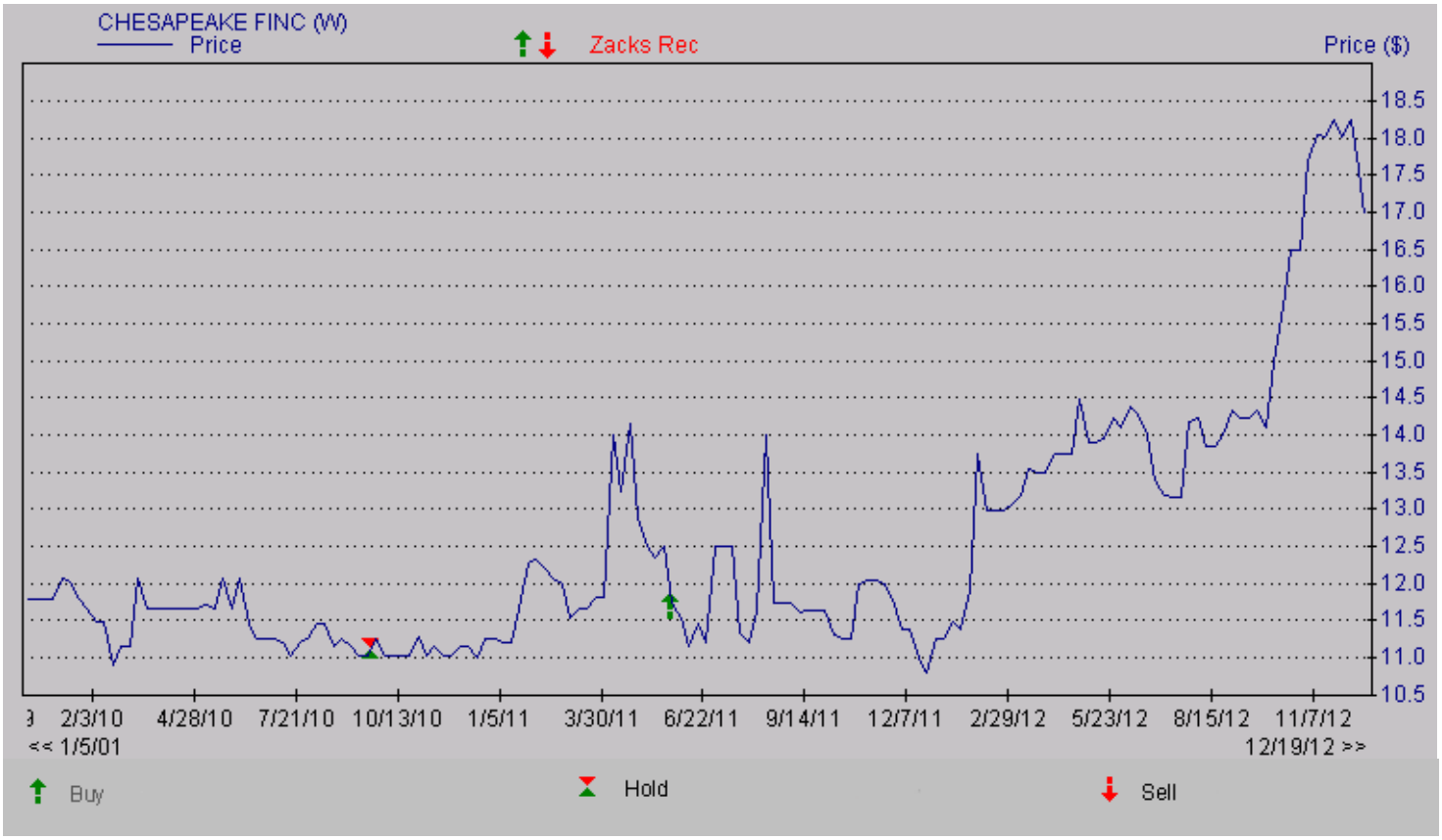
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 E**
Net interest income	5.8	5.4	5.7	5.9	5.9	5.7	5.7	5.7
Non-interest income	3.0	4.0	3.5	3.2	3.1	3.7	4.4	4.0
Total net revenue	8.9	9.4	9.2	9.1	9.0	9.4	10.1	9.7
Loan loss provision	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-interest expense	6.2	6.4	6.6	7.2	6.4	6.6	6.8	7.5
Income taxes & other	0.5	0.7	0.6	0.1	0.6	0.5	0.6	0.4
Zacks adjusted income before NRI	1.5	2.1	1.8	1.6	1.8	2.1	2.5	1.6
GAAP net income	1.5	2.1	1.8	1.6	1.8	2.1	2.5	1.6
Diluted EPS before NRI	0.47	0.63	0.56	0.49	0.57	0.62	0.74	0.49
Reported EPS	0.47	0.63	0.56	0.49	0.57	0.62	0.74	0.49
Dividends per share	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.12
Liquid assets	68.9	88.4	99.8	97.9	99.0	85.3	74.5	75.3
Outstandings, gross	376.8	376.5	372.9	373.1	372.3	379.5	386.9	389.8
Total assets	602.7	619.6	631.5	638.0	640.7	635.4	633.9	640.2
Core deposits	397.2	412.1	422.9	430.4	432.9	424.9	422.5	425.7
Purchased funds	115.8	118.3	112.5	113.3	122.9	122.5	119.9	121.1
Long-term debt	40.0	39.9	39.8	39.6	27.1	26.9	26.8	26.5
Shareholders' equity	43.6	46.6	50.4	51.2	55.0	57.4	60.8	61.8
Profitability								
Return on avg assets*	1.01%	1.35%	1.16%	1.00%	1.15%	1.29%	1.55%	1.01%
Return on avg equity *	14.40%	18.28%	14.91%	12.49%	13.88%	14.61%	16.63%	10.51%
Net interest margin*	4.68%	4.33%	4.56%	4.77%	4.67%	4.53%	4.50%	4.45%
Loan loss provision % avg assets*	0.39%	0.13%	0.13%	0.13%	0.09%	0.09%	0.09%	0.09%
Noninterest income % avg assets*	1.99%	2.61%	2.25%	2.00%	1.93%	2.28%	2.75%	2.50%
Noninterest expense % avg assets*	4.13%	4.21%	4.20%	4.54%	4.02%	4.13%	4.28%	4.71%
Preprovision pretax inc.% avg assets*	1.72%	1.92%	1.66%	1.22%	1.57%	1.74%	2.09%	1.39%
Tangible efficiency ratio	71%	72%	72%	75%	69%	69%	67%	76%
Payout ratio	20%	16%	18%	20%	19%	18%	15%	25%
Asset Quality								
Net charge-offs % avg outstandings*	0.01%	0.44%	-----	0.41%	0.08%	0.17%	0.35%	0.23%
Allowance % outstandings	2.11%	2.06%	2.12%	2.01%	2.04%	2.00%	1.92%	1.87%
NPAs % loans + OREO	1.92%	4.29%	2.28%	4.48%	4.20%	4.11%	4.39%	4.28%
Allowance % NPAs	92%	47%	92%	44%	48%	48%	43%	43%
Liquidity & Funding								
Liquid assets % purchased funds	60%	75%	89%	86%	81%	70%	62%	62%
Core deposits % outstandings	105%	109%	113%	115%	116%	112%	109%	109%
Liquid assets % assets	11%	14%	16%	15%	15%	13%	12%	12%
Outstandings % assets	63%	61%	59%	58%	58%	60%	61%	61%
Capital Adequacy								
Total equity % assets	7.24%	7.52%	7.98%	8.03%	8.58%	9.03%	9.59%	9.65%
Tangible equity % assets	7.24%	7.52%	7.98%	8.03%	8.58%	9.03%	9.59%	9.65%
Tier 1 capital ratio	12.39%	12.04%	12.09%	12.20%	13.20%	13.38%	13.81%	
Total capital ratio	13.76%	13.30%	13.34%	13.40%	14.45%	14.63%	15.06%	

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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