Zacks Small-Cap Research

June 22, 2012
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Chesapeake Financial Shares, Inc. (CPKF - OTC)

CPKF: Sweet Sixteen

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/26/2011
Current Price (06/21/12)	$14.00
Twelve-Month Target Price	**$16.50**

OUTLOOK

Chesapeake Financial Shares, Inc. (CPKF) remains a buy, though we are reducing our 12-month target price by $1.00 to $16.50 as we have adjusted our earnings model. We are lowering our 2012 diluted EPS estimate to $2.16, the same as CPKF earned in 2011, from $2.20, principally due to the EPS shortfall from our estimate in 2012's first quarter. Our initial 2013 estimate is $2.30 per diluted share, a 6% gain over our 2012 estimate. Importantly, CPKF remains one of the most profitable banks among small-cap banks in the US. In fact, 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%. Chesapeake Financial is a high-quality, well-managed bank that has steadily risen through the American Banker rankings in the past five years, reflecting its solid financial performance during this difficult banking environment.

SUMMARY DATA

52-Week High	**$14.50**
52-Week Low	**$10.80**
One-Year Return (%)	**28.14**
Beta	**0.17**
Average Daily Volume (sh)	**246**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$45**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.44**
Dividend Yield (%)	**3.14**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.1**
Earnings Per Share (%)	**14.1**
Dividend (%)	**8.2**
P/E using TTM EPS	**6.2**
P/E using 2012 Estimate	**6.5**
P/E using 2013 Estimate	**6.1**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**38 of 68**

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	9.2 E	9.5 E	9.5 E	37.1 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	0.51 E	0.57 E	0.52 E	2.16 E
2013					2.30 E

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

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FIRST QUARTER RESULTS

CPKF reported that record first quarter net earnings jumped 21% year over year to $1.8 million and diluted EPS climbed 20% to $0.57. Sequential net income and diluted EPS advanced 16% and 15%, respectively, from the fourth quarter of 2011. The primary reasons for 2012's outperformance versus 2011's first quarter were a $0.44 million, or 75%, slide in the provision for loan losses to $0.15 million, and a drop in the effective tax rate to to 21.9% from 24.4%

Compared to our projections, net income was about $60,000, or $0.02 per diluted share, below our $1.9 million, or $0.59 per share, estimates. This primarily reflected asset management fees that were a bit lower and compensation expense that was modestly higher than our estimates.

Net interest income inched up 0.3% year over year to $5.9 million (the same as our estimate), due to improvement in the net interest margin. Loans and receivables outstanding decreased about 2% year over year due to weak loan demand.

Noninterest income advanced $0.4 million, or 15%, year over year to $3.1 million (the same as our estimate), largely reflecting a $0.3 million combined positive swing in securities losses and net losses on other real estate owned to a loss of $0.43 million in 2012 from a loss of $0.77 million in the year-ago quarter.

Total noninterest expense increased $0.5 million, or about 9%, year over year to $6.4 million (the same as our estimate), as compensation expense climbed 13% and other noninterest expense rose about 3.5%.

The loan loss provision decreased 75% to $0.15 million (versus our $0.20 million estimate), due to better asset quality. The Company's 30-day and over delinquencies were 1.64% of total loans, a 32% decrease from March 31, 2011. CPKF modestly decreased its loan loss reserves to $6.5 million (1.84% of loans) from $6.7 million (1.87% of loans) at the end of the comparable year-ago quarter, though it was higher than the $6.46 million (1.81% of loans) posted at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $73,000 of loans in the first quarter. This is about the same as the level a year ago and compares to net charge-offs of $0.9 million for full-year 2011. Gross loans outstanding dropped about $0.8 million, less than 1%, sequentially to $355 million and $3.5 million from the comparable prior-year quarter, reflecting continued weak loan demand.

We are lowering our 2012 diluted EPS estimate to $2.16, the same as CPKF earned in 2011, from $2.20, principally due to the shortfall in 2012's first quarter. Our initial 2013 estimate is $2.30 per diluted share, a 6% gain over our 2012 estimate.

On April 20, 2012, CPKF announced a $0.11 quarterly dividend, paid on June 15, 2012 to shareholders of record as of June 1, 2012. Earlier in the year, CPKF hiked the dividend 10% from the $0.10 quarterly rate.

In other news, Jeffrey M. Szyperski, Chairman, President & CEO, Chesapeake Bank, has been named Chairman of the Virginia Bankers Association. In addition, Chesapeake Investment Group increased its assets under management by 3% sequentially to $311 million at March 31, 2012, and John M. Sadler became President of Chesapeake Trust Company, a subsidiary of Chesapeake Investment Group, on May 1, replacing Gregory V. Powell, who retired on April 30, 2012. Sadler came on board on a part-time basis on April 2.

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.

Below we discuss 2012 first quarter results in more depth.

Net Interest Income

Net interest income rose 0.3% year over year (but fell 1.6% sequentially) to $5.9 million (the same as our estimate), due to a 2.4% increase in average interest-earning assets as growth in the securities portfolio offset a 2% decline in average loans and receivables outstanding due to slower loan demand. The 4.67% net interest margin was essentially flat with the prior year quarter's 4.68%, but down 10 basis points from a record 4.77% in the fourth quarter and 3 basis points below our 4.70% estimate.

We are slightly reducing our NIM estimate in 2012 to 4.65% from 4.68% previously, which compares to 4.70% for full-year 2011. Our initial NIM estimate for 2013 is 4.60%.

Noninterest Income

Noninterest income advanced $0.4 million, or 15%, year over year to $3.1 million, largely reflecting a $0.3 million combined positive swing in securities losses and net losses on other real estate owned to a loss of $0.43 million in 2012 from a loss of $0.77 million in the year-ago quarter.

Excluding these items, noninterest income was up 2% as strong growth in merchant card income and other noninterest income (up 7% and 36%, respectively) was offset by an 11% decrease in service charges on deposit accounts, primarily reflecting lower customer usage and secondarily changes in federal regulations, and a 22% fall in cash flow income, reflecting a decline in receivables outstanding as CPKF clients secured more traditional bank financing at other financial institutions. That said, CPKF expects to recapture this loss and a bit more in 2012, due to a new array of more attractive offerings designed specfically for customers in the cash flow business.

Moreover, merchant card income is expected to continue to benefit from the addition of a new service to its line-up. CPKF has become the middleman for independent sales organization (ISOs) that need bank processing for card transactions. CPKF has been increasing market share as smaller competitors have left this space. CPKF is now providing this service to one company, and will begin processing for another ISO this year.

Negatively, we expect that net losses on foreclosed assets combined with net losses on securities sales (including other-than-temporary impairment losses) will run at the same pace in 2012 as in 2011, and match the $1.0 million posted in 2011, before sliding to $0.6 million in 2013.

Loss Provision

The loan loss provision decreased 75% to $0.15 million (versus our $0.2 million estimate), as the Company reverted to normal reserve strengthening compared to the $0.6 million provision taken in the year-ago quarter. CPKF modestly decreased its loan loss reserves to $6.5 million (1.84% of loans) from $6.7 million (1.87% of loans) at the end of the comparable year-ago quarter, though it was higher than the $6.46 million (1.81% of loans) posted at the end of the previous quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell to $7.6 million (2.04% of loans plus cash flow receivables) from $7.9 million (2.10% of loans plus cash flow receivables) at the end of the comparable year-ago quarter, though it was up from the $7.5 million (2.01% of loans plus cash flow receivables) at the end of the previous quarter.

For full-year 2012-2013, we are estimating that CPKF will continue to experience significant improvement in the loss provision, falling by 37% to $0.75 million in 2012 and 20% in 2013 to $0.6 million. This compares to 2011's 52% decline to $1.2 million. We estimate that the total loan loss allowance will

remain at about 2.00% of loans plus receivables at yearend 2012 before dropping to 1.90% at the end of 2013.

Noninterest Expense

Total noninterest expense increased $0.5 million, or about 9%, year over year to $6.4 million (the same as our estimate), as compensation expense climbed 13% and other noninterest expense rose about 3.5%.

Generally, the Company maintained tight control over noncompensation operating expenses. That said, the efficiency ratio deteriorated as the 5% growth in total net revenue was lower than the 9% growth in noninterest expense. Thus, the Company's efficiency ratio rose to 68.6% from 66.7% in the prior-year quarter, though it improved over 2011's fourth quarter tangible efficiency ratio of 75.0%.

Income Taxes

The Company's effective tax rate in the first quarter was 21.9%, compared to 24.4% in the year-ago quarter and our 22.0% estimate.

We have are estimating an effective tax rate of 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 $1.8 million (or $0.57 per diluted share), up 20% from the $1.5 million ($0.47 per diluted share) earned in the year-ago quarter. This compares to our $1.9 million net income estimate ($0.59 per diluted share).

Profitability

CPKF posted a 13.9% ROE and 1.15% ROA for the first quarter of 2012, compared to 14.4% and 1.01%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding declined slightly by about $1 million, or less than 1%, sequentially to $355 million, but fell $3.5 million year over year from the end of the prior-year quarter, reflecting continued weak loan demand. Most categories posted sequential declines during the first quarter with the exceptions of construction and land development, which grew $3.2 million, or 6%, to $55.4 million and other loans, which rose $0.5 million, or 5%, to $9.5 million. In addition, there was a $0.3 million, or 2%, decline in cash flow receivables to $16.5 million, as CPKF clients were able to secure more traditional bank financing at other financial institutions.

We expect annual loan growth of 4% in 2012 and 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 improved on a sequential basis, with nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreasing 28 basis points to 4.20% of outstandings + OREO at March 31, 2012 from 4.48% at December 31, 2011. Nonaccrual loans and receivables rose by $0.8 million, or 31%, to $3.2 million at the end of March from $2.4 million at December quarterend, largely due to the repossesion of a large boat in the consumer loan category. Performing troubled debt restructurings declined by $1.7 million, or 19%, to $7.5 million, while other real estate owned (OREO) decreased $0.1 million, or 3%, sequentially to $5.2 million. In total, there was a net sequential decline in nonperforming assets of $1.1 million, or 6%, to $15.8 million during the first quarter.

The loss allowance as a percent of nonperforming assets increased to 48% at the end of March from 44% at the end of both the December quarter. The decrease in nonperforming assets combined with a gain in the loan loss reserves contributed to this improvement. The loan loss reserve for both loans and cash flow receivables climbed to $7.6 million, or 2.04% of gross outstandings, from $7.5 million, or 2.01% of gross outstandings at the end of the December quarter.

Liquidity and Funding

Cash and equivalents were flat during the fourth quarter at about $37 ½ million, while CPKF increased the securities portfolio by over $5 million sequentially. The Company continues to emphasize investing in municipal securities, which account for 53% of total securities (up 5 points from 48% a year ago), and US agency mortgage securities, which account for 32% of total securities (the same as a year ago), while pulling back from private-label mortgage securities, which now represent 15% of the total securities portfolio, down 5 points from 20% at the end of March 2011.

CPKF's liquidity ratios were better than those a year ago, primarily reflecting the increase in cash and US agency mortgage securities. Liquid assets now represent 15% of total assets (up from 11% a year ago), while loans plus receivables account for 58% of total assets (down from 63% at the end of the prior-year quarter and 67% as recently as a couple of years ago).

Core deposits rose $36 million, or 9%, year over year to $433 million and funded 116% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved significantly during the quarter as strong growth in Tier 1 capital combined with a decrease in risk-weighted assets stemming from a reduction in off-balance sheet items. The Tier 1 capital ratio rose 100 basis points sequentially to 13.20% at the end of 2012's first quarter from 12.20% at December 31, 2011, and the Total capital ratio increased 105 basis points to 14.45% from 13.40%. Importantly, both of these remain well above the well-capitalized standard as established by federal regulators.

Total shareholders' equity advanced $3.8 million during the first quarter, due to a combination of $1.5 million growth in retained earnings, $0.2 million in other capital changes, and a $2.1 million gain in accumulated comprehensive income to $5.3 million at the end of the first quarter from $3.2 million at the end of the fourth 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 fourth quarter, by $1.00 per share to $16.67 from $15.67.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a bank holding company headquartered in Kilmarnock, Virginia, with $641 million in total assets at March 31, 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.

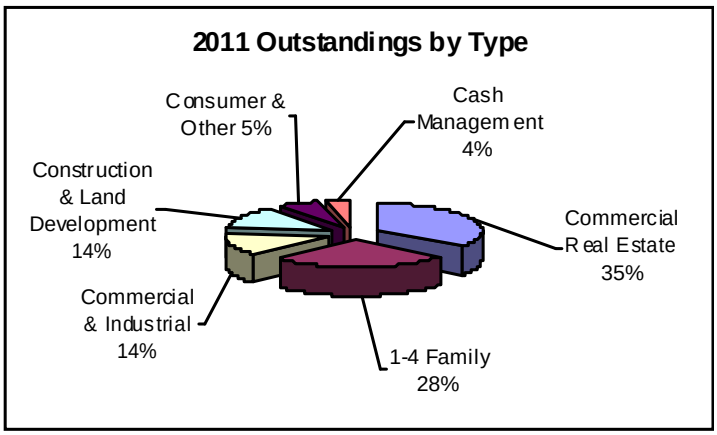
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $301 million in assets (at 2011 yearend) through its subsidiaries involved in 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.

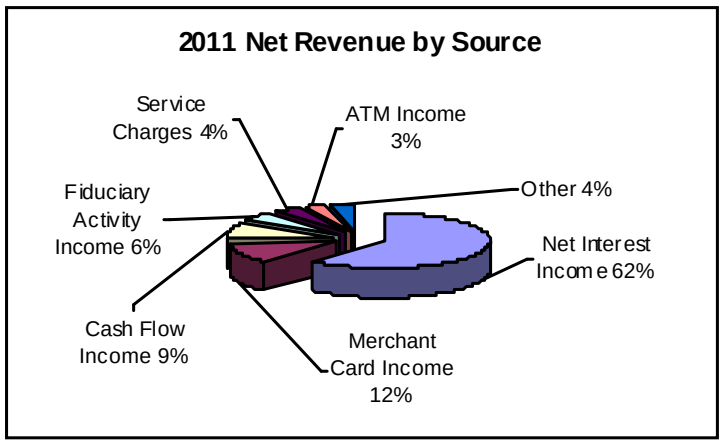
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2011, Clear Sky deposits totalled $51 million, with customers in all 50 states.

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.

The liquidity portfolio, consisting of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represent 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 currently account 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 24.4% year to date and has outperformed the S&P 500's 5.4% advance by a wide margin, though it has underperformed the small-cap bank industry's median price increase of 31.9%, as shown in the following table. At its current price, CPKF is trading at a discount to the industry median P/E of 44% in 2013, based upon our CPKF EPS estimate for 2013. This is in excess of the average 43% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 43% to our 2013 EPS estimate results in a price of about $14.25.

Turning to Price/Tangible Book Value, CPKF is valued at 0.89X versus the industry median of 0.89X. This represents a 0% premium, well below the average historical premium of 12% for CPKF since the end of 2005. We believe a higher premium is justified given CPKF's strong performance throughout the financial crisis, its strong profitability measures, and its solid dividend yield. Applying the historical premium of 12% to our estimated book value for CPKF twelve months out results in a price of approximately $19.00.

Taking the midpoint of the $14.25-19.00 stock price range determined above results in a target price of roughly $16.50 and compares to CPKF's current stock price of $14.00, indicating an 18% gain. When combined with the dividend yield, this represents a total return of 21%, well 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	**24.4**	**6.2**	**6.5**	**6.1**	**8.8**	**0.89**	**14.8**	**14.3**	**1.16**	**0.94**	**3.1**
S&P 500	5.4	13.7	12.9	12.1	17.1	8.3	29.4	-----	9.8	-----	2.1
Median	**31.9**	**12.3**	**11.3**	**10.8**	**15.4**	**0.89**	**8.4**	**4.4**	**0.77**	**0.32**	**0.3**
Average	27.1	16.7	12.6	11.0	20.1	0.8	(85.0)	(2.5)	0.5	0.3	1.5
High	121.7	62.4	22.3	17.5	42.8	1.7	16.2	11.5	1.8	2.3	7.4
Low	(69.5)	6.2	6.6	5.9	11.4	0.0	(3,208)	(178.5)	(3.7)	(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	23.7	24.7
Non-interest income	13.5	15.0	14.1	13.8	13.7	13.4	14.3
Total net revenue	28.0	31.5	33.0	35.6	36.5	37.1	39.0
Loan loss provision	0.2	0.4	0.9	2.5	1.2	0.8	0.6
Non-interest expense	21.8	25.0	25.9	26.2	26.4	27.3	28.7
Income taxes & other	1.7	1.5	1.4	1.5	1.9	1.9	2.1
Zacks adjusted income before NRI	4.3	4.6	4.8	5.4	7.0	7.1	7.6
GAAP net income	4.3	4.6	4.8	5.4	7.0	7.1	7.6
Diluted EPS before NRI	1.24	1.34	1.48	1.69	2.16	2.16	2.30
Reported EPS	1.24	1.34	1.48	1.69	2.16	2.16	2.30
Dividends per share	0.29	0.34	0.35	0.36	0.40	0.44	0.44
Liquid assets	58.4	45.4	57.8	73.2	97.9	102.0	106.1
Outstandings, gross	361.6	396.2	391.3	382.3	373.1	388.1	412.0
Total assets	483.0	538.0	586.7	607.7	638.0	668.0	709.0
Core deposits	308.8	317.0	370.0	396.2	430.4	451.3	479.0
Purchased funds	94.0	121.9	131.3	127.2	113.3	128.1	136.0
Long-term debt	44.4	65.5	47.4	40.0	39.6	27.0	25.0
Shareholders' equity	33.7	30.6	35.3	41.1	51.2	58.4	63.5
Profitability							
Return on avg assets	0.97%	0.89%	0.84%	0.90%	1.13%	1.08%	1.10%
Return on avg equity	13.68%	13.51%	13.14%	13.55%	15.31%	12.64%	12.40%
Net interest margin	4.10%	4.00%	4.10%	4.40%	4.70%	4.65%	4.60%
Loan loss provision % avg assets	0.04%	0.08%	0.16%	0.41%	0.19%	0.11%	0.09%
Noninterest income % avg assets	3.01%	2.91%	2.45%	2.30%	2.21%	2.05%	2.08%
Noninterest expense % avg assets	4.87%	4.84%	4.51%	4.34%	4.27%	4.19%	4.17%
Preprovision pretax income % avg assets	1.39%	1.26%	1.24%	1.57%	1.62%	1.50%	1.50%
Tangible efficiency ratio	78%	80%	77%	73%	71%	72%	72%
Payout ratio	23%	25%	24%	21%	18%	20%	19%
Asset Quality							
Net charge-offs % avg outstandings	0.04%	0.27%	0.34%	0.48%	0.22%	0.16%	0.16%
Allowance % outstandings	1.50%	1.43%	1.59%	1.90%	2.01%	2.00%	1.90%
NPAs % loans + OREO	0.61%	0.35%	1.20%	3.91%	4.48%	3.60%	3.20%
Allowance % NPAs	245%	411%	131%	48%	44%	55%	59%
Liquidity & Funding							
Liquid assets % purchased funds	62%	37%	44%	58%	86%	80%	78%
Core deposits % outstandings	85%	80%	95%	104%	115%	116%	116%
Liquid assets % assets	12%	8%	10%	12%	15%	15%	15%
Outstandings % assets	75%	74%	67%	63%	58%	58%	58%
Capital Adequacy							
Total equity % assets	6.97%	5.68%	6.01%	6.76%	8.03%	8.74%	8.96%
Tangible equity % assets	6.97%	5.68%	6.01%	6.76%	8.03%	8.74%	8.96%
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	1.5X
Double leverage	133.2%	139.8%	142.1%	134.7%	127.2%	123.7%	125.7%

Chesapeake Financial Shares, Inc.

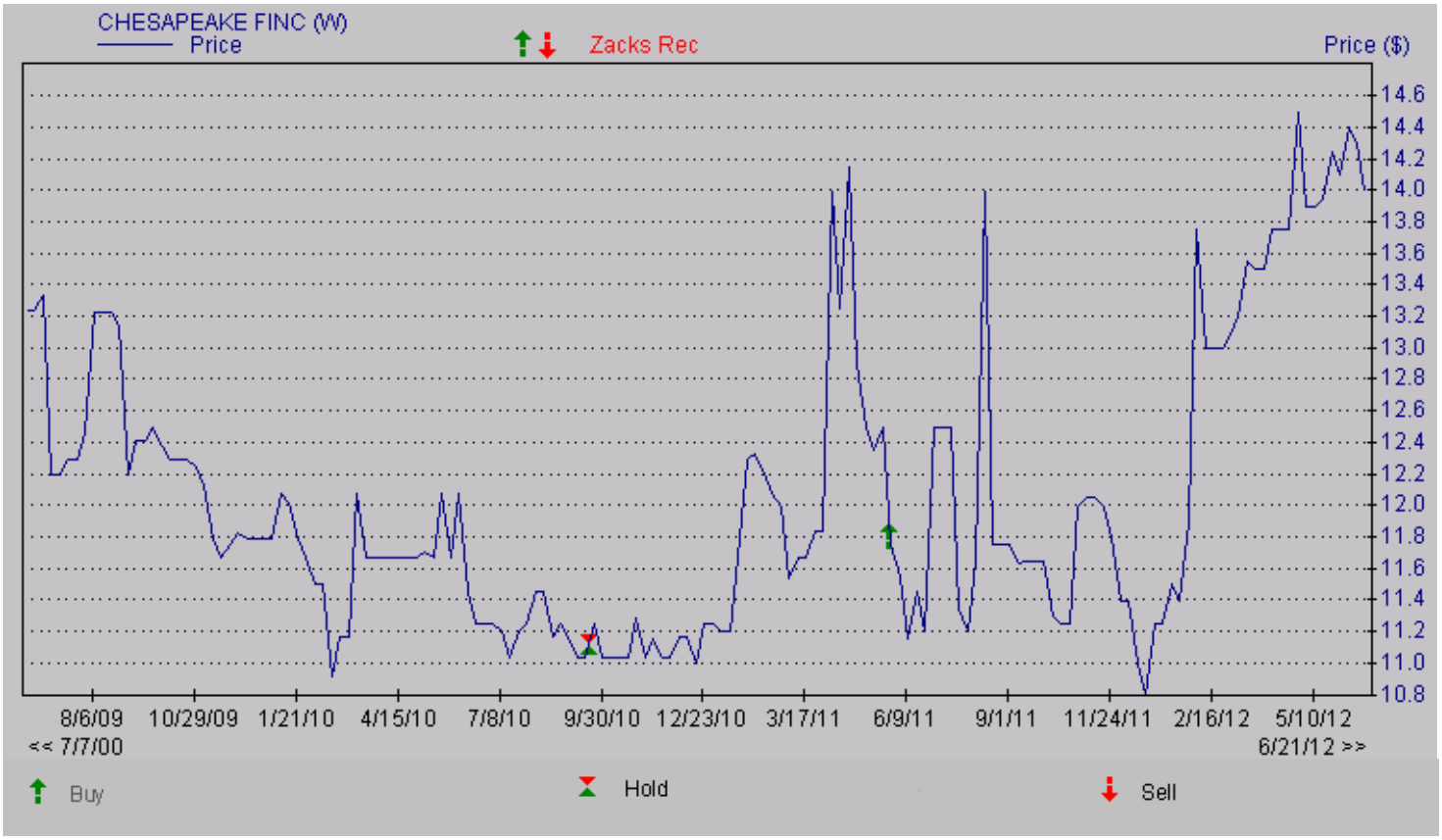
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	5.8	5.4	5.7	5.9	5.9	5.9	6.0	6.0
Non-interest income	3.0	4.0	3.5	3.2	3.1	3.3	3.5	3.5
Total net revenue	8.9	9.4	9.2	9.1	9.0	9.2	9.5	9.5
Loan loss provision	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-interest expense	6.2	6.5	6.6	7.2	6.4	6.8	6.9	7.2
Income taxes & other	0.5	0.6	0.6	0.1	0.6	0.5	0.5	0.4
Zacks adjusted income before NRI	1.5	2.1	1.8	1.6	1.8	1.7	1.9	1.7
GAAP net income	1.5	2.1	1.8	1.6	1.8	1.7	1.9	1.7
Diluted EPS before NRI	0.47	0.63	0.56	0.49	0.57	0.51	0.57	0.52
Reported EPS	0.47	0.63	0.56	0.49	0.57	0.51	0.57	0.52
Dividends per share	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.11
Liquid assets	68.9	88.4	99.8	97.9	99.0	100.0	101.0	102.0
Outstandings, gross	376.8	376.5	372.9	373.1	372.3	380.5	384.3	388.1
Total assets	602.7	619.6	631.5	638.0	640.7	654.8	661.4	668.0
Core deposits	397.2	415.3	422.9	430.4	432.9	442.4	446.8	451.3
Purchased funds	115.8	112.5	112.5	113.3	122.9	125.6	126.8	128.1
Long-term debt	40.0	39.9	39.8	39.6	27.1	27.0	27.0	27.0
Shareholders' equity	43.6	46.6	50.4	51.2	55.0	56.0	57.3	58.4
Profitability								
Return on avg assets*	1.01%	1.35%	1.16%	1.00%	1.15%	1.02%	1.13%	1.02%
Return on avg equity *	14.40%	18.28%	14.91%	12.49%	13.88%	11.95%	13.08%	11.74%
Net interest margin*	4.68%	4.33%	4.56%	4.77%	4.67%	4.65%	4.65%	4.65%
Loan loss provision % avg assets*	0.39%	0.13%	0.13%	0.13%	0.09%	0.12%	0.12%	0.12%
Noninterest income % avg assets*	1.99%	2.65%	2.25%	2.00%	1.93%	2.02%	2.14%	2.13%
Noninterest expense % avg assets*	4.13%	4.26%	4.20%	4.54%	4.02%	4.24%	4.19%	4.31%
Preprovision pretax inc.% avg assets*	1.72%	1.92%	1.66%	1.22%	1.57%	1.44%	1.57%	1.43%
Tangible efficiency ratio	71%	69%	72%	75%	69%	73%	71%	74%
Payout ratio	20%	16%	18%	20%	19%	22%	19%	21%
Asset Quality								
Net charge-offs % avg outstandings*	0.01%	0.44%	-----	0.41%	0.08%	0.16%	0.16%	0.23%
Allowance % outstandings	2.11%	2.06%	2.12%	2.01%	2.04%	2.02%	2.02%	2.00%
NPAs % loans + OREO	1.92%	2.38%	2.28%	4.48%	4.20%	4.06%	3.93%	3.60%
Allowance % NPAs	92%	85%	92%	44%	48%	49%	51%	55%
Liquidity & Funding								
Liquid assets % purchased funds	60%	79%	89%	86%	81%	80%	80%	80%
Core deposits % outstandings	105%	110%	113%	115%	116%	116%	116%	116%
Liquid assets % assets	11%	14%	16%	15%	15%	15%	15%	15%
Outstandings % assets	63%	61%	59%	58%	58%	58%	58%	58%
Capital Adequacy								
Total equity % assets	7.24%	7.52%	7.98%	8.03%	8.58%	8.56%	8.66%	8.74%
Tangible equity % assets	7.24%	7.52%	7.98%	8.03%	8.58%	8.56%	8.66%	8.74%
Tier 1 capital ratio	12.39%	12.04%	12.09%	12.20%	13.20%			
Total capital ratio	13.76%	13.30%	13.34%	13.40%	14.45%			

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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