Zacks Small-Cap Research

June 9, 2015
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Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Strong Loan Pipeline and Growth in Independent Sales Organizations (ISOs) Will Drive Future Revenue Growth

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	01/09/2014
Current Price (06/08/15)	$16.55
Twelve-Month Target Price	**$17.00**

OUTLOOK

We are raising our 2015 diluted EPS estimate by $0.05 to $1.55 from $1.50 following CPKF's strong first quarter. Our estimate excludes a $0.7 million aftertax gain ($0.18 per diluted share) on the retirement of the trust preferred securities during 2015's first quarter. Our initial 2016 diluted EPS is $1.60. We estimate strong loan growth of around 5% in both 2015 and 2016 will offset a declining net interest margin (down about 20 basis points to 4.40% in 2015 and an additional 10 basis points to 4.30% in 2016). In addition, we expect expansion of Chesapeake Payment Systems' independent sales organizations (ISOs) to generate good gains in 2016 merchant card revenues. Moreover, the Company experienced $241,000 in net securities gains in 2015's first quarter as it sold roughly $3 million of municipal securities to reposition this portfolio to longer maturities to improve yields. This repositioning is continuing into the second quarter and, in total, we estimate will add about a quarter of a million dollars to net revenues in 2015 (this will become a headwind in 2016). Other headwinds primarily are related to staff expansion and related compensation costs. In 2015, CPKF is building up operations. Notably, CPKF was cited by SNL Financial as one of only 20 banks in the country (and 2 in Virginia) to increase dividends at least 2% per year and at least a cumulative 30% over the past five years. In 2015 for the eighth 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, ranking #34 out of 6,000 community banks.

SUMMARY DATA

52-Week High	**$16.55**
52-Week Low	**$14.39**
One-Year Return (%)	**16.53**
Beta	**0.12**
Average Daily Volume (sh)	**280**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$66**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.45**
Dividend Yield (%)	**2.72**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**3.3**
Earnings Per Share (%)	**5.7**
Dividend (%)	**9.1**
P/E using TTM EPS	**10.3**
P/E using 2015 Estimate	**10.7**
P/E using 2016 Estimate	**10.3**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**41 of 68**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	9.5 A	10.0 A	9.6 A	9.6 A	39.0 A
2014	9.0 A	9.6 A	9.3 A	9.7 A	37.7 A
2015	9.8 A	10.1 E	9.7 E	9.8 E	39.4 E
2016					40.4 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.53 A	0.46 A	0.38 A	0.30 A	1.66 A
2014	0.32 A	0.48 A	0.23 A	0.41 A	1.43 A
2015	0.47 A	0.52 E	0.30 E	0.26 E	1.55 E
2016					1.60 E

Quarterly EPS may not add to total due to changes in shares outstanding.
* Per share data have been adjusted for a 5-for-6 stock split, paid to shareholders in mid-October 2014.

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FIRST QUARTER

We are raising our 2015 diluted EPS estimate by $0.05 to $1.55 from $1.50 following CPKF's strong first quarter. Our estimate excludes a $0.7 million aftertax gain ($0.18 per diluted share) on the retirement of the trust preferred securities during 2015's first quarter. Our initial 2016 diluted EPS is $1.60.

We estimate strong loan growth of around 5% in both 2015 and 2016 will offset a declining net interest margin (down about 20 basis points to 4.40% in 2015 and an additional 10 basis points to 4.30% in 2016). In addition, we expect expansion of Chesapeake Payment Systems' independent sales organizations (ISOs) to generate good gains in 2016 merchant card revenues. Moreover, the Company experienced $241,000 in net securities gains in 2015's first quarter as it sold roughly $3 million of municipal securities to reposition this portfolio to longer maturities to improve yields. This repositioning is continuing into the second quarter and, in total, we estimate will add about a quarter of a million dollars to net revenues in 2015 (this will become a headwind in 2016).

Other headwinds primarily are related to staff expansion and related compensation costs. In 2015, CPKF is building up operations. The Company hired a new commercial lender in the Richmond, Virginia market and a new sales representative for the cash flow business in the first quarter, and will be opening a new branch in Richmond late in the third quarter in August or September, which will entail the hiring of at least eight new employees. As a result, we project that compensation costs will rise about 6 ½% in 2015 and a further 5% in 2016. Despite these near-term expense pressures, we view these moves positively as CPKF is laying the groundwork for future loan growth in 2016 and beyond.

To review, CPKF's first quarter net earnings, excluding a net gain on the redemption of trust preferred securities, rose $0.6 million year over year, or 47%, to $1.9 million, while 2015's first quarter diluted EPS grew by $0.15, or 46%, to $0.47 from $0.32 posted a year ago.

Including the gain on the retirement of the trust preferred securities (about $1.0 million pretax and $726,000 after tax, or $0.18 per diluted share), results were even better, more than doubling: net earnings rose103% over first quarter 2014 to $2.6 million and diluted EPS rose 103% to $0.65. (All per share data in this report have been adjusted for a 6-for-5 stock split, paid to shareholders in mid-October 2014.)

This was higher than our estimate, which had called for a $0.2 million increase in net earnings to $1.5 million (off by $0.4 million) and a $0.05 rise in diluted EPS to $0.37 (off by $0.10).

The primary reason for the difference between reported results and our estimate was that net revenues were $0.5 million more than the $9.2 million we had anticipated, largely consisting of noninterest income that was $0.4 million higher than our projection (as the net gain on securities was $0.2 million better than expected as was other miscellaneous income), and net interest income that was $0.2 million greater than our estimate.

On the other hand, total noninterest expense of $7.4 million was $0.1 million more than we had projected, primarily reflecting other miscellaneous expense that was $0.1 million more than anticipated.

The major reasons for the first quarter's $0.6 million gain in net earnings versus the prior-year quarter were a $0.3 million increase in net interest income, a $0.1 million, or 52%, drop in the provision for loan losses, and a $0.5 million , or 14%, advance in noninterest income from higher securities gains and other miscellaneous income, which were partly offset by a $0.2 million rise in total noninterest expense.

CPKF recently announced it will be opening a new branch for the first time in Richmond, Virginia in late summer 2015 as part of its long-term strategy emphasizing planned thoughtful expansion.The 7,500 square-foot location will house all of CPKF's Richmond area associates, from loan production to banking.

In 2013, CPKF hiked its quarterly dividend by 13% to $0.1125 per share from $0.10 per share, following two dividend increases in 2012 totalling 20%. The total 2014 dividend payment of $0.45 represents a 6% rise over 2013's payment of $0.425. 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.

In 2015 for the eighth consecutive year, Chesapeake Financial Shares, Inc. has been included in the American Banker magazine (formerly US Banker magazine) listing of the "Top 200 Community Banks" in the United States. The bank ranked at #34 in the nation out of approximately 6,000 community banks in the study, up from #148, when CPKF first broke into the rankings in 2008. The ranking is based on a three-year average of return on average equity (ROAE), which for CPKF was12.64%.

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

Net Interest Income

Net interest income rose $0.3 million, or 5%, year over year in the first quarter to $5.9 million ($0.2 million higher than our $5.7 million estimate), as a 6% increase in average interest-earning assets was partly offset by a net interest margin of 4.41% that was 5 basis points lower than the 4.46% earned in the year-ago quarter.The 4.41% net interest margin dropped 19 basis points from the fourth quarter, and was 1 basis point above our 4.40% estimate.

We are mainitaining our 4.40% 2015 NIM estimate , while our initial estimate for 2016 calls for a 10 basis-point decline to 4.30%.This compares to a 4.60% NIM in both 2014 and 2013. The decreases reflect the fact that competitive pricing pressures continue to be somewhat fierce. We note that CPKF's balance sheet was slightly asset sensitive at the end of the first quarter, which could help the net interest margin in a rising interest-rate environment.

Noninterest Income

Noninterest income increased $0.5 million, or 14%, year over year to $3.9 million ($0.4 million greater than our $3.5 million projection), on the strength of higher net securities gains (up $0.3 million) and other miscellaneous income (up $0.2 million), which benefitted from a $155,000 gain in pare-off fees for residential mortgage loans that are originated and closed with FHLMC (for comparison, CPKF earned $272,000 in total pare-off fees for all of 2014).

We have raised our projection for 2015 noninterest income by $0.3 million to $15.6 million, a 7% gain over 2014, to reflect the increase in our estimate for net securities gains. For 2016, we are estimating a $0.5 million, or 3%, rise in noninterest income to $16.1 million, as most line items should experience moderate improvement year over year, with the exception of net securities gains, which we expect to decrease.

Loss Provision

The loan loss provision declined by $57,000 to $72,000 from $150,000 in the year-ago quarter and was the slighly higher than our $63,000 estimate. Loan loss reserves decreased $0.2 million from $6.4 million (1.63% of loans) at the end of the first quarter to $6.2 million (1.53% of loans) at March 31, 2015, and were below the $6.5 million (1.71% of loans) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance rose to $7.6 million (1.80% of loans plus cash flow receivables) from $7.4 million (1.83% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and, but was down from the $7.7 million (1.88% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF recorded net charge-offs of $282,000 in the first quarter. This compares to a net recovery of $68,000 in the year-ago quarter and net charge-offs of $445,000 for the full year in 2014.

We are estimating that the loss provision will drop sharply to $250,000 in 2015 from $0.6 million in 2014, and will rise to $0.3 million in 2016.

We project that the total loss allowance will fall slightly from 1.88% of total loans plus receivables at the end of 2014 to 1.74% at yearend 2015 and to 1.64% by the end of 2016.

Noninterest Expense

Noninterest expense inched up $0.2 million, or 2%, to $7.4 million ($0.1 million more than the $7.3 million we had projected) from the prior-year quarter, due to increased compensation and other miscellaneous expense, each up about $0.1 million.

The efficiency ratio improved, falling to 77.2% from 79.6% in the year-ago quarter and 83.8% in the fourth quarter.

For 2015, we expect a 6 ½% (down from 10% previously) rise in compensation costs to $15.6 million, as the Company adds a new branch in Richmond, Virginia late in the third quarter and a further 5% increase to $16.3 million in 2016 . We are raising our estimate of 2015 noncompensation expense to $15.8 million (from $14.8 million), with our estimate for 2016 down slightly to $15.7 million.

In total, we believe that the efficiency ratio will improve, falling from 80.5% for 2014 to an estimated 80.2% in 2015 (our prior estimate was 79.5%) and again to 79.2% in 2016.

Income Taxes

The Company had an effective tax rate of 18.1% in the first quarter, compared to a tax rate of 22.0% in the prior-year quarter and our 20.0% effective tax rate estimate.

We are reducing our estimate of the effective tax rate in 2015 to 19% from 20% and projecting a 19% tax rate for 2016. This compares to a full-year effective tax rate of 12.7% in 2014.

Net Income

CPKF's first quarter net earnings, excluding a net gain on the redemption of trust preferred securities, rose $0.6 million year over year, or 47%, to $1.9 million, while 2015's first quarter diluted EPS grew by $0.15, or 46%, to $0.47 from $0.32 posted a year ago. This compares to our $1.5 million net income estimate ($0.37 per diluted share).

Profitability

CPKF posted a 10.7% ROE and 1.16% ROA for the first quarter of 2015, compared to 8.3% and 0.78%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans increased $19 million, or about 5%, year over year, and rose $10 million, or 2 ½%, sequentially to $402 million.

By category, commercial real estate increased $5.0 million, or 3%, to $151 million; commercial and industrial loans increased $2.0 million, or 3%, to $80 million; 1-4 family loans rose $1.6 million, or 2%, to $104 million; consumer loans jumped $1.1 million, or 10%, to $12 million; construction and land development loans inched up $0.4 million, or 1%, to $44 million; and cash flow receivables grew $0.4 million, or 2%, to $19 million.

On the negative side, other loans dropped $0.2 million, or 2%, to $10 million.

We are raising our estimate of loan growth to 5% from 3% in 2015, and expect an additional gain of 5% in 2016. This compares to actual growth of 2.3% in full-year 2014.

Asset quality measures improved in the first quarter. Restructured loans declined by $2.6 million, or 42%, to $3.6 million, while nonaccrual loans and other real estate owned were essentially flat at $8.4 million and $2.7 million, respectively.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, fell 72 basis points to 3.48% of outstandings + OREO at March 31, 2015 from 4.20% of outstandings + OREO at December 31, 2014, and decreased 161 basis points year over year from 5.09%.

The loss allowance as a percent of nonperforming assets increased sequentially to 42% from 37%, reflecting the decrease in nonperforming assets and a slight decline in the loss reserve for loans and cash flow receivables.

Liquidity and Funding

Cash and equivalents decreased $9 million to $17 million sequentially, while the securities portfolio was basically flat at $190 million. By category, the municipal securities portfolio rose $1 million to $124 million, US government-related securities declined $2 milion to $34 million, and the private-label mortgage securities portfolio rose $1 million to $33 million.

These changes had the effect of increasing by 100 basis points the municipal securities portfolio to 65% of the entire available-for-sale securities portfolio, while decreasing the US government-related securities by 100 basis points to 18%. The total and the private-label mortgage securities portfolio was flat at 17%.

CPKF's liquidity ratios declined compared to the previous quarter, reflecting the decrease in cash and equivalents. At March 31, 2015, liquid assets represented 8% of total assets (down from 9% at the end of the fourth quarter) and covered purchased funds by 62% (down from 76%), while loans plus receivables accounted for 63% of total assets (up from 62% at December 31, 2014).

Core deposits grew by $1 ½ million, or less than 1%, sequentially to $482 million and funded 115% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios declined during the quarter, primarily due to the redemption of $5 million of trust preferred securities in the first quarter. The Tier 1 capital ratio fell 84 basis points sequentially to 13.85% at the end of 2015's first quarter from 14.69% at December 31, 2014, and the Total capital ratio also decreased 84 basis points to 15.10% from 15.94%.

Total shareholders' equity increased $2.6 million during the first quarter, largely due to a $2.1 million increase in retained earnings and a $0.4 million gain in unrealized gains on securities available for sale.

Reflecting these factors plus a 5,000 increase in common shares outstanding, tangible book value per share rose during the second quarter, by $0.64 per share to $18.35 from $17.71. The total equity to total assets ratio also improved due to growth in total common shareholders' equity, rising by 40 basis points to 11.05% from 10.65%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $663 million in total assets at March 31, 2015. 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. In addition, CPKF opened a commercial loan production office in Richmond, Virginia in 2011. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

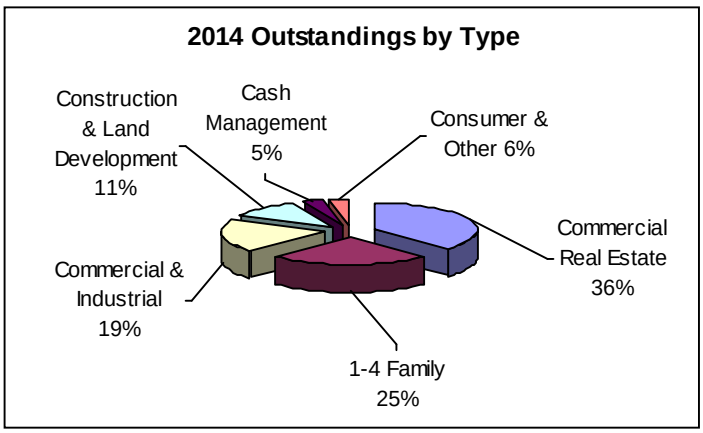
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $356 million in assets (at 2014 yearend) through its subsidiaries involved in 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 2014, Chesapeake Payment Systems had 535 merchants in its system and processed over $129 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with three 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 77 customers at the end of 2014.

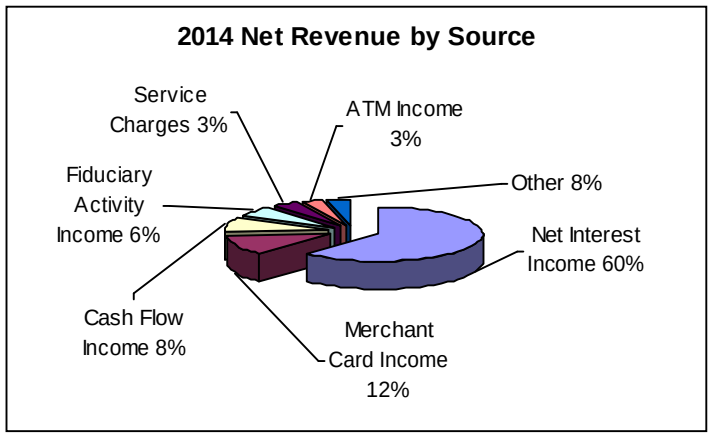
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2014, Clear Sky deposits totalled $30 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $219 million loan portfolio (as of December 31, 2014) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $560,000 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 $272,000 to revenues in 2014 (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, 2014, the lending book consisted of commercial real estate (accounting for 36% of total gross outstandings), 1-4 family (25%), commercial and industrial (19%), construction and land development (11%), cash flow (5%), and consumer and other (6%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2014, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 9% of total assets and 19% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 64% and 17%, respectively, of the total. Core deposits represented 85% of total deposits at December 31, 2014, with certificates of deposit larger than $100,000 at 15%.



In 2014, 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 (12% of net revenues), cash flow income (8%), income from fiduciary activities (6%), service charges on deposit accounts (3%), and ATM income (3%).

VALUATION

CPKF stock is up 7.1% year to date, better than the 0.1% median loss for the small-cap bank industry, as well as the 1.0% price 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 2016, based upon our current CPKF EPS estimate for 2016. This is above the average 45% P/E discount for CPKF, based upon recent historical P/E averages. Applying the historical discount of 45% to our 2016 EPS estimate results in a price of about $11.25.

Turning to Price/Tangible Book Value, CPKF is valued at 0.93X versus the industry median of 1.25X. This represents a 24% discount, well below the average historical premium of 17% for CPKF since mid-2008. Applying the historical premium of 17% to our estimated book value for CPKF twelve months out results in a price of approximately $22.75.

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.

Accordingly, we have chosen the $17.00 midpoint of the wide range of values based upon CPKF's 2016 P/E of $11.25 and Price/Tangible Book Value of $22.75 as our new target price.

Industry Comparables - Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2015E	2016E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**7.1**	**10.3**	**10.7**	**10.3**	**8.3**	**0.93**	**23.0**	**15.3**	**2.40**	**1.31**	**2.7**
S&P 500	1.0	18.4	17.3	15.9	15.7	8.9	28.4	-----	8.9	-----	2.0
Median	**(0.1)**	**14.2**	**13.6**	**12.8**	**15.2**	**1.25**	**9.0**	**6.1**	**0.91**	**0.57**	**1.8**
Average	3.1	16.9	16.2	13.8	15.2	1.2	8.5	5.1	0.8	0.6	1.7
High	31.8	58.3	45.9	29.4	28.4	2.4	23.0	15.3	2.4	1.7	4.6
Low	(12.7)	8.5	10.2	9.5	6.7	0.7	(0.8)	(48.2)	(0.1)	(0.7)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/10	12/11	12/12	12/13	12/14	12/15E	12/16E
Net interest income	21.8	22.8	23.1	23.3	23.1	23.8	24.3
Non-interest income	13.8	13.7	15.0	15.7	14.6	15.6	16.1
Total net revenue	35.6	36.5	38.1	39.0	37.7	39.4	40.4
Loan loss provision	2.5	1.2	0.6	1.1	0.6	0.3	0.3
Non-interest expense	26.2	26.4	27.8	29.8	30.5	31.4	32.0
Income taxes & other	1.5	1.9	2.0	1.5	0.8	1.4	1.6
Zacks adjusted income before NRI	5.4	7.0	7.7	6.6	5.8	6.3	6.5
GAAP net income	5.4	7.0	7.7	7.4	6.5	7.0	6.5
Diluted EPS before NRI	1.41	1.80	1.94	1.66	1.43	1.55	1.60
Reported EPS	1.41	1.80	1.94	1.84	1.62	1.73	1.60
Dividends per share	0.30	0.33	0.38	0.43	0.45	0.45	0.45
Liquid assets	73.2	97.9	92.1	89.9	62.8	51.8	52.6
Outstandings, gross	382.3	373.1	397.6	401.0	410.4	430.2	451.0
Total assets	607.7	638.0	667.7	661.8	663.2	683.2	711.0
Core deposits	396.2	430.4	459.0	467.2	480.5	496.6	516.8
Purchased funds	127.2	113.3	118.4	105.3	82.4	83.9	85.3
Long-term debt	40.0	39.6	26.0	25.9	20.6	19.0	19.0
Shareholders' equity	41.1	51.2	60.9	61.8	70.6	76.2	80.9
Profitability							
Return on avg assets	0.90%	1.13%	1.19%	1.01%	0.87%	0.94%	0.93%
Return on avg equity	13.55%	15.31%	14.87%	10.74%	9.14%	8.45%	8.26%
Net interest margin	4.40%	4.70%	4.60%	4.60%	4.60%	4.40%	4.30%
Loan loss provision % avg assets	0.41%	0.19%	0.09%	0.17%	0.09%	0.04%	0.04%
Noninterest income % avg assets	2.30%	2.21%	2.33%	2.40%	2.20%	2.33%	2.31%
Noninterest expense % avg assets	4.34%	4.27%	4.32%	4.55%	4.61%	4.68%	4.59%
Preprovision pretax income % avg assets	1.57%	1.62%	1.60%	1.41%	1.09%	1.19%	1.20%
Tangible efficiency ratio	73%	71%	71%	75%	81%	80%	79%
Payout ratio	21%	18%	19%	23%	28%	26%	28%
Asset Quality							
Net charge-offs % avg outstandings	0.48%	0.22%	0.18%	0.29%	0.14%	0.17%	0.14%
Allowance % outstandings	1.90%	2.01%	1.88%	1.75%	1.88%	1.74%	1.64%
NPAs % loans + OREO	3.91%	4.48%	4.93%	5.20%	4.20%	3.17%	2.72%
Allowance % NPAs	48%	44%	32%	30%	37%	55%	60%
Liquidity & Funding							
Liquid assets % purchased funds	58%	86%	78%	85%	76%	62%	62%
Core deposits % outstandings	104%	115%	115%	117%	117%	115%	115%
Liquid assets % assets	12%	15%	14%	14%	9%	8%	7%
Outstandings % assets	63%	58%	60%	61%	62%	63%	63%
Capital Adequacy							
Total equity % assets	6.76%	8.03%	9.12%	9.34%	10.65%	11.16%	11.38%
Tangible equity % assets	6.76%	8.03%	9.12%	9.34%	10.65%	11.16%	11.38%
Tier 1 capital ratio	12.07%	12.20%	13.55%	14.23%	14.69%		
Total capital ratio	13.54%	13.40%	14.80%	15.48%	15.94%		
Parent Company Statistics							
Interest coverage	2.6X	2.1X	4.4X	9.2X	27.3X	7.5X	7.5X
Interest & dividend coverage	1.1X	0.9X	1.5X	1.5X	3.7X	1.4X	1.3X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.8X	0.8X	0.9X	1.0X	0.9X	0.9X	0.9X
Double leverage	134.7%	127.2%	121.7%	119.7%	109.3%	110.4%	112.1%

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2014				2015			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	5.6	5.7	5.9	6.0	5.9	5.9	6.0	6.0
Non-interest income	3.4	4.0	3.4	3.7	3.9	4.2	3.7	3.8
Total net revenue	9.0	9.7	9.3	9.7	9.8	10.1	9.7	9.8
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Non-interest expense	7.2	7.2	8.0	8.1	7.4	7.4	8.1	8.5
Income taxes & other	0.4	0.4	0.2	(0.2)	0.4	0.5	0.3	0.2
Zacks adjusted income before NRI	1.3	1.9	0.9	1.6	1.9	2.1	1.2	1.0
GAAP net income	1.3	1.9	1.7	1.6	2.6	2.1	1.2	1.0
Diluted EPS before NRI	0.32	0.48	0.23	0.41	0.48	0.52	0.30	0.26
Reported EPS	0.32	0.48	0.42	0.41	0.66	0.52	0.30	0.26
Dividends per share	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Liquid assets	90.1	70.1	63.2	62.8	51.1	51.4	51.6	51.8
Outstandings, gross	404.7	400.6	409.4	410.4	420.6	423.8	427.0	430.2
Total assets	669.2	655.0	658.0	663.2	663.1	669.8	676.5	683.2
Core deposits	480.4	462.5	477.4	480.5	482.0	486.9	491.7	496.6
Purchased funds	95.2	93.1	84.0	82.4	82.9	83.2	83.6	83.9
Long-term debt	26.0	25.9	20.7	20.6	19.3	19.0	19.0	19.0
Shareholders' equity	64.5	67.0	68.9	70.6	73.2	74.9	75.6	76.2
Profitability								
Return on avg assets*	0.78%	1.15%	0.55%	0.99%	1.16%	1.26%	0.73%	0.61%
Return on avg equity *	8.26%	11.56%	5.35%	9.40%	10.67%	11.30%	6.50%	5.49%
Net interest margin*	4.46%	4.48%	4.55%	4.60%	4.41%	4.40%	4.40%	4.40%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.04%	0.03%	0.04%	0.04%
Noninterest income % avg assets*	2.06%	2.39%	2.09%	2.28%	2.36%	2.52%	2.19%	2.25%
Noninterest expense % avg assets*	4.32%	4.35%	4.85%	4.93%	4.44%	4.47%	4.81%	5.01%
Preprovision pretax inc.% avg assets*	1.10%	1.47%	0.82%	0.97%	1.46%	1.60%	0.93%	0.79%
Tangible efficiency ratio	80%	74%	85%	84%	77%	74%	83%	86%
Payout ratio	35%	23%	27%	28%	17%	22%	37%	44%
Asset Quality								
Net charge-offs % avg outstandings*	(0.07)%	0.24%	0.05%	0.32%	0.27%	0.14%	0.14%	0.14%
Allowance % outstandings	1.83%	1.87%	1.89%	1.88%	1.80%	1.78%	1.76%	1.74%
NPAs % loans + OREO	5.09%	4.50%	3.90%	4.20%	3.48%	3.38%	3.28%	3.17%
Allowance % NPAs	31%	35%	41%	37%	42%	52%	53%	55%
Liquidity & Funding								
Liquid assets % purchased funds	95%	75%	75%	76%	62%	62%	62%	62%
Core deposits % outstandings	119%	115%	117%	117%	115%	115%	115%	115%
Liquid assets % assets	13%	11%	10%	9%	8%	8%	8%	8%
Outstandings % assets	60%	61%	62%	62%	63%	63%	63%	63%
Capital Adequacy								
Total equity % assets	9.64%	10.23%	10.47%	10.65%	11.05%	11.18%	11.18%	11.16%
Tangible equity % assets	9.64%	10.23%	10.47%	10.65%	11.05%	11.18%	11.18%	11.16%
Tier 1 capital ratio	14.41%	14.84%	14.22%	14.69%	13.85%			
Total capital ratio	15.66%	16.09%	15.47%	15.94%	15.10%			

*Annualized.

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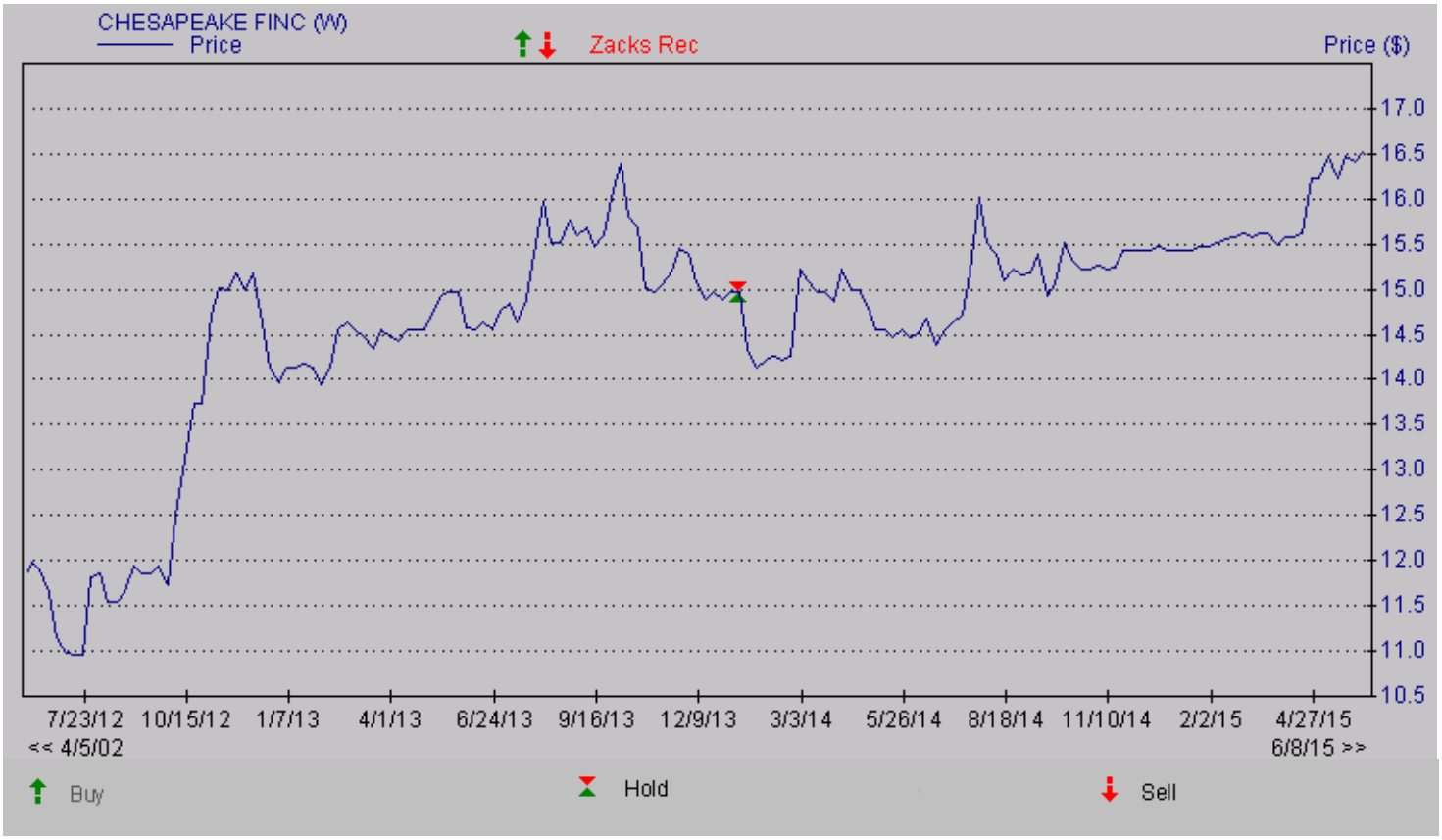

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