Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF - OTC)

CPKF: Raising 2012 Estimate and Target Price

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/26/2011
Current Price (03/26/12)	$13.50
Twelve-Month Target Price	**$17.50**

OUTLOOK

Chesapeake Financial Shares, Inc. (CPKF) reported 2011 fourth quarter net earnings of $1.6 million, or $0.49 per diluted share, up 57% from the $1.0 million, or $0.31 per diluted share posted in the year-ago quarter. This compares to our fourth quarter estimate of $0.33. There were a number of variances from our estimate. On the positive side, the loan loss provision was $0.2 million, $0.3 million lower than our estimate of $0.5 million, and the effective tax rate was 8.9% versus our estimate of 24.4%. Negatively, CPKF recorded a net loss on the sale of securities of $455,000 (compared to our $50,000 estimate), reducing noninterest income to $3.2 million (versus our $3.5 million estimate). For full-year 2011, CPKF earned $7.0 million, or $2.16 per diluted share, up 28% from the $5.4 million, or $1.69 per diluted share, posted in 2010. This compares to our $6.5 million net earnings estimate, or $2.00 per diluted share. This year-over-year gain primarily stemmed from a 5% advance in net interest income to $22.8 million due to a 30 basis-point increase in the net interest margin to 4.70% (average loans were flat) and a 52% decline in the loan loss provision to $1.2 million. We are raising our 2012 diluted EPS estimate to $2.20 from $2.10, principally due to the better-than-expected performance in 2011's fourth quarter, which we expect to carry over into 2012. Our $2.20 estimate in 2012 represents a 5% gain over 2011's $2.10. CPKF raised its quarterly dividend by 10% to $0.11 from $0.10 and has increased its dividend payment annually for the past twenty years.

SUMMARY DATA

52-Week High	**$14.15**
52-Week Low	**$10.80**
One-Year Return (%)	**17.34**
Beta	**0.17**
Average Daily Volume (sh)	**508**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$44**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.44**
Dividend Yield (%)	**3.26**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.1**
Earnings Per Share (%)	**14.1**
Dividend (%)	**8.2**
P/E using TTM EPS	**6.3**
P/E using 2011 Actual	**6.3**
P/E using 2012 Estimate	**6.1**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**45 of 73**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	7.5 A	8.0 A	8.6 A	8.9 A	33.0 A
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	9.0 E	9.2 E	9.5 E	9.6 E	37.3 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	0.28 A	0.34 A	0.44 A	0.38 A	1.48 A
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	0.59 E	0.56 E	0.59 E	0.46 E	2.20 E

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

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FOURTH QUARTER RESULTS

CPKF reported 2011 fourth quarter net earnings of $1.6 million, or $0.49 per diluted share, up 57% from the $1.0 million, or $0.31 per diluted share posted in the year-ago quarter. This compares to our fourth quarter estimate of $0.33.

There were a number of variances from our estimate. On the positive side, the loan loss provision was $0.2 million, $0.3 million lower than our estimate of $0.5 million, and the effective tax rate was 8.9% versus our estimate of 24.4%. Negatively, CPKF recorded a net loss on the sale of securities of $455,000 (compared to our $50,000 estimate), reducing noninterest income to $3.2 million (versus our $3.5 million estimate).

For full-year 2011, CPKF earned $7.0 million, or $2.16 per diluted share, up 28% from the $5.4 million, or $1.69 per diluted share, posted in 2010. This compares to our $6.5 million net earnings estimate, or $2.00 per diluted share. This year-over-year gain primarily stemmed from a 5% advance in net interest income to $22.8 million due to a 30 basis-point increase in the net interest margin to 4.70% (average loans were flat) and a 52% decline in the loan loss provision to $1.2 million.

Noninterest income fell 1% to $13.7 million, as good growth in merchant card and ATM income were offset by inceased net losses on securities sales and a decrease in cash flow income. Noninterest expense rose only 1% to $26.4 million as most line items dropped, with the exceptions of compensation costs that rose 9% to $13.5 million due to bonus accruals and ATM expense that posted a 14% gain to $0.7 million, following equipment and software upgrades to CPKF's ATM network. The effective tax rate in 2011 was 21.4%, a bit lower than 2010's 22.0%. For full-year 2011, CPKF posted a 15.3% ROE and 1.13% ROA, compared to 13.6% and 0.90%, respectively, in the prior year.

We are raising our 2012 diluted EPS estimate to $2.20 from $2.10, principally due to the better-than-expected performance in 2011's fourth quarter, which we expect to carry over into 2012. Our $2.20 estimate in 2012 represents a 5% gain over 2011's $2.10.

Importantly, CPKF raised its quarterly dividend by 10% to $0.11 from $0.10, paid on March 15, 2012 to shareholders of record on March 1, 2012. This means CPKF has increased its dividend payment annually for the past twenty years since 1992.

We note that US Banker ranked CPKF 20th (up from 32nd about 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. This ranking was based upon three-year average returns on equity, which for Chesapeake Financial was 13.40%. The Company has steadily risen through the rankings in the past four years, reflecting its solid financial performance during this difficult banking environment.

More recently, Jeffrey M. Szyperski, Chairman, President & CEO, Chesapeake Bank, has been named Chairman of the Virginia Bankers Association.

Below we discuss 2011 fourth quarter results in more depth.

Net Interest Income

Net interest income rose 9% year over year and advanced 6% sequentially to $6.0 million (versus our $5.6 million estimate), due to improvement in the net interest margin (NIM) to an exceptionally strong 4.77% (versus our 4.50% estimate) from the 4.56% that occurred in 2011's third quarter. This gain largely reflected a greater-than-expected fall in interest expense as CPKF continued to reduce deposit funding costs to current lower market rates, though taxable-equivalent adjustments aided the margin modestly, as well. This was partly offset by a decrease in loans and receivables outstanding of 2% year over year (outstandings inched up $0.2 million increase sequentially) due to slower loan demand.

We are sharply increasing our NIM estimate in 2012 to 4.68% from 4.45% previously, and compares to 4.70% for full-year 2011. We are projecting a net interest margin of 4.70% in the first and second quarters, before dropping to 4.65% in the third and fourth quarters.

Noninterest Income

Noninterest income slid 1% year over year to $3.2 million, as solid growth in ATM and merchant card income (up 8% and 7%, respectively) was offset by a 16% decrease in cash flow revenues, reflecting a $3.5 million, or 18%, decline in receivables as CPKF clients were able to secure 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 products, designed specfically for this segment of customers.

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 has added one more company 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.

Loss Provision

The loan loss provision decreased 78% to $0.2 million (versus our $0.5 million estimate), as the Company reverted to normal reserve strengthening compared to the outsized $0.9 million provision taken in the year-ago quarter. CPKF increased its loan loss reserves to $6.5 million (1.81% of loans) from $6.1 million (1.69% of loans) at the end of the comparable year-ago quarter, though it was down a bit from the $6.7 million (1.89% of loans) at the end of the previous quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance rose to $7.5 million (2.01% of loans plus cash flow receivables) from $7.3 million (1.90% of loans plus cash flow receivables) at the end of the comparable year-ago quarter, though it was down from the $7.9 million (2.12% of loans plus cash flow receivables) at the end of the previous quarter.

For full-year 2011, we are estimating that CPKF will again experience a significant improvement in the loss provision, this time falling by one-third to $0.8 million, compared 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.

Noninterest Expense

Total noninterest expense rose $0.3 million, or 5%, year over year to $7.2 million and matched our estimate.

Relative to the year-ago quarter, most line items posted improvement and declined year over year with two major exceptions: (1) compensation costs increased 18% to $3.8 due to bonus accruals as CPKF posted better earnings and (2) ATM expense rose 17% to $0.2 million, due to equipment and software upgrades to CPKF's ATM network.

Generally, the Company maintained tight control over noncompensation operating expenses. Because core net revenues rose 15% while noninterest expense increased only 5%, the Company's efficiency ratio improved, falling to 75.0% compared to 78.1% in 2010's fourth quarter.

Income Taxes

The Company's effective tax rate in the fourth quarter was 8.9%, compared to an 11.2% tax credit in the year-ago quarter and our 24.4% estimate. This was the result of one-time credits as the Company made adjustments to its estimated full-year tax liability in the fourth quarter.

We have decreased our estimated effective tax rate to 22% from 24.4% in 2012, as we now expect a higher level of tax-exempt income relative to total net income in 2012 than we did previously. This compares to a full-year effective tax rate of 21.4% in 2011.

Net Income

CPKF posted net earnings of $1.6 million (or $0.49 per diluted share), up 57% from the $1.0 million ($0.31 per diluted share) earned in the year-ago quarter. This compares to our $1.1 million net income estimate ($0.33 per diluted share).

Profitability

CPKF posted a 12.5% ROE and 1.00% ROA for the fourth quarter of 2011, compared to 9.7% and 0.67%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding inched up about $4 million, or 1%, sequentially to $356 million, but fell $6 million year over year from the end of 2010, reflecting continued weak loan demand. Most categories posted sequential declines during the fourth quarter with the exceptions of construction and land development, which grew $3.0 million, or 6%, to $52.2 million and other loans, which more than doubled to $9.1 million, due to the addition of a couple of in-market, multi-family housing developments. In addition, there was a $3.5 million, or 18%, decline in cash flow receivables, as CPKF clients were able to secure more traditional bank financing at other financial institutions.

We expect annual loan growth of 4% in 2012. 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 24 basis points to 4.48% of outstandings + OREO at December 31, 2011 from 4.71% at September 30, 2011. Nonaccrual loans and receivables fell by $1.9 million, or 44%, to $2.4 million at the end of December from $4.3 million at September quarterend, largely due to improvement in the 1-4 family residential mortgage loan portfolio. Performing troubled debt restructurings were flat at $9.2 million, while other real estate owned (OREO) increased $1.0 million, or 25%, sequentially to $5.3 million. In total, there was a net sequential decline in nonperforming assets of $0.8 million, or 5%, to $16.9 million during the fourth quarter.

The loss allowance as a percent of nonperforming assets was flat at 44% at the end of both the December and September quarters. The decrease in nonperforming assets was offset by a decline in the loan loss reserves. Thus, the combined loss allowance for both loans and cash flow receivables decreased to $7.5 million, or 2.01% of gross outstandings, from $7.9 million, or 2.12% of gross outstandings at the end of the September 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 $3 million sequentially. The Company continues to emphasize investing in municipal securities, which account for 53% of total securities (up 6 points from 47% a year ago), and US agency mortgage securities, which account for 32% of total securities (up 1 point from 31% a year ago), while pulling back from private-label mortgage securities, which now represent 15% of the total securities portfolio, down 7 points from 22% at the end of December 2010.

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 12% a year ago), while loans plus receivables account for 58% of total assets (down from 63% at the end of the prior year and 67% as recently as a couple of years ago).

Core deposits rose $34 million, or 5%, year over year to $430 million and funded 115% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved modestly during the quarter as strong growth in Tier 1 capital was mostly offset by an increase in risk-weighted assets. The Tier 1 capital ratio rose 11 basis points sequentially to 12.20% at the end of 2011's fourth quarter from 12.09% at September 30, 2011, and the Total capital ratio increased 6 basis points to 13.40% from 13.34%. Importantly, both of these remain well above the well-capitalized standard as established by federal regulators.

Total shareholders' equity advanced $0.8 million during the fourth quarter, due to a combination of $1.4 million growth in retained earnings, $0.1 million in other capital changes, and a $0.7 million decline in accumulated comprehensive income to $3.3 million at the end of the fourth quarter from $4.0 million at the end of the third quarter. This was the result of a negative 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 $0.25 per share to $15.67 from $15.42.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a bank holding company headquartered in Kilmarnock, Virginia, with $638 million in total assets at December 31, 2011. 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 (as of the end of the fourth quarter) 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.

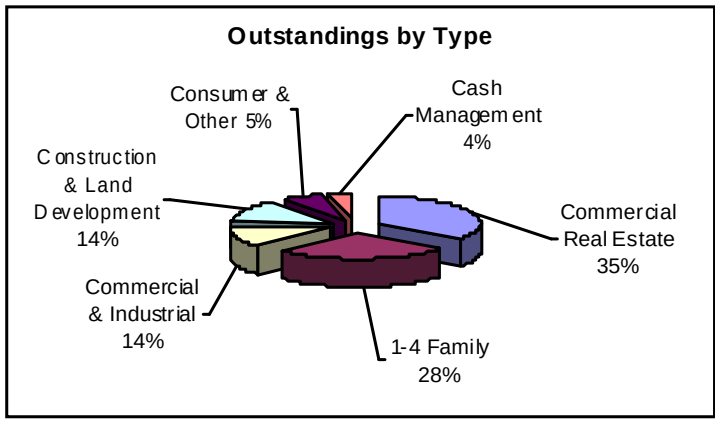
Chesapeake Payment Systems offers merchant processing services such as credit card and debit card processing, electronic benefits transfers, and loyalty and gift card processing to companies involved in travel, entertainment, restaurant, hospitality, retail, mail order, and e-commerce. At yearend 2011, 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.

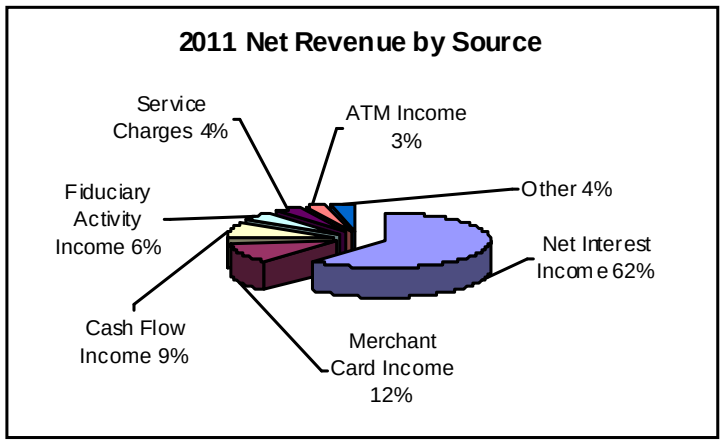
Through Chesapeake's secondary market mortgage banking operation, the Company services a $177 million loan portfolio (as of December 31, 2011) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $440,000 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 20.0% year to date and has outperformed the S&P 500's 12.6% advance by a wide margin, though it has underperformed the industry's median price increase of 27.4%, as shown in the following table. At its current price, CPKF is trading at a discount to the industry median P/E of 45% in 2012 (versus 49% at the time of our last report on January 25, 2012), based upon our CPKF EPS estimate for 2012. This is in excess of the average 42% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 42% to our 2012 EPS estimate results in a price of about $15.00.

Turning to Price/Tangible Book Value, CPKF is valued at 0.87X versus the industry median of 0.87X. This represents a 0% premium, well below the average historical premium of 17% 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 17% to our estimated book value for CPKF twelve months out results in a price of approximately $20.00.

Taking the midpoint of the $15.00-20.00 stock price range determined above results in a target price of $17.50 and compares to CPKF's current stock price of $13.50, indicating a 30% gain. When combined with the dividend yield, this represents a total return of about 33%, 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	**20.0**	**7.2**	**6.4**		**9.1**	**0.8681**	**15.3**	**14.2**	**1.12**	**1.13**	**3.3**
S&P 500	12.6	15.0	13.8	12.8	17.2	6.8	26.8	-----	9.8	-----	2.1
Median	**27.4**	**13.0**	**11.7**	**11.6**	**15.8**	**0.8711**	**7.6**	**4.6**	**0.74**	**0.33**	**0.6**
Average	25.5	21.0	12.5	11.1	20.2	0.8	5.3	3.5	0.63	0.38	1.5
High	74.5	169.6	25.2	19.7	41.4	1.7	27.1	11.5	2.08	2.34	7.1
Low	(17.9)	5.8	5.8	6.9	11.9	0.3	(71.8)	(9.0)	(1.81)	(1.45)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/06	12/07	12/08	12/09	12/10	12/11	12/12 E
Net interest income	14.3	14.5	16.5	18.9	21.8	22.8	23.6
Non-interest income	11.6	13.5	15.0	14.1	13.8	13.7	13.7
Total net revenue	25.9	28.0	31.5	33.0	35.6	36.5	37.3
Loan loss provision	0.8	0.2	0.4	0.9	2.5	1.2	0.8
Non-interest expense	19.6	21.8	25.0	25.9	26.2	26.4	27.3
Income taxes & other	1.5	1.7	1.5	1.4	1.5	1.9	2.0
Zacks adjusted income before NRI	4.0	4.3	4.6	4.8	5.4	7.0	7.2
GAAP net income	4.0	4.3	4.6	4.8	5.4	7.0	7.2
Diluted EPS before NRI	1.12	1.24	1.34	1.48	1.69	2.16	2.20
Reported EPS	1.12	1.24	1.34	1.48	1.69	2.16	2.20
Dividends per share	0.27	0.29	0.34	0.35	0.36	0.40	0.44
Liquid assets	52.9	58.4	45.4	57.8	73.2	97.9	101.8
Outstandings, gross	319.4	361.6	396.2	391.3	382.3	373.1	388.2
Total assets	418.1	483.0	538.0	586.7	607.7	638.0	663.9
Core deposits	295.2	308.8	317.0	370.0	396.2	430.4	447.9
Purchased funds	73.7	80.0	115.9	126.7	121.7	113.3	117.9
Long-term debt	11.6	44.4	65.5	47.4	40.0	39.6	40.0
Shareholders' equity	31.0	33.7	30.6	35.3	41.1	51.2	56.2
Profitability							
Return on avg assets	0.98%	0.97%	0.89%	0.84%	0.90%	1.13%	1.10%
Return on avg equity	13.58%	13.68%	13.51%	13.14%	13.03%	15.31%	13.34%
Net interest margin	4.20%	4.10%	4.00%	4.10%	4.40%	4.70%	4.68%
Loan loss provision % avg assets	0.21%	0.04%	0.08%	0.16%	0.41%	0.19%	0.12%
Noninterest income % avg assets	2.88%	3.01%	2.91%	2.45%	2.28%	2.21%	2.10%
Noninterest expense % avg assets	4.86%	4.87%	4.84%	4.51%	4.31%	4.27%	4.19%
Preprovision pretax income % avg assets	1.54%	1.39%	1.26%	1.24%	1.56%	1.62%	1.54%
Tangible efficiency ratio	76%	78%	79%	78%	73%	71%	72%
Payout ratio	24%	23%	25%	24%	21%	18%	20%
Asset Quality							
Net charge-offs % avg outstandings	0.28%	0.04%	0.27%	0.34%	0.48%	0.22%	0.18%
Allowance % outstandings	1.55%	1.50%	1.43%	1.59%	1.90%	2.01%	2.00%
NPAs % loans + OREO	1.00%	0.61%	0.35%	1.20%	2.00%	4.48%	4.04%
Allowance % NPAs	154%	245%	411%	131%	94%	44%	49%
Liquidity & Funding							
Liquid assets % purchased funds	72%	73%	39%	46%	60%	86%	86%
Core deposits % outstandings	92%	85%	80%	95%	104%	115%	115%
Liquid assets % assets	13%	12%	8%	10%	12%	15%	15%
Outstandings % assets	76%	75%	74%	67%	63%	58%	58%
Capital Adequacy							
Total equity % assets	7.41%	6.97%	5.68%	6.01%	6.76%	8.03%	8.47%
Tangible equity % assets	7.41%	6.97%	5.68%	6.01%	6.76%	8.03%	8.47%
Tier 1 capital ratio	11.10%	10.80%	10.60%	10.10%	12.07%	12.20%	
Total capital ratio	12.50%	15.50%	12.50%	11.70%	13.54%	13.40%	
Parent Company Statistics							
Interest coverage	0.8X	0.4X	0.6X	0.8X	2.6X	2.1X	1.0X
Interest & dividend coverage	0.5X	0.3X	0.3X	0.4X	1.1X	0.9X	0.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.0X	1.0X	0.9X	0.8X	0.8X	0.8X	1.2X
Double leverage	127.3%	133.2%	139.8%	142.1%	134.7%	127.2%	128.7%

Chesapeake Financial Shares, Inc.

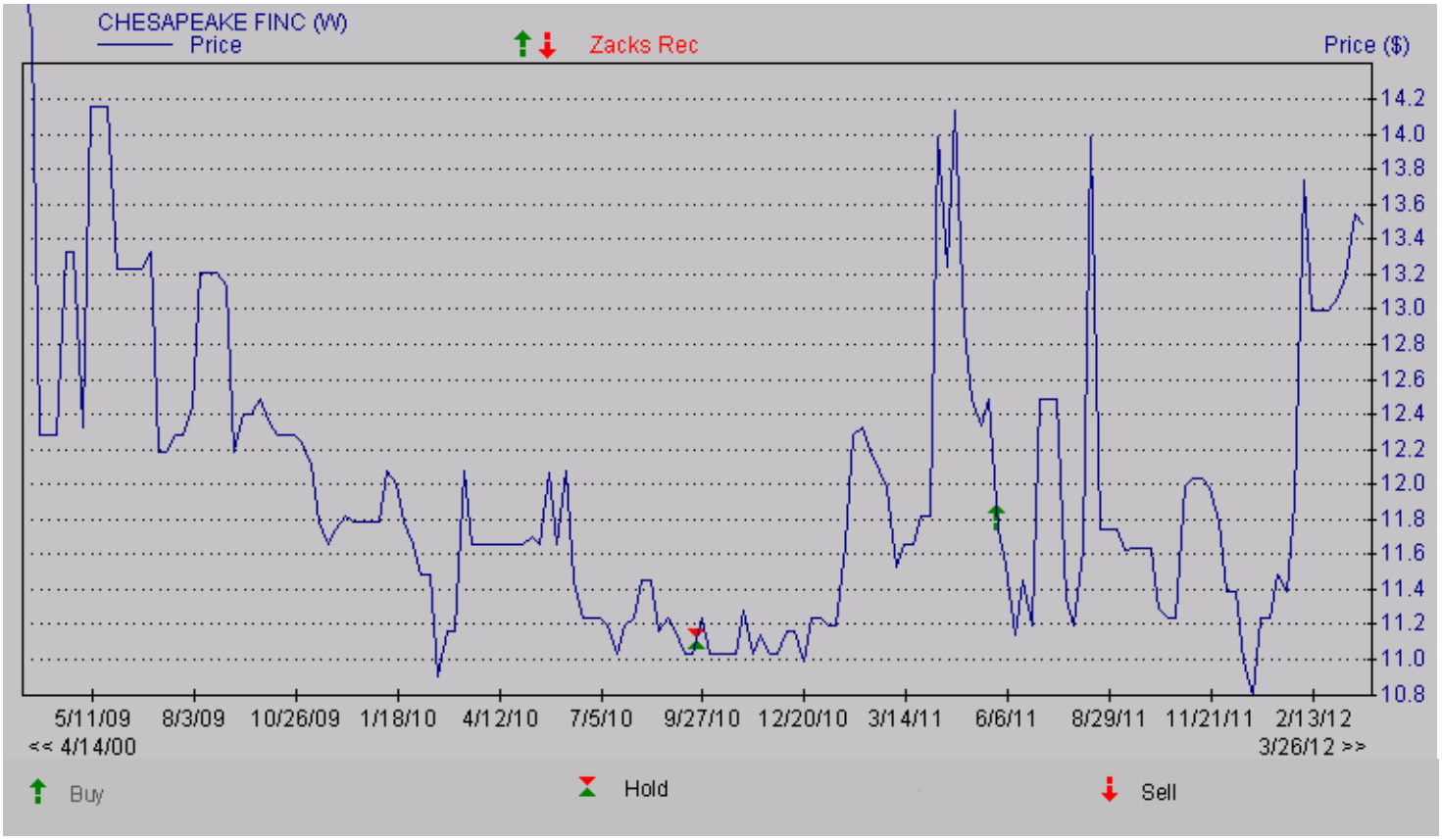
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 E**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	5.8	5.4	5.7	5.9	5.9	5.9	5.9	5.9
Non-interest income	3.0	4.0	3.5	3.2	3.1	3.3	3.6	3.7
Total net revenue	8.9	9.4	9.2	9.1	9.0	9.2	9.5	9.6
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	6.7	6.8	7.4
Income taxes & other	0.5	0.6	0.6	0.1	0.5	0.5	0.6	0.5
Zacks adjusted income before NRI	1.5	2.1	1.8	1.6	1.9	1.8	1.9	1.5
GAAP net income	1.5	2.1	1.8	1.6	1.9	1.8	1.9	1.5
Diluted EPS before NRI	0.47	0.63	0.56	0.49	0.59	0.56	0.59	0.46
Reported EPS	0.47	0.63	0.56	0.49	0.59	0.56	0.59	0.46
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	98.9	99.8	100.8	101.8
Outstandings, gross	376.8	376.5	372.9	373.1	376.8	380.6	384.4	388.2
Total assets	602.7	619.6	631.5	638.0	644.3	650.8	657.3	663.9
Core deposits	397.2	415.3	422.9	430.4	434.7	439.1	443.5	447.9
Purchased funds	115.8	112.5	112.5	113.3	114.4	115.5	116.7	117.9
Long-term debt	40.0	39.9	39.8	39.6	40.0	40.0	40.0	40.0
Shareholders' equity	43.6	46.6	50.4	51.2	52.5	53.7	55.1	56.2
Profitability								
Return on avg assets*	1.01%	1.35%	1.16%	1.00%	1.19%	1.13%	1.17%	0.92%
Return on avg equity *	14.40%	18.28%	14.91%	12.49%	14.70	13.79	14.12	10.87%
Net interest margin*	4.68%	4.33%	4.56%	4.77%	4.70%	4.70%	4.65%	4.65%
Loan loss provision % avg assets*	0.39%	0.13%	0.13%	0.13%	0.12%	0.12%	0.12%	0.12%
Noninterest income % avg assets*	1.99%	2.65%	2.25%	2.00%	1.95%	2.03%	2.19%	2.22%
Noninterest expense % avg assets*	4.13%	4.26%	4.20%	4.54%	3.98%	4.11%	4.16%	4.49%
Preprovision pretax inc.% avg assets*	1.72%	1.92%	1.66%	1.22%	1.65%	1.57%	1.63%	1.29%
Tangible efficiency ratio	71%	69%	72%	75%	69%	71%	70%	76%
Payout ratio	20%	16%	18%	20%	19%	20%	19%	24%
Asset Quality								
Net charge-offs % avg outstandings*	0.01%	0.44%	-----	0.41%	0.21%	0.16%	0.16%	0.18%
Allowance % outstandings	2.11%	2.06%	2.12%	2.01%	2.00%	2.00%	2.00%	2.00%
NPAs % loans + OREO	1.92%	2.38%	2.28%	4.48%	4.40%	4.28%	4.15%	4.04%
Allowance % NPAs	92%	85%	92%	44%	45%	46%	48%	49%
Liquidity & Funding								
Liquid assets % purchased funds	60%	79%	89%	86%	86%	86%	86%	86%
Core deposits % outstandings	105%	110%	113%	115%	115%	115%	115%	115%
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%	8.15%	8.26%	8.38%	8.47%
Tangible equity % assets	7.24%	7.52%	7.98%	8.03%	8.15%	8.26%	8.38%	8.47%
Tier 1 capital ratio	12.39%	12.04%	12.09%	12.20%				
Total capital ratio	13.76%	13.30%	13.34%	13.40%				

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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