Zacks Small-Cap Research

April 20, 2016
Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com
111 North Canal Street ● Chicago, IL 60606

Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Strong Growth in Lending and Merchant Card Offsets Loss of Securities Gains in 2016

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	01/09/2014
Current Price (04/19/16)	$18.25
Twelve-Month Target Price	**$19.25**

OUTLOOK

We are reducing our 2016 diluted EPS estimate— to $1.70 from $1.80, primarily to reflect the absence of about $1.2 million in securities gains as occurred in 2015. That said, other elements of CPKF's story remain intact, including strong loan growth and robust gains in merchant card income. In fact, we have increased our estimate for merchant card revenues by an additional $1.3 million, on top of recent prior increases of $2.9 million in 2016. We estimate that loan growth of 9% in 2016 (up from our 7% estimate previously, mainly due to higher growth expectations for commercial real estate and cash management) will offset a declining net interest margin (down about 13 basis points to 4.25% in 2016, a decline of 5 basis points from our prior 4.30% estimate). Negatively, the Company had $1.2 million in net securities gains in 2015, and none are expected for 2016, which will become a headwind for earnings growth. Other headwinds primarily reflect higher expenses related to the expansion of the merchant card business (up an estimated $1.3 million), as well as additional staff and corresponding compensation costs related to CPKF's build-up of operations in 2015. 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. CPKF recently increased the dividend 7%, and has increased its annual dividend payment every year for the past twenty-five years since 1991. 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 about 6,000 community banks.

SUMMARY DATA

52-Week High	**$18.30**
52-Week Low	**$15.65**
One-Year Return (%)	**17.05**
Beta	**0.08**
Average Daily Volume (sh)	**600**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$72**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
	$18.30
Annual Cash Dividend	**$15.65**
Dividend Yield (%)	**17.05**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**3.5**
Earnings Per Share (%)	**3.1**
Dividend (%)	**9.3**
P/E using TTM EPS	**11.1**
P/E using 2016 Estimate	**10.7**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**N/A**

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	10.6 A	11.1 A	10.8 A	42.3 A
2016	10.8 E	11.4 E	11.6 E	12.0 E	45.8 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	0.54 A	0.40 A	0.22 A	1.64 A
2016	0.41 E	0.44 E	0.44 E	0.41 E	1.70 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.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

FOURTH QUARTER

We are reducing our 2016 diluted EPS estimate— to $1.70 from $1.80, primarily to reflect the absence of about $1.2 million in securities gains as occurred in 2015. That said, other elements of CPKF's story remain intact, including strong loan growth and robust gains in merchant card income. In fact, we have increased our estimate for merchant card revenues by an additional $1.3 million, on top of recent prior increases of $2.9 million in 2016.

To understand this remarkable growth, a few months ago CPKF added a new high-volume merchant that processes several million dollars of card volume per month, following the recent hire of a new merchant card division head with extensive knowledge of the industry at Chesapeake Payment Systems, who wishes to further expand this business. More recently, CPKF approved three new independent sales organizations (ISOs), all of which will begin merchant card processing in 2016's first half. Thus, we expect steady growth in this business throughout the year. Moreover, additional upside is possible should CPKF add more merchants or ISO relationships in 2016.

We estimate that loan growth of 9% in 2016 (up from our 7% estimate previously, mainly due to higher growth expectations for commercial real estate and cash management) will offset a declining net interest margin (down about 13 basis points to 4.25% in 2016, a decline of 5 basis points from our prior 4.30% estimate). Negatively, the Company had $1.2 million in net securities gains in 2015, and none are expected for 2016, which will become a headwind for earnings growth.

Other headwinds primarily reflect higher expenses related to the expansion of the merchant card business (up an estimated $1.3 million), as well as additional staff and corresponding compensation costs related to CPKF's build-up of operations in 2015. The Company hired a new commercial lender in the Richmond, Virginia market; in October 2015 opened a loan production office in Chester, Virginia (for commercial loans); hired a new sales representative for the cash flow business in the first quarter; and opened a new branch in Richmond late in the third quarter in late September, which will entail the hiring of about four new employees (this is down from the eight new hires originally expected as four positions have been filled with internal transfers). As a result, we project that compensation costs will rise about 9% in 2016 following a 15% increase in 2015. 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 fourth quarter net earnings fell $0.7 million year over year, or 44%, to $0.9 million, while 2015's fourth quarter diluted EPS dropped by $0.19, or 45%, to $0.22 from $0.41 posted a year ago.

This was a bit worse than our estimate, which had called for a $0.5 million decrease in net earnings to $1.2 million (off by $0.3 million) and a $0.12 decline in diluted EPS to $0.29 (off by $0.07).

The primary reasons for the difference between reported results and our estimate was that net revenues were $0.1 million less than the $10.9 million we had anticipated, largely consisting of noninterest income that was $0.2 million lower than our projection as net securities gains and merchant card income were each $0.1 million below expectations, partly offset by net interest income that was $0.1 million higher than our estimate.

On the other hand, total noninterest expense of $9.9 million was $0.6 million more than we had projected, primarily reflecting compensation expense that was $1.1 million higher than anticipated, partly offset by other miscellaneous noninterest expense that was $0.5 million lower than we thought it would be.

The major reasons for the fourth quarter's $0.7 million decrease in net earnings versus the prior-year quarter were a $1.8 million, or 22%, rise in total noninterest expense from greater compensation costs and merchant card expense, partly offset by a $1.1 million, or 27%, advance in noninterest income.

For the year, CPKF posted net income before nonoperating items of $6.7 million, or $1.64 per diluted share, up 16% from the $5.8 million, or $1.43 per diluted share, posted in 2014. Results in 2015 exclude a $1.0 million pretax gain on the redemption of trust preferred securities ($0.7 million or $0.18 per share on an aftertax basis), while results in 2014 exclude a $1.1 million pretax gain on the redemption of trust preferred securities ($0.8 million or $0.19 per share on an aftertax basis).

Primary contributors to this result were a $4.3 million, or 29%, gain in noninterest income from higher merchant card income and net securities gains and a 60% decline in the loan loss provision to $241,000 from $600,000 in the prior year. These positives were partly offset by a $2.1 million, or 14%, rise in compensation costs, a $1.6 million increase in noninterest expense, largely due to higher merchant card expense, and an effective tax rate that was 260 basis more than the 12.7% posted a year ago. (All per share data in this report have been adjusted for a 6-for-5 stock split, paid to shareholders in mid-October 2014.)

CPKF opened a new branch in Richmond, Virginia in late September 2015 and in October 2015 opened a loan production office in Chester, Virginia (for commercial loans), as part of its long-term strategy emphasizing planned thoughtful expansion.These two locations will house all of CPKF's Richmond area associates, from loan production to banking to wealth management.

On July 17, 2015, CPKF's Board of Directors approved a 6.7% increase in the quarterly dividend to $0.12 from $0.1125, paid on September 15, 2015 to shareholders of record on September 1, 2015. Notably, CPKF has increased the annual dividend payment every year for the past twenty-five years since 1991.

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 third quarter results more fully. Our projections are shown at the back of the report.

Net Interest Income

Net interest income was flat year over year in the fourth quarter at $6.0 million ($0.1 million above our $5.9 million estimate), as a 4% increase in average interest-earning assets was partly offset by a 4.47% net interest margin that was 13 basis points lower than the 4.60% earned in the year-ago quarter. The net interest margin rose 14 basis points from 4.33% in the third quarter, and was 12 basis points above our 4.35% estimate.

We are reducing our NIM estimate for 2016 to 4.25% from 4.30%.This compares to a 4.38% NIM for 2015. The decrease reflects 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 fourth quarter, which will likely expand the net interest margin in a rising interest-rate environment.

Noninterest Income

Noninterest income increased $1.1 million, or 27%, year over year to $4.8 million from higher merchant card income (up $0.8 million), cash flow income (up $0.1 million), and service charges on deposit accounts (up $0.1 million). A few months ago, CPKF added a new high-volume merchant that processes several million dollars of card volume per month, following the recent hire of a new merchant card division head with extensive knowledge of the industry at Chesapeake Payment Systems, who wishes to further expand this business. More recently, CPKF approved three new independent sales organizations (ISOs), all of which will begin merchant card processing in 2016's first half. Thus, we expect a steady growth in this business throughout the year.

We have increased our estimates for merchant card revenues by an additional $1.3 million, on top of recent prior increases of $2.9 million in 2016. Moreover, additional upside is possible should CPKF add more merchants or ISO relationships in 2016.

This largely accounts for the gain in our projection of noninterest income of $1.3 million to $21.3 million in 2016 (up from our prior estimate of $20.0 million).

Loss Provision

The loan loss provision declined by $66,000 to $84,000 from $150,000 in the year-ago quarter and was higher than our $50,000 estimate. Loan loss reserves fell $0.1 million to $5.5 million (1.33% of loans) compared with the third quarter (1.42% of loans), and were $0.9 million below the $6.6 million (1.63% of loans) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell to $6.6 million (1.51% of loans plus cash flow receivables) from $7.7 million (1.88% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and, and was flat with the $6.6 million (1.59% 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 $182,000 in the fourth quarter. This compares to net charge-offs of $333,000 in the year-ago quarter and net charge-offs of $1,119,000 for the full year in 2015.

We are estimating that the loss provision will remain flat at about $250,000 in 2016 ($241,000 actual in 2015).

We project that the total loss allowance will fall from 1.51% of total loans plus receivables at the end of 2015 to 1.29% at yearend 2016.

Noninterest Expense

Noninterest expense advanced $1.8 million, or 22%, to $9.9 million ($0.6 million more than the $9.3 million we had projected) from the prior-year quarter, largely reflecting greater compensation costs (up $1.1 million) and merchant card expense (up $0.7 million).

The efficiency ratio deteriorated, rising to 91.9% from 83.8% in the year-ago quarter and from the third quarter's 83.2%.

We project that compensation costs will rise about 9% in 2016 following a 15% increase in 2015. Despite these near-term expense pressures, we view these moves positively as CPKF is laying the groundwork for future growth in 2016 and beyond.

Our estimate of noncompensation costs is $19.0 million in 2016, up $1.5 million from 2015, largely due to higher merchant card expenses.

In total, we believe that the efficiency ratio will improve, falling from 82.0% for 2015 to an estimated 80.7% in 2016 .

Income Taxes

The Company had a tax credit in the fourth quarter, as it did a year ago. This compares to our estimate of an effective tax rate of 20.0%.

We are decreasing our estimate of the effective tax rate in 2016 to 17.5% from 20.5%. This compares to a full-year effective tax rate of 15.3% in 2015.

Net Income

CPKF's fourth quarter net earnings fell $0.7 million year over year, or 44%, to $0.9 million, while 2015's fourth quarter diluted EPS dropped by $0.19, or 45%, to $0.22 from $0.41 posted a year ago. This was a bit worse than our estimate, which had called for a $0.5 million decrease in net earnings to $1.2 million (off by $0.3 million) and a $0.12 decline in diluted EPS to $0.29 (off by $0.07).

Profitability

CPKF posted a 4.9% ROE and 0.54% ROA for the fourth quarter of 2015, compared to 9.4% and 0.99%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans increased $22 million, or about 6%, year over year, and about $19 million, or 5%, sequentially to $413 million.

By category, commercial real estate increased $15.8 million, or 11%, to $163 million; construction and land development loans jumped $3.4 million, or 7% to $50 million; cash management receivables surged $1.7 million, or 7%, to $26 million; 1-4 family loans rose $1.6 million, or 1%, to $109 million; and consumer loans fell $0.1 million, or 2%, to $9 million.

Due to a reclassification, other loans increased $21.4 million, or 136%, to $37 million, while commercial and industrial fell $23.4 million, or 33%, to $47 million.

We estimate loan growth of 9% in 2016, up from our 7% estimate previously, mainly due to higher growth expectations for commercial real estate and cash management. This compares to actual growth of 7% in full-year 2015.

Asset quality measures improved in the fourth quarter, as CPKF continues to receive pay-downs on one large problem credit and expects to be completely out of this credit by the end of 2016. Nonaccrual loans fell by $0.8 million, or 9%, to $8.0 million, while restructured loans and and other real estate owned were basically flat at $3.5 million and $2.1 million, respectively.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, fell 34 basis points to 3.09% of outstandings + OREO at December 31, 2015 from 3.43% of outstandings + OREO at September 30, 2015, and decreased 110 basis points year over year from 4.19%.

The loss allowance as a percent of nonperforming assets increased sequentially to 40% from 39%, reflecting the decrease in nonperforming assets, partly offset by a decline in the loss reserve for loans and cash flow receivables.

Liquidity and Funding

Cash and equivalents decreased $6 million to $14 million sequentially, while the securities portfolio fell $1 million to $186 million. By category, the municipal securities portfolio rose $1 million to $122 million and the private-label mortgage securities portfolio gained $1 million to $36 million, US government-related securities fell $3 million to $28 million.

On a relative basis, the private-label mortgage securities portfolio was 19% of the entire available-for-sale securities portfolio, US government-related securities were 16%, and the municipal securities portfolio was 65%.

CPKF's liquidity ratios deteriorated compared to the previous quarter, reflecting the decrease in cash and equivalents and the securities portfolio. At December 31, 2015, liquid assets represented 6% of total assets (down from 8% at the end of the third quarter) and covered purchased funds by 47% (down from 65%), while loans plus receivables accounted for 65% of total assets (up from 63% at September 30, 2015).

Core deposits declined by $1 million, or less than1%, sequentially to $489 million and funded 111% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios decreased about 28-29 basis points during the quarter due to growth in risk assets, with the Tier 1 capital ratio falling sequentially to 13.95% at the end of 2015's fourth quarter from 14.23% at September 30, 2015, and the Total capital ratio also decreasing to 15.19% from 15.48%.

Total shareholders' equity increased $1.3 million during the fourth quarter, largely due to a $0.4 million increase in retained earnings, a $0.5 million increase in unrealized gains on securities available for sale, and $0.4 million of other capital changes.

Reflecting these factors plus a 6,000 increase in common shares outstanding, tangible book value per share rose during the fourth quarter, by $0.31 per share to $18.92 from $18.61. The total equity to total assets ratio fell, as asset growth outpaced the gain in total common shareholders' equity, decreasing by 2 basis points to 11.19% from 11.21%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $679 million in total assets at December 31, 2015. CPKF is predominantly a small business lender with 13 branch offices and one loan production office that serve customers in the eastern region of Virginia between the Potomac and James Rivers. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

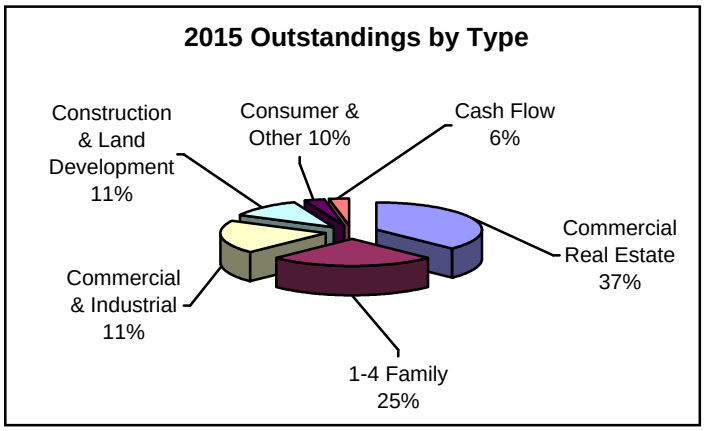
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $385 million in assets (at 2015 yearend) through its subsidiaries involved in 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 2015, Chesapeake Payment Systems had 531 merchants in its system and processed over $200 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 72 customers at the end of 2015.

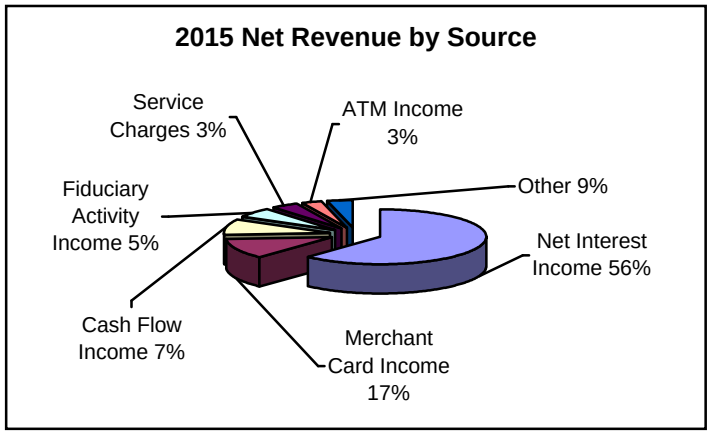
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2015, Clear Sky deposits totalled $26.6 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $220 million loan portfolio (as of December 31, 2015) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $552,000 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 $490,000 to revenues in 2015 (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, 2015, the lending book consisted of commercial real estate (accounting for 37% of total gross outstandings), 1-4 family (25%), commercial and industrial (11%), construction and land development (11%), consumer and other (10%), and cash flow (6%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2015, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 6% of total assets and 15% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 65% and 19%, respectively, of the total. Core deposits represented 86% of total deposits at December 31, 2015, with certificates of deposit larger than $100,000 at 14%.



In 2015, net interest income contributed 56% of net revenue, with a significant 44% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (17% of net revenues), cash flow income (7%), income from fiduciary activities (5%), service charges on deposit accounts (3%), and ATM income (3%).

VALUATION

CPKF stock is up 5.2% year to date, better than the 2.1% median decrease for the small-cap bank industry, as well as the 2.8% price increase 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 2% in 2016, based upon our current CPKF EPS estimate for 2016. Assuming a small-cap bank industry valuation of 10.9X for 2016, CPKF's target price based upon our 2016 EPS estimate is $18.50.

Turning to Price/Tangible Book Value, CPKF is currently valued at 0.96X. Assuming a moderate increase in valuation to 1.0X based upon our 2016 yearend estimated book value, our target price is about $20.00, which compares to CPKF's current book value of $18.92.

We have chosen the $19.25 midpoint of the range of values based upon CPKF's 2016 P/E of $18.50 and Price/Tangible Book Value of $20.00 as our new target price.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2016E	EPS 2017E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	**5.2**	**11.1**	**10.7**	**-----**	**10.0**	**14.8**	**1.11**	**1.38**	**2.6**
S&P 500	2.8	20.9	17.3	16.0	23.8	-----	7.7	-----	2.1
Median	**(2.1)**	**13.3**	**10.9**	**9.3**	**8.8**	**7.9**	**0.90**	**0.73**	**2.2**
Average	(0.2)	15.3	10.3	7.0	8.6	7.4	0.9	0.7	2.0
High	58.7	76.7	83.7	31.4	15.1	14.8	1.3	1.6	5.5
Low	(11.9)	-----	-----	-----	0.7	(5.9)	0.1	(0.5)	-----

*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	12/15	12/16E
Net interest income	21.8	22.8	23.1	23.3	23.1	23.4	24.5
Non-interest income	13.8	13.7	15.0	15.7	14.6	18.9	21.3
Total net revenue	35.6	36.5	38.1	39.0	37.7	42.3	45.8
Loan loss provision	2.5	1.2	0.6	1.1	0.6	0.2	0.3
Non-interest expense	26.2	26.4	27.8	29.8	30.5	34.1	37.1
Income taxes & other	1.5	1.9	2.0	1.5	0.8	1.3	1.4
Zacks adjusted income before NRI	5.4	7.0	7.7	6.6	5.8	6.7	7.0
GAAP net income	5.4	7.0	7.7	7.4	6.5	7.4	7.0
Diluted EPS before NRI	1.41	1.80	1.94	1.66	1.43	1.64	1.70
Reported EPS	1.41	1.80	1.94	1.84	1.62	1.82	1.70
Dividends per share	0.30	0.33	0.38	0.43	0.45	0.47	0.48
Liquid assets	73.2	97.9	92.1	89.9	62.8	43.2	43.9
Outstandings, gross	382.3	373.1	397.6	401.0	410.4	439.0	479.8
Total assets	607.7	638.0	667.7	661.8	663.2	679.1	720.7
Core deposits	396.2	430.4	459.0	467.2	480.5	489.1	529.5
Purchased funds	127.2	113.3	118.4	105.3	82.4	92.4	78.6
Long-term debt	40.0	39.6	26.0	25.9	20.6	21.1	15.5
Shareholders' equity	41.1	51.2	60.9	61.8	70.6	76.0	80.9
Profitability							
Return on avg assets	0.90%	1.13%	1.19%	1.01%	0.87%	0.99%	0.99%
Return on avg equity	13.55%	15.31%	14.87%	10.74%	9.14%	9.08%	8.86%
Net interest margin	4.40%	4.70%	4.60%	4.60%	4.60%	4.38%	4.25%
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%	2.80%	3.04%
Noninterest expense % avg assets	4.34%	4.27%	4.32%	4.55%	4.61%	5.08%	5.30%
Preprovision pretax income % avg assets	1.57%	1.62%	1.60%	1.41%	1.09%	1.21%	1.24%
Tangible efficiency ratio	73%	71%	71%	75%	81%	82%	81%
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%	0.26%	0.17%
Allowance % outstandings	1.90%	2.01%	1.88%	1.75%	1.88%	1.51%	1.29%
NPAs % loans + OREO	3.91%	4.48%	4.93%	5.20%	4.20%	3.09%	2.54%
Allowance % NPAs	48%	44%	32%	30%	37%	40%	51%
Liquidity & Funding							
Liquid assets % purchased funds	58%	86%	78%	85%	76%	47%	56%
Core deposits % outstandings	104%	115%	115%	117%	117%	111%	110%
Liquid assets % assets	12%	15%	14%	14%	9%	6%	6%
Outstandings % assets	63%	58%	60%	61%	62%	65%	67%
Capital Adequacy							
Total equity % assets	6.76%	8.03%	9.12%	9.34%	10.65%	11.19%	11.23%
Tangible equity % assets	6.76%	8.03%	9.12%	9.34%	10.65%	11.19%	11.23%
Tier 1 capital ratio	12.07%	12.20%	13.55%	14.23%	14.69%	13.95%	
Total capital ratio	13.54%	13.40%	14.80%	15.48%	15.94%	15.19%	
Parent Company Statistics							
Interest coverage	2.6X	2.1X	4.4X	9.2X	27.3X	61.5X	7.5X
Interest & dividend coverage	1.1X	0.9X	1.5X	1.5X	3.7X	3.5X	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	1.1X	0.9X
Double leverage	134.7%	127.2%	121.7%	119.7%	109.3%	101.7%	104.0%

Chesapeake Financial Shares, Inc.

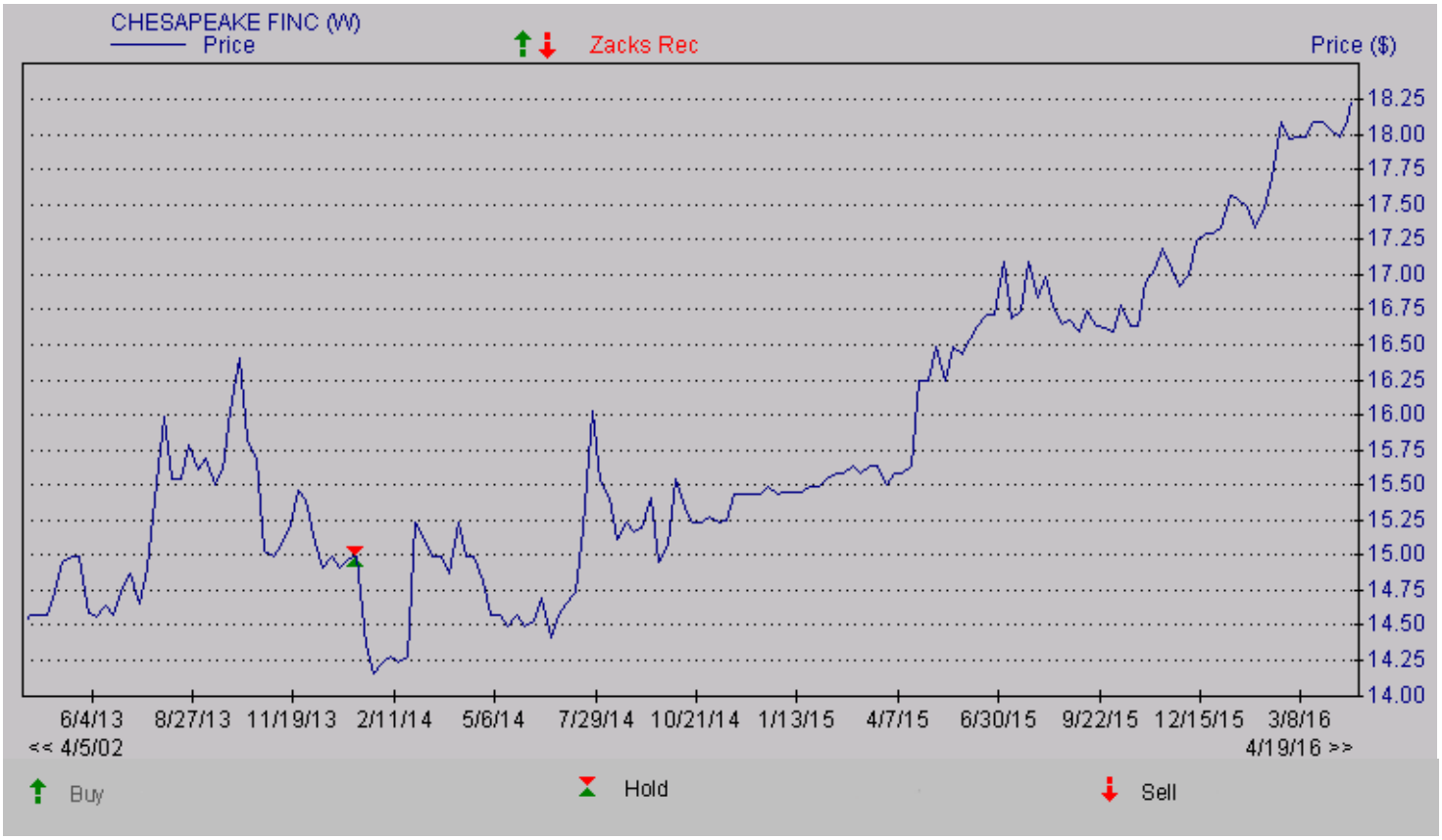
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2015				2016			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 E**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	5.9	5.8	5.8	6.0	5.9	6.1	6.2	6.4
Non-interest income	3.9	4.8	5.3	4.8	4.9	5.3	5.4	5.6
Total net revenue	9.8	10.6	11.1	10.8	10.8	11.4	11.6	12.0
Loan loss provision	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Non-interest expense	7.4	7.8	9.1	9.9	8.7	9.1	9.4	9.9
Income taxes & other	0.4	0.5	0.3	(0.1)	0.3	0.4	0.3	0.3
Zacks adjusted income before NRI	1.9	2.2	1.7	0.9	1.7	1.8	1.8	1.7
GAAP net income	2.6	2.2	1.7	0.9	1.7	1.8	1.8	1.7
Diluted EPS before NRI	0.48	0.54	0.40	0.22	0.41	0.44	0.44	0.41
Reported EPS	0.66	0.54	0.40	0.22	0.41	0.44	0.44	0.41
Dividends per share	0.11	0.11	0.11	0.12	0.12	0.12	0.12	0.12
Liquid assets	51.1	55.6	51.9	43.2	43.4	43.5	43.7	43.9
Outstandings, gross	420.6	414.0	418.6	439.0	448.8	458.9	469.3	479.8
Total assets	663.1	665.1	665.8	679.1	689.2	699.6	710.1	720.7
Core deposits	482.0	486.1	489.8	489.1	498.9	508.9	519.1	529.5
Purchased funds	82.9	84.4	79.5	92.4	77.7	78.0	78.3	78.6
Long-term debt	19.3	15.5	15.4	21.1	20.0	18.0	17.0	15.5
Shareholders' equity	73.2	72.9	74.6	76.0	77.1	78.5	79.8	80.9
Profitability								
Return on avg assets*	1.16%	1.00%	0.99%	0.54%	0.98%	1.05%	1.02%	0.93%
Return on avg equity *	10.67%	12.49	8.95%	4.85%	8.75%	9.35%	9.08%	8.29%
Net interest margin*	4.41%	4.32%	4.33%	4.47%	4.25%	4.25%	4.25%	4.25%
Loan loss provision % avg assets*	0.04%	0.13%	0.01%	0.05%	0.04%	0.04%	0.04%	0.03%
Noninterest income % avg assets*	2.36%	2.00%	3.18%	2.85%	2.85%	3.06%	3.09%	3.15%
Noninterest expense % avg assets*	4.44%	4.54%	5.46%	5.90%	5.08%	5.24%	5.33%	5.54%
Preprovision pretax inc.% avg assets*	1.46%	1.22%	1.20%	0.54%	1.22%	1.31%	1.27%	1.16%
Tangible efficiency ratio	77%	75%	83%	92%	80%	80%	80%	82%
Payout ratio	17%	21%	28%	54%	29%	27%	27%	29%
Asset Quality								
Net charge-offs % avg outstandings*	0.27%	0.06%	0.57%	0.17%	0.18%	0.18%	0.17%	0.17%
Allowance % outstandings	1.80%	1.72%	1.59%	1.51%	1.46%	1.40%	1.34%	1.29%
NPAs % loans + OREO	3.48%	3.95%	3.43%	3.09%	2.94%	2.81%	2.68%	2.54%
Allowance % NPAs	42%	38%	39%	40%	49%	50%	50%	51%
Liquidity & Funding								
Liquid assets % purchased funds	62%	66%	65%	47%	56%	56%	56%	56%
Core deposits % outstandings	115%	117%	117%	111%	111%	111%	111%	110%
Liquid assets % assets	8%	8%	8%	6%	6%	6%	6%	6%
Outstandings % assets	63%	62%	63%	65%	65%	66%	66%	67%
Capital Adequacy								
Total equity % assets	11.05%	10.97%	11.21%	11.19%	11.19%	11.22%	11.23%	11.23%
Tangible equity % assets	11.05%	10.97%	11.21%	11.19%	11.19%	11.22%	11.23%	11.23%
Tier 1 capital ratio	13.85%	14.15%	14.23%	13.95%				
Total capital ratio	15.10%	15.40%	15.48%	15.19%				

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Ann H. Heffron, CFA, CPA, , hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on

the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1253 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 28.7%, Hold/Neutral- 49.5%, Sell/Underperform – 14.9%. Data is as of midnight on the business day immediately prior to this publication.