Zacks Small-Cap Research

September 12, 2012
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Chesapeake Financial Shares, Inc. (CPKF - OTC)

CPKF: Bumping up EPS Estimates Due to Strong Noninterest Income Growth

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/26/2011
Current Price (09/11/12)	$14.25
Twelve-Month Target Price	**$18.00**

OUTLOOK

We are bumping up our diluted EPS estimates on Chesapeake Financial Shares, Inc. (CPKF) —in 2012 to $2.25 from $2.16 and in 2013 to $2.35 from $2.30, mainly to reflect increases in our estimates for noninterest income on the back of expected solid growth in merchant card processing and cash flow income. CPKF reported second quarter diluted EPS of $0.62 that was 22% higher than our $0.51 estimate as noninterest revenue and noninterest expense were better than our estimates. Relative to the year-ago quarter, net earnings were basically flat at $2.1 million, though 2012's second quarter diluted EPS was a penny lower than the $0.63 posted in 2011's second quarter due to a greater number of shares outstanding. From an operating perspective, results were actually stronger than they first appear: 2012's second quarter includes a combined net loss of $0.3 million from the sales of securities and OREO, while 2011's second quarter includes a combined net gain of $0.3 million from the sales of securities and OREO. Excluding these items from both years' results in a $0.13 per share gain in diluted EPS in 2012's second quarter, rather than the $0.01 per share decrease that was actually reported. Sequential net income advanced 11% from $1.8 million and diluted EPS gained 10% from $0.57 in the first quarter of 2012 due to strong growth in merchant card and cash flow income, partly offset by a dip in net interest income. CPKF raised its quarterly dividend by 10% to $0.11 and has increased its dividend payment annually for the past twenty years. CPKF was ranked 16th (up from 20th a year ago) out of all banks nationally with less than $2 billion in total assets by American Banker.

SUMMARY DATA

52-Week High	**$14.50**
52-Week Low	**$10.80**
One-Year Return (%)	**25.62**
Beta	**0.16**
Average Daily Volume (sh)	**305**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$46**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.44**
Dividend Yield (%)	**3.09**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**7.1**
Earnings Per Share (%)	**14.1**
Dividend (%)	**8.2**
P/E using TTM EPS	**6.4**
P/E using 2012 Estimate	**6.3**
P/E using 2013 Estimate	**6.1**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**35 of 63**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	8.2 A	8.6 A	10.1 A	9.1 A	36.1 A
2011	8.8 A	9.4 A	9.2 A	9.1 A	36.5 A
2012	8.9 A	9.4 A	9.6 E	9.6 E	37.5 E
2013					39.4 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	0.35 A	0.40 A	0.59 A	0.31 A	1.69 A
2011	0.47 A	0.63 A	0.56 A	0.49 A	2.16 A
2012	0.57 A	0.62 A	0.59 E	0.47 E	2.25 E
2013					2.35 E

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

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SECOND QUARTER RESULTS

We are bumping up our diluted EPS estimates—in 2012 to $2.25 from $2.16 and in 2013 to $2.35 from $2.30, mainly to reflect increases in our estimates for noninterest income on the back of expected solid growth in merchant card processing and cash flow income. This represents EPS gains of 4% in both 2012 and 2013.

CPKF reported second quarter diluted EPS of $0.62 that was 22% higher than our $0.51 estimate as noninterest revenue and noninterest expense were better than our estimates.

Relative to the year-ago quarter, net earnings were basically flat at $2.1 million, though 2012's second quarter diluted EPS was a penny lower than the $0.63 posted in 2011's second quarter due to a greater number of shares outstanding.

From an operating perspective, results were actually stronger than they first appear: 2012's second quarter includes a combined net loss of $0.3 million from the sales of securities and OREO, while 2011's second quarter includes a combined net gain of $0.3 million from the sales of securities and OREO. Excluding these items from both years results in a $0.13 per share gain in diluted EPS in 2012's second quarter, rather than the $0.01 per share decrease that was actually reported.

Sequential net income advanced 11% from $1.8 million and diluted EPS gained 10% from $0.57 in the first quarter of 2012. The primary reasons for 2012's outperformance versus 2012's first quarter were strong growth in both merchant card income (up $0.2 million, or 25%) and cash flow income (up $0.2 million, or 29.0% on a solid gain in cash flow receivables from new business initiatives), partly offset by $0.2 million, or 2%, slide in net interest income.

Compared to our projections, net income was $0.4 million, or $0.11 per diluted share, above our $1.7 million, or $0.51 per share, estimates. This primarily reflected cash flow income and other income that were each $0.2 million higher than our estimates and employee benefits, merchant card expense, and other nointerest expense that were each $0.1 million lower than our estimates, partly offset by net interest income that was $0.2 million below our estimate.

On July 24, 2012, CPKF announced a $0.11 quarterly dividend, payable on or before September 15, 2012 to shareholders of record as of September 1, 2012. Earlier in the year, CPKF hiked the dividend 10% from the $0.10 quarterly rate, and has increased the annual dividend payment every year for the past twenty years since 1991.

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

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

Below we discuss 2012 second quarter results in more depth. Details of our projections are shown at the back of the report.

Net Interest Income

Net interest income rose 7% year over year (but fell 2% sequentially) to $5.7 million ($0.2 million below our estimate), due to the combined impact of improvement in the net interest margin, which jumped 20 basis points to 4.53% from 4.33% in the year-ago quarter, and growth in loans and receivables

outstanding of $2 million, or about 1%. The 4.53% net interest margin was down from 4.67% in the first quarter and was 12 basis points below our 4.65% estimate.

We are reducing our NIM estimates—in 2012 to 4.59% from 4.65% previously and in 2013 to 4.53% from 4.60%. This compares to 4.70% for full-year 2011. Our decreases reflect fierce competitive pricing pressures, particularly from bigger banks, such as BB&T Corporation, SunTrust Banks, Inc., and Wells Fargo & Company.

Noninterest Income

Noninterest income declined $0.4 million, or 9%, year over year to $3.6 million, largely reflecting a $0.6 million combined negative swing in securities losses and net losses on other real estate owned to a loss of $0.3 million in 2012 from a gain of $0.3 million in the year-ago quarter.

Excluding these items, noninterest income was up 7% year over year as strong growth in merchant card income and other noninterest income (up 12% and 42%, respectively) was offset by a 10% fall in cash flow income, reflecting a year-over-year decline in a receivables outstanding as CPKF clients secured more traditional bank financing at other financial institutions (sequentially, cash flow receivables actually increased over $3 million due to positive customer response to a new array of more attractive offerings designed specfically for customers in the cash flow business), and a 5% decrease in service charges on deposit accounts, primarily reflecting lower customer usage and secondarily changes in federal regulations.

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 two companies, and will begin processing for another ISO later this year.

Negatively, we expect that net losses on foreclosed assets combined with net losses on securities sales (including the provision for other-than-temporary impairment losses) will run at the higher pace in 2012 than in 2011, and rise to $1.3 million (versus $1.0 million posted in 2011), before sliding to $0.7 million in 2013.

Loss Provision

The loan loss provision decreased 25% to $0.15 million (versus our $0.20 million estimate), due to better asset quality. Loan loss reserves were flat year over year and sequentially at $6.5 million (1.82-1.84% of loans).

Including the loss allowance for cash flow receivables, the total loan loss allowance fell to $7.6 million (2.00% of loans plus cash flow receivables) from $7.8 million (2.06% of loans plus cash flow receivables) at the end of the comparable year-ago quarter, and was the same as that posted at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $160,000 of loans in the second quarter. This is $0.26 million less than the $0.42 million charged off in the year-ago quarter and compares to net charge-offs of $0.9 million for full-year 2011.

We are estimating that CPKF will continue to experience improvement in the loss provision, falling by 48% to $0.6 million in 2012, before rising modestly to $0.7 million in 2013. This compares to 2011's 52% decline to $1.2 million.

We estimate that the total loan loss allowance will drop from 2.01% of loans plus receivables at the end of 2011 to 1.98% at yearend 2012 and 1.90% at the end of 2013.

Noninterest Expense

Total noninterest expense increased $0.2 million, or about 2%, year over year to $6.6 million ($0.3 million below our estimate), as total compensation expense climbed 6%. Generally, the Company maintained tight control over noncompensation operating expenses, which fell 1% year over year. The efficiency ratio improved, falling 360 basis points to 68.9% from 72.5% in the prior-year quarter, though it deteriorated modestly from 2012's first quarter by rising 30 basis points from 68.6%.

Income Taxes

The Company's effective tax rate in the first quarter was 21.8%, compared to 24.4% in the year-ago quarter and our 22.0% estimate.

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

Net Income

CPKF posted net earnings of $2.05 million (or $0.62 per diluted share), down 0.4% from the $2.06 million ($0.63 per diluted share) earned in the year-ago quarter. This compares to our $1.7 million net income estimate ($0.51 per diluted share).

Profitability

CPKF posted a 14.6% ROE and 1.29% ROA for the second quarter of 2012, compared to 18.3% and 1.35%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding increased about $4 million, about 1%, sequentially and year over year to $360 million, as the Company witnessed better loan demand. Most categories posted sequential increases during the second quarter with the exceptions of construction and land development, which fell $1.6 million, or 3%, to $53.8 million and commercial real estate, which declined $4.5 million, or 3 ½%, to $123.2 million. CPKF witnesssed particularly strong growth in commercial and industrial loans (up 13% sequentially to $57.9 million) and cash flow receivables (up 20 ½% sequentially $19.9 million).

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

Asset quality measures improved on a sequential basis, with nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, decreasing 9 basis points to 4.11% of outstandings + OREO at June 30, 2012 from 4.20% at March 31, 2012. Nonaccrual loans and receivables rose by $0.3 million, or 11%, to $3.5 million at the end of June from $3.2 million at March quarterend. Performing troubled debt restructurings declined by $0.1 million, or 1%, to $7.4 million, while other real estate owned (OREO) decreased $0.3 million, or 6%, sequentially to $4.9 million. In total, there was a net sequential decline in nonperforming assets of $30,000 to $15.8 million during the second quarter.

The loss allowance as a percent of nonperforming assets was flat at 48% at the end of the June and March 2012 quarters, as the decrease in nonperforming assets was offset by a slight $10,000 decline in the loan loss reserve. The loan loss reserve for both loans and cash flow receivables was $7.6 million, or 2.00% of gross outstandings, versus $7.6 million, or 2.04% of gross outstandings at the end of the March quarter. The 4 basis point decline in the loss reserve during the quarter resulted from growth in loans and receivables outstanding.

Liquidity and Funding

Cash and equivalents fell by almost $15 million to $23 million, while CPKF increased the securities portfolio by over $2 million sequentially. The Company continues to emphasize investing in municipal securities, which account for 54% of total securities (up 8 points from 46% a year ago), and US agency mortgage securities, which account for 32% of total securities (down 3 points from 35% a year ago), while pulling back from private-label mortgage securities, which now represent 14% of the total securities portfolio, down 4 points from 18% at the end of June 2011.

CPKF's liquidity ratios were mixed compared to a year ago. Liquid assets now represent 13% of total assets (down from 14% a year ago), while loans plus receivables account for 60% of total assets (down from 61% at the end of the prior-year quarter and 67% as recently as a couple of years ago).

Core deposits rose $13 million, or 3%, year over year to $425 million and funded 112% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved during the quarter due to strong growth in Tier 1 capital and a slight $1 million decrease in risk-weighted assets. The Tier 1 capital ratio rose 18 basis points sequentially to 13.38% at the end of 2012's second quarter from 13.20% at March 31, 2012, and the Total capital ratio also increased 18 basis points to 14.63% from 14.45%. Importantly, both of these remain well above the well-capitalized standard as established by federal regulators.

Total shareholders' equity advanced $2.4 million during the second quarter, due to a combination of $1.7 million growth in retained earnings, a negative $0.1 million in other capital changes, and a $0.8 million gain in accumulated comprehensive income to $6.2 million at the end of the second quarter from $5.3 million at the end of the first quarter. This was the result of a positive market adjustment in the fair value of the securities portfolio. Reflecting these factors, tangible book value per share also increased during the first quarter, by $0.78 per share to $17.45 from $16.67.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a bank holding company headquartered in Kilmarnock, Virginia, with $635 million in total assets at June 30, 2012. CPKF is predominantly a small business lender with 11 branch offices that serve customers in the eastern region of Virginia between the Potomac and James Rivers. These offices are located in Kilmarnock, Lively, Irvington, Mathews, Hayes, and Gloucester, with four branches in Williamsburg. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

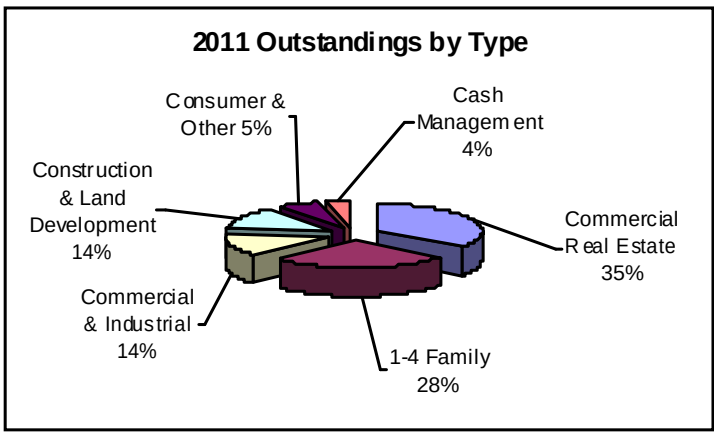
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $301 million in assets (at 2011 yearend) through its subsidiaries involved in asset management (CIG is a registered investment adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, Clear Sky accounts, and its secondary market mortgage banking operation.

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

The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and has approximately 63 customers.

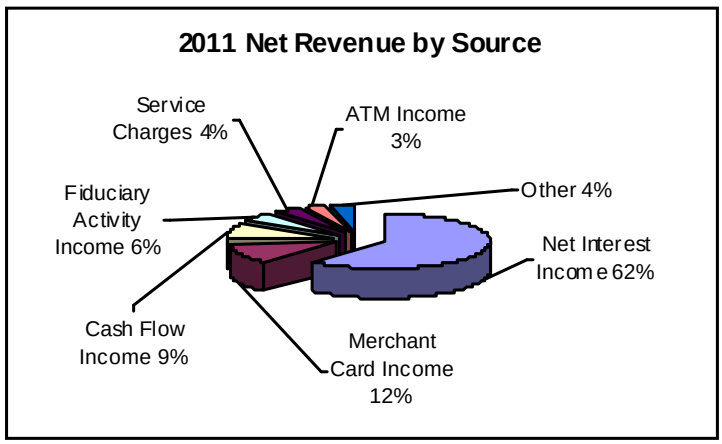
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2011, Clear Sky deposits totalled $51 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $177 million loan portfolio (as of December 31, 2011) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $440,000 annually) on the outstanding loan portfolio balance. Additionally, CPKF earns a pare-off fee for residential mortgage loans that are originated and closed with FHLMC, which added $474,000 to revenues in 2011 (both types of fees are included in other noninterest income in the Company's financial statements).



The lending portfolio is dominated by real estate loans, as shown in the chart at left. At December 31, 2011, the lending book consisted of commercial real estate (accounting for 35% of total gross outstandings), 1-4 family (28%), commercial and industrial (14%), construction and land development (14%), consumer and other (5%), and cash flow (4%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

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



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

VALUATION

CPKF stock has risen 26.7% year to date and has outperformed the S&P 500's 12.4% advance by a wide margin, though it has underperformed the small-cap bank industry's median price increase of 31.6%, as shown in the following table. At its current price, CPKF is trading at a discount to the industry median P/E of 48% in 2013, based upon our CPKF EPS estimate for 2013. This is below the average 51% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 51% to our 2013 EPS estimate results in a price of about $13.50.

Turning to Price/Tangible Book Value, CPKF is valued at 0.84X versus the industry median of 0.98X. This represents a 14% discount, well below the average historical premium of 22% for CPKF since the end of 2005. We believe a higher premium is justified given CPKF's strong performance throughout the financial crisis, its superior profitability measures, and its solid dividend yield. Applying the historical premium of 22% to our estimated book value for CPKF twelve months out results in a price of approximately $22.50.

Taking the midpoint of the $13.50-22.50 stock price range determined above results in a target price of roughly $18.00, or about the 3% above CPKF's tangible book value of $17.45 at June 30, 2012. This compares to CPKF's current stock price of $14.25, indicating a 26% gain. When combined with the dividend yield, this represents a total return of 29%, 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	**26.7**	**6.4**	**6.3**	**6.1**	**8.5**	**0.84**	**14.4**	**14.3**	**1.15**	**0.94**	**3.1**
S&P 500	12.4	14.4	13.9	13.0	17.0	3.6	42.5	-----	9.7	-----	2.1
Median	**31.6**	**12.4**	**12.3**	**11.7**	**17.6**	**0.98**	**7.1**	**4.3**	**0.63**	**0.31**	**-----**
Average	38.1	14.6	14.4	12.4	26.5	0.9	4.7	2.0	0.5	0.3	1.2
High	156.3	38.1	46.8	31.7	103.4	1.9	19.0	14.3	1.8	2.2	6.6
Low	(39.8)	1.5	4.4	4.1	7.0	0.3	(55.2)	(72.0)	(5.9)	(2.0)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/07	12/08	12/09	12/10	12/11	12/12E	12/13E
Net interest income	14.5	16.5	18.9	21.8	22.8	23.4	24.3
Non-interest income	13.5	15.0	14.1	13.8	13.7	14.1	15.1
Total net revenue	28.0	31.5	33.0	35.6	36.5	37.5	39.4
Loan loss provision	0.2	0.4	0.9	2.5	1.2	0.6	0.7
Non-interest expense	21.8	25.0	25.9	26.2	26.4	27.4	28.6
Income taxes & other	1.7	1.5	1.4	1.5	1.9	2.1	2.3
Zacks adjusted income before NRI	4.3	4.6	4.8	5.4	7.0	7.4	7.8
GAAP net income	4.3	4.6	4.8	5.4	7.0	7.4	7.8
Diluted EPS before NRI	1.24	1.34	1.48	1.69	2.16	2.25	2.35
Reported EPS	1.24	1.34	1.48	1.69	2.16	2.25	2.35
Dividends per share	0.29	0.34	0.35	0.36	0.40	0.44	0.48
Liquid assets	58.4	45.4	57.8	73.2	97.9	87.0	90.5
Outstandings, gross	361.6	396.2	391.3	382.3	373.1	387.2	410.9
Total assets	483.0	538.0	586.7	607.7	638.0	648.2	688.0
Core deposits	308.8	317.0	370.0	396.2	430.4	433.4	460.0
Purchased funds	94.0	121.9	131.3	127.2	113.3	125.0	132.7
Long-term debt	44.4	65.5	47.4	40.0	39.6	27.0	25.0
Shareholders' equity	33.7	30.6	35.3	41.1	51.2	59.7	64.9
Profitability							
Return on avg assets	0.97%	0.89%	0.84%	0.90%	1.13%	1.16%	1.17%
Return on avg equity	13.68%	13.51%	13.14%	13.55%	15.31%	13.10%	12.54%
Net interest margin	4.10%	4.00%	4.10%	4.40%	4.70%	4.59%	4.53%
Loan loss provision % avg assets	0.04%	0.08%	0.16%	0.41%	0.19%	0.10%	0.10%
Noninterest income % avg assets	3.01%	2.91%	2.45%	2.30%	2.21%	2.21%	2.25%
Noninterest expense % avg assets	4.87%	4.84%	4.51%	4.34%	4.27%	4.27%	4.29%
Preprovision pretax income % avg assets	1.39%	1.26%	1.24%	1.57%	1.62%	1.58%	1.61%
Tangible efficiency ratio	78%	80%	77%	73%	71%	71%	72%
Payout ratio	23%	25%	24%	21%	18%	20%	20%
Asset Quality							
Net charge-offs % avg outstandings	0.04%	0.27%	0.34%	0.48%	0.22%	0.16%	0.16%
Allowance % outstandings	1.50%	1.43%	1.59%	1.90%	2.01%	1.98%	1.92%
NPAs % loans + OREO	0.61%	0.35%	1.20%	3.91%	4.48%	3.88%	3.34%
Allowance % NPAs	245%	411%	131%	48%	44%	50%	57%
Liquidity & Funding							
Liquid assets % purchased funds	62%	37%	44%	58%	86%	70%	68%
Core deposits % outstandings	85%	80%	95%	104%	115%	112%	112%
Liquid assets % assets	12%	8%	10%	12%	15%	13%	13%
Outstandings % assets	75%	74%	67%	63%	58%	60%	60%
Capital Adequacy							
Total equity % assets	6.97%	5.68%	6.01%	6.76%	8.03%	9.21%	9.44%
Tangible equity % assets	6.97%	5.68%	6.01%	6.76%	8.03%	9.21%	9.44%
Tier 1 capital ratio	10.80%	10.60%	10.10%	12.07%	12.20%		
Total capital ratio	15.50%	12.50%	11.70%	13.54%	13.40%		
Parent Company Statistics							
Interest coverage	0.4X	0.6X	0.8X	2.6X	2.1X	1.0X	1.0X
Interest & dividend coverage	0.3X	0.3X	0.4X	1.1X	0.9X	0.4X	0.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.0X	0.9X	0.8X	0.8X	0.8X	1.2X	1.6X
Double leverage	133.2%	139.8%	142.1%	134.7%	127.2%	121.6%	123.9%

Chesapeake Financial Shares, Inc.

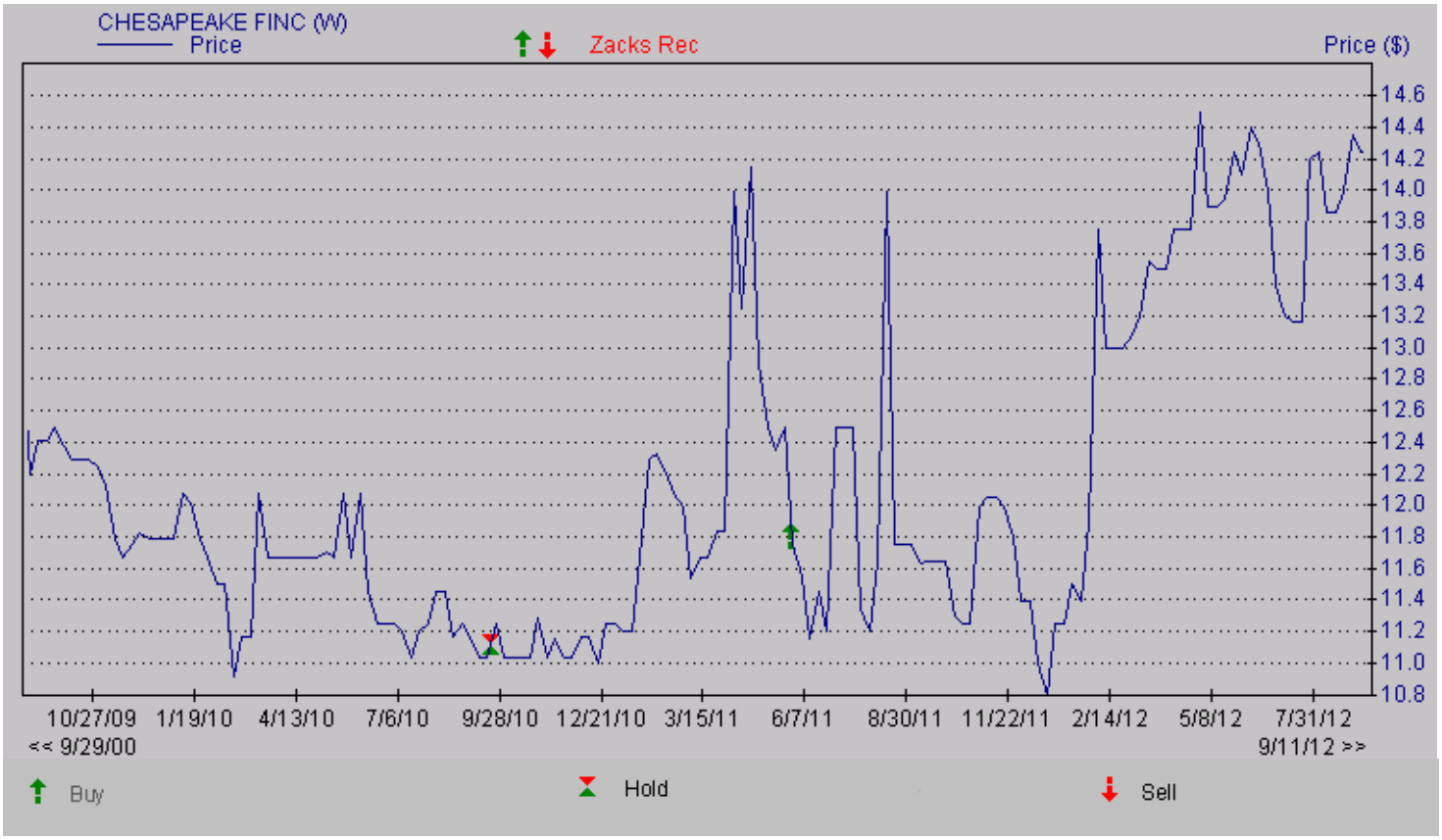
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**
Net interest income	5.8	5.4	5.7	5.9	5.9	5.7	5.9	5.9
Non-interest income	3.0	4.0	3.5	3.2	3.1	3.7	3.7	3.7
Total net revenue	8.9	9.4	9.2	9.1	9.0	9.4	9.6	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	6.4	6.6	7.2	6.4	6.6	6.9	7.4
Income taxes & other	0.5	0.7	0.6	0.1	0.6	0.5	0.5	0.4
Zacks adjusted income before NRI	1.5	2.1	1.8	1.6	1.8	2.1	2.0	1.6
GAAP net income	1.5	2.1	1.8	1.6	1.8	2.1	2.0	1.6
Diluted EPS before NRI	0.47	0.63	0.56	0.49	0.57	0.62	0.59	0.47
Reported EPS	0.47	0.63	0.56	0.49	0.57	0.62	0.59	0.47
Dividends per share	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.11
Liquid assets	68.9	88.4	99.8	97.9	99.0	85.3	86.1	87.0
Outstandings, gross	376.8	376.5	372.9	373.1	372.3	379.5	383.3	387.2
Total assets	602.7	619.6	631.5	638.0	640.7	635.4	641.8	648.2
Core deposits	397.2	412.1	422.9	430.4	432.9	424.9	429.1	433.4
Purchased funds	115.8	118.3	112.5	113.3	122.9	122.5	123.8	125.0
Long-term debt	40.0	39.9	39.8	39.6	27.1	26.9	27.0	27.0
Shareholders' equity	43.6	46.6	50.4	51.2	55.0	57.4	58.8	59.7
Profitability								
Return on avg assets*	1.01%	1.35%	1.16%	1.00%	1.15%	1.29%	1.23%	0.97%
Return on avg equity *	14.40%	18.28%	14.91%	12.49%	13.88%	14.61%	13.55%	10.52%
Net interest margin*	4.68%	4.33%	4.56%	4.77%	4.67%	4.53%	4.60%	4.55%
Loan loss provision % avg assets*	0.39%	0.13%	0.13%	0.13%	0.09%	0.09%	0.09%	0.11%
Noninterest income % avg assets*	1.99%	2.61%	2.25%	2.00%	1.93%	2.28%	2.32%	2.29%
Noninterest expense % avg assets*	4.13%	4.21%	4.20%	4.54%	4.02%	4.13%	4.34%	4.59%
Preprovision pretax inc.% avg assets*	1.72%	1.92%	1.66%	1.22%	1.57%	1.74%	1.67%	1.35%
Tangible efficiency ratio	71%	72%	72%	75%	69%	69%	71%	76%
Payout ratio	20%	16%	18%	20%	19%	18%	19%	23%
Asset Quality								
Net charge-offs % avg outstandings*	0.01%	0.44%	-----	0.41%	0.08%	0.17%	0.16%	0.23%
Allowance % outstandings	2.11%	2.06%	2.12%	2.01%	2.04%	2.00%	1.99%	1.98%
NPAs % loans + OREO	1.92%	4.29%	2.28%	4.48%	4.20%	4.11%	4.01%	3.88%
Allowance % NPAs	92%	47%	92%	44%	48%	48%	49%	50%
Liquidity & Funding								
Liquid assets % purchased funds	60%	75%	89%	86%	81%	70%	70%	70%
Core deposits % outstandings	105%	109%	113%	115%	116%	112%	112%	112%
Liquid assets % assets	11%	14%	16%	15%	15%	13%	13%	13%
Outstandings % assets	63%	61%	59%	58%	58%	60%	60%	60%
Capital Adequacy								
Total equity % assets	7.24%	7.52%	7.98%	8.03%	8.58%	9.03%	9.16%	9.21%
Tangible equity % assets	7.24%	7.52%	7.98%	8.03%	8.58%	9.03%	9.16%	9.21%
Tier 1 capital ratio	12.39%	12.04%	12.09%	12.20%	13.20%	13.38%		
Total capital ratio	13.76%	13.30%	13.34%	13.40%	14.45%	14.63%		

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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