Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF - OTC)

CPKF: Record First Quarter EPS Leads to Increased 2013 Estimate

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/26/2011
Current Price (06/19/13)	$17.60
Twelve-Month Target Price	**$22.50**

OUTLOOK

We are raising our 2013 diluted EPS estimate by $0.05 to $2.50, largely reflecting CPKF's strong first quarter that came in a nickel better than our estimate. Our initial 2014 diluted EPS estimate is calling for a gain of $0.05 to $2.55. Our 2013 estimate represents an 8% increase over 2012's $2.32, itself an 8% gain over 2011's $2.16, while our 2014 estimate is a 2% advance from our 2013 estimate. Our estimates are supported by strong net interest margins (4.51% in 2013 and 4.40% in 2014) and decent loan growth (2 ½% in 2013 and 4% in 2014), though we expect only modest gains in noninterest income as we have reduced our expectations for expansion in two key areas, services charges on deposit accounts due to lower customer usage and cash flow income, stemming from increased competitive pricing pressures. Positively, both 2013 and 2014 should benefit from strong expense control, with noninterest expense rising less than 1% in both years. CPKF hiked its quarterly dividend twice in 2012, most recently by 9% to $0.12, following a 10% increase earlier in 2012. Notably, CPKF has increased the annual dividend payment every year for the past twenty-one years since 1991. In December, CPKF completed a tender offer to repurchase $1.5 million of company stock (about 2% of outstanding shares) at $18.50 per share. We note that American Banker ranked CPKF 17th out of all banks nationally with less than $2 billion in total assets, which includes approximately 6,000 banks, and #2 of all banks in Virginia.

SUMMARY DATA

52-Week High	**$18.70**
52-Week Low	**$13.15**
One-Year Return (%)	**28.44**
Beta	**0.12**
Average Daily Volume (sh)	**558**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$58**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.48**
Dividend Yield (%)	**2.73**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**9.6**
Earnings Per Share (%)	**13.3**
Dividend (%)	**9.1**
P/E using TTM EPS	**7.4**
P/E using 2013 Estimate	**7.0**
P/E using 2014 Estimate	**6.9**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**28 of 60**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	8.8 A	9.4 A	9.2 A	9.1 A	36.5 A
2012	9.0 A	9.4 A	10.1 A	9.6 A	38.1 A
2013	9.6 A	10.0 E	10.0 E	9.6 E	39.2 E
2014					39.8 A

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	0.47 A	0.63 A	0.56 A	0.49 A	2.16 A
2012	0.57 A	0.62 A	0.74 A	0.39 A	2.32 A
2013	0.63 A	0.68 E	0.68 E	0.51 E	2.50 E
2014					2.55 A

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

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FIRST QUARTER

We are raising our 2013 diluted EPS estimate by $0.05 to $2.50, largely reflecting CPKF's strong first quarter that came in a nickel better than our estimate. Our initial 2014 diluted EPS estimate is calling for a gain of $0.05 to $2.55. Our 2013 estimate represents an 8% increase over 2012's $2.32, itself an 8% gain over 2011's $2.16, while our 2014 estimate is a 2% advance from our 2013 estimate.

Our estimates are supported by strong net interest margins (4.51% in 2013 and 4.40% in 2014) and decent loan growth (2 ½% in 2013 and 4% in 2014), though we expect only modest gains in noninterest income as we have reduced our expectations for expansion in two key areas, services charges on deposit accounts due to lower customer usage and cash flow income, stemming from increased competitive pricing pressures. Positively, both 2013 and 2014 should benefit from strong expense control, with noninterest expense rising less than 1% in both years. The estimated tangible efficiency ratio will display improvement, falling 30 basis points to 71.0% in 2013 and an additional 40 basis points to 70.6% in 2014.

CPKF reported record first quarter diluted EPS of $0.64 that was a nickel, or 8%, better than our $0.59 estimate, driven by strong growth in the merchant card, cash flow, and mortgage banking businesses.

Relative to the year-ago quarter, net earnings climbed 14% to $2.1 million, while 2013's first quarter diluted EPS advanced 12% from the $0.57 posted in 2012's first quarter due to a greater number of shares outstanding.

Sequential net income surged 59% from fourth quarter's $1.3 million and diluted EPS jumped 61% from the $0.39 posted in the fourth quarter of 2012. The primary reasons for the first quarter's gain versus the fourth quarter were: (1) a $0.3 million positive swing in the combined loss from the sales of securities and OREO to a loss of $0.1 million from a loss of $0.4 million in the fourth quarter; (2) a $0.5 million, or 13%, drop in total compensation costs (we note that compensation expense typically declines in the first quarter from the fourth quarter, though this quarter's decrease was steeper than normal due to a couple of vacant positions); (3) a $0.6 million, or 14%, slide in other noninterest expense (again, this usually occurs in the first quarter); and (4) a 1% dip in shares outstanding following fourth quarter's share buyback, which contributed about a penny per share to EPS. This was partially offset by a 760 basis-point jump in the effective tax rate to 22.0% from 14.4% in the fourth quarter.

Compared to our projections, net income was $0.2 million, or $0.05 per diluted share, above our $2.5 million, or $0.59 per share, estimate, respectively. This primarily reflected combined losses from the sales of securities and OREO that were $0.1 million lower than our estimate plus other miscellaneous income, which includes mortgage banking revenues, that was $0.3 million larger, partially offset by miscellaneous expense that came in $0.2 million above our estimate.

On October 23, 2012, CPKF hiked its quarterly dividend by 9% to $0.12 per share from $0.11 per share, paid on December 15, 2012 to shareholders of record on December 1, 2012. This was the second dividend increase in 2012—earlier in the year, CPKF hiked the dividend 10% from the $0.10 quarterly rate. Notably, CPKF has increased the annual dividend payment every year for the past twenty-one years since 1991.

On October 29, 2012, CPKF announced a tender offer to repurchase up to $1.5 million of company stock at a price of $18.50 per share for shareholders of record (a 12% premium to the $16.50 share price at that time) as of October 25, 2012, with shares tendered by the close of business on December 10, 2012. As the entire $1.5 million was repurchased, this reduced shares outstanding by 2% and increased annual diluted EPS by a penny.

We note that American Banker recently ranked CPKF 17th (down one notch from 16th a year ago) out of all banks nationally with less than $2 billion in total assets, which includes approximately 6,000 banks,

and #2 of all banks in Virginia. This ranking was based upon three-year average returns on equity, which for Chesapeake Financial was 14.10%. 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 fourth quarter results more fully. Details of our projections are shown at the back of our report.

Net Interest Income

Net interest income shed 1% year over year to $5.8 million ($0.1 million lower than our estimate), as 6% growth in loans and receivables outstanding was partially offset by a net interest margin that fell 13 basis points to 4.54% from 4.67% earned in the year-ago quarter. The 4.54% net interest margin was up 5 basis point from 4.49% in the fourth quarter and was 4 basis points above our 4.50% estimate.

We are raising our 2013 NIM estimate to 4.51% from 4.50%, largely reflecting the better-than-expected performance in 2013's first quarter. Our initial estimate calls for a 10 basis-point decline to 4.40% in 2014 as we expect increased competition from larger national and regional banks to pressure results. We note that CPKF's balance sheet was slightly asset sensitive at the end of the first quarter, which could help the margin in a rising interest-rate environment.

Noninterest Income

Noninterest income advanced $0.6 million, or 20%, year over year to $3.8 million ($0.3 million above our estimate), primarily the result of strong gains in merchant card income (up $0.2 million, or 19%) as the Company added new clients, miscellaneous income (up $0.2 million, or 21%) reflecting strong growth in mortgage banking, and cash flow income (up $0.1 million or 13%) due to product line expansion.

Negatively, services charges on deposit accounts slid 13% year over year (the same sequentially) due to lower customer usage, and we expect this trend to continue over the near future.

Just as important, competitive pricing pressures are taking hold in the Company's cash flow business, and will likely result in a leveling off of revenues from this source going forward.

Loss Provision

The loan loss provision decreased 33% to $0.1 million (below our $0.15 estimate). Loan loss reserves fell $0.7 million from $6.5 million (1.84% of loans) year over year and $0.5 million sequentially from $6.3 million (1.69% of loans) to $5.8 million (1.56% of loans) as of March 31, 2013.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell marginally to $7.0 million (1.77% of loans plus cash flow receivables) from $7.6 million (2.04% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and $7.5 million (1.88% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $634,000 of loans in the first quarter. This is $558,000 larger than the $76,000 charged off in the year-ago quarter and compares to net charge-offs of $709,000 for full-year 2012. CEO Jeff Szyperski noted that total delinquencies 30 days and over improved, decreasing 88 basis points to 2.15% of total loans at March 31, 2013 from 3.03% of total loans at December 31, 2012.

We are estimating that the loss provision will remain flat at roughly $0.6 million in 2013 and 2014. This compares to 2012's 50% decline from 2011's $1.2 million.

We estimate that the total loss allowance will drop from 1.88% of loans plus receivables at the end of 2012 to 1.77% at yearend 2013 and 1.74% at the end of 2014.

Noninterest Expense
Total noninterest expense increased $0.3 million, or about 5%, year over year to $6.8 million ($0.2 million higher than our estimate), largely reflecting a $0.2 million, or 12%, rise in miscellaneous expense.The efficiency ratio was flat at 70.1% compared to the year-ago quarter and improved significantly from 79.7% in the fourth quarter.

Income Taxes
The Company's effective tax rate in the first quarter was 22.0%, compared to 21.9% in the year-ago quarter and our 22.4% estimate.

We are estimating an effective tax rate of roughly 22.0% in 2013 (down from 22.5% previously) and 2014, which compares to a full-year effective tax rate of 20.9% in 2012.

Net Income
CPKF posted record first quarter net earnings of $2.1 million (or $0.63 per diluted share). This was up 14% from the $1.8 million ($0.57 per diluted share) earned in the year-ago quarter. This compares to our $1.9 million net income estimate ($0.59 per diluted share).

Profitability
CPKF posted a 13.7% ROE and 1.29% ROA for the first quarter of 2013, compared to 13.9% and 1.15%, respectively, in the prior-year quarter.

Loans and Asset Quality
Gross loans outstanding increased $17 million, or about 5%, year over year, but fell $3 million, or 2%, sequentially to $372 million. Sequentially, categories that posted the largest increases were commercial real estate, which rose $5 million, or 4%, to $139.5 million, cash flow receivables, up $1 million, or 5%, to $23.6 million, and commercial and industrial loans, up $1 million, or 2%, to $64.8 million, with modest gains posted in consumer and other loan categories. At the other extreme, construction and land development loans fell $4 million, or 7%, to $49 million and 1-4 family real estate loans dropped $5 million, or 5%, to $98.3 million.

We have reduced our estimate for loan growth in 2013 from 4% to 2 ½% as effects of the sequestration on lending operations have taken hold in some of CPKF's key markets, given Viriginia's large exposure to the US military. Our intial estimate in 2014 is for a gain of about 4%.

Asset quality measures deteriorated on a sequential basis, mainly reflecting a $1.9 million, or 22%, jump in restructured loans to $10.5 million as loans encompassing 2 client lending relationships had to be restructured due to financial difficulties. We note that this is the second consecutive quarter of steep increases in restructured loans—the fourth quarter witnessed a $2.7 million, or 47%, jump in this category.

Nonperforming loans slid a $1.1 million, or 16%, to $5.7 million, while other real estate owned posted a $0.4 million, or 10%, increase to $4.8 million.

Thus, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, rose 532 basis points to 5.25% of outstandings + OREO at March 31, 2013 from 4.93% at December 31, 2012, and 105 basis points year over year from 4.20%.

The loss allowance as a percent of nonperforming assets fell sequentially to 27.7% from 32.1%, reflecting the jump in restructured loans and the decline in the loss reserve for loans and cash flow receivables.

Liquidity and Funding
Cash and equivalents slipped $21 to $33 million sequentially, while the securities portfolio fell by roughly $1 million, reflecting the paydown of the US government-related mortgage-backed securities ($4 million),

partly offset by a $3 million addition to private-label mortgage securities. This had the effect of reducing the total US government-related securities portfolio by 200 basis points to 19% of the entire available-for-sale securities portfolio and simultaneously raising the private-label mortgage securities portfolio to 16% and the municpal securities portfolio to 65%.

CPKF's liquidity ratios deteriorated compared to the previous quarter, reflecting the declines in cash and equivalents and the available-for-sale securities portfolio. At March 31, 2013, liquid assets represented 10% of total assets (down from 14% at the end of the fourth quarter), while loans plus receivables accounted for 61% of total assets (up from 60% at December 31, 2012).

Core deposits fell $5 million, or 1%, sequentially to $454 million and funded 115% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved during the quarter, primarily due to strong growth in retained earnings. The Tier 1 capital ratio rose 15 basis points sequentially to 13.70% at the end of 2013's first quarter from 13.55% at December 31, 2012, and the Total capital ratio increased 14 basis points to 14.94% from 14.80%.

Total shareholders' equity advanced $1.0 million during the first quarter, due to a combination of $1.7 million growth in retained earnings, a $0.8 million decline in accumulated comprehensive income to $6.7 million, and a $0.1 million decline from other capital changes. Reflecting these factors, tangible book value per share also increased during the first quarter, by $0.18 per share to $18.98 from $18.80.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a bank holding company headquartered in Kilmarnock, Virginia, with $644 million in total assets at March 31, 2013. CPKF is predominantly a small business lender with 12 branch offices that serve customers in the eastern region of Virginia between the Potomac and James Rivers. These offices are located in Kilmarnock, Lively, Irvington, Mathews, Hayes, and Gloucester, with five branches in Williamsburg. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves. In addition, CPKF opened a commercial loan production office in Richmond, Virginia in mid-August 2011.

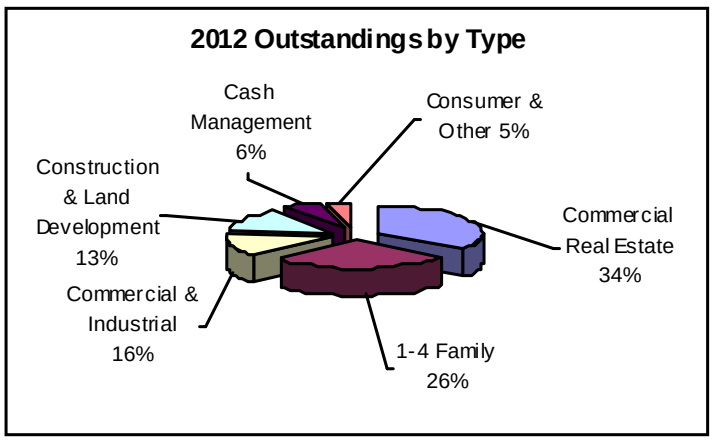
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $330 million in assets (at 2012 yearend) through its subsidiaries involved in 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 2012, Chesapeake Payment Systems had 607 merchants in its system and processed over $133 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 had 76 customers at the end of 2012.

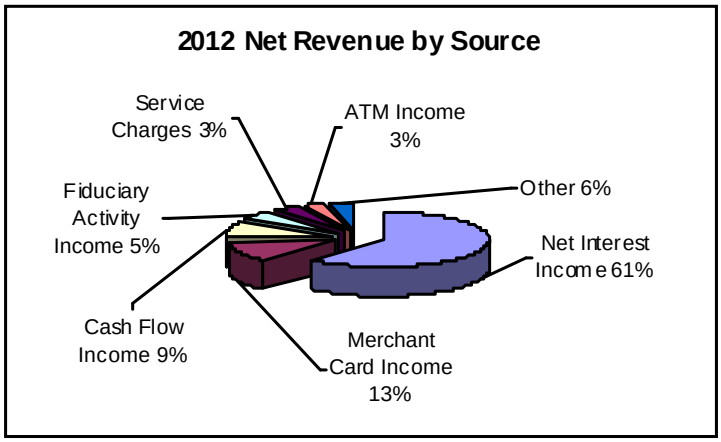
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2012, Clear Sky deposits totalled $44 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $207 million loan portfolio (as of December 31, 2012) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $520,000 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 $952,000 to revenues in 2012 (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, 2012, the lending book consisted of commercial real estate (accounting for 34% of total gross outstandings), 1-4 family (26%), commercial and industrial (16%), construction and land development (13%), cash flow (6%), and consumer and other (5%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2012, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 14% of total assets and 21% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 64% and 15%, respectively, of the total. Core deposits represented 81% of total deposits at December 31, 2012, with certificates of deposit larger than $100,000 at 19%.



In 2012, net interest income contributed 61% of net revenue, with a significant 39% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (13% of net revenues), cash flow income (9%), income from fiduciary activities (5%), service charges on deposit accounts (3%), and ATM income (3%).

VALUATION

CPKF stock has risen 4.8% year to date, below the small-cap bank industry's median price increase of 15.8%, as shown in the following table, as well as the 14.2% gain for the S&P 500. We note that the share price surged 49.3% last year in 2012 compared to 13.4% for the S&P 500.

At its current price, CPKF is trading at a discount to the industry median P/E of 44% in 2014, based upon our most recent CPKF EPS estimate for 2014. This is below the average 52% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 52% to our 2014 EPS estimate results in a price of about $15.30.

Turning to Price/Tangible Book Value, CPKF is valued at 0.95X versus the industry median of 1.07X. This represents an 11% discount, well below the average historical premium of 19% for CPKF since the end of 2005. Applying the historical premium of 19% to our estimated book value for CPKF twelve months out results in a price of approximately $25.25.

At a minimum, we believe that CPKF should be trading in line with the industry's 1.07X Price/Tangible Book Value, given CPKF's strong performance throughout the financial crisis, its superior profitability measures, and its above-average yield on the increased dividend. Applying this metric to our estimated book value for CPKF twelve months out results in a price of approximately $22.50.

With $22.50 as our target price (versus CPKF's $17.60 current market price) and a 2.7% dividend yield, this indicates a total return of over 30%, 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	2013E	2014E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**4.8**	**7.4**	**7.0**	**6.9**	**7.7**	**0.95**	**13.1**	**14.3**	**1.19**	**0.97**	**2.7**
S&P 500	14.2	16.8	15.1	14.2	16.7	4.4	27.4	-----	8.6	-----	2.0
Median	**15.8**	**14.4**	**13.3**	**12.5**	**16.1**	**1.07**	**7.8**	**3.9**	**0.73**	**0.33**	**1.1**
Average	21.0	16.5	14.6	12.8	24.2	1.0	7.3	1.6	0.7	0.3	1.2
High	89.4	46.6	50.7	25.1	104.3	1.9	14.3	14.3	1.5	2.0	4.7
Low	(15.7)	5.3	6.7	7.4	6.4	0.5	(1.7)	(74.2)	(0.2)	(2.3)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/08	12/09	12/10	12/11	12/12	12/13E	12/14E
Net interest income	16.5	18.9	21.8	22.8	23.1	23.6	24.0
Non-interest income	15.0	14.1	13.8	13.7	15.0	15.7	15.8
Total net revenue	31.5	33.0	35.6	36.5	38.1	39.3	39.8
Loan loss provision	0.4	0.9	2.5	1.2	0.6	0.6	0.6
Non-interest expense	25.0	25.9	26.2	26.4	27.8	28.0	28.2
Income taxes & other	1.5	1.4	1.5	1.9	2.0	2.4	2.4
Zacks adjusted income before NRI	4.6	4.8	5.4	7.0	7.7	8.3	8.6
GAAP net income	4.6	4.8	5.4	7.0	7.7	8.3	8.6
Diluted EPS before NRI	1.34	1.48	1.69	2.16	2.32	2.50	2.55
Reported EPS	1.34	1.48	1.69	2.16	2.32	2.50	2.55
Dividends per share	0.34	0.35	0.36	0.40	0.45	0.48	0.48
Liquid assets	45.4	57.8	73.2	97.9	92.1	69.1	71.9
Outstandings, gross	396.2	391.3	382.3	373.1	397.6	407.6	424.2
Total assets	538.0	586.7	607.7	638.0	667.7	663.0	689.9
Core deposits	317.0	370.0	396.2	430.4	459.0	467.5	486.5
Purchased funds	121.9	131.3	127.2	113.3	118.4	99.7	101.7
Long-term debt	65.5	47.4	40.0	39.6	26.0	25.0	25.0
Shareholders' equity	30.6	35.3	41.1	51.2	60.9	66.9	73.9
Profitability							
Return on avg assets	0.89%	0.84%	0.90%	1.13%	1.19%	1.27%	1.27%
Return on avg equity	13.51%	13.14%	13.55%	15.31%	14.87%	13.02%	12.15%
Net interest margin	4.00%	4.10%	4.40%	4.70%	4.60%	4.51%	4.40%
Loan loss provision % avg assets	0.08%	0.16%	0.41%	0.19%	0.09%	0.08%	0.09%
Noninterest income % avg assets	2.91%	2.45%	2.30%	2.21%	2.33%	2.38%	2.33%
Noninterest expense % avg assets	4.84%	4.51%	4.34%	4.27%	4.32%	4.28%	4.17%
Preprovision pretax income % avg assets	1.26%	1.24%	1.57%	1.62%	1.60%	1.71%	1.71%
Tangible efficiency ratio	80%	77%	73%	71%	71%	71%	71%
Payout ratio	25%	24%	21%	18%	19%	19%	19%
Asset Quality							
Net charge-offs % avg outstandings	0.27%	0.34%	0.48%	0.22%	0.18%	0.27%	0.16%
Allowance % outstandings	1.43%	1.59%	1.90%	2.01%	1.88%	1.77%	1.74%
NPAs % loans + OREO	0.35%	1.20%	3.91%	4.48%	4.93%	4.85%	4.36%
Allowance % NPAs	411%	131%	48%	44%	32%	36%	40%
Liquidity & Funding							
Liquid assets % purchased funds	37%	44%	58%	86%	78%	69%	71%
Core deposits % outstandings	80%	95%	104%	115%	115%	115%	115%
Liquid assets % assets	8%	10%	12%	15%	14%	10%	10%
Outstandings % assets	74%	67%	63%	58%	60%	61%	61%
Capital Adequacy							
Total equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	10.10%	10.71%
Tangible equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	10.10%	10.71%
Tier 1 capital ratio	10.60%	10.10%	12.07%	12.20%	13.55%		
Total capital ratio	12.50%	11.70%	13.54%	13.40%	14.80%		
Parent Company Statistics							
Interest coverage	0.6X	0.8X	2.6X	2.1X	4.4X	2.0X	2.0X
Interest & dividend coverage	0.3X	0.4X	1.1X	0.9X	1.5X	0.8X	0.8X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.9X	0.8X	0.8X	0.8X	0.9X	1.4X	1.9X
Double leverage	139.8%	142.1%	134.7%	127.2%	121.7%	123.2%	123.2%

Chesapeake Financial Shares, Inc.

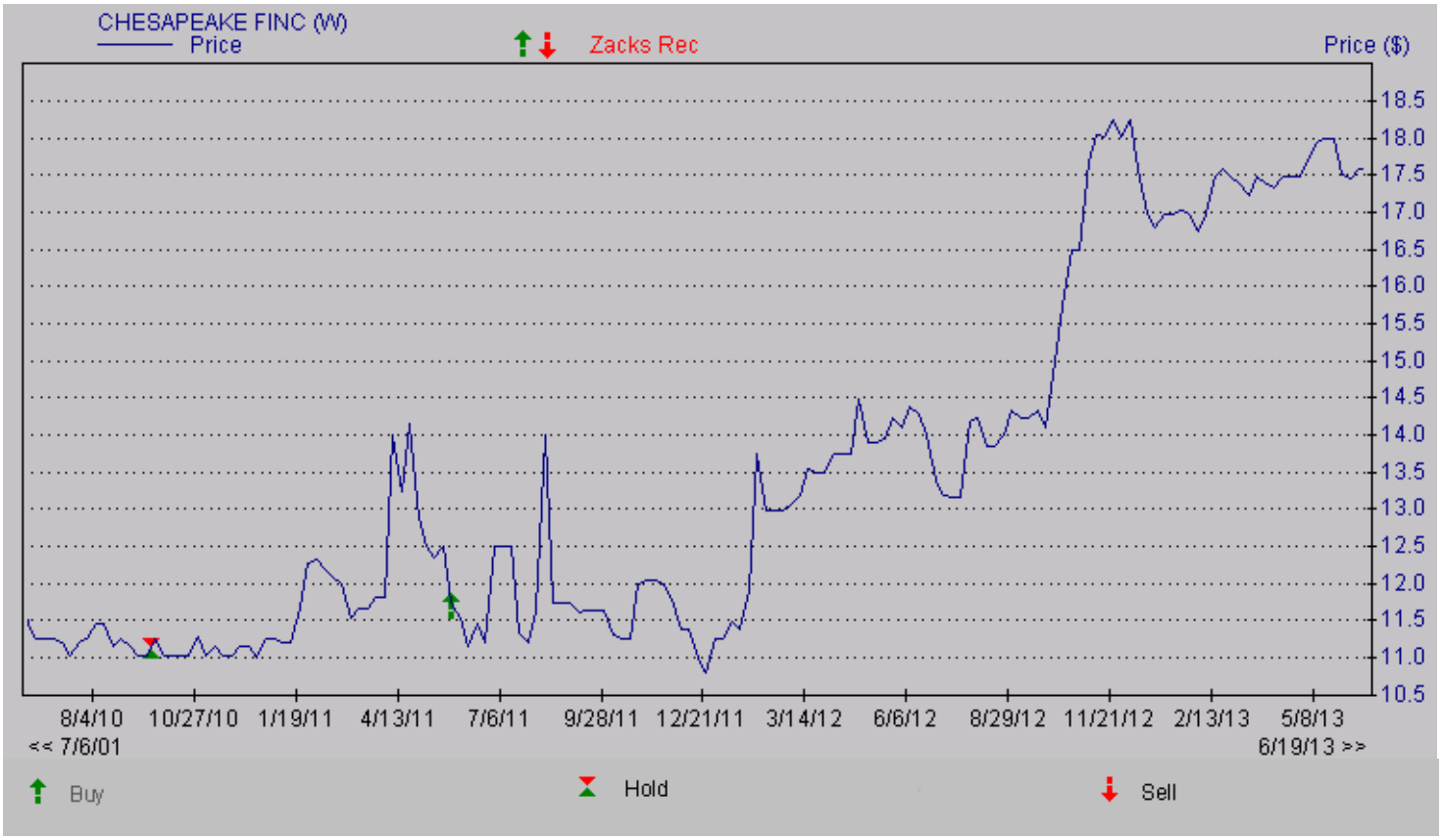
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2012				2013			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	5.9	5.7	5.7	5.7	5.8	5.9	5.9	6.0
Non-interest income	3.1	3.7	4.4	3.9	3.8	4.1	4.1	3.6
Total net revenue	9.0	9.4	10.1	9.6	9.6	10.0	10.0	9.6
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Non-interest expense	6.4	6.6	6.8	7.9	6.8	7.0	7.0	7.2
Income taxes & other	0.6	0.5	0.6	0.2	0.6	0.6	0.6	0.5
Zacks adjusted income before NRI	1.8	2.1	2.5	1.3	2.1	2.2	2.2	1.7
GAAP net income	1.8	2.1	2.5	1.3	2.1	2.2	2.2	1.7
Diluted EPS before NRI	0.57	0.62	0.74	0.39	0.64	0.68	0.68	0.51
Reported EPS	0.57	0.62	0.74	0.39	0.64	0.68	0.68	0.51
Dividends per share	0.11	0.11	0.11	0.12	0.12	0.12	0.12	0.12
Liquid assets	99.0	85.3	74.5	92.1	67.0	67.7	68.4	69.1
Outstandings, gross	372.3	379.5	386.9	397.6	395.7	399.6	403.6	407.6
Total assets	640.7	635.4	633.9	667.7	643.5	650.0	656.5	663.0
Core deposits	432.9	424.9	422.5	459.0	453.8	458.3	462.9	467.5
Purchased funds	122.9	122.5	119.9	118.4	98.2	98.7	99.2	99.7
Long-term debt	27.1	26.9	26.8	26.0	26.5	25.0	25.0	25.0
Shareholders' equity	55.0	57.4	60.8	60.9	61.9	63.8	65.6	66.9
Profitability								
Return on avg assets*	1.15%	1.29%	1.55%	0.81%	1.29%	1.39%	1.38%	1.03%
Return on avg equity *	13.88%	14.61%	16.63%	8.70%	13.72%	14.30%	13.91%	10.28%
Net interest margin*	4.67%	4.53%	4.50%	4.49%	4.54%	4.50%	4.50%	4.50%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.06%	0.09%	0.09%	0.09%
Noninterest income % avg assets*	1.93%	2.28%	2.75%	2.37%	2.33%	2.58%	2.49%	2.19%
Noninterest expense % avg assets*	4.02%	4.13%	4.28%	4.85%	4.16%	4.33%	4.26%	4.39%
Preprovision pretax inc.% avg assets*	1.57%	1.74%	2.09%	1.04%	1.71%	1.87%	1.85%	1.42%
Tangible efficiency ratio	69%	69%	67%	80%	70%	69%	69%	75%
Payout ratio	19%	18%	15%	30%	19%	18%	18%	23%
Asset Quality								
Net charge-offs % avg outstandings*	0.08%	0.17%	0.35%	0.14%	0.64%	0.15%	0.15%	0.15%
Allowance % outstandings	2.04%	2.00%	1.92%	1.88%	1.77%	1.77%	1.77%	1.77%
NPAs % loans + OREO	4.20%	4.11%	4.39%	4.93%	5.25%	5.12%	4.99%	4.85%
Allowance % NPAs	48%	48%	43%	32%	28%	34%	35%	36%
Liquidity & Funding								
Liquid assets % purchased funds	81%	70%	62%	78%	68%	69%	69%	69%
Core deposits % outstandings	116%	112%	109%	115%	115%	115%	115%	115%
Liquid assets % assets	15%	13%	12%	14%	10%	10%	10%	10%
Outstandings % assets	58%	60%	61%	60%	61%	61%	61%	61%
Capital Adequacy								
Total equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.81%	10.00%	10.10%
Tangible equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.81%	10.00%	10.10%
Tier 1 capital ratio	13.20%	13.38%	13.81%	13.55%	13.70%			
Total capital ratio	14.45%	14.63%	15.06%	14.80%	14.94%			

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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