Zacks Small-Cap Research

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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 - OTC)

CPKF: Second Quarter Shows Good Loan Growth and Asset Quality Improvement

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/26/2011
Current Price (09/18/13)	$18.75
Twelve-Month Target Price	**$22.50**

OUTLOOK

CPKF reported second quarter diluted EPS of $0.76 that was $0.08, or 12%, better than our $0.68 estimate, as the Company recognized $1.06 million in gains from the sale of securities, which was partly offset by a $0.65 million loan loss provision and a higher effective tax rate. Excluding the one-time aftertax gain from the sale of securities of $713,500 ($0.21 per share), CPKF's diluted EPS was $0.55, $0.13 below our estimate, largely due to a higher-than-expected loan loss provision as the Company beefed up loan loss reserves. Positively, asset quality measures improved markedly during the quarter following a couple of quarters of weak performance, mainly reflecting a $5.7 million, or 54%, decline in restructured loans to $4.8 million as loans encompassing 2 client lending relationships returned to performing status. We are cutting our 2013 diluted EPS estimate by $0.14 to $2.36, largely reflecting the shortfall from our second quarter estimate caused by the outsized loan loss provision. In addition, we are tweaking our 2014 diluted EPS estimate and lowering it by $0.03 to $2.52 from $2.55. On July 19, 2013, CPKF hiked its quarterly dividend by 13% to $0.135 per share from $0.12 per share, which follows two dividend increases totaling 20% 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 roughly 6,000 banks, and #2 of all banks in Virginia.

SUMMARY DATA

52-Week High	**$19.80**
52-Week Low	**$14.10**
One-Year Return (%)	**35.39**
Beta	**0.11**
Average Daily Volume (sh)	**497**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$62**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.54**
Dividend Yield (%)	**2.88**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**9.6**
Earnings Per Share (%)	**13.3**
Dividend (%)	**9.1**
P/E using TTM EPS	**8.1**
P/E using 2013 Estimate	**7.9**
P/E using 2014 Estimate	**7.4**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**33 of 65**

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 A	9.8 E	9.7 E	39.1 E
2014					39.7 E

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	0.55 A	0.65 E	0.54 E	2.36 E
2014					2.52 E

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

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SECOND QUARTER

CPKF reported second quarter diluted EPS of $0.76 that was $0.08, or 12%, better than our $0.68 estimate, as the Company recognized $1.06 million in gains from the sale of securities, which was partly offset by a $0.65 million loan loss provision and a higher effective tax rate. Excluding the one-time aftertax gain from the sale of securities of $713,500 ($0.21 per share), CPKF's diluted EPS was $0.55, $0.13 below our estimate, largely due to a higher-than-expected loan loss provision as the Company beefed up loan loss reserves.

Relative to the year-ago quarter, net earnings fell 11% to $1.8 million, while 2013's second quarter diluted EPS slumped 12% from the $0.62 posted in 2012's second quarter.

Sequential net income dropped 14% from first quarter's $2.1 million and diluted EPS also slipped 14% from the $0.63 posted in the first quarter of 2013. The primary reason for the second quarter's decrease versus the first quarter was a $550,000 jump in the loan loss provision to $650,000 from $100,000 or an estimated $0.13 per share after tax.

We are cutting our 2013 diluted EPS estimate by $0.14 to $2.36, largely reflecting the shortfall from our second quarter estimate caused by the outsized loan loss provision as the Company boosted loan loss reserves. In addition, we are tweaking our 2014 diluted EPS estimate and lowering it by $0.03 to $2.52 from $2.55. Our 2013 estimate represents a 2% increase over 2012's $2.32, itself an 8% gain over 2011's $2.16, while our 2014 estimate is a 7% advance from our 2013 estimate.

Our estimates are supported by strong net interest margins (4.50% in 2013 and 4.45% 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% by 2014.

On July 19, 2013, CPKF hiked its quarterly dividend by 13% to $0.135 per share from $0.12 per share, payable on September 15, 2013 to shareholders of record on September 1, 2013. CPKF increased the quarterly dividend twice in 2012, by $0.02 or 20%. 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 second quarter results more fully. Details of our projections are shown at the back of the report.

Net Interest Income

Net interest income grew 1% year over year to $5.8 million ($0.1 million lower than our estimate), as 1% growth in average-interest-earning assets was helped by a net interest margin that rose 3 basis points to

4.56% from 4.53% earned in the year-ago quarter. The 4.56% net interest margin was up 2 basis point from 4.54% in the first quarter and was 6 basis points above our 4.50% estimate.

We are slightly reducing our 2013 NIM estimate to 4.50% from 4.51%, while increasing our estimate for 2014 to 4.45% from $4.40%. We note that CPKF's balance sheet was slightly asset sensitive at the end of the second quarter, which could help the margin in a rising interest-rate environment.

Noninterest Income

Noninterest income, excluding the $1.06 million one-time gain on sales of securities in 2013's second quarter, advanced $0.6 million, or 16%, year over year to $4.2 million (the same as our estimate), primarily the result of solid growth in merchant card income (up $0.1 million, or 9%) as the Company added new clients, cash flow income (up $0.1 million or 15%) due to product line expansion, miscellaneous income (up almost $0.2 million, or 18%) reflecting strong growth in mortgage banking, and a $0.2 million positive swing in securities gains/losses versus the year-ago quarter.

Negatively, services charges on deposit accounts slid 12% year over year (but was flat 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 climbed 333% to $0.65 million (well above our $0.15 million estimate), as CPKF stengthened loan loss reseves. Loan loss reserves rose $0.4 million from $5.8 million (1.56% of loans) at the end of the first quarter to $6.2 million (1.66% of loans) at June 30, 2013, though this level was below the $6.5 million (1.82%) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell marginally to $7.3 million (1.81% of loans plus cash flow receivables) from $7.6 million (2.00% of loans plus cash flow receivables) at the end of the comparable year-ago quarter, but rose from $7.0 million (1.77% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $215,000 of loans in the second quarter. This was $55,000 larger than the $160,000 charged off in the year-ago quarter and compares to net charge-offs of $634,000 in 2013's first quarter and $709,000 for full-year 2012. CEO Jeff Szyperski noted that total delinquencies 30 days and over improved, decreasing to 1.914% of total loans at the end of the second quarter compared to 2.149% at March 30, 2013 and 3.031% at December 31, 2012.

We are estimating that the loss provision will climb to $1.05 million in 2013, a 75% increase over 2012, before dropping sharply to $0.6 million in 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 1.83% at yearend 2013 and 1.81% at the end of 2014.

Noninterest Expense

Total noninterest expense increased $0.5 million, or about 8%, year over year to $7.1 million ($0.1 million higher than our estimate), largely reflecting a $0.2 million, or 6%, gain in salary expense, a $0.2 million, or 12%, rise in miscellaneous expense, and a $0.1 million advance in cash flow expense. The efficiency ratio deteriorated modestly, rising to 70.7% from 68.9% in the year-ago quarter and 70.1% in the first quarter.

Income Taxes

The Company's effective tax rate in the second quarter (excluding one-time items) was 20.3%, compared to 21.8% in the year-ago quarter and our 21.8% estimate.

We are estimating an effective tax rate of roughly 21.6% for all of 2013 (previously 22.0%) and 22.0% in 2014, which compares to a full-year effective tax rate of 20.9% in 2012.

Net Income

CPKF posted second quarter net earnings of $1.8 million (or $0.55 per diluted share) before a $713,500 one-time gain on the sale of securities. This was down 11% from the $2.1 million ($0.62 per diluted share) earned in the year-ago quarter. This compares to our $2.2 million net income estimate ($0.68 per diluted share).

Profitability

CPKF posted an 11.9% ROE and 1.13% ROA for the second quarter of 2013, compared to 14.6% and 1.29%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding increased $16 million, or about 5%, year over year and $3 ½ million, or 1%, sequentially to $376 million. Sequentially, categories that posted the largest increases were cash flow receivables, up $5.2 million, or 22%, to $28.8 million; 1-4 family real estate loans, up $3 million, or 3%, to $101.3 million; and commercial and industrial loans, up $1.9 million, or 2%, to $66.4 million, with modest gains posted in consumer and other loan categories. Construction and land development loans were fat at about $49 million, while commercial real estate dropped $1.1 million , or less than 1%, to $138.4 million.

We are maintaining our estimate for loan growth at 2 ½% in 2013, reflecting effects of the sequestration on lending operations that have taken hold in some of CPKF's key markets, given Viriginia's large exposure to the US military. Our estimate in 2014 remains at a 4% gain.

Asset quality measures improved markedly on a sequential basis following a couple of quarters of weak performance, mainly reflecting a $5.7 million, or 54%, decline in restructured loans to $4.8 million as loans encompassing 2 client lending relationships returned to performing status.

Nonaccrual loans ticked up modestly by $0.3 million to $6.0 million, while other real estate owned posted an $0.8 million, or 16%, decrease to $4.1 million.

Thus, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, fell 159 basis points to 3.66% of outstandings + OREO at June 30, 2013 from 5.25% at March 31, 2013, and 46 basis points year over year from 4.11%.

The loss allowance as a percent of nonperforming assets rose sequentially to 49.1% from 27.7%, reflecting the decrease in restructured loans and the increase in the loss reserve for loans and cash flow receivables.

Liquidity and Funding

Cash and equivalents slipped $2 to $31 million sequentially, while the securities portfolio fell by roughly $8 million, reflecting the paydown of the US government-related mortgage-backed and municipal securities ($6 million and $4 million, respectively), partly offset by a $2 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 16% of the entire available-for-sale securities portfolio and simultaneously raising the private-label mortgage securities portfolio to 16%. The municpal securities portfolio was stable at 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 June 30, 2013, liquid assets represented 9% of total assets (down from 10% at the end of the first quarter), while loans plus receivables accounted for 63% of total assets (up from 61% at March 31, 2013).

Core deposits rise $2 million, or less than 1%, sequentially to $456 million and funded 113% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved slightly during the quarter, primarily due to strong growth in retained earnings. The Tier 1 capital ratio rose 4 basis points sequentially to 13.74% at the end of 2013's second quarter from 13.70% at March 31, 2013, and the Total capital ratio increased 5 basis points to 14.99% from 14.94%.

Total shareholders' equity declined $1.3 million during the second quarter, largely due to a $3.1 million decrease in accumulated comprehensive income to $3.6 million stemming from mark-to-market declines in the bond portfolio, as occurred throughout the industry during the second quarter on rising interest rates. Other changes to shareholders' equity included $1.9 million growth in retained earnings and a $0.1 million decline from other capital changes.

Reflecting these factors, tangible book value per share decreased during the second quarter, by $0.36 per share to $18.62 from $18.98, and the total equity % total assets ratio also slipped, falling by 20 basis points to 9.43% from 9.63%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $643 million in total assets at June 30, 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.

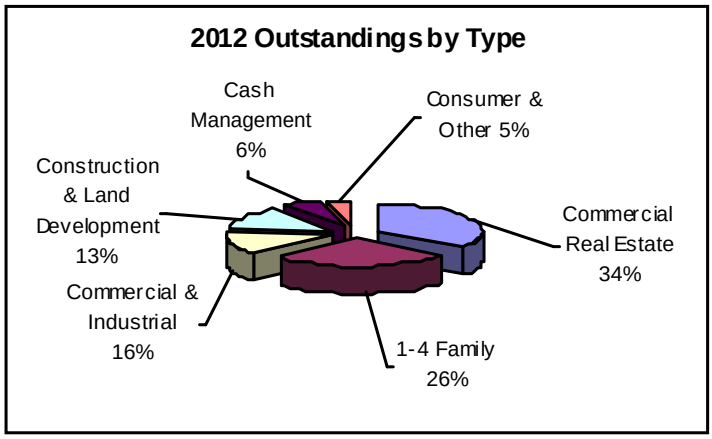
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $330 million in assets (at 2012 yearend) through its subsidiaries involved in 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. In addition, Chesapeake Payment Systems has also partnered with four 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 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.

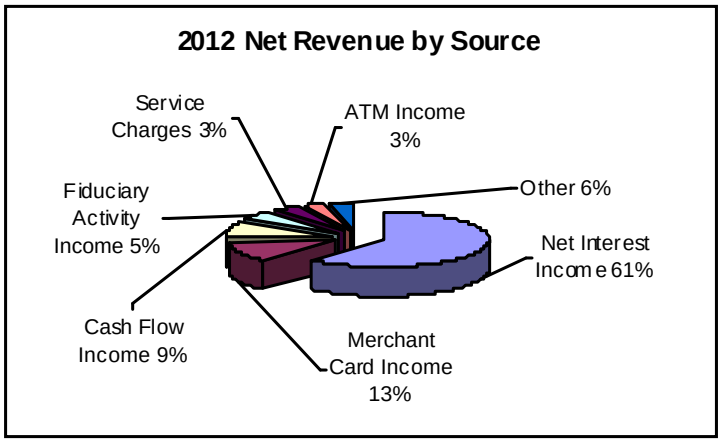
Through Chesapeake's secondary market mortgage banking operation, the Company services a $207 million loan portfolio (as of December 31, 2012) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $520,000 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 11.6% year to date, below the small-cap bank industry's median price increase of 25.7%, as shown in the following table, as well as the 21.0% gain for the S&P 500. We note that CPKF's share price surged 49.3% last year in 2012 compared to a 13.4% increase 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 55% to our 2014 EPS estimate results in a price of about $15.00.

Turning to Price/Tangible Book Value, CPKF is valued at 1.02X versus the industry median of 1.07X. This represents a 5% 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 $25.00.

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 dividend, which was just increased 13%. Applying this metric to our estimated book value for CPKF twelve months out results in a price of roughly $22.50.

With $22.50 as our target price (versus CPKF's $18.75 current market price) and a 2.9% dividend yield, this indicates a total return of 23%, 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	**11.6**	**8.1**	**7.9**	**7.4**	**7.5**	**1.02**	**13.8**	**14.2**	**1.30**	**1.00**	**2.9**
S&P 500	21.0	17.5	15.9	15.0	16.6	4.4	24.2	-----	8.4	-----	2.0
Median	**25.7**	**13.7**	**13.4**	**13.1**	**16.5**	**1.07**	**7.6**	**4.0**	**0.81**	**0.36**	**1.2**
Average	30.5	15.2	13.6	14.3	24.8	1.1	8.4	1.9	0.8	0.3	1.3
High	95.2	36.9	27.7	39.9	105.0	1.8	33.6	14.2	3.9	2.0	4.5
Low	(6.1)	5.5	5.5	7.4	6.4	0.5	(3.9)	(72.9)	(0.4)	(2.1)	-----

*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	23.1	23.7
Non-interest income	15.0	14.1	13.8	13.7	15.0	16.0	16.0
Total net revenue	31.5	33.0	35.6	36.5	38.1	39.1	39.7
Loan loss provision	0.4	0.9	2.5	1.2	0.6	1.1	0.6
Non-interest expense	25.0	25.9	26.2	26.4	27.8	28.0	28.3
Income taxes & other	1.5	1.4	1.5	1.9	2.0	2.1	2.4
Zacks adjusted income before NRI	4.6	4.8	5.4	7.0	7.7	7.9	8.4
GAAP net income	4.6	4.8	5.4	7.0	7.7	8.6	8.4
Diluted EPS before NRI	1.34	1.48	1.69	2.16	2.32	2.36	2.52
Reported EPS	1.34	1.48	1.69	2.16	2.32	2.58	2.52
Dividends per share	0.34	0.35	0.36	0.40	0.45	0.51	0.54
Liquid assets	45.4	57.8	73.2	97.9	92.1	60.0	60.9
Outstandings, gross	396.2	391.3	382.3	373.1	397.6	407.7	424.3
Total assets	538.0	586.7	607.7	638.0	667.7	648.1	674.4
Core deposits	317.0	370.0	396.2	430.4	459.0	459.5	478.2
Purchased funds	121.9	131.3	127.2	113.3	118.4	96.7	98.3
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	63.7	70.3
Profitability							
Return on avg assets	0.89%	0.84%	0.90%	1.13%	1.19%	1.21%	1.27%
Return on avg equity	13.51%	13.14%	13.55%	15.31%	14.87%	12.71%	12.53%
Net interest margin	4.00%	4.10%	4.40%	4.70%	4.60%	4.50%	4.45%
Loan loss provision % avg assets	0.08%	0.16%	0.41%	0.19%	0.09%	0.16%	0.09%
Noninterest income % avg assets	2.91%	2.45%	2.30%	2.21%	2.33%	2.48%	2.41%
Noninterest expense % avg assets	4.84%	4.51%	4.34%	4.27%	4.32%	4.33%	4.28%
Preprovision pretax income % avg assets	1.26%	1.24%	1.57%	1.62%	1.60%	1.71%	1.72%
Tangible efficiency ratio	80%	77%	73%	71%	71%	71%	71%
Payout ratio	25%	24%	21%	18%	19%	20%	21%
Asset Quality							
Net charge-offs % avg outstandings	0.27%	0.34%	0.48%	0.22%	0.18%	0.29%	0.16%
Allowance % outstandings	1.43%	1.59%	1.90%	2.01%	1.88%	1.83%	1.81%
NPAs % loans + OREO	0.35%	1.20%	3.91%	4.48%	4.93%	3.45%	3.01%
Allowance % NPAs	411%	131%	48%	44%	32%	53%	59%
Liquidity & Funding							
Liquid assets % purchased funds	37%	44%	58%	86%	78%	62%	62%
Core deposits % outstandings	80%	95%	104%	115%	115%	113%	113%
Liquid assets % assets	8%	10%	12%	15%	14%	9%	9%
Outstandings % assets	74%	67%	63%	58%	60%	63%	63%
Capital Adequacy							
Total equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	9.83%	10.42%
Tangible equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	9.83%	10.42%
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	0.7X	0.7X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.9X	0.8X	0.8X	0.8X	0.9X	1.5X	1.9X
Double leverage	139.8%	142.1%	134.7%	127.2%	121.7%	129.9%	129.6%

Chesapeake Financial Shares, Inc.

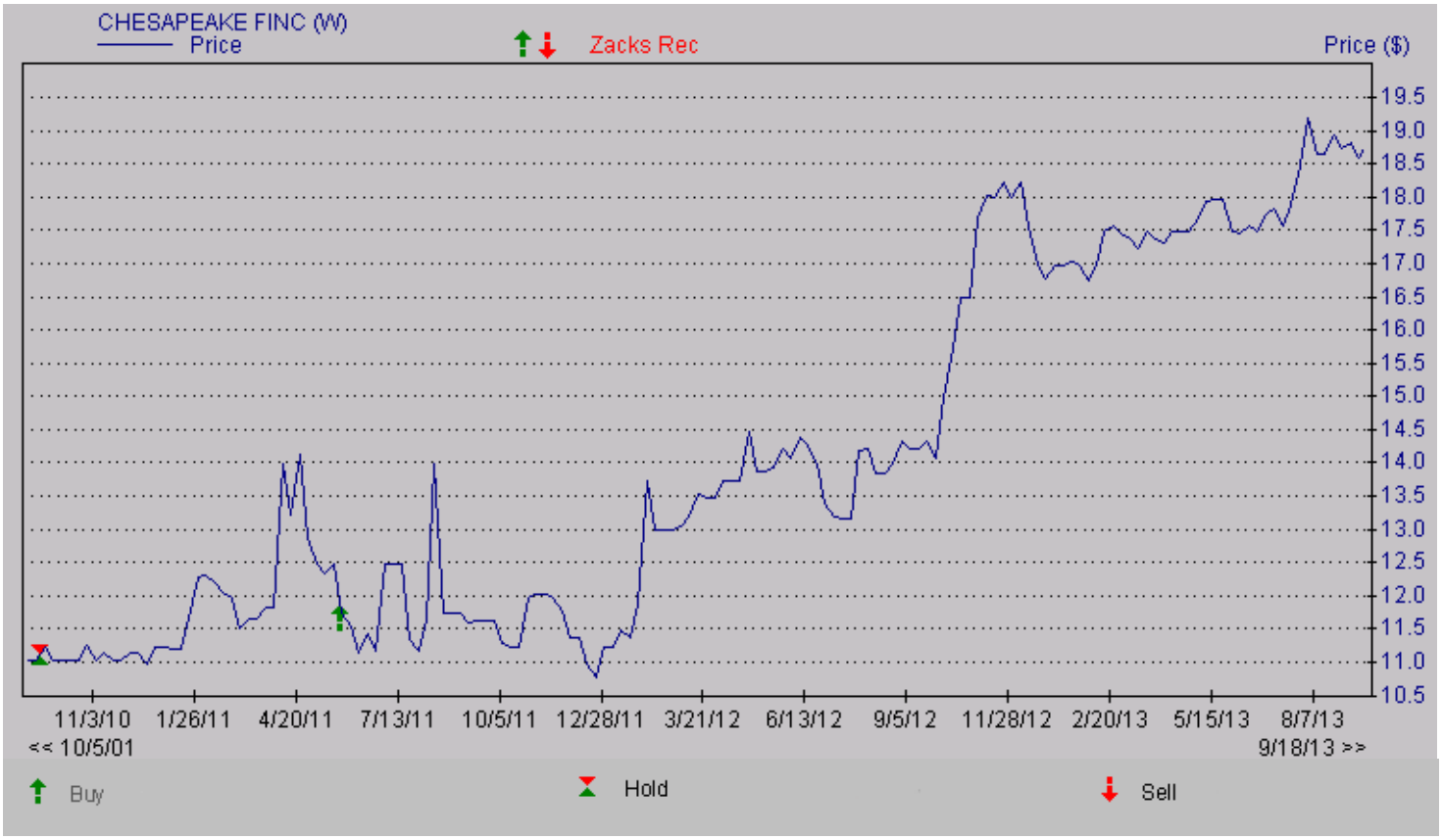
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2012				2013			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**
Net interest income	5.9	5.7	5.7	5.7	5.8	5.8	5.7	5.8
Non-interest income	3.1	3.7	4.4	3.9	3.8	4.2	4.2	3.9
Total net revenue	9.0	9.4	10.1	9.6	9.6	10.0	9.9	9.7
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.7	0.2	0.2
Non-interest expense	6.4	6.6	6.8	7.9	6.8	7.1	7.0	7.2
Income taxes & other	0.6	0.5	0.6	0.2	0.6	0.4	0.6	0.5
Zacks adjusted income before NRI	1.8	2.1	2.5	1.3	2.1	1.8	2.1	1.8
GAAP net income	1.8	2.1	2.5	1.3	2.1	2.5	2.1	1.8
Diluted EPS before NRI	0.57	0.62	0.74	0.39	0.64	0.55	0.65	0.54
Reported EPS	0.57	0.62	0.74	0.39	0.64	0.76	0.65	0.54
Dividends per share	0.11	0.11	0.11	0.12	0.12	0.12	0.14	0.14
Liquid assets	99.0	85.3	74.5	92.1	67.0	58.8	59.4	60.0
Outstandings, gross	372.3	379.5	386.9	397.6	395.7	404.5	406.1	407.7
Total assets	640.7	635.4	633.9	667.7	643.5	643.0	645.5	648.1
Core deposits	432.9	424.9	422.5	459.0	453.8	455.9	457.7	459.5
Purchased funds	122.9	122.5	119.9	118.4	98.2	96.0	96.3	96.7
Long-term debt	27.1	26.9	26.8	26.0	26.5	26.4	25.0	25.0
Shareholders' equity	55.0	57.4	60.8	60.9	61.9	60.7	62.4	63.7
Profitability								
Return on avg assets*	1.15%	1.29%	1.55%	0.81%	1.29%	1.13%	1.33%	1.10%
Return on avg equity *	13.88%	14.61%	16.63%	8.70%	13.72%	11.86%	13.96%	11.31%
Net interest margin*	4.67%	4.53%	4.50%	4.49%	4.54%	4.56%	4.45%	4.45%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.06%	0.40%	0.09%	0.09%
Noninterest income % avg assets*	1.93%	2.28%	2.75%	2.37%	2.33%	2.63%	2.58%	2.41%
Noninterest expense % avg assets*	4.02%	4.13%	4.28%	4.85%	4.16%	4.41%	4.32%	4.48%
Preprovision pretax inc.% avg assets*	1.57%	1.74%	2.09%	1.04%	1.71%	1.82%	1.80%	1.51%
Tangible efficiency ratio	69%	69%	67%	80%	70%	71%	70%	74%
Payout ratio	19%	18%	15%	30%	19%	16%	21%	25%
Asset Quality								
Net charge-offs % avg outstandings*	0.08%	0.17%	0.35%	0.14%	0.64%	0.23%	0.15%	0.15%
Allowance % outstandings	2.04%	2.00%	1.92%	1.88%	1.77%	1.81%	1.83%	1.83%
NPAs % loans + OREO	4.20%	4.11%	4.39%	4.93%	5.25%	3.66%	3.56%	3.45%
Allowance % NPAs	48%	48%	43%	32%	28%	49%	51%	53%
Liquidity & Funding								
Liquid assets % purchased funds	81%	70%	62%	78%	68%	61%	62%	62%
Core deposits % outstandings	116%	112%	109%	115%	115%	113%	113%	113%
Liquid assets % assets	15%	13%	12%	14%	10%	9%	9%	9%
Outstandings % assets	58%	60%	61%	60%	61%	63%	63%	63%
Capital Adequacy								
Total equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.43%	9.66%	9.83%
Tangible equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.43%	9.66%	9.83%
Tier 1 capital ratio	13.20%	13.38%	13.81%	13.55%	13.70%	13.74%		
Total capital ratio	14.45%	14.63%	15.06%	14.80%	14.94%	14.99%		

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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