Zacks Small-Cap Research

January 10, 2014
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Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Reducing 2013 and 2014 EPS Estimates

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/09/2014
Current Price (01/09/14)	$18.00
Twelve-Month Target Price	**$18.25**

OUTLOOK

We are cutting our 2013 and 2014 diluted EPS estimates rather dramatically, following third quarter results and discussions with CPKF management. Specifically, we are reducing our 2013 diluted EPS estimate by $0.26 to $2.10 from $2.36, largely to reflect the $0.20 third quarter shortfall from our estimate, plus an additional $0.06 in the fourth quarter, stemming from higher projections for merchant card and cash flow expenses. For 2014, we are slicing our diluted EPS estimate by $0.57 to $1.95 from $2.52 for four reasons. First, we have significantly increased our estimate for compensation expense to reflect a number of new hires, including the addition of six noncustomer-facing (nonrevenue-generating) employees, in part related to increased compliance and the current regulatory environment, and the filling of a couple of spots that were vacant for a good part of 2013. Second, we have lowered our estimate for income from fiduciary activities due to the loss of a significant client relationship in 2013's third quarter. Third, merchant card income will be lower as CPKF has cut number of independent sales organizations (ISOs) to four from five. Finally, CPKF has scaled back the cash flow business to improve its risk profile and enhance profitability. At the same time, we are reducing our recommendation to Neutral from Outperform and lowering our target price to $18.25 from $24.50. While we recognize that CPKF is still undervalued particularly on a book value basis, we believe that there is no immediate catalyst to drive the stock price higher over the near term, especially in view of what we imagine will be a tough 2014.

SUMMARY DATA

52-Week High	$19.97
52-Week Low	$16.76
One-Year Return (%)	7.65
Beta	0.05
Average Daily Volume (sh)	654
Shares Outstanding (mil)	3
Market Capitalization ($mil)	$59
Short Interest Ratio (days)	N/A
Institutional Ownership (%)	0
Insider Ownership (%)	40
Annual Cash Dividend	$0.54
Dividend Yield (%)	3.00
5-Yr. Historical Growth Rates	
Net Revenue (%)	9.6
Earnings Per Share (%)	13.3
Dividend (%)	9.1
P/E using TTM EPS	8.9
P/E using 2013 Estimate	8.6
P/E using 2014 Estimate	9.2
Zacks Rank	3

Risk Level	Average
Type of Stock	Small-Value
Industry	Banks-Southeast
Zacks Rank in Industry	23 of 63

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	9.7 A	9.7 E	39.0 E
2014					38.9 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	0.45 A	0.47 E	2.10 E
2014					1.95 E

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

THIRD QUARTER

We are cutting our 2013 and 2014 diluted EPS estimates rather dramatically, following third quarter results and discussions with CPKF management. Specifically, we are reducing our 2013 diluted EPS estimate by $0.26 to $2.10 from $2.36, largely to reflect the $0.20 third quarter shortfall from our estimate, plus an additional $0.06 in the fourth quarter, stemming from higher projections for merchant card and cash flow expenses.

For 2014, we are slicing our diluted EPS estimate by $0.57 to $1.95 from $2.52 for four reasons. First, we have significantly increased our estimate for compensation expense to reflect a number of new hires, including the addition of six noncustomer-facing (nonrevenue-generating) employees, in part related to increased compliance and the current regulatory environment, and the filling of a couple of spots that were vacant for a good part of 2013. Second, we have lowered our estimate for income from fiduciary activities due to the loss of a significant client relationship in 2013's third quarter. Third, merchant card income will be lower as CPKF has cut number of independent sales organizations (ISOs) to four from five. Finally, CPKF has scaled back the cash flow business to improve its risk profile and enhance profitability.

To review the third quarter, CPKF's net earnings fell 38% to $1.5 million, while 2013's third quarter diluted EPS slumped 39% to $0.45 from the record $0.74 posted in 2012's third quarter. Admittedly, this was a bit disappointing to us, though we had never expected this year's third quarter to top last year's when the Company achieved record net earnings and EPS.

In fact, CPKF's third quarter diluted EPS of $0.45 was $0.20, or 31%, below our $0.65 estimate, largely due to higher-than-expected expenses. There were some positives in the quarter. The Company reported $2 million of sequential loan growth, a provision for credit losses that was $50,000 below our $150,000 estimate, net interest income that was $0.1 million better than the $5.7 million we had projected, and growth in merchant card and cash flow income that each came in $0.1 million-plus higher than we had expected.

Still, this was more than offset by noninterest expense that was $0.7 million worse than we had anticipated. Specifically, total compensation expense was $0.1 million larger than our estimate, while cash flow, ATM, and other expense were each $0.2 million more than we had expected. Furthermore, combined losses from the sales of securities and OREO were $0.4 million worse than our estimate, as the Company sold some mortgage-backed securities to reposition its securities portfolio to improve longer term cash flow and protect its net interest margin.

Relative to the year-ago quarter, net income tumbled $1.0 million, or 38%, from last year's's $2.5 million and diluted EPS slid $0.29, or 39%, from the $0.74 posted in the third quarter of 2012.

The primary reasons for the third quarter's decline versus the prior-year quarter were: (1) a $0.4 million negative swing in the combined gain/loss from the sales of securities and OREO to a loss of $0.5 million from a loss of $0.1 million; (2) a $0.2 million, or 26%, decrease in income from fiduciary activities to $0.5 million due to the loss of a significant client relationship; (3) a $0.3 million, or 10%, increase in compensation expense to $3.8 million due to a few new hires; and (4) a $0.5 million, or 16%, rise in other noninterest expense to $3.8 million due to growth in merchant card, cash flow, and other expenses. This was partly offset by: (1) a $0.1 million, or 2%, climb in net interest income to $5.8 million; (2) a $50,000 drop in the loan loss provision to $100,000 from $150,000; and (3) income taxes that dipped $0.3 million to $0.4 million due to lower taxable income.

Compared to our projections, net income was $0.6 million, or $0.20 per diluted share, below our $2.1 million, or $0.65 per share, estimate, respectively. This primarily reflected combined gains from the sales of securities and OREO that were $0.4 million worse than our estimate and total noninterest expense that was $0.7 million higher than we had expected partially offset line items that came in better than our projections, including net interest income ($0.1 million), total noninterest income ($0.2 million), the loan loss provision ($50,000) and income taxes ($0.2 million).

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.

We note that American Banker 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 third quarter results more fully. Our projections are shown at the back of the report.

<u>Net Interest Income</u>

Net interest income grew 2% year over year to $5.8 million ($0.1 million above than our estimate), as a 1% decline in average-interest-earning assets was more than offset by a net interest margin that rose 11 basis points to 4.61% from 4.50% earned in the year-ago quarter. The 4.61% net interest margin was up 5 basis point from 4.56% in the second quarter and was 16 basis points <u>above</u> our 4.45% estimate.

We are raising our 2013 NIM estimate to 4.55% from 4.50%, but maintaining our estimate for 2014 at 4.45%. We note that CPKF's balance sheet was slightly asset sensitive at the end of the third quarter, which could help the margin in a rising interest-rate environment.

<u>Noninterest Income</u>

Noninterest income slid $0.5 million, or 12%, year over year to $3.9 million ($0.3 million below our projection), primarily the result of a loss on the sale of securities of $0.5 million ($0.4 million greater than our estimate) and a $0.2 million ($0.2 million below our estimate) dip in income from fiduciary activities to $0.5 million, resulting from the loss of a significant client relationship.

We have reduced our projection for 2013 noninterest income by $0.2 million and an additional $0.4 million in 2014, reflecting the loss of a significant fiduciary client relationship, a reduction in merchant card income due to a cut in the number of independent sales organizations (ISOs) to four from five, and the scaling back of the cash flow business.

<u>Loss Provision</u>

The loan loss provision decreased 33% to $0.1 million (below our $0.15 million estimate). Loan loss reserves fell $0.1 million from $6.2 million (1.66% of loans) at the end of the second quarter to $6.1 million (1.62% of loans) at September 30, 2013, and were below the $6.3 million (1.73% of loans) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance rose modestly to $7.5 million (1.85% of loans plus cash flow receivables) from $7.4 million (1.92% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and from $7.3 million (1.81% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF charged off $225,000 of loans in the third quarter. This is $118,000 less than the $343,000 charged off in the year-ago quarter and compares to net charge-offs of $235,000 in 2013's second quarter and $709,000 for full-year 2012. CEO Jeff Szyperski noted that nonperforming assets increased to 3.49% of total assets at the end of the third quarter driven by several commercial lending relationships, but that no losses are expected as a result.

We are estimating that the loss provision will climb to $0.95 million in 2013, a 58% 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 1.75% at the end of 2014.

Noninterest Expense
Total noninterest expense increased $0.9 million, or about 13%, year over year to $7.7 million ($0.7 million higher than our estimate), largely due to a a $0.3 million, or 10%, increase in compensation expense to $3.8 million stemming from a few new hires, and a $0.5 million, or 16%, rise in other noninterest expense to $3.8 million due to growth in merchant card, cash flow, and other expenses. The efficiency ratio deteriorated, rising to 75.0% from 66.6% in the year-ago quarter and 70.7% in the second quarter.

We have significantly increased our estimate for compensation expense to reflect a number of new hires, including the addition of six noncustomer-facing (nonrevenue-generating) employees, in part related to increased compliance and the current regulatory environment, and the filling of a couple of spots that were vacant for a good part of 2013. As a consequence, we believe that the efficiency ratio will deteriorate from an estimated 73.5% for 2013 to an estimated 76.6% for 2014. This compares to 71.3% in 2012.

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

We are estimating an effective tax rate of roughly 21.6% for all of 2013 and 21.7% in 2014, which compares to a full-year effective tax rate of 20.9% in 2012.

Net Income
CPKF posted third quarter net earnings of $1.5 million (or $0.45 per diluted share). This was down 39% from the $2.5 million ($0.74 per diluted share) earned in the year-ago quarter, and compares to our $2.1 million net income estimate ($0.65 per diluted share).

Profitability
CPKF posted an 9.9% ROE and 0.93% ROA for the third quarter of 2013, compared to 16.6% and 1.55%, respectively, in the prior-year quarter.

Loans and Asset Quality
Gross loans increased $11 million, or about 5%, year over year and $2 million, or 1%, sequentially to $378 million. Compared to the second quarter, categories that posted the largest increases were commercial real estate, up $2.9 million, or 2%, to $141.3 million, commercial and industrial loans, up $1.3 million, or 2%, to $67.7 million, and cash flow receivables, up $0.7 million, or 2%, to $29.5 million, with modest gains posted in construction and land development and other loans. Consumer loans dropped 2% to $10.9 million, while 1-4 family loans fell $2.2 million, or 2%, to $99.1 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. We have cut our estimate for loan growth in 2014 to 3% from 4%.

Asset quality measures deteriorated in the third quarter, reflecting problems related to a couple of borrowers, though loss content is expected to be nominal and part of these loans is expected to be refinanced with another financial institution in 2014. Thus, nonaccrual loans rose $3.1 million, or 52%, to $9.2 million from $6.0 million. Positively, restructured loans dropped by $1.1 million, or 23%, to $3.7 million, and other real estate owned was flat at the $4 million level.

Thus, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, rose 45 basis points to 4.11% of outstandings + OREO at September 30, 2013 from 3.66% of outstandings + OREO at June 30, 2013, but fell 28 basis points year over year from 4.39%.

The loss allowance as a percent of nonperforming assets declined sequentially to 44.5% from 49.1%, reflecting the increase in nonaccrual loans and the increase in the loss reserve for loans and cash flow receivables.

Liquidity and Funding

Cash and equivalents jumped $19 ½ million to $51 million sequentially, while the securities portfolio fell by roughly $6 million, reflecting the sale and restructuring of the US government-related mortgage-backed and private-label mortgage securities portfolios ($3 million and $3 million, respectively). The municipal securities portfolio was flat with the second quarter. This had the effect of reducing US government-related securities and private-label mortgage securities portfolio by 100 basis points each to 15% and 17%, respectively, of the entire available-for-sale securities portfolio and simultaneously raising the municpal securities portfolio to 68%.

CPKF's liquidity ratios improved compared to the previous quarter, reflecting the increase in cash and equivalents, partly offset by a decline in the available-for-sale securities portfolio. At September 30, 2013, liquid assets represented 11% of total assets (up from 9% at the end of the second quarter), while loans plus receivables accounted for 62% of total assets (up from 63% at June 30, 2013).

Core deposits edged up by $18 million, or 4%, sequentially to $474 million and funded 116% of loans and receivables.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved slightly during the quarter, primarily due to growth in retained earnings. The Tier 1 capital ratio rose 18 basis points sequentially to 13.92% at the end of 2013's third quarter from 13.74% at June 30, 2013, and the Total capital ratio increased 18 basis points to 15.17% from 14.99%.

Total shareholders' equity increased $0.8 million during the third quarter, largely due to $1.0 million growth in retained earnings, partly offset by a $0.2 million decrease in accumulated comprehensive income to $3.4 million.

Reflecting these factors, tangible book value per share increased during the third quarter, by $0.28 per share to $18.89 from $18.62. The total equity to total assets ratio also detiorated due to growth in total assets, falling by 11 basis points to 9.32% from 9.43%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $659 million in total assets at September 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 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.

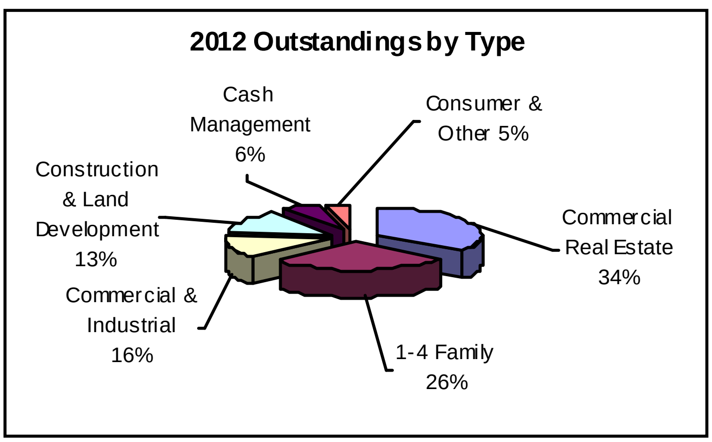
Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, Clear Sky accounts, and its secondary market mortgage banking operation.

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.

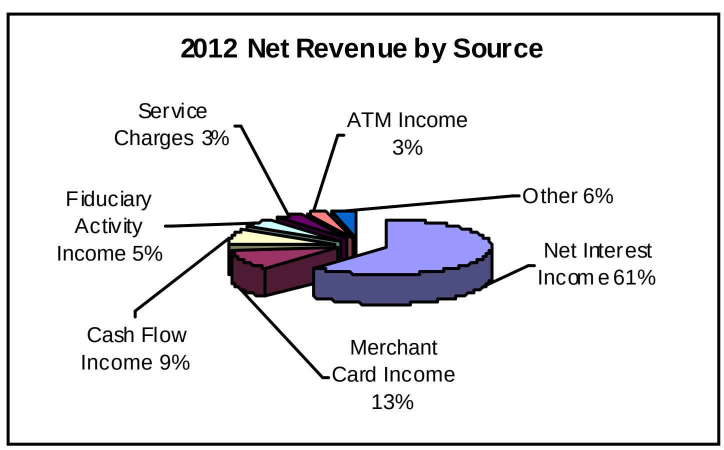
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2012, Clear Sky deposits totalled $44 million, with customers in all 50 states.

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 been flat year to date, a modestly better performance than the small-cap bank industry's median price decline of 0.1%, as shown in the following table, as well as the 0.6% loss for the S&P 500.

At its current price, CPKF is trading at a discount to the industry median P/E of 33% in 2014, based upon our most recent CPKF EPS estimate for 2014. This is below the average 56% P/E discount for CPKF, based upon 5-year historical P/E averages. Applying the historical discount of 56% to our 2014 EPS estimate results in a price of about $11.75.

Turning to Price/Tangible Book Value, CPKF is valued at 0.97X versus the industry median of 1.19X. This represents an 18% discount, well below the average historical premium of 20% for CPKF since the end of 2005. Applying the historical premium of 20% to our estimated book value for CPKF twelve months out results in a price of approximately $24.50.

In view of the fact that we have significantly cut our diluted EPS estimates following third quarter results and discussions with CPKF management, we have also reduced our recommendation to Neutral from Outperform. While we recognize that CPKF is still undervalued particularly on a book value basis, we believe that there is no immediate catalyst to drive the stock price higher over the near term, especially in view of what we imagine will be a tough 2014.

Accordingly, we have chosen the $18.25 midpoint of the wide range of values based upon CPKF's 2014 P/E of $11.75 and Price/Tangible Book Value of $24.50 as our new target price.

Industry Comparables - Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2014E	2015E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**-----**	**8.9**	**9.2**		**7.3**	**0.97**	**11.05**	**14.3**	**1.04**	**1.02**	**3.0**
S&P 500	(0.6)	18.5	15.7	15.0	16.7	5.2	24.2	-----	10.2	-----	2.1
Median	**(0.1)**	**14.6**	**13.7**	**12.6**	**16.5**	**1.19**	**8.7**	**4.4**	**0.84**	**0.41**	**1.3**
Average	0.3	18.4	15.5	13.4	24.3	1.1	8.7	2.1	0.9	0.3	1.4
High	9.9	152.5	44.9	23.9	96.6	2.0	31.0	14.3	3.8	2.0	4.8
Low	(5.8)	4.8	7.1	9.2	6.4	0.6	(7.0)	(75.0)	(0.8)	(2.0)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	**12/08**	**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	23.2	23.4
Non-interest income	15.0	14.1	13.8	13.7	15.0	15.8	15.5
Total net revenue	31.5	33.0	35.6	36.5	38.1	39.0	38.9
Loan loss provision	0.4	0.9	2.5	1.2	0.6	1.0	0.6
Non-interest expense	25.0	25.9	26.2	26.4	27.8	29.1	29.9
Income taxes & other	1.5	1.4	1.5	1.9	2.0	1.9	1.9
Zacks adjusted income before NRI	4.6	4.8	5.4	7.0	7.7	7.0	6.5
GAAP net income	4.6	4.8	5.4	7.0	7.7	7.7	6.5
Diluted EPS before NRI	1.34	1.48	1.69	2.16	2.32	2.10	1.95
Reported EPS	1.34	1.48	1.69	2.16	2.32	2.31	1.95
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	76.0	77.2
Outstandings, gross	396.2	391.3	382.3	373.1	397.6	408.8	421.2
Total assets	538.0	586.7	607.7	638.0	667.7	661.3	688.1
Core deposits	317.0	370.0	396.2	430.4	459.0	475.7	495.0
Purchased funds	121.9	131.3	127.2	113.3	118.4	93.4	94.9
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	62.5	67.2
Profitability							
Return on avg assets	0.89%	0.84%	0.90%	1.13%	1.19%	1.07%	0.97%
Return on avg equity	13.51%	13.14%	13.55%	15.31%	14.87%	11.38%	10.06%
Net interest margin	4.00%	4.10%	4.40%	4.70%	4.60%	4.55%	4.45%
Loan loss provision % avg assets	0.08%	0.16%	0.41%	0.19%	0.09%	0.15%	0.09%
Noninterest income % avg assets	2.91%	2.45%	2.30%	2.21%	2.33%	2.42%	2.30%
Noninterest expense % avg assets	4.84%	4.51%	4.34%	4.27%	4.32%	4.46%	4.44%
Preprovision pretax income % avg assets	1.26%	1.24%	1.57%	1.62%	1.60%	1.51%	1.33%
Tangible efficiency ratio	80%	77%	73%	71%	71%	74%	77%
Payout ratio	25%	24%	21%	18%	19%	22%	28%
Asset Quality							
Net charge-offs % avg outstandings	0.27%	0.34%	0.48%	0.22%	0.18%	0.31%	0.23%
Allowance % outstandings	1.43%	1.59%	1.90%	2.01%	1.88%	1.83%	1.75%
NPAs % loans + OREO	0.35%	1.20%	3.91%	4.48%	4.93%	4.00%	3.58%
Allowance % NPAs	411%	131%	48%	44%	32%	45%	48%
Liquidity & Funding							
Liquid assets % purchased funds	37%	44%	58%	86%	78%	81%	81%
Core deposits % outstandings	80%	95%	104%	115%	115%	116%	118%
Liquid assets % assets	8%	10%	12%	15%	14%	11%	11%
Outstandings % assets	74%	67%	63%	58%	60%	62%	61%
Capital Adequacy							
Total equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	9.45%	9.77%
Tangible equity % assets	5.68%	6.01%	6.76%	8.03%	9.12%	9.45%	9.77%
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	1.4X	1.8X
Double leverage	139.8%	142.1%	134.7%	127.2%	121.7%	130.9%	131.5%

Chesapeake Financial Shares, Inc.

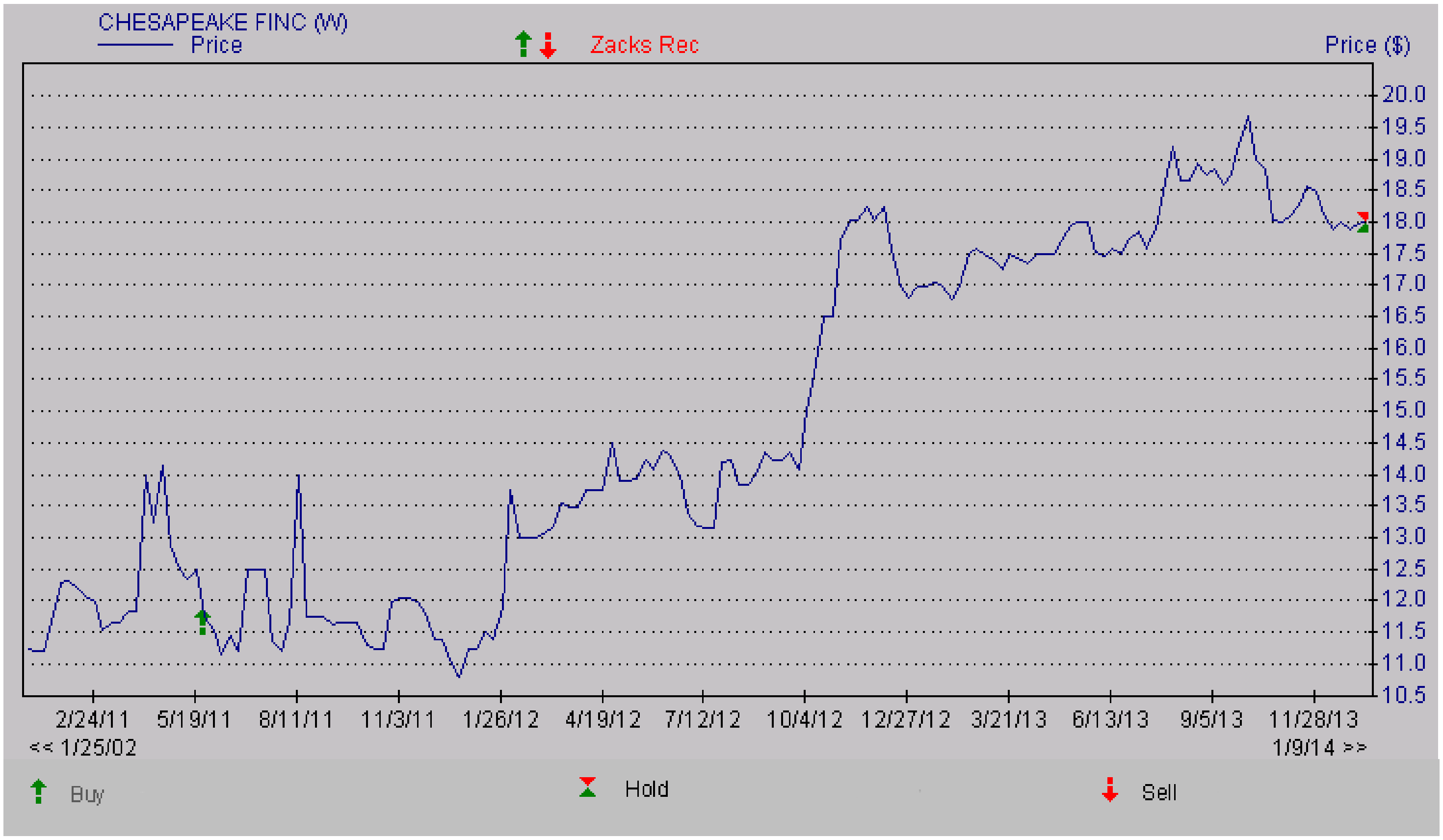
Income Statement and Balance Sheet

(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 A**	**Q4 E**
Net interest income	5.9	5.7	5.7	5.7	5.8	5.8	5.8	5.8
Non-interest income	3.1	3.7	4.4	3.9	3.8	4.2	3.9	3.9
Total net revenue	9.0	9.4	10.1	9.6	9.6	10.0	9.7	9.7
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.7	0.1	0.1
Non-interest expense	6.4	6.6	6.8	7.9	6.8	7.1	7.7	7.6
Income taxes & other	0.6	0.5	0.6	0.2	0.6	0.4	0.4	0.4
Zacks adjusted income before NRI	1.8	2.1	2.5	1.3	2.1	1.8	1.5	1.6
GAAP net income	1.8	2.1	2.5	1.3	2.1	2.5	1.5	1.6
Diluted EPS before NRI	0.57	0.62	0.74	0.39	0.64	0.55	0.45	0.47
Reported EPS	0.57	0.62	0.74	0.39	0.64	0.76	0.45	0.47
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	75.2	76.0
Outstandings, gross	372.3	379.5	386.9	397.6	395.7	404.5	407.1	408.8
Total assets	640.7	635.4	633.9	667.7	643.5	643.0	658.6	661.3
Core deposits	432.9	424.9	422.5	459.0	453.8	455.9	473.8	475.7
Purchased funds	122.9	122.5	119.9	118.4	98.2	96.0	93.0	93.4
Long-term debt	27.1	26.9	26.8	26.0	26.5	26.4	26.2	25.0
Shareholders' equity	55.0	57.4	60.8	60.9	61.9	60.7	61.4	62.5
Profitability								
Return on avg assets*	1.15%	1.29%	1.55%	0.81%	1.29%	1.13%	0.93%	0.94%
Return on avg equity *	13.88%	14.61%	16.63%	8.70%	13.72%	11.86%	9.91%	10.03%
Net interest margin*	4.67%	4.53%	4.50%	4.49%	4.54%	4.56%	4.61%	4.50%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.06%	0.40%	0.06%	0.06%
Noninterest income % avg assets*	1.93%	2.28%	2.75%	2.37%	2.33%	2.63%	2.37%	2.40%
Noninterest expense % avg assets*	4.02%	4.13%	4.28%	4.85%	4.16%	4.41%	4.71%	4.62%
Preprovision pretax inc.% avg assets*	1.57%	1.74%	2.09%	1.04%	1.71%	1.82%	1.25%	1.27%
Tangible efficiency ratio	69%	69%	67%	80%	70%	71%	75%	78%
Payout ratio	19%	18%	15%	30%	19%	16%	30%	29%
Asset Quality								
Net charge-offs % avg outstandings*	0.08%	0.17%	0.35%	0.14%	0.64%	0.23%	0.22%	0.15%
Allowance % outstandings	2.04%	2.00%	1.92%	1.88%	1.77%	1.81%	1.85%	1.83%
NPAs % loans + OREO	4.20%	4.11%	4.39%	4.93%	5.25%	3.66%	4.11%	4.00%
Allowance % NPAs	48%	48%	43%	32%	28%	49%	45%	45%
Liquidity & Funding								
Liquid assets % purchased funds	81%	70%	62%	78%	68%	61%	81%	81%
Core deposits % outstandings	116%	112%	109%	115%	115%	113%	116%	116%
Liquid assets % assets	15%	13%	12%	14%	10%	9%	11%	11%
Outstandings % assets	58%	60%	61%	60%	61%	63%	62%	62%
Capital Adequacy								
Total equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.43%	9.32%	9.45%
Tangible equity % assets	8.58%	9.03%	9.59%	9.12%	9.63%	9.43%	9.32%	9.45%
Tier 1 capital ratio	13.20%	13.38%	13.81%	13.55%	13.70%	13.74%	13.92%	
Total capital ratio	14.45%	14.63%	15.06%	14.80%	14.94%	14.99%	15.17%	

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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