Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Raising 2014 and 2015 EPS Estimates Following the Second Quarter

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/09/2014
Current Price (09/17/14)	$18.10
Twelve-Month Target Price	**$18.50**

OUTLOOK

We are raising our 2014 and 2015 diluted EPS by a dime each year to $1.80 and $1.90, respectively. The major reasons for the rise in our projections stems from: (1) a lower effective tax rate in 2014 and (2) for both 2014 and 2015, a $0.2 million increase in other noninterest income and a 0.1 million reduction in average shares outstanding. CPKF's second quarter net earnings rose $0.1 million, or 5%, to $1.9 million, while diluted EPS grew by $0.03, or 5%, to $0.58 from $0.55 posted a year ago. We have excluded a $1.1 million pretax gain ($0.7 million aftertax, or $0.22 per diluted share) on the sale of securities from year-ago results. This was much better than our estimate, which had called for a $0.4 million decline in net earnings to $1.5 million and an $0.11 drop in diluted EPS to $0.44. The primary reason for the difference between reported results and our estimate was that noninterest income was $0.3 million higher than our projection due to a sharper-than-expected increase in other income (higher by about $0.3 million due to a one-time gain on a small business investment). In addition, net interest income of $5.7 million was $0.1 million greater than our $5.6 million estimate, while the 16.4% effective tax rate was 560 basis points below our 22.0% estimate, largely reflecting a one-time adjustment related to first quarter income taxes. In July, CPKF declared a 6-for-5 stock split, while maintaining the quarterly dividend at $0.135. Notably, CPKF was cited by SNL Financial as one of only 20 banks in the country (and 2 in Virginia) to increase dividends at least 2% per year and at least a cumulative 30% over the past five years. In August, CPKF announced that for the seventh consecutive year, Chesapeake Bank had made the American Banker magazine listing of the "Top 200 Community Banks" in the United States, ranking #28 out of 6,000 banks.

SUMMARY DATA

52-Week High	**$19.97**
52-Week Low	**$16.90**
One-Year Return (%)	**-0.48**
Beta	**0.13**
Average Daily Volume (sh)	**701**
Shares Outstanding (mil)	**3**
Market Capitalization ($mil)	**$60**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.54**
Dividend Yield (%)	**2.98**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**4.4**
Earnings Per Share (%)	**8.3**
Dividend (%)	**8.6**
P/E using TTM EPS	**10.2**
P/E using 2014 Estimate	**10.1**
P/E using 2015 Estimate	**9.5**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**27 of 73**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
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 A	39.0 A
2014	9.0 A	9.7 A	9.4 E	9.0 E	37.1 E
2015					38.3 E

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

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
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	0.36 A	1.99 A
2014	0.39 A	0.58 A	0.48 E	0.36 E	1.80 E
2015					1.90 E

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

SECOND QUARTER

We are raising our 2014 and 2015 diluted EPS estimates following a second quarter that was better than we had expected. Specifically, we are increasing our estimates by a dime each year, with our 2014 estimate now $1.80 (up from $1.70) and our 2015 estimate now $1.90 (up from $1.80).

The major reasons for the rise in our projections stems from: (1) a lower effective tax rate in 2014, reflecting a one-time tax adjustment and (2) for both 2014 and 2015, a $0.2 million increase in other noninterest income and a 0.1 million reduction in average shares outstanding.

Other elements of our projections for 2015 include 6% growth in noninterest income spurred by moderate improvement in most line items as well as an expected $0.2 million reduction in loss on securities sales, a one-third decrease in the loan loss provision, and estimated 3% loan growth.

This will be partially offset by an estimated 8 basis-point reduction in the net interest margin to a still-healthy 4.35% and a 4% rise in compensation costs as the Company anticipates adding new positions. As you may remember, CPKF expected a number of new hires in 2014, 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. The Company now expects that some positions will likely remain unfilled in 2014 due to difficulty in finding the correct skill matches, but hopes to have all positions filled by the end of 2015.

Non-compensation costs are estimated to grow 3% in 2015, as expense growth in most line items will be offset by an estimated 33% decrease in cash flow expenses as the Company reduces the loss provision in the cash flow lending program.

To review the second quarter, CPKF’s net earnings rose $0.1 million, or 5%, to $1.9 million, while 2014’s second quarter diluted EPS grew by $0.03, or 5%, to $0.58 from $0.55 posted a year ago. We have excluded a $1.1 million pretax gain ($0.7 million aftertax, or $0.22 per diluted share) on the sale of securities from year-ago results.

This was much better than our estimate, which had called for a $0.4 million decline in net earnings to $1.5 million (off by $0.4 million) and an $0.11 drop in diluted EPS to $0.44 (off by $0.14).

The primary reason for the difference between reported results and our estimate was that noninterest income was $0.3 million higher than our projection due to a sharper-than-expected increase in other income (higher by about $0.3 million due to a one-time gain on a small business investment). In addition, net interest income of $5.7 million was $0.1 million greater than our $5.6 million estimate, while the 16.4% effective tax rate was 560 basis points below our 22.0% estimate, largely reflecting a one-time adjustment related to first quarter income taxes.

The major reasons for the second quarter’s gain versus the prior-year quarter were a $0.5 million, or 77%, decline in the provision for loan losses to $150,000 from $650,000 and a 390 basis-point drop in the effective tax rate to 16.4% from 20.3%. These positives were partly offset by a $0.4 million decline in net revenue ($0.1 million from net interest income and $0.3 million from noninterest income) and a $0.1 million increase in total noninterest expense.

On July 1, Ms. Rebecca A. Foster became Chief Financial Officer of CPKF and all subsidiaries, replacing Mr. John H. Hunt, II, who became an Executive Vice President and Business Development Officer for Chesapeake Investment Group. Ms. Foster has been with CPKF for 19 years and held previous positions of Internal Auditor, Money Desk Manager and Investment Officer as well as Assistant Corporate Secretary. She has been in her current role of Investment Officer for the past 11 years and is already chair of the Asset/Liability Committee for Chesapeake Bank.

At their July 18, 2014 meeting, the Chesapeake Financial Shares Board of Directors declared a 6-for-5 stock split to shareholders of record on October 1, 2014, payable on or before October 15, 2014. At the same time, the Board approved a $0.135 per share dividend, paid on September 15, 2014 to shareholders of record September 1, 2014.

In 2013, CPKF hiked its quarterly dividend by 13% to $0.135 per share from $0.12 per share, following two dividend increases in 2012 totalling 20%. The total 2013 dividend payment of $0.51 represents a 13% rise over 2012's payment of $0.45. Notably, CPKF has increased the annual dividend payment every year for the past twenty-three years since 1991.

This feat was recently recognized by SNL Financial in a report that cited CPKF as one of only 20 banks in the country (and only two in Virginia) to increase dividends by at least 2% per year and at least a cumulative 30% over the past five years. The company recorded cumulative dividend growth of 51.1% over the 2008-2013 period.

On August 4, 2014, CPKF announced that for the seventh consecutive year, Chesapeake Bank had made the American Banker magazine (formerly US Banker magazine) listing of the "Top 200 Community Banks" in the United States. The bank ranked at #28 in the nation out of approximately 6,000 community banks in the study, up from #148, when CPKF first broke into the rankings in 2008. The ranking is based on a three-year average of return on average equity (ROAE), which for CPKF was14.07%.

Below, we discuss second quarter results more fully. Our projections are shown at the back of the report.

<u>Net Interest Income</u>

Net interest income fell 2% year over year to $5.7 million ($0.1 million higher than our $5.6 million estimate), as a slim increase in average interest-earning assets partly offset a net interest margin of 4.48% that was 8 basis points lower than the 4.56% earned in the year-ago quarter. The 4.48% net interest margin rose 2 basis points from the first quarter, and was 8 basis points <u>above</u> our 4.40% estimate.

We are slightly raising our 2014 NIM estimate to 4.43% from 4.41%, solely due to the impact of the second quarter overage. Our NIM estimate for the last two quarters of the year remains 4.40%. Our NIM estimate for 2015 calls for an 8 basis point decline to 4.35%. This compares to a 4.60% NIM in 2013. We note that CPKF's balance sheet was slightly liability sensitive at the end of the second quarter, which could hurt the net interest margin in a rising interest-rate environment.

<u>Noninterest Income</u>

Noninterest income dipped $0.3 million, or 6%, year over year to $4.0 million ($0.3 million above our projection due to a one-time gain on a small business investment), largely due to $0.3 million decline in cash flow income on lower receivables outstanding, which were down by almost one-third.

We have raised our projection for 2014 and 2015 noninterest income by $0.2 million, as most line items should experience moderate improvement year over year, and we also expect a $0.2 million reduction in the loss on securities sales in 2015.

<u>Loss Provision</u>

The loan loss provision was slashed $0.5 million, or 77%, year over year to $0.15 million (the same as our estimate). Loan loss reserves declined $0.1 million from $6.5 million (1.71% of loans) at the end of the first quarter to $6.4 million (1.69% of loans) at June 30, 2014, but were above the $6.3 million (1.66% of loans) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance rose to $7.5 million (1.87% of loans plus cash flow receivables) from $7.3 million (1.81% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and from $7.4 million (1.83% of loans plus cash flow receivables) at the end of the previous quarter.

As to other asset quality measures, CPKF recorded net charge-offs of $243,000 in the second quarter. This compares to net charge-offs of $215,000 in the year-ago quarter, net recoveries of $68,000 in 2014's first quarter, and net charge-offs of $1,179,000 for full-year 2013. In addition, CPKF had a $100,000 net recovery during the second quarter in the cash flow lending program. This follows the fourth quarter's $1.1 million write-down in cash flow receivables to net realizable value due to credit problems associated with one account. Another cash flow credit was transferred to nonaccrual status.

We are estimating that the loss provision will drop sharply to $0.6 million in 2014 from $1.1 million in 2013 and fall an additional one-third, or $0.2 million, to $0.4 million in 2015, as credit quality problems begin to recede.

We also estimate that the total loss allowance will rise from 1.75% of total loans plus receivables at the end of 2013 to 1.89% at the end of 2014 and to 2.00% at yearend 2015, as CPKF rebuilds loss reserves in the cash flow program.

Noninterest Expense

Total noninterest expense increased $0.1 million, or about 2%, year over year to $7.2 million (the same as our estimate), as a $0.1 million, or 2%, decline in compensation expense was offset by a $0.2 million rise in noninterest expense, largely due to a $0.2 million increase in other expense.

The efficiency ratio deteriorated, rising to 74.1% from 70.7% in the year-ago quarter, but improved from 79.6% reported in the first quarter.

For 2015, we expect a 4% rise in compensation costs as the Company anticipates adding new positions, as well as 3% increase in non-compensations costs as expense growth in most line items will be offset by an estimated 33% decrease in cash flow expenses when the Company reduces the loss provision in the cash flow lending program.

As a consequence, we believe that the efficiency ratio will deteriorate from 75.0% for 2013 to an estimated 77.2% for 2014 (previously 77.6%) and 77.2% in 2015 (78.0% before).

Income Taxes

The Company had a 16.4% effective tax rate in the second quarter, almost 4 points below the 20.3% posted in the year-ago quarter and 560 basis points lower than our 22.0% estimate, largely reflecting a one-time adjustment related to first quarter income taxes.

We are reducing our estimate of the effective tax rate in 2014 to 20.3% from 22.0%, but maintaining or estimate of an effective tax rate of 22.0% for 2015. This compares to a full-year effective tax rate of 17.9% in 2013.

Net Income

CPKF posted second quarter net earnings of $1.9 million (or $0.58 per diluted share). This was up 5% from the $1.8 million ($0.55 per diluted share) earned in the year-ago quarter, and compares to our $1.5 million net income estimate ($0.44 per diluted share). We have excluded a $1.1 million pretax gain ($0.7 million aftertax, or $0.22 per diluted share) on the sale of securities from year-ago results.

Profitability

CPKF posted an 11.6% ROE and 1.15% ROA for the second quarter of 2014, compared to 11.9 % and 1.13%, respectively, in the prior-year quarter.

Loans and Asset Quality

Gross loans outstanding increased $5 million, or about 1%, year over year, but slumped by $2 million, or less than 1%, sequentially to $380 million.

By category, 1-4 family loans edged up $2.2 million, or 2%, to $98 million; construction and land development loans were flat at $45 million; consumer loans rose $0.7 million, or 7%, to $10 million; and other loans gained $0.9 million, or 10%, to $10 million.

On the negative side, commercial real estate slipped $4.3 million, or 3%, to $139 million; commercial and industrial loans decreased $1.8 million, or 2%, to $77 million; and cash flow receivables declined $2.1 million, or 10%, to $20 million.

We are cutting our estimate for loan growth in 2014 to 1 ½% from 3% in 2014, but maintaining our estimate at 3% in 2015. This compares to actual growth of 1% in full-year 2013, which was hurt by 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.

Asset quality measures improved in the second quarter. Nonaccrual loans fell $2.0 million, or 13%, to $13.0 million from $15.0 million, while restructured loans were flat at $1.5 million. Other real estate owned fell $0.7 million, or 16%, to $3.6 million.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, fell 84 basis points to 4.50% of outstandings + OREO at June 30, 2014 from 5.09% of outstandings + OREO at March 31, 2014, but increased 59 basis points year over year from 3.66%.

The loss allowance as a percent of nonperforming assets increased sequentially to 36% from 31%, reflecting the decrease in nonperforming assets and the increase in the loss reserve for loans and cash flow receivables.

<u>Liquidity and Funding</u>

Cash and equivalents declined $26 million to $30 million sequentially, while the securities portfolio increased $14 million to $188 million. By category, the municipal securities portfolio rose $7 million to $118 million, US government-related securities increased $6 milion to $41 million, and the private-label mortgage securities portfolio rose $1 million to $29 million. These changes had the effect of reducing by 100 basis points each the municipal securities portfolio to 63% of the total and the private-label mortgage securities portfolio to 15%, while increasing the US government-related securities by 200 basis points to 22% of the entire available-for-sale securities portfolio.

CPKF's liquidity ratios declined compared to the previous quarter, reflecting the decrease in cash and equivalents. At June 30, 2014 liquid assets represented 11% of total assets (down from 13% at the end of the first quarter) and covered purchased funds by 75% (a deterioration from 95%), while loans plus receivables accounted for 61% of total assets (up from 60% at March 31, 2014).

Core deposits grew by $18 million, or 4%, sequentially to $463 million and funded 115% of loans and receivables.

<u>Capital Adequacy and Dividends</u>

The Company's capital adequacy ratios improved during the quarter, primarily due to growth in retained earnings. The Tier 1 capital ratio rose 43 basis points sequentially to 14.84% at the end of 2014's second quarter from 14.41% at March 31, 2014, and the Total capital ratio increased 43 basis points to 16.09% from 15.66%.

Total shareholders' equity increased $2.5 million during the second quarter, largely due to $1.4 million growth in retained earnings, a $1.2 million increase in accumulated comprehensive income, and a $0.1 million decline in other capital accounts.

Reflecting these factors plus a 46,000 decrease in common shares outstanding, tangible book value per share rose during the second quarter, by $0.54 per share to $20.02 from $19.48. The total equity to total assets ratio also improved due to growth in total common shareholders' equity, rising by 59 basis points to 10.23% from 9.64%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $655 million in total assets at June 30, 2014. 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. In addition, CPKF opened a commercial loan production office in Richmond, Virginia in 2011. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

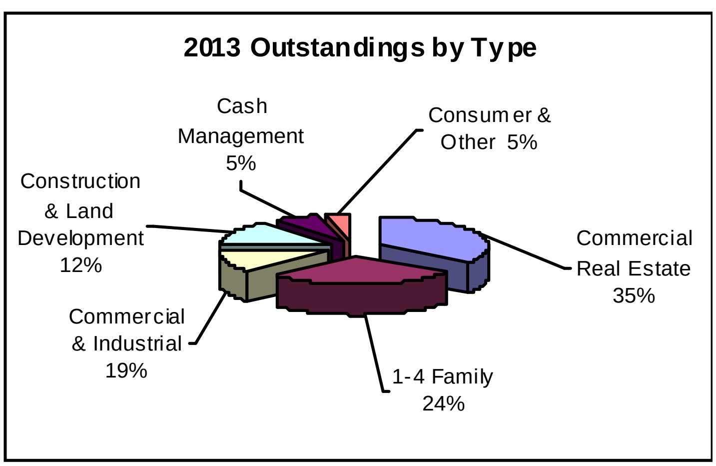
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $313 million in assets (at 2013 yearend) through its subsidiaries involved in 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 2013, Chesapeake Payment Systems had 571 merchants in its system and processed over $132 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 79 customers at the end of 2013.

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, 2013, Clear Sky deposits totalled $38 million, with customers in all 50 states.

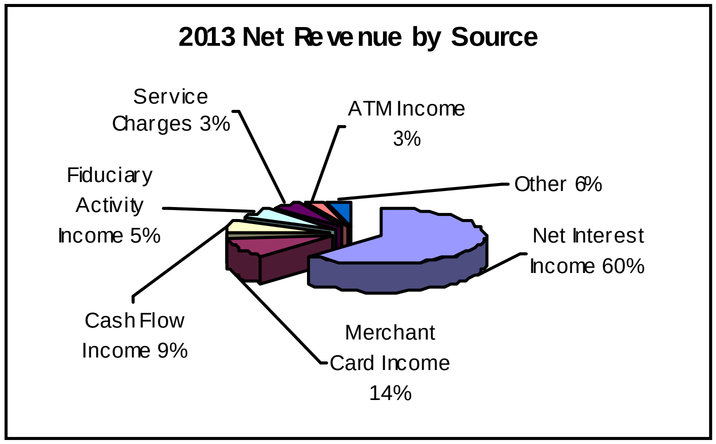
Through Chesapeake's secondary market mortgage banking operation, the Company services a $225 million loan portfolio (as of December 31, 2013) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $562,500 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 $964,000 to revenues in 2013 (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, 2013, the lending book consisted of commercial real estate (accounting for 35%

of total gross outstandings), 1-4 family (24%), commercial and industrial (19%), construction and land development (12%), cash flow (5%), 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, 2013, 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 18% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 65% and 17%, respectively, of the total. Core deposits represented 82% of total deposits at December 31, 2013, with certificates of deposit larger than $100,000 at 18%.



In 2013, net interest income contributed 60% of net revenue, with a significant 40% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (14% 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 is up 0.6% year to date, a worse performance than the small-cap bank industry's median price increase of 5.8% and the 8.3% gain for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a discount to the industry median P/E of 11% in 2015, based upon our CPKF EPS estimate for 2015. 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 2015 EPS estimate results in a price of about $10.50.

Turning to Price/Tangible Book Value, CPKF is valued at 0.93X versus the industry median of 1.20X. This represents a 23% discount, well below the average historical premium of 22% for CPKF since mid-2008. Applying the historical premium of 23% to our estimated book value for CPKF twelve months out results in a price of approximately $26.50.

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.

Accordingly, we have chosen the $18.50 midpoint of the wide range of values based upon CPKF's 2015 P/E of $10.50 and Price/Tangible Book Value of $26.50 as our new target price.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	TTM* EPS	2014E	2015E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
		Price / Earnings Ratios					Return on Equity		Return on Assets		
Chesapeake Finc'l	**0.6**	**10.2**	**10.6**	**10.1**	**7.2**	**0.93**	**21.7**	**14.2**	**2.09**	**1.10**	**3.0**
S&P 500	8.3	18.4	17.1	16.0	16.2	4.6	23.1	-----	8.7	-----	1.9
Median	**5.8**	**13.2**	**13.1**	**11.4**	**14.8**	**1.20**	**8.4**	**5.6**	**0.85**	**0.46**	**1.6**
Average	8.4	14.4	17.7	13.7	15.5	1.1	8.1	3.2	0.8	0.4	1.6
High	48.0	31.3	86.3	45.3	31.5	2.1	21.7	14.2	2.1	1.9	4.4
Low	(14.8)	6.8	9.5	8.6	6.5	0.7	(11.4)	(66.1)	(1.2)	(1.4)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	**12/09**	**12/10**	**12/11**	**12/12**	**12/13**	**12/14E**	**12/15E**
Net interest income	18.9	21.8	22.8	23.1	23.3	22.6	23.0
Non-interest income	14.1	13.8	13.7	15.0	15.7	14.5	15.3
Total net revenue	33.0	35.6	36.5	38.1	39.0	37.1	38.3
Loan loss provision	0.9	2.5	1.2	0.6	1.1	0.6	0.4
Non-interest expense	25.9	26.2	26.4	27.8	29.8	29.0	29.8
Income taxes & other	1.4	1.5	1.9	2.0	1.5	1.5	1.8
Zacks adjusted income before NRI	4.8	5.4	7.0	7.7	6.6	6.0	6.3
GAAP net income	4.8	5.4	7.0	7.7	7.4	6.0	6.3
Diluted EPS before NRI	1.48	1.69	2.16	2.32	1.99	1.80	1.90
Reported EPS	1.48	1.69	2.16	2.32	2.21	1.80	1.90
Dividends per share	0.35	0.36	0.40	0.45	0.51	0.54	0.54
Liquid assets	57.8	73.2	97.9	92.1	89.9	70.6	71.8
Outstandings, gross	391.3	382.3	373.1	397.6	401.0	406.6	418.9
Total assets	586.7	607.7	638.0	667.7	661.8	668.2	695.3
Core deposits	370.0	396.2	430.4	459.0	467.2	471.8	490.9
Purchased funds	131.3	127.2	113.3	118.4	105.3	93.9	95.4
Long-term debt	47.4	40.0	39.6	26.0	25.9	25.0	25.0
Shareholders' equity	35.3	41.1	51.2	60.9	61.8	68.9	73.4
Profitability							
Return on avg assets	0.84%	0.90%	1.13%	1.19%	1.01%	0.90%	0.92%
Return on avg equity	13.14%	13.55%	15.31%	14.87%	10.74%	9.01%	8.86%
Net interest margin	4.10%	4.40%	4.70%	4.60%	4.60%	4.43%	4.35%
Loan loss provision % avg assets	0.16%	0.41%	0.19%	0.09%	0.17%	0.09%	0.06%
Noninterest income % avg assets	2.45%	2.30%	2.21%	2.33%	2.40%	2.18%	2.25%
Noninterest expense % avg assets	4.51%	4.34%	4.27%	4.32%	4.55%	4.37%	4.37%
Preprovision pretax income % avg assets	1.24%	1.57%	1.62%	1.60%	1.41%	1.22%	1.24%
Tangible efficiency ratio	77%	73%	71%	71%	75%	77%	77%
Payout ratio	24%	21%	18%	19%	23%	30%	28%
Asset Quality							
Net charge-offs % avg outstandings	0.34%	0.48%	0.22%	0.18%	0.29%	0.14%	0.19%
Allowance % outstandings	1.59%	1.90%	2.01%	1.88%	1.75%	1.89%	2.00%
NPAs % loans + OREO	1.20%	3.91%	4.48%	4.93%	5.20%	4.26%	3.82%
Allowance % NPAs	131%	48%	44%	32%	30%	44%	52%
Liquidity & Funding							
Liquid assets % purchased funds	44%	58%	86%	78%	85%	75%	75%
Core deposits % outstandings	95%	104%	115%	115%	117%	116%	117%
Liquid assets % assets	10%	12%	15%	14%	14%	11%	10%
Outstandings % assets	67%	63%	58%	60%	61%	61%	60%
Capital Adequacy							
Total equity % assets	6.01%	6.76%	8.03%	9.12%	9.34%	10.31%	10.56%
Tangible equity % assets	6.01%	6.76%	8.03%	9.12%	9.34%	10.31%	10.56%
Tier 1 capital ratio	10.10%	12.07%	12.20%	13.55%	14.23%		
Total capital ratio	11.70%	13.54%	13.40%	14.80%	15.48%		
Parent Company Statistics							
Interest coverage	0.8X	2.6X	2.1X	4.4X	9.2X	7.5X	7.5X
Interest & dividend coverage	0.4X	1.1X	0.9X	1.5X	1.5X	1.4X	1.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.8X	0.8X	0.8X	0.9X	1.0X	1.5X	2.0X
Double leverage	142.1%	134.7%	127.2%	121.7%	119.7%	116.1%	117.5%

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2013				2014			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**
Net interest income	5.8	5.8	5.8	5.9	5.6	5.7	5.6	5.7
Non-interest income	3.8	4.2	3.9	3.8	3.4	4.0	3.8	3.3
Total net revenue	9.6	10.0	9.7	9.7	9.0	9.7	9.4	9.0
Loan loss provision	0.1	0.7	0.1	0.3	0.2	0.2	0.2	0.2
Non-interest expense	6.8	7.1	7.7	8.2	7.2	7.2	7.3	7.3
Income taxes & other	0.6	0.4	0.4	(0.0)	0.4	0.4	0.3	0.3
Zacks adjusted income before NRI	2.1	1.8	1.5	1.2	1.3	1.9	1.6	1.2
GAAP net income	2.1	2.5	1.5	1.2	1.3	1.9	1.6	1.2
Diluted EPS before NRI	0.64	0.55	0.45	0.36	0.39	0.58	0.48	0.36
Reported EPS	0.64	0.76	0.45	0.36	0.39	0.58	0.48	0.36
Dividends per share	0.12	0.12	0.14	0.14	0.14	0.14	0.14	0.14
Liquid assets	67.0	58.8	75.2	89.9	90.1	70.1	70.4	70.6
Outstandings, gross	395.7	404.5	407.1	401.0	404.7	400.6	403.6	406.6
Total assets	643.5	643.0	658.6	661.8	669.2	655.0	661.6	668.2
Core deposits	453.2	455.6	473.6	467.2	480.4	462.5	467.1	471.8
Purchased funds	98.9	96.2	93.3	105.4	95.2	93.1	93.5	93.9
Long-term debt	26.5	26.4	26.2	25.9	26.0	25.9	25.0	25.0
Shareholders' equity	61.9	60.7	61.4	61.8	64.5	67.0	68.2	68.9
Profitability								
Return on avg assets*	1.29%	1.13%	0.93%	0.73%	0.78%	1.15%	0.96%	0.71%
Return on avg equity *	13.72%	11.86%	9.91%	7.81%	8.26%	11.56	9.33%	6.94%
Net interest margin*	4.54%	4.56%	4.61%	4.61%	4.46%	4.48%	4.40%	4.40%
Loan loss provision % avg assets*	0.06%	0.40%	0.06%	0.17%	0.09%	0.09%	0.09%	0.09%
Noninterest income % avg assets*	2.29%	2.63%	2.37%	2.33%	2.06%	2.39%	2.31%	1.98%
Noninterest expense % avg assets*	4.12%	4.41%	4.71%	4.99%	4.32%	4.35%	4.41%	4.40%
Preprovision pretax inc.% avg assets*	1.71%	1.82%	1.25%	0.89%	1.10%	1.47%	1.32%	1.01%
Tangible efficiency ratio	70%	71%	75%	84%	80%	74%	76%	79%
Payout ratio	19%	16%	30%	37%	35%	23%	28%	38%
Asset Quality								
Net charge-offs % avg outstandings*	0.64%	0.21%	0.22%	0.09%	(0.07)%	0.24%	0.20%	0.20%
Allowance % outstandings	1.77%	1.81%	1.85%	1.75%	1.83%	1.87%	1.88%	1.89%
NPAs % loans + OREO	5.25%	3.66%	4.11%	5.20%	5.09%	4.50%	4.38%	4.26%
Allowance % NPAs	28%	49%	45%	30%	31%	35%	43%	44%
Liquidity & Funding								
Liquid assets % purchased funds	68%	61%	81%	85%	95%	75%	75%	75%
Core deposits % outstandings	115%	113%	116%	116%	119%	115%	116%	116%
Liquid assets % assets	10%	9%	11%	14%	13%	11%	11%	11%
Outstandings % assets	61%	63%	62%	61%	60%	61%	61%	61%
Capital Adequacy								
Total equity % assets	9.63%	9.43%	9.32%	9.34%	9.64%	10.23%	10.30%	10.31%
Tangible equity % assets	9.63%	9.43%	9.32%	9.34%	9.64%	10.23%	10.30%	10.31%
Tier 1 capital ratio	13.70%	13.74%	13.92%	14.23%	14.41%	14.84%		
Total capital ratio	14.94%	14.99%	15.17%	15.48%	15.66%	16.09%		

*Annualized.

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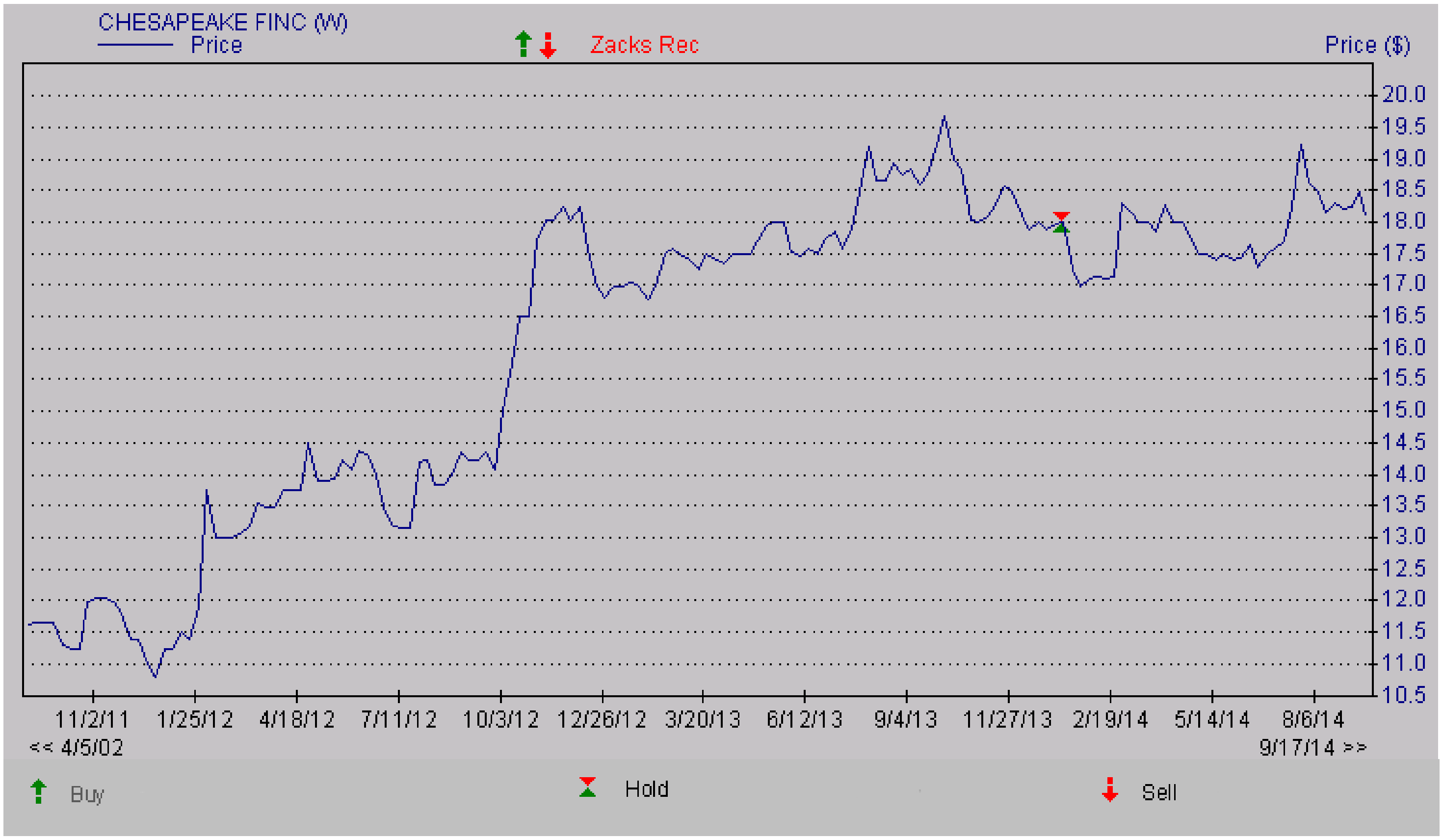

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