Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Merchant Card Division Drives Gains in Estimates, with Additional Upside Potential in 2016

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	01/09/2014
Current Price (10/01/15)	$16.60
Twelve-Month Target Price	**$17.25**

OUTLOOK

We are raising both our 2015 and 2016 diluted EPS estimates by a nickel each year— to $1.60 from $1.55 in 2015 and to $1.65 from $1.60 in 2016, mainly to reflect stronger-than-expected revenue growth in the merchant card division (we have increased our estimates for merchant card revenues by $2.1 million in 2015 and $2.9 million in 2016). Our 2015 estimate excludes a $0.7 million aftertax gain ($0.18 per diluted share) on the retirement of the trust preferred securities during 2015's first quarter. A few months ago, CPKF added a new high-volume merchant that processes several million dollars of card volume per month, following the recent hire of a new merchant card division head with extensive knowledge of the industry at Chesapeake Payment Systems, who wishes to further expand this business. Thus, additional upside is possible in 2016 as the number of merchants in this division potentially grows. We estimate that loan growth of 3% in 2015 and of 4% in 2016 will offset a declining net interest margin. Headwinds primarily are related to staff expansion and related compensation costs as CPKF is building up operations. On July 17, 2015, CPKF's Board of Directors approved a 6.7% increase in the quarterly dividend to $0.12 from $0.1125, paid on September 15, 2015 to shareholders of record on September 1, 2015. Notably, CPKF has increased the annual dividend payment every year for the past twenty-four years since 1991. In 2015 for the eighth consecutive year, Chesapeake Financial Shares, Inc. has been included in the American Banker magazine listing of the "Top 200 Community Banks" in the United States, ranking #34 out of about 6,000 community banks.

SUMMARY DATA

52-Week High	**$17.10**
52-Week Low	**$15.05**
One-Year Return (%)	**9.64**
Beta	**0.13**
Average Daily Volume (sh)	**1,101**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$66**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.48**
Dividend Yield (%)	**2.89**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**3.3**
Earnings Per Share (%)	**5.7**
Dividend (%)	**9.1**
P/E using TTM EPS	**10.1**
P/E using 2015 Estimate	**10.4**
P/E using 2016 Estimate	**10.1**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**45 of 72**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	9.5 A	10.0 A	9.6 A	9.6 A	39.0 A
2014	9.0 A	9.6 A	9.3 A	9.7 A	37.7 A
2015	9.8 A	10.6 A	10.3 E	10.5 E	41.2 E
2016					43.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.53 A	0.46 A	0.38 A	0.30 A	1.66 A
2014	0.32 A	0.48 A	0.23 A	0.41 A	1.43 A
2015	0.47 A	0.54 A	0.30 E	0.29 E	1.60 E
2016					1.65 E

Quarterly EPS may not add to total due to changes in shares outstanding.
* Per share data have been adjusted for a 5-for-6 stock split, paid to shareholders in mid-October 2014.

SECOND QUARTER

We are raising both our 2015 and 2016 diluted EPS estimates by a nickel each year— to $1.60 from $1.55 in 2015 and to $1.65 from $1.60 in 2016, mainly to reflect stronger-than-expected revenue growth in the merchant card division (we have increased our estimates for merchant card revenues by $2.1 million in 2015 and $2.9 million in 2016). Our 2015 estimate excludes a $0.7 million aftertax gain ($0.18 per diluted share) on the retirement of the trust preferred securities during 2015's first quarter.

A few months ago, CPKF added a new high-volume merchant that processes several million dollars of card volume per month, following the recent hire of a new merchant card division head with extensive knowledge of the industry at Chesapeake Payment Systems, who wishes to further expand this business. Thus, additional upside is possible in 2016 as the number of merchants in this division potentially grows.

We estimate that loan growth of 3% in 2015 and of 4% in 2016 (both years down from 5% previously, mainly due to several large loan payoffs in 2015's second quarter) will offset a declining net interest margin (down about 25 basis points to 4.35% in 2015 and an additional 5 basis points to 4.30% in 2016). Moreover, the Company experienced $241,000 in net securities gains in 2015's first quarter as it sold roughly $3 million of municipal securities to reposition this portfolio to longer maturities to improve yields. This repositioning continued into the second quarter, generating an additional $215,000 in net securities gains. In total, this added $456,000 to net revenues in 2015, which will become a headwind in 2016.

Other headwinds primarily are related to staff expansion and related compensation costs. In 2015, CPKF is building up operations. The Company hired a new commercial lender in the Richmond, Virginia market and a new sales representative for the cash flow business in the first quarter, and opened a new branch in Richmond late in the third quarter in late September, which will entail the hiring of about four new employees (this is down from the eight new hires originally expected as four positions have been filled with internal transfers). As a result, we project that compensation costs will rise about 2% in 2015 (down from our 6 ½% estimate previously) and a further 7% in 2016 (up from our 5% estimate before). Despite these near-term expense pressures, we view these moves positively as CPKF is laying the groundwork for future loan growth in 2016 and beyond.

To review, CPKF's second quarter net earnings rose $0.3 million year over year, or 16%, to $2.2 million, while 2015's second quarter diluted EPS grew by $0.06, or 12%, to $0.54 from $0.48 posted a year ago. (All per share data in this report have been adjusted for a 6-for-5 stock split, paid to shareholders in mid-October 2014.)

This was higher than our estimate, which had called for a $0.2 million increase in net earnings to $2.1 million (off by $0.1 million) and a $0.02 rise in diluted EPS to $0.52 (off by $0.02).

The primary reason for the difference between reported results and our estimate was that net revenues were $0.5 million more than the $10.1 million we had anticipated, largely consisting of noninterest income that was $0.6 million higher than our projection (entirely due to merchant card income that was $0.6 million better than expected), partly offset by net interest income that was $0.1 million lower than our estimate.

On the other hand, total noninterest expense of $7.8 million was $0.3 million more than we had projected, primarily reflecting other miscellaneous expense that was $0.7 million more than anticipated (largely due to higher merchant card expense), which was partly offset by compensation expense that was $0.4 million below our estimate.

The major reasons for the second quarter's $0.3 million gain in net earnings versus the prior-year quarter were a $0.1 million increase in net interest income, a $0.1 million, or 52%, drop in the provision for loan losses, and a $0.9 million , or 22%, advance in noninterest income from higher merchant card income and securities gains, which were partly offset by a $0.6 million rise in total noninterest expense from greater merchant card expense.

CPKF recently opened a new branch for the first time in Richmond, Virginia in late September 2015 as part of its long-term strategy emphasizing planned thoughtful expansion.The 7,500 square-foot location will house all of CPKF's Richmond area associates, from loan production to banking to wealth management.

On July 17, 2015, CPKF's Board of Directors approved a 6.7% increase in the quarterly dividend to $0.12 from $0.1125, paid on September 15, 2015 to shareholders of record on September 1, 2015. Notably, CPKF has increased the annual dividend payment every year for the past twenty-four 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.

In 2015 for the eighth consecutive year, Chesapeake Financial Shares, Inc. has been included in the American Banker magazine (formerly US Banker magazine) listing of the "Top 200 Community Banks" in the United States. The bank ranked at #34 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 was12.64%.

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

Net Interest Income

Net interest income fell $0.1 million, or 1%, year over year in the second quarter to $5.8 million ($0.1 million below our $5.9 million estimate), as a 6% increase in average interest-earning assets was offset by a net interest margin of 4.32% that was 16 basis points lower than the 4.48% earned in the year-ago quarter. The 4.32% net interest margin dropped 9 basis points from the first quarter, and was 8 basis points below our 4.40% estimate.

We are reducing our 2015 NIM estimate by five basis points to 4.35% for 2015, but maintaining our estimate for 2016 at 4.30%, 5 basis points lower than our 2015 estimate.This compares to a 4.60% NIM in both 2014 and 2013. The decreases reflect the fact that competitive pricing pressures continue to be somewhat fierce. 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.

Noninterest Income

Noninterest income increased $0.9 million, or 22%, year over year to $4.8 million ($0.6 million greater than our $4.2 million projection), on the strength of higher net securities gains (up $0.3 million) and merchant card income (up $0.6 million). A few months ago, CPKF added a new high-volume merchant that processes several million dollars of card volume per month, following the recent hire of a new merchant card division head with extensive knowledge of the industry at Chesapeake Payment Systems, who wishes to further expand this business.

We have increased our estimates for merchant card revenues by $2.1 million in 2015 and $2.9 million in 2016. Additional upside is possible in 2016 as the number of merchants in this division potentially grows.

This accounts for the gains in our projections of noninterest income of $2.1 million to $17.7 million in 2015 (up from our prior estimate of $15.6 million) and of $2.8 million in 2016 to $18.9 million (an increase from our previous estimate of $16.1 million).

Loss Provision
The loan loss provision declined by $57,000 to $72,000 from $150,000 in the year-ago quarter and was slighly higher than our $63,000 estimate. Loan loss reserves were flat at $6.2 million (1.57% of loans) compared with the first quarter (1.53% of loans), and were $0.3 million below the $6.5 million (1.69% of loans) in the year-ago quarter.

Including the loss allowance for cash flow receivables, the total loan loss allowance fell to $7.1 million (1.72% of loans plus cash flow receivables) from $7.5 million (1.87% of loans plus cash flow receivables) at the end of the comparable year-ago quarter and, and was down from the $7.6 million (1.80% 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 $67,000 in the second quarter. This compares to net charge-offs of $243,000 in the year-ago quarter and net charge-offs of $445,000 for the full year in 2014.

We are estimating that the loss provision will drop sharply to $290,000 in 2015 from $0.6 million in 2014, and will rise to $0.3 million in 2016.

We project that the total loss allowance will fall from 1.88% of total loans plus receivables at the end of 2014 to 1.69% at yearend 2015 and to 1.60% by the end of 2016.

Noninterest Expense
Noninterest expense advanced $0.6 million, or 8%, to $7.8 million ($0.3 million more than the $7.4 million we had projected) from the prior-year quarter, largely reflecting noncompensation expense that was $0.8 million more than a year ago (primarily due to higher merchant card expense from increased business activity from an additional merchant), which was partly offset by compensation expense that was $0.2 million lower than that reported in the prior-year quarter.

The efficiency ratio deteriorated modestly, falling to 75.0% from 74.1% in the year-ago quarter, but improved from the first quarter's 77.2%.

We project that compensation costs will rise about 2% in 2015 (down from our 6 ½% estimate previously as the Company has scaled back its external hires and is using more internal transfers) and a further 7% in 2016 (up from our 5% estimate before).

We are raising our estimate of 2015 noncompensation expense to $17.9 million (up $2.1 million from our prior estimate of $15.8 million), with our estimate for 2016 up $2.8 million to $18.5 million (up from our previous $15.7 million estimate). These increases are largely due to costs associated with higher levels of business activity from processing greater volume for an additional merchant in the merchant card division.

In total, we believe that the efficiency ratio will improve, falling from 80.5% for 2014 to an estimated 80.3% in 2015 (our prior estimate was 80.2%) and again to 79.7% in 2016 (our prior estimate was 79.2%).

Income Taxes
The Company had an effective tax rate of 19.9% in the second quarter, compared to a tax rate of 16.4% in the prior-year quarter and our 19.0% effective tax rate estimate.

We are increasing our estimate of the effective tax rate in 2015 to 19.5% from 19.0% and projecting a 19.5% tax rate for 2016. This compares to a full-year effective tax rate of 12.7% in 2014.

Net Income
CPKF's second quarter net earnings rose $0.3 million year over year, or 16%, to $2.2 million, while 2015's second quarter diluted EPS grew by $0.06, or 12%, to $0.54 from $0.48 posted a year ago. This

was higher than our estimate, which had called for a $0.2 million increase in net earnings to $2.1 million (off by $0.1 million) and a $0.02 rise in diluted EPS to $0.52 (off by $0.02).

<u>Profitability</u>
CPKF posted a 12.5% ROE and 1.00% ROA for the second quarter of 2015, compared to 11.6% and 1.15%, respectively, in the prior-year quarter.

<u>Loans and Asset Quality</u>
Gross loans increased $12 million, or about 3%, year over year, and declined $9 million, or 2%, sequentially to $393 million due to several large loan payoffs in various categories as discussed below.

By category, consumer loans slumped $2.7 million, or 22%, to $9 million; construction and land development loans fell by $3.9 million, or 8%, to $41 million; and commercial real estate decreased $9.0 million, or 6%, to $142 million.

On the positive side, other loans jumped $4.1 million, or 41%, to $17 million; cash flow receivables grew $2.1 million, or 11%, to $21 million; commercial and industrial loans increased $1.2 million, or 2%, to $81 million; and 1-4 family loans rose $1.2 million, or 1%, to $106 million.

We estimate loan growth of 3% in 2015 and of 4% in 2016 (both years down from 5% previously, mainly due to several large loan payoffs in 2015's second quarter). This compares to actual growth of 2.3% in full-year 2014.

Asset quality measures deteriorated in the second quarter. Nonaccrual loans jumped by $2.5 million, or 29%, to $10.9 million, while restructured loans declined by $0.2 million, or 6% to $3.4 million and other real estate owned decreased by $0.6 million, or 21%, to $2.1 million.

In total, nonperforming assets (NPAs), including troubled debt restructurings that are current in payments, rose 47 basis points to 3.95% of outstandings + OREO at June 30, 2015 from 3.48% of outstandings + OREO at March 31, 2015, but decreased 55 basis points year over year from 4.50%.

The loss allowance as a percent of nonperforming assets decreased sequentially to 38% from 42%, reflecting the increase in nonperforming assets and a decline in the loss reserve for loans and cash flow receivables.

<u>Liquidity and Funding</u>
Cash and equivalents increased $8 million to $25 million sequentially, while the securities portfolio fell $3 million to $188 million. By category, the municipal securities portfolio fell $3 million to $121 million, US government-related securities declined $3 milion to $331 million, and the private-label mortgage securities portfolio rose $3 million to $36 million.

These changes had the effect of increasing by 200 basis points the private-label mortgage securities portfolio to 19% of the entire available-for-sale securities portfolio, while decreasing the US government-related securities by 200 basis points to 16%. The total municipal securities portfoliowas flat at 65%.

CPKF's liquidity ratios improved compared to the previous quarter, reflecting the increase in cash and equivalents. At June 30, 2015, liquid assets represented 8% of total assets (flat with the end of the first quarter) and covered purchased funds by 66% (up from 62%), while loans plus receivables accounted for 62% of total assets (down from 63% at March 31, 2015).

Core deposits grew by $4 million, or 1%, sequentially to $486 million and funded 117% of loans and receivables.

Capital Adequacy and Dividends
The Company's capital adequacy ratios increased 30 basis points during the quarter, with the Tier 1 capital ratio rising sequentially to 14.15% at the end of 2015's second quarter from 13.85% at March 31, 2015, and the Total capital ratio also increasing to 15.40% from 15.10%.

Total shareholders' equity decreased $0.3 million during the second quarter, largely due to a $1.8 million increase in retained earnings that was more than offset by a $2.1 million decline in unrealized gains on securities available for sale.

Reflecting these factors plus a 27,000 increase in common shares outstanding, tangible book value per share fell during the second quarter, by $0.20 per share to $18.15 from $18.35. The total equity to total assets ratio also deteriorated due to the decline in total common shareholders' equity, decreasing by 8 basis points to 10.97% from 11.05%.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $665 million in total assets at June 30, 2015. 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.

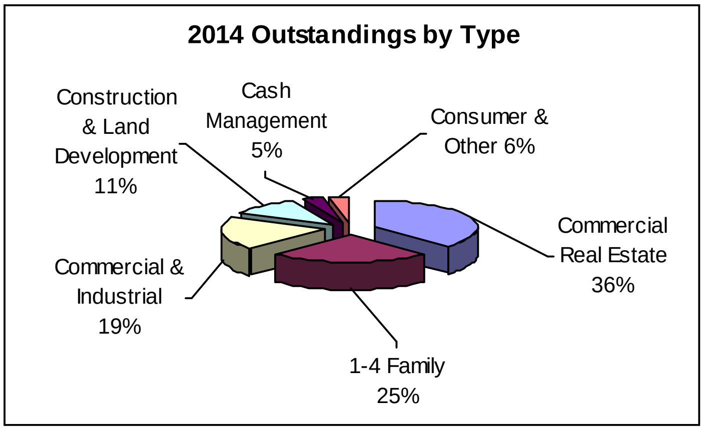
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $356 million in assets (at 2014 yearend) through its subsidiaries involved in 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 2014, Chesapeake Payment Systems had 535 merchants in its system and processed over $129 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with three 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 77 customers at the end of 2014.

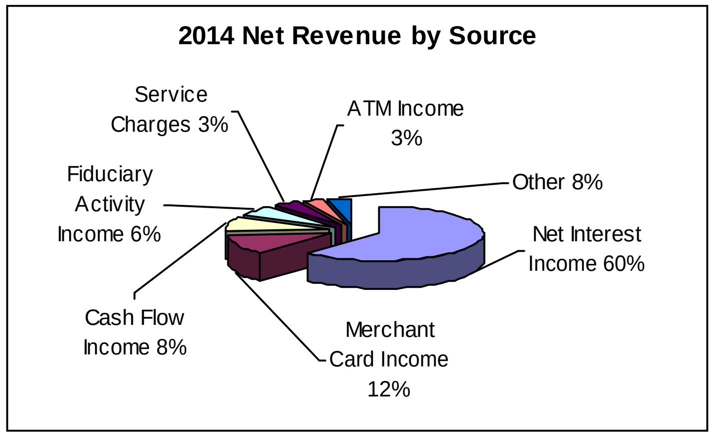
Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2014, Clear Sky deposits totalled $30 million, with customers in all 50 states.

Through Chesapeake's secondary market mortgage banking operation, the Company services a $219 million loan portfolio (as of December 31, 2014) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $560,000 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 $272,000 to revenues in 2014 (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, 2014, the lending book consisted of commercial real estate (accounting for 36% of total gross outstandings), 1-4 family (25%), commercial and industrial (19%), construction and land development (11%), cash flow (5%), and consumer and other (6%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2014, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 9% of total assets and 19% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 64% and 17%, respectively, of the total. Core deposits represented 85% of total deposits at December 31, 2014, with certificates of deposit larger than $100,000 at 15%.



In 2014, 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 (12% of net revenues), cash flow income (8%), income from fiduciary activities (6%), service charges on deposit accounts (3%), and ATM income (3%).

VALUATION

CPKF stock is up 7.4% year to date, better than the 2.1% median gain for the small-cap bank industry, as well as the 6.6% price decline 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 17% in 2016, based upon our current CPKF EPS estimate for 2016. This is above the average 36% P/E discount for CPKF, based upon recent historical P/E averages. Applying the historical discount of 36% to our 2016 EPS estimate results in a price of about $12.50.

Turning to Price/Tangible Book Value, CPKF is valued at 0.90X versus the industry median of 1.22X. This represents a 26% discount, well below the average historical premium of 15% for CPKF since mid-2008. Applying the historical premium of 15% to our estimated book value for CPKF twelve months out results in a price of approximately $22.00.

While we recognize that CPKF is still undervalued particularly on a book value basis (CPKF's current book value is $18.15), we believe that there is no immediate catalyst to drive the stock price higher over the near term.

Accordingly, we have chosen the $17.25 midpoint of the wide range of values based upon CPKF's 2016 P/E of $12.50 and Price/Tangible Book Value of $22.00 as our new target price.

Industry Comparables - Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2015E	2016E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**7.4**	**10.1**	**10.4**	**10.1**	**8.3**	**0.90**	**11.5**	**15.1**	**1.24**	**1.33**	**2.9**
S&P 500	(6.6)	17.3	16.1	14.8	16.0	5.6	29.0	-----	8.7	-----	2.2
Median	**2.1**	**13.9**	**13.8**	**12.1**	**13.0**	**1.22**	**8.9**	**6.5**	**0.92**	**0.59**	**2.0**
Average	3.5	16.1	21.9	14.4	14.9	1.1	8.3	5.6	0.8	0.6	1.9
High	27.9	73.0	134.2	35.3	27.5	2.0	15.1	15.1	1.3	1.7	5.6
Low	(20.4)	8.3	10.5	9.7	6.9	0.6	0.1	(36.5)	0.0	(0.6)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15E**	**12/16E**
Net interest income	21.8	22.8	23.1	23.3	23.1	23.4	24.1
Non-interest income	13.8	13.7	15.0	15.7	14.6	17.8	18.9
Total net revenue	35.6	36.5	38.1	39.0	37.7	41.2	43.0
Loan loss provision	2.5	1.2	0.6	1.1	0.6	0.3	0.3
Non-interest expense	26.2	26.4	27.8	29.8	30.5	32.8	34.3
Income taxes & other	1.5	1.9	2.0	1.5	0.8	1.6	1.7
Zacks adjusted income before NRI	5.4	7.0	7.7	6.6	5.8	6.5	6.7
GAAP net income	5.4	7.0	7.7	7.4	6.5	7.3	6.7
Diluted EPS before NRI	1.41	1.80	1.94	1.66	1.43	1.60	1.65
Reported EPS	1.41	1.80	1.94	1.84	1.62	1.78	1.65
Dividends per share	0.30	0.33	0.38	0.43	0.45	0.47	0.48
Liquid assets	73.2	97.9	92.1	89.9	62.8	56.0	56.9
Outstandings, gross	382.3	373.1	397.6	401.0	410.4	422.3	439.5
Total assets	607.7	638.0	667.7	661.8	663.2	678.5	706.1
Core deposits	396.2	430.4	459.0	467.2	480.5	495.9	516.0
Purchased funds	127.2	113.3	118.4	105.3	82.4	85.1	86.5
Long-term debt	40.0	39.6	26.0	25.9	20.6	19.0	19.0
Shareholders' equity	41.1	51.2	60.9	61.8	70.6	74.4	79.1
Profitability							
Return on avg assets	0.90%	1.13%	1.19%	1.01%	0.87%	0.98%	0.97%
Return on avg equity	13.55%	15.31%	14.87%	10.74%	9.14%	8.94%	8.75%
Net interest margin	4.40%	4.70%	4.60%	4.60%	4.60%	4.35%	4.30%
Loan loss provision % avg assets	0.41%	0.19%	0.09%	0.17%	0.09%	0.04%	0.04%
Noninterest income % avg assets	2.30%	2.21%	2.33%	2.40%	2.20%	2.66%	2.72%
Noninterest expense % avg assets	4.34%	4.27%	4.32%	4.55%	4.61%	4.91%	4.95%
Preprovision pretax income % avg assets	1.57%	1.62%	1.60%	1.41%	1.09%	1.26%	1.25%
Tangible efficiency ratio	73%	71%	71%	75%	81%	80%	80%
Payout ratio	21%	18%	19%	23%	28%	26%	29%
Asset Quality							
Net charge-offs % avg outstandings	0.48%	0.22%	0.18%	0.29%	0.14%	0.16%	0.14%
Allowance % outstandings	1.90%	2.01%	1.88%	1.75%	1.88%	1.69%	1.60%
NPAs % loans + OREO	3.91%	4.48%	4.93%	5.20%	4.20%	3.70%	3.24%
Allowance % NPAs	48%	44%	32%	30%	37%	45%	49%
Liquidity & Funding							
Liquid assets % purchased funds	58%	86%	78%	85%	76%	66%	66%
Core deposits % outstandings	104%	115%	115%	117%	117%	117%	117%
Liquid assets % assets	12%	15%	14%	14%	9%	8%	8%
Outstandings % assets	63%	58%	60%	61%	62%	62%	62%
Capital Adequacy							
Total equity % assets	6.76%	8.03%	9.12%	9.34%	10.65%	10.96%	11.21%
Tangible equity % assets	6.76%	8.03%	9.12%	9.34%	10.65%	10.96%	11.21%
Tier 1 capital ratio	12.07%	12.20%	13.55%	14.23%	14.69%		
Total capital ratio	13.54%	13.40%	14.80%	15.48%	15.94%		
Parent Company Statistics							
Interest coverage	2.6X	2.1X	4.4X	9.2X	27.3X	7.5X	7.5X
Interest & dividend coverage	1.1X	0.9X	1.5X	1.5X	3.7X	1.3X	1.3X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.8X	0.8X	0.9X	1.0X	0.9X	0.9X	0.9X
Double leverage	134.7%	127.2%	121.7%	119.7%	109.3%	113.5%	115.2%

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2014				2015			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**
Net interest income	5.6	5.7	5.9	6.0	5.9	5.8	5.9	5.9
Non-interest income	3.4	4.0	3.4	3.7	3.9	4.8	4.4	4.6
Total net revenue	9.0	9.7	9.3	9.7	9.8	10.6	10.3	10.5
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Non-interest expense	7.2	7.2	8.0	8.1	7.4	7.8	8.7	9.0
Income taxes & other	0.4	0.4	0.2	(0.2)	0.4	0.5	0.3	0.2
Zacks adjusted income before NRI	1.3	1.9	0.9	1.6	1.9	2.2	1.2	1.2
GAAP net income	1.3	1.9	1.7	1.6	2.6	2.2	1.2	1.2
Diluted EPS before NRI	0.32	0.48	0.23	0.41	0.48	0.54	0.30	0.29
Reported EPS	0.32	0.48	0.42	0.41	0.66	0.54	0.30	0.29
Dividends per share	0.11	0.11	0.11	0.11	0.11	0.11	0.12	0.12
Liquid assets	90.1	70.1	63.2	62.8	51.1	55.6	55.8	56.0
Outstandings, gross	404.7	400.6	409.4	410.4	420.6	414.0	418.2	422.3
Total assets	669.2	655.0	658.0	663.2	663.1	665.1	671.8	678.5
Core deposits	480.4	462.5	477.4	480.5	482.0	486.1	491.0	495.9
Purchased funds	95.2	93.1	84.0	82.4	82.9	84.4	84.7	85.1
Long-term debt	26.0	25.9	20.7	20.6	19.3	15.5	19.0	19.0
Shareholders' equity	64.5	67.0	68.9	70.6	73.2	72.9	73.7	74.4
Profitability								
Return on avg assets*	0.78%	1.15%	0.55%	0.99%	1.16%	1.00%	0.74%	0.70%
Return on avg equity *	8.26%	11.56%	5.35%	9.40%	10.67%	12.49	6.71%	6.42%
Net interest margin*	4.46%	4.48%	4.55%	4.60%	4.41%	4.32%	4.35%	4.35%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.04%	0.13%	0.04%	0.04%
Noninterest income % avg assets*	2.06%	2.39%	2.09%	2.28%	2.36%	2.00%	2.64%	2.71%
Noninterest expense % avg assets*	4.32%	4.35%	4.85%	4.93%	4.44%	4.54%	5.19%	5.30%
Preprovision pretax inc.% avg assets*	1.10%	1.47%	0.82%	0.97%	1.46%	1.22%	0.96%	0.93%
Tangible efficiency ratio	80%	74%	85%	84%	77%	75%	84%	85%
Payout ratio	35%	23%	27%	28%	17%	21%	40%	41%
Asset Quality								
Net charge-offs % avg outstandings*	(0.07)%	0.24%	0.05%	0.32%	0.27%	0.06%	0.14%	0.14%
Allowance % outstandings	1.83%	1.87%	1.89%	1.88%	1.80%	1.72%	1.70%	1.69%
NPAs % loans + OREO	5.09%	4.50%	3.90%	4.20%	3.48%	3.95%	3.83%	3.70%
Allowance % NPAs	31%	35%	41%	37%	42%	38%	44%	45%
Liquidity & Funding								
Liquid assets % purchased funds	95%	75%	75%	76%	62%	66%	66%	66%
Core deposits % outstandings	119%	115%	117%	117%	115%	117%	117%	117%
Liquid assets % assets	13%	11%	10%	9%	8%	8%	8%	8%
Outstandings % assets	60%	61%	62%	62%	63%	62%	62%	62%
Capital Adequacy								
Total equity % assets	9.64%	10.23%	10.47%	10.65%	11.05%	10.97%	10.97%	10.96%
Tangible equity % assets	9.64%	10.23%	10.47%	10.65%	11.05%	10.97%	10.97%	10.96%
Tier 1 capital ratio	14.41%	14.84%	14.22%	14.69%	13.85%	14.15%		
Total capital ratio	15.66%	16.09%	15.47%	15.94%	15.10%	15.40%		

*Annualized.

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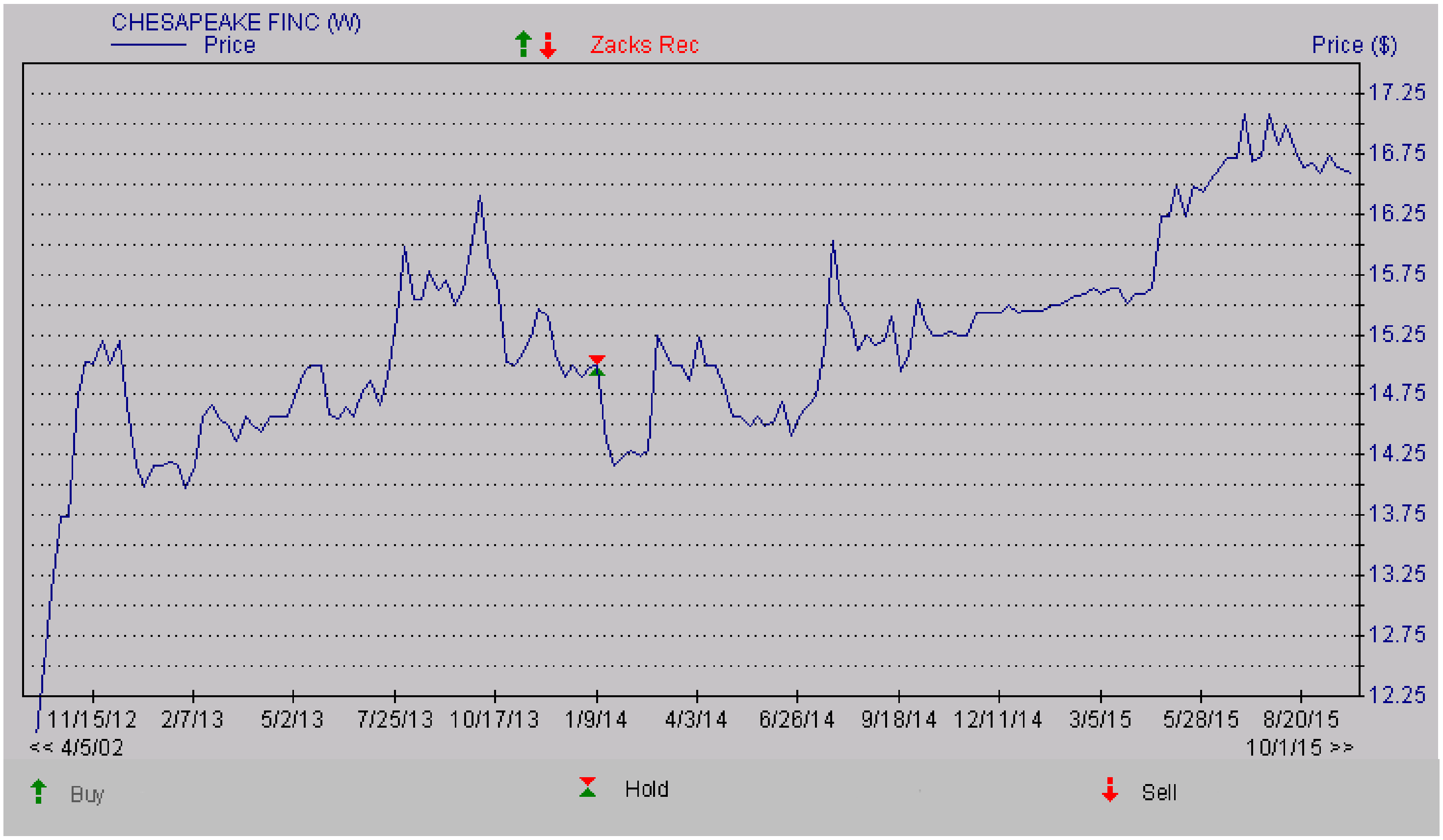

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