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Chesapeake Financial Shares, Inc. (CPKF – OTCQB)

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Price: *	$ 16.30	**Diluted EPS**	**2013A:**	$1.84	**P/E**	**2013A:**	8.9 x
52 Wk. Range:	$14.25 - $16.66	(FY: DEC)	**2014A:**	$1.62		**2014A:**	10.1 x
Div/Div Yld:	$0.45 /2.8%		**2015E:**	$1.70		**2015E:**	9.6 x
Shrs/Mkt Cap:	4.0 mm/ $65 mm	**Book Value:**		$18.35	**Price/Book Value:**		0.89 x

* All per share figures have been adjusted for the 6-for-5 stock dividend paid in October 2014.

SYMBOL: CPKF

ASSETS: $663 MM

HQ: KILMARNOCK, VA

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Background

Chesapeake Financial Shares, Inc. is a one-bank holding company originally chartered in 1900 and is based in Kilmarnock, VA. As of March 31, 2015, the Company had $663 million in total assets. The holding company operates two subsidiaries, Chesapeake Bank and Chesapeake Investment Group, Inc. Chesapeake Bank is primarily a lender to small businesses. Personal and business products and services offered include checking, savings, CDs, mortgages, mobile and online banking, e-services comprising an internet branch, and a business cash management program. The Bank currently operates 12 branches; four in the Northern Neck, three in the Middle Peninsula, and five in Williamsburg. The Bank also offers merchant processing services for credit and debit card transactions. A loan production office was opened in Richmond, VA, in 2011. Chesapeake Investment Group is an independent wealth management firm with more than $340 million in assets which offers trust and estate management services. Chesapeake Financial Shares, Inc.'s stock trades on the over-the-counter market (OTCQB) under the symbol "CPKF." The Company's Chairman, President, and CEO, Jeffrey M. Szyperski, is a former Chairman of the Virginia Bankers Association and was appointed in 2014 to the ABA Board of Directors for a three-year term

1ST QUARTER HIGHLIGHTS:

EPS: $0.65 VS. $0.32

EARNINGS WERE BOOSTED BY CHESAPEAKE'S DECISION TO RETIRE CERTAIN TRUST PREFERRED SECURITIES AT A DISCOUNT

NET INTEREST INCOME WAS UP 5%, MAINLY DUE TO HIGHER MARGINS

NONINTEREST INCOME, EXCLUDING SECURITY GAINS AND THE GAIN ON TRUST PREFERRED REPURCHASE, INCREASED MODESTLY

First Quarter Earnings Doubled Partly Due to Gains on Retirement of Trust Preferred

Chesapeake Financial Shares reported a strong quarter in the three months ended March 31, 2015. Earnings more than doubled, and although much of that increase was due to the inclusion of a gain on the repurchase of $5 million in trust preferred securities in the quarter, it was also due to progress in many other core areas, most notably, a nice increase in net interest income and good cost containment. Moreover, the Bank has been shifting some of its cash and equivalents into higher yielding securities and loans, and the funding of that growth from cash is allowing the Bank to let some of its higher cost deposits roll off the books. It was also a gratifying quarter in that overall asset quality continued to improve.

Reported earnings in the first quarter of 2015 were $2.6 million, or $0.65 per diluted share, up from $1.3 million, or $0.32 per diluted share, in the year-ago quarter. As was stated above, a good amount of the earnings growth came from noninterest income, which included both security gains and a $1.1 million gain from the retirement of $5 million of its trust-preferred securities. However, even excluding these items, core earnings improved. Specifically, pretax earnings before the provision and nonrecurring items (the $1.1 million gain and security gains/losses) were up 12% to $2.1 million in 2015's first quarter, versus $1.8 million in the year-ago quarter. Net interest income increased 5% to $5.9 million in the first quarter of 2015 from $5.6 million in the year-ago quarter. Margins have been holding up well, and have benefited from the previously noted shift out of cash into higher yielding assets. Noninterest income, excluding security gains and net other-than-temporary impairment losses, totaled $3.6 million in the first quarter of 2015,

First Quarter Results ($000s)	2014	2015
Pretax Income	1,672	3,341
Add Back:		
Provision	150	72
Security Losses (Gains)	25	(241)
Gain on Trust Pfd Repurch.	-	(1,100)
Pretax Inc. Bef. Unusual Items	1,847	2,072

EARNINGS ALSO BENEFITTED FROM GOOD EXPENSE CONTAINMENT

CAPITAL POSITION IS STRONG AND WILL SUPPORT GROWTH INITIATIVES

which was up from $3.5 million in the year-ago quarter. Earnings also benefited from good cost containment. Noninterest expense increased a modest 1% to $7.4 million in the first quarter of 2015 from $7.3 million in the year-ago quarter. Finally, due to the decline in nonperforming assets and the strong reserve position, the provision for loan losses decreased to $72,000 in the first quarter of 2015 from $150,000 in the year-ago quarter. Balance sheet growth over the past year was led by loans, as deposits and total assets had modest declines. The Company remains well capitalized, with shareholders' equity of $73 million, or 11.05% of total assets, which is up 14% from $64 million, or 9.64% of total assets, at the year-ago date. All of the Bank's regulatory ratios comfortably exceed the minimums to qualify as a "well capitalized" institution.

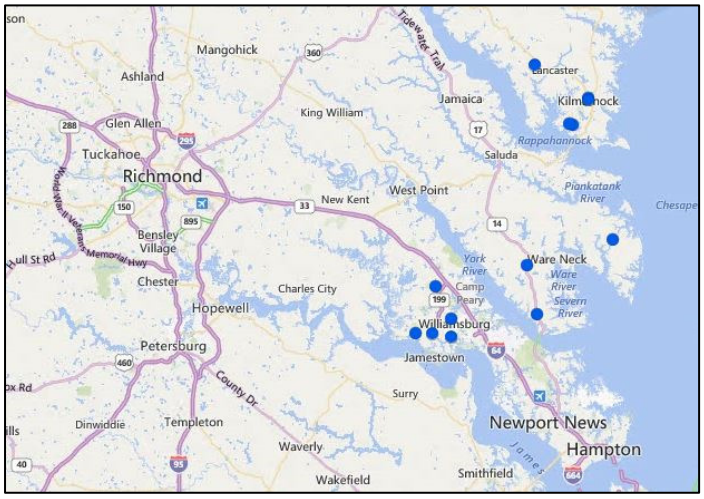
Chesapeake Plans to Open a Location in Richmond, VA in the Latter Part of 2015

NEW LOCATION IS PLANNED FOR RICHMOND VA

LOCATION IS SLATED TO OPEN LATER IN 2015

RICHMOND HAS A LARGE DEPOSIT BASE AND POPULATION, AS WELL AS GOOD GROWTH PROSPECTS

Chesapeake Financial plans to open a new location in the Westhampton neighborhood of Richmond, VA in the third quarter of 2015. The Company has purchased a building and construction is in process. Management is doing an excellent job paving the way to "hit the ground running" in this market, sending informative newsletters about Chesapeake Bank to residents of that community. Richmond represents a logical expansion for the Bank, being the closest major city to the Company's headquarters in Kilmarnock. (The map shows the locations where Chesapeake is currently located; a few locations appear as a single "dot" due to their proximity.) Richmond also has strong demographics, and represents a strong market for many of Chesapeake's products, not only in traditional banking but in wealth management, cash management, insurance and other services. Richmond is a sizable market, and although Chesapeake will technically be serving a community *within* Richmond, the growth opportunity appears quite compelling.



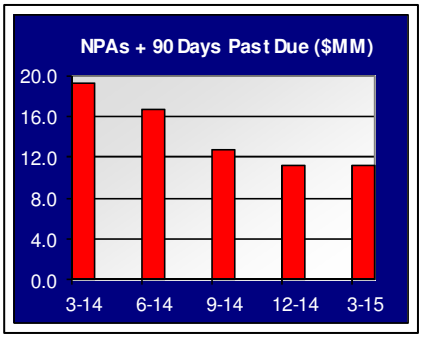
Nonperforming Assets Declined 42% from the Year-Ago Date

ASSET QUALITY HAS BEEN CONSISTENTLY IMPROVING

NPAS/ASSETS: 1.68%

RESERVES/LOANS: 1.53%

Chesapeake's level of nonperforming assets decreased substantially from the year-ago date. Specifically, NPAs were $11.1 million, or 1.68% of total assets, at March 31, 2015, which was unchanged from December 31, 2014 but down 42% from $19.3 million, or 2.88% of total assets, at March 31, 2014. Both nonaccrual loans and OREO declined markedly from the year-ago date (44% and 38%, respectively). The allowance for loan losses was $6.2 million, or 1.53% of total loans, at March 31, 2015, compared to $6.5 million, or 1.71% of total loans, at the year-ago date.



EPS:
2013A: $1.84
2014A: $1.62
2015E: $1.70

Projections

Based on the stronger than expected first quarter results, we are revising our 2015 projections to $6.9 million, or $1.70 per diluted share, from our previous projections of $6.2 million, or $1.54 per share. These projections could vary considerably if economic or other conditions change

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