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Chesapeake Financial Shares, Inc. (CPKF – OTCQB)

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July 21, 2015

Price: *	$ 17.00	**Diluted EPS**	**2014A:**	$1.62	**P/E**	**2014A:**	10.5 x
52 Wk. Range:	$14.96 - $17.10	(FY: DEC)	**2015E:**	$1.76		**2015E:**	9.7 x
Div/Div Yld:	$0.45 /2.6%		**2016E:**	$1.84		**2016E:**	9.2 x
Shrs/Mkt Cap:	4.0 mm/ $68 mm	**Book Value:**		$18.15	**Price/Book Value:**		0.94 x

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

SYMBOL: CPKF

ASSETS: $665 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 June 30, 2015, the Company had $665 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. 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

2ND QUARTER HIGHLIGHTS:

EPS: $0.54 VS. $0.47

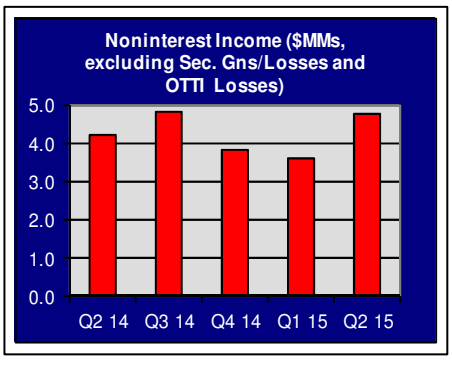
RESULTS WERE $0.18 PER SHARE ABOVE ESTIMATES

Second Quarter Earnings Increased 16%

For the second quarter of 2015, Chesapeake Financial Shares reported strong earnings growth and EPS that surpassed our projections by $0.18 per share. The vast majority of the earnings growth was attributable to strong increases in noninterest income, though a lower provision for loan losses contributed to a small amount of the increase. Also during the quarter, the Company was again recognized by *American Banker* magazine as being in the "Top 200 Community Banks" in the U.S. Finally, we would point out the Company is preparing to open a new branch on Patterson Avenue in Richmond in September, and will be opening a loan production office in the Chester area of Richmond as well. We expect balance sheet growth to accelerate from these expansion initiatives.

NET INTEREST INCOME GREW 1%, MARGINS WERE DOWN SLIGHTLY, AVERAGE EARNING ASSETS GREW 2%

Net income for the second quarter of 2015 was $2.2 million, or $0.54 per diluted share, which was up 16% from $1.9 million, or $0.47 per diluted share, in the year-ago quarter. Margins were down slightly and average earning assets had 2% growth from the year-ago quarter, resulting in net interest income remaining relatively flat at $5.8 million in 2015's second quarter, versus $5.7 million in the year-ago quarter. Noninterest income had excellent growth both from the year-ago quarter and on a linked quarter basis, as can be seen from the adjacent chart. To be specific, noninterest income (excluding security gains and impairment losses) was $4.8 million in the second quarter of 2015, which was up 13% from $4.2 million in the year-ago quarter and up 25% from $3.6 million in the first quarter of 2015. Notable growth within noninterest income included 17% growth in deposit service charges and 46% growth in Merchant Card income from the year-ago



NONINTEREST INCOME, EXCLUDING SECURITY GAINS AND OTTI LOSSES, GREW 13%

MERCHANT CARD INCOME GREW 46%

quarter. Noninterest expense was up 8% to $8.0 million in the second quarter of 2015 from $7.4 million in the year-ago quarter, due mainly due to Merchant Card expense, partly reflecting the strong revenue growth in this area. Finally, the provision for loan losses declined to $72,000 in 2015's second quarter from $150,000 in the year-ago quarter.

SIX MONTHS RESULTS:

EPS: $1.19 VS. $0.80

EARNINGS GREW 51%

For the first six months of 2015, Chesapeake reported net income of $4.8 million, or $1.19 per diluted share, which was up 51% from $3.2 million, or $0.80 per diluted share, in the year-ago period. As was the case with the quarterly results, earnings benefited primarily from higher noninterest income, which excluding security gains and impairment losses, grew 22%. Net interest income was up 3% from the year-ago period, while noninterest expense was up 4%. Balance sheet growth over the past year was modest, generally in the 2% to 3% range, and we expect growth to stay in the low to single digits for the next several quarters. The Company's capital position remains in excellent shape. Shareholders' equity totaled $73 million, or 10.97% of total assets, at June 30, 2015, and all of the Bank's regulatory ratios comfortably exceeded the minimums to qualify as a "well capitalized" institution.

Chesapeake Compares Favorably to Peers, Listed in "Top 200 Community Banks" in the U.S.

For the eighth year in a row, Chesapeake Financial Shares was included in *American Banker* magazine's listing of the "Top 200 Community Banks" in the United States. Of approximately 6,000 banks in the study, Chesapeake ranked 34th in the nation. The ranking is based on a three-year average of return on average equity, which has consistently been high for the Company. As can be seen from the adjacent table, Chesapeake Financial's ROAE was 12.02% in 2015's second quarter,, substantially higher than the median of 7.47% for its Virginia peer group. (In fact, it was the highest ROAE in the peer group, which included 38 banks with assets between $100 million and $1 billion.) The Company outperformed the VA peer group on several other fronts as well, including ROAA, and while its level nonperforming assets was above the peer group median, Chesapeake was better reserved with a reserves/loans ratio of 1.57% versus 1.27% for the peer median. Despite the Company's superior profitability ratios, it has a higher dividend yield compared to the majority of its peers. Moreover, its shares trade at discounts to the group based on the multiple of earnings and book value, despite the fact that the shares have been outperforming the other banks so far this year.

THE COMPANY'S ROAE OF 12.02% WAS THE HIGHEST OF THE VA PEER GROUP

ITS ROAA WAS BETTER THAN THE PEER MEDIAN AS WELL

CPKF SHARES TRADE AT A DISCOUNT TO THE MAJORITY OF THE PEERS ON BOTH MULTIPLES OF PRICE AND BOOK VALUE

PEER GROUP COMPARISON, VA COMMUNITY BANKS WITH ASSETS BETWEEN $100MM AND $1B (%, UNLESS OTHERWISE NOTED)

	CPKF	VA Peer Group Median
ROAA (MRQtr.)	1.32	0.77
ROAE (MRQtr.)	12.02	7.47
NPAs/Assets	1.96	0.90
Res./Loans	1.57	1.27
Div. Yld.	2.6	2.1
YTD Total Return	10.0	5.0
P/E LTM (x)	8.6	14.1
Price/Book (x)	0.94	1.03

Although NPAs Increased From 2015's First Quarter, They Are Down 21% from a Year Ago

At June 30, 2015, Chesapeake had nonperforming assets of $13.1 million, or 1.96% of total assets, compared to $11.1 million, or 1.68% of total assets, at March 31, 2015, and $16.6 million, or 2.54% of total assets, at the year-ago date. The majority (84%) of NPAs were nonaccrual loans. The allowance for loan losses totaled $6.2 million, or 1.57% of total loans, at June 30, 2015, compared to $6.4 million, or 1.69% of total assets, at the year-ago date.

NPAS/ASSETS: 1.96%

RESERVES/LOANS: 1.57%

Projections

Based on the stronger than expected second quarter results, we are slightly increasing our 2015 earnings estimates to $7.1 million, or $1.76 per share, which is up from our previous projection of $1.70 per diluted share. For the year 2016, we are projecting net income of $7.4 million, or $1.84 per diluted share. Although the increase in 2016 earnings may seem modest, we would point out that Chesapeake Financial has about $0.09 per share in net security gains that are included in the 2015 figures, while we have not assumed any for 2016. These projections could vary considerably if economic or other conditions change.

EPS:
2014A: $1.62
2015E: $1.76
2016E: $1.84

ADDITIONAL INFORMATION UPON REQUEST

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