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Chesapeake Financial Shares, Inc. (CPKF – OTCQB)

John A. (Buddy) Howard, CFA
February 5, 2017

Price:	$ 21.35	**Diluted EPS**	**2015A: ***	$1.46	**P/E**	**2015A:**	14.6 x
52 Wk. Range:	$19.50 - $22.75	(FY: DEC)	**2016A:**	$1.71		**2016A:**	12.5 x
Div/Div Yld:	$0.50 /2.3%		**2017E:**	$1.86		**2017E:**	11.5 x
Shrs/Mkt Cap:	4.0 mm/ $86 mm	**Book Value:**		$19.34	**Price/Book Value:**		1.10 x

* 2015 EPS excludes $0.36 per share in gains on retirement of Trust Preferred Securities and security gains (net of impairments).

SYMBOL: CPKF

ASSETS: $721 MM

HQ: KILMARNOCK, VA

CONTACT:
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(804) 435-1181

Background

Chesapeake Financial Shares, Inc. is a one-bank holding company originally chartered in 1900 and is based in Kilmarnock, VA. As of December 31, 2016, the Company had $721 million in total assets. The holding company operates two subsidiaries, Chesapeake Bank and Chesapeake Wealth Management, 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 14 branches; four in the Northern Neck, three in the Middle Peninsula, five in Williamsburg and two in Richmond. There is also a loan production office in Richmond. The Bank also offers merchant processing services for credit and debit card transactions. Chesapeake Wealth Management 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. He was also appointed in 2014 to the ABA Board of Directors for a three-year term and was recently elected to be Vice Chairman.

4TH QUARTER HIGHLIGHTS:

EPS: $0.33 VS. $0.22

TOTAL REVENUES WERE UP 12%, WITH MOST OF THAT GROWTH DUE TO HIGHER NONINTEREST INCOME

NET INTEREST INCOME GREW 2%, WHILE CORE NONINTEREST INCOME INCREASED 22%

MERCHANT CARD INCOME WAS UP 29%

Fourth Quarter Earnings Increased 51%

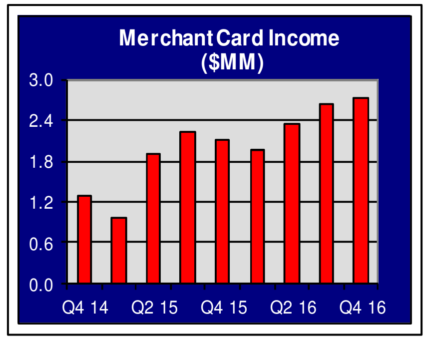
Although Chesapeake Financial Shares reported fourth quarter of 2016 earnings that were a few cents per share below our projections, profitability was still quite high and was up 51% from the year-ago figures. There was notable strength in several key areas, one in particular being Merchant Card income. Balance sheet growth remained positive as well, benefitting from the new office locations in Richmond, which continues to build momentum. And asset quality is holding up well also, as nonperforming assets were down from both the year-ago level and from the end of the third quarter of 2016.

In terms of specifics, net income in 2016's fourth quarter was $1,375,000, or $0.33 per diluted share, as compared to $913,000, or $0.22 per diluted share, in the year-ago quarter. Revenue growth was commendable (up 12%), primarily as a result of strong noninterest income growth. The Company's ability to grow its noninterest income base has, in fact, been quite impressive. In 2016's fourth quarter, for example, core noninterest income represented 49% of total revenues, while net interest income represented 51%. That is obviously a much higher percentage for noninterest income than the typical community bank. However, it also underscores management's success targeting certain fee-based niches, such as Merchant Card and Cash Flow, and explains one way that the Bank has reduced its exposure to tightening margins. It was, in fact, partly those tightening margins that limited the net interest income increase to 2% (it was $6,161,000 in 2016's fourth quarter, versus $6,020,000 in the year-ago quarter). As was stated above, noninterest income (excluding security gains and net impairment losses) was quite strong, and increased 22% to $5,913,000 in the fourth quarter of 2016, from $4,844,000 in the year-ago quarter. Most areas of noninterest income increased, but Merchant Card Income continues to be one of the main drivers behind most of the growth. As can be seen from

MERCHANT CARD INCOME HAS BEEN GROWING THE PAST SEVERAL YEARS, IN PART DUE TO NEW MERCHANT RELATIONSHIPS AND NEW INDEPENDENT SALES ORGANIZATIONS

NONINTEREST EXPENSE INCREASED 6%

the adjacent chart, Merchant Card Income, which accounted for 46% of total noninterest income, increased 29% from the fourth quarter of 2015, and has had a steady increase over the past couple of years. Much of this growth has come from new merchants in the program, as well as independent sales organizations, three of whom were added early in early 2016. Noninterest expense had a modest increase of 6% to $10,593,000 in 2016's fourth quarter from $9,990,000 in the year-ago quarter, reflecting higher salaries and higher Merchant Card volume. Finally, the provision for loan losses was $62,000, in 2016's fourth quarter, compared to $84,000 in the year-ago quarter.



TWELVE MONTHS HIGHLIGHTS:

EPS: $1.71 VS. $1.82

For the twelve months ended December 31, 2016, the Company reported net income of $7,026,000, or $1.71 per diluted share, versus $7,404,000, or $1.82 per diluted share, in the year-ago period. The decrease was mainly due to lower security gains in 2016 ($262,000 versus $1,187,000 in 2015), as well as to a higher provision in 2016. (Excluding the provision and security gains, pretax income would have been up 8%.) Net interest income increased 4%, while noninterest income, excluding security gains and net impairment losses, grew 9%. Noninterest expense was up 8% from the year 2015 to 2016, while the provision for loan losses was $550,000 in 2016, versus $241,000 in 2015.

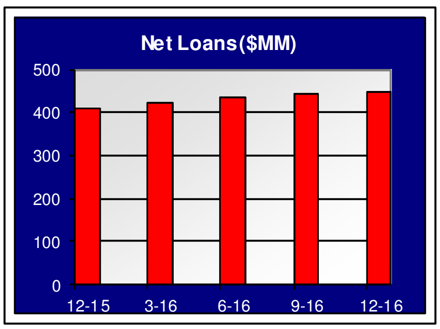
LOANS INCREASED 10% FROM 12/31/15 TO 12/31/16

ASSETS INCREASED 6% AND DEPOSITS GREW 8% OVER THIS PERIOD

SHAREHOLDERS' EQUITY WAS A HEALTHY 10.81% OF ASSETS

Loan Growth Has Been Fairly Consistent

As can be seen from the adjacent chart, loan growth has been steadily increasing over the past five quarters. Chesapeake's movement into the Richmond market is clearly one factor that is contributing to recent loan growth. Specifically, net loans increased 10% from December 31, 2015 to December 31, 2016, while total assets were up 6% and deposits increased 8% over this period. The Company has maintained a strong capital position, with shareholders' equity of $78 million, or 10.8% of total assets, as of December 31, 2016. All of the Bank's regulatory capital ratios comfortably exceed well capitalized minimums. With such a strong capital position, the Company remains in an excellent position to buy back stock at certain price levels, and management has (wisely, in our view) done that on a number of occasions.



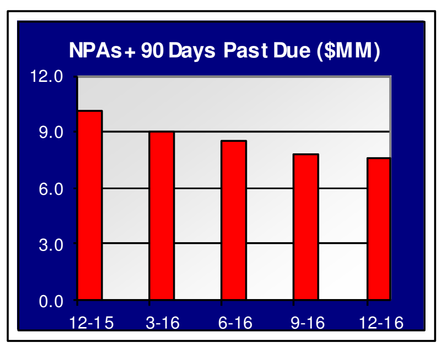
NPAS/ASSETS: 1.05%

NPAS DECLINED 25% FROM THE YEAR-AGO DATE

RESERVES/LOANS: 1.10%

NPAs Continue to Decrease

The Company's asset quality continued to improve at the end of 2016, with nonperforming assets dropping to $7.6 million, or 1.05% of total assets, at December 31, 2016, versus $7.8 million, or 1.09% of assets, at September 30, 2016 and $10.1, or 1.49% of assets, at December 30, 2015. NPAs consisted primarily of nonacrrual loans ($6.3 million) followed by OREO ($1.3 million). The allowance for loan losses totaled $5.0 million, or 1.10% of loans, at December 31, 2016, as compared to $5.5 million, or 1.33% of loans, at the year-ago date.



EPS:
2015A: $1.46*
2016A: $1.71
2017E: $1.86

*** EXCLUDES NONRECURRING GAINS OF $0.36 PER SHARE IN 2015**

Projections Maintained

Although recent earnings were a touch below expectations, we are keeping our 2017 earnings projection at $7.6 million, or $1.86 per diluted share share. These projections could vary considerably if economic or other conditions change.

ADDITIONAL INFORMATION UPON REQUEST