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Chesapeake Financial Shares, Inc. (CPKF – PINK SHEETS)

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April 13, 2010

Price:	\$ 14.00	EPS *	2008A:	\$1.60	P/E	2008A:	8.8 x
52 Wk. Range:	\$12.10 - \$17.00	(FY: DEC)	2009A:	\$1.77		2009A:	7.9 x
Div/Div Yld:	\$0.42 / 3.0%		2010E:	\$1.76		2010E:	8.0 x
Shrs/Mkt Cap:	2.7 mm/ \$38 mm	Book Value:		\$13.49	Price/Book Value:		1.04 x

- Diluted.

Background

With approximately \$609 million in assets as of March 31, 2010, Chesapeake Financial Shares, Inc. is a one-bank holding company that is based in Kilmarnock, Virginia. The Company has two subsidiaries: 1) Chesapeake Bank, a full-service, state-chartered commercial bank whose origins trace back to 1900, and 2) Chesapeake Investment Group, Inc., through which trust services, asset management, discount brokerage and mutual fund sales are provided. Chesapeake Bank offers these and other financial services through an on-line office, 11 retail locations and 13 ATMs. Additional services include Touch Tone Teller, a 24-hour banking service, and Internet-based Online Banking, Internet Bill Pay and Easy Deposit (remote capture). Chesapeake Bank serves a market area in Eastern Virginia defined to the north by the Potomac River and to the south by the James River. The Bank has four offices in Williamsburg, two in Irvington, and one each in Gloucester, Hayes, Kilmarnock, Lively and Mathews. Chesapeake Financial Shares, Inc.'s common stock trades on the over-the-counter market under the symbol CPKF and is quoted in the Pink Sheets.

Another Solid Quarter for Chesapeake Financial Shares

Chesapeake continues to report solid earnings that exceed our projections. Despite the presence of security losses (some of which were other than temporary impairment charges) in the first quarter of 2010, earnings beat our earnings estimate by about 5%. The primary reason for the better than expected results has been the surge in net interest income, which has been stronger than we had anticipated. In fact, Chesapeake's results have exceeded our projections with some regularity over the past year, as the last time the Company reported results that were below estimates was a year-ago, as can be seen in the adjacent table. While we have consistently boosted our individual quarterly estimates (the bottom figures) each successive quarter, Chesapeake has consistently exceeded them. We attribute this to Chesapeake's ability to generate higher revenue and contain its expenses. Not surprisingly, we are increasing our projections at this point.

ACTUAL VS. ESTIMATED EPS (\$)					
	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Actual	0.33	0.41	0.53	0.47	0.42
Estimated	0.37	0.34	0.35	0.38	0.40

In terms of actual results for the quarter, net income was \$1,161,000, or \$0.42 per diluted share, for the first quarter of 2010, up 24% from \$934,000, or \$0.33 per diluted share, in the year-ago quarter. The earnings growth was achieved despite a \$266,000 loss on the sale of securities in 2010's first quarter, versus a gain of \$256,000 in the year-ago quarter, as well as a significant increase (\$92,000) in the provision for loan losses. As was stated above, the key driver of the earnings growth has been net interest income, which increased 33% to \$5.2 million in the first quarter of 2010 from \$3.9 million in the year-ago quarter. A good deal of this improvement was due to higher than normal rates being paid in the year-ago period on deposits from the Bank's web-based account service. Noninterest income, excluding the securities gains and losses, was essentially flat, though several components had strong increases. Additionally, the Company did a commendable job containing expenses. Noninterest expense increased a relatively modest 5% to \$6.4 million for the first quarter of 2009 from \$6.1 million

SYMBOL: CPKF

ASSETS: \$609 MM

HQ: KILMARNOCK, VA

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1ST QUARTER HIGHLIGHTS:

EPS WERE \$0.02 ABOVE PROJECTIONS

EPS: \$0.42 vs. \$0.33

NET INCOME GREW 24%, WHILE PRETAX INCOME BEFORE THE PROVISION AND SECURITIES GAINS/LOSSES INCREASED 79%

NET INTEREST INCOME INCREASED 33%

COST CONTAINMENT WAS STRONG AS WELL

NONINTEREST EXPENSE
DECREASED AS A PERCENTAGE
OF TOTAL ASSETS

in the year-ago quarter, but *decreased* 10% from \$7.1 million in 2009's fourth quarter, and also improved as a percentage of total assets (on an annualized basis) relative to both the year-ago quarter-basis and fourth quarter of 2009. Pretax income before the provision and securities gains and losses increased 79% to \$2.1 million in the first quarter of 2010 from \$1.2 million in the year-ago quarter.

NONINTEREST EXPENSE/AVG. ASSETS (\$ ANNUALIZED)				
Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
4.63	4.45	4.39	4.84	4.19

BALANCE SHEET GROWTH IS
LIKELY TO REMAIN
RELATIVELY CONTROLLED

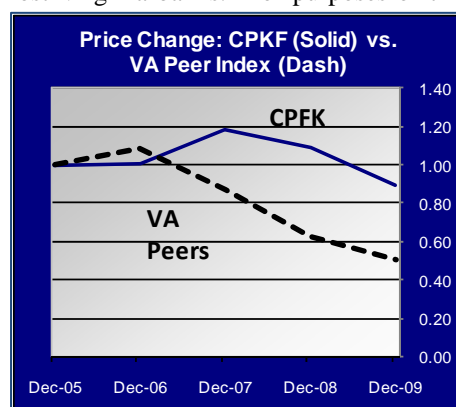
Balance Sheet Growth Remains Controlled, Which Puts Less Pressure on Capital

Balance sheet growth has remained relatively modest, which we expect to continue. This should put less pressure on capital ratios and ultimately allow for a more selective approach in terms of underwriting. Chesapeake never took any TARP funds, which could give it a longer-term (4 - 5 year) earnings advantage over banks that did take TARP and will eventually face higher costs on those funds. Shareholders' equity totaled \$37 million at March 31, 2010, and was 6.1% of total assets.

CPKF SHARES HAVE HELD UP
BETTER THAN MOST BANKS IN
THIS DOWNTURN

CPKF's Shareholder Value Preservation Has Been Much Better Than for Most VA Banks

Although the price of Chesapeake Financial Shares' stock has decreased modestly over the past five years, the shares have actually held up much better than most Virginia banks. For purposes of this analysis, we developed an index of 64 publicly traded Virginia banks and compared the median price change from the end of 2005 to the end of 2009. As can be seen from the adjacent chart, CPKF shares have traded at a relatively stable price over this period, compared to a far more dramatic drop for the median of the VA peer index. The overall index actually declined by 50% over this time period, whereas Chesapeake's shares only dropped by about 11%. What's more, nearly all the decline is offset when we include Chesapeake's cash dividends over the period. We attribute Chesapeake's strong record of shareholder value preservation to many factors, though the maintenance of strong asset quality is clearly one of the top ones. After all, in analyzing those bank stocks that dropped the most, they invariably had significant asset quality problems. This analysis also points to the value of investing in banks that pay dividends, as the cumulative dividends over the four year period amounted to roughly 10% of the implied original investment.



THE TYPICAL VIRGINIA BANK
LOST 50% OF ITS VALUE OVER
THIS TIME PERIOD

Asset Quality Remains Quite High

Although nonperforming assets increased at March 31, 2010 to \$9.0 million, or 1.48% of total assets, compared to \$1.5 million, or 0.30% of total assets, at the year-ago date, it is important to keep in mind that Chesapeake's asset quality ratios remain quite solid. In fact, the median ratio of NPAs-to-assets for the Company's VA peer group was 1.89% at the end of the first quarter of 2010, well above Chesapeake's figure. We would also note that Chesapeake's NPA increase was mainly due to two nonaccrual loans that were added to NPAs in the first quarter, one of which is in a work-out process and the other is well secured with no loss expected. At the same time, Chesapeake continues to build its reserves. The allowance for loan losses increased 13% to \$5.3 million, or 1.44% of loans, at March 31, 2010, from \$4.7 million, or 1.30% of loans, at the year-ago date.

NPAs/ASSETS: 1.48%

THE ALLOWANCE FOR LOAN
LOSSES GREW 13%

RESERVES/LOANS HFI: 1.44%

Projections Increased

Based on the better than expected performance, we are increasing our earnings estimate for 2010 to \$4.8 million, or \$1.76 per diluted share, up from \$4.7 million, or \$1.72 per diluted share, that we projected previously. For more information about Chesapeake Financial Shares, please visit the Company's web site at www.chesbank.com.

EPS:
2008A: \$1.60
2009A: \$1.77
2010E: \$1.76

ADDITIONAL INFORMATION UPON REQUEST

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