

Chesapeake Financial Shares, Inc.
Disclosure Statement
Rule 15c2-11(5) and Rule 144(c)(2)
Under the Securities Exchange Act of 1934

1. The exact name of the issuer and its predecessor (if any):

The exact name of the issuer is Chesapeake Financial Shares, Inc.

2. The address of the issuer's principal executive offices:

35 School Street, PO Box 1419
Kilmarnock, VA 22482
Telephone: 804.435.4200
Website: www.chesapeakefinancialshares.com

3. The state of incorporation:

The issuer is incorporated in Virginia

4. The exact title and class of the securities:

The issuer's securities are common stock (CPKF)

5. The par or stated value of the securities:

The par value of the issuer's common stock is \$5.00 per share

6. The number of shares or total amount of the securities outstanding as of the end of the issuer's most recent fiscal year:

There were 4,097,365 shares of common stock outstanding at December 31, 2018.

7. The name and address of the firm that facilitates stock purchases and sales:

Mrs. Rebecca Foster	Telephone:	804-435-4200
SVP, CFO, Corporate Secretary	Email:	bfoster@chesbank.com
Chesapeake Financial Shares, Inc.	Fax:	804-435-6535
35 School Street, P.O. Box 1419		
Kilmarnock, VA 22482		

8. The name and address of the stock transfer agent:

Continental Stock Transfer & Trust Company
1 State Street Plaza, 30th Floor
New York, NY 10004

9. The nature of the issuer's business:

The issuer is a one-bank holding company for Chesapeake Bank, a Virginia chartered commercial bank that was originally organized in 1900 and is based in Kilmarnock, VA. The holding company operates two subsidiaries, Chesapeake Bank and Chesapeake Wealth Management, Inc.

10. The nature of products or services offered:

As a financial institution, the issuer's bank subsidiary, Chesapeake Bank, provides a wide-range of loan and deposit products and services. The issuer's other subsidiary, Chesapeake Wealth Management, Inc., provides trust financial advice and services, including brokerage services, asset management, estate planning and retirement planning.

11. The nature and extent of the issuer's facilities:

The issuer's bank subsidiary, Chesapeake Bank, has 15 banking locations serving communities in the Northern Neck, Middle Peninsula, Peninsula and Richmond markets of Virginia. The issuer's other subsidiary, Chesapeake Wealth Management, Inc., offers a host of in-house investment, trust and fiduciary services with more than \$446 million in assets under management as of September 30, 2019.

12. The name of the Chief Executive Officer and members of the Board of Directors:

Mr. Jeffrey M. Szyperski, Chairman, President, Chief Executive Officer & Director
Mr. Douglas D. Monroe, Jr., Vice Chairman
Mr. R. Blaine Altaffer, Director
Mr. Eugene S. Hudnall, Jr., Director
Mr. John H. Hunt II, Director
Mr. Thomas E. Kellum, Director
Mr. Craig J. Kelly, Director
Mr. Bruce P. Robertson, Director
Mr. William F. Shumadine, Jr., Director
Mr. Robert J. Singley, Director
Mr. Thomas G. Tingle, Director

13. The issuer's most recent balance sheet and profit and loss and retained earnings statements:

See unaudited financial statements as of September 30, 2019 at the end of this document.

14. Similar financial information for the preceding fiscal year:

The financial statements that are referenced in Item 13 also contain comparative information as of September 30, 2019 and December 31, 2018 and for the for the last 9-month periods ended September 30, 2019 and September 30, 2018.

15. Whether the broker or dealer of any associated person is affiliated, directly or indirectly with the issuer:

N/A

16. Whether the quotation is being published or submitted on behalf of any other broker or dealer, and, if so, the name of such broker or dealer:

N/A

17. Whether the quotation is being submitted or published directly or indirectly on behalf of the issuer, or any director, officer or any person, directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the issuer, and, if so, the name of such person, and the basis for any exemption under the federal securities laws for any sales of such securities on behalf of such person:

N/A

Chesapeake Financial Shares, Inc.

**Condensed Consolidated Financial Report as of
September 30, 2019 and December 31, 2018
and
9-month periods ended
September 30, 2019 and September 30, 2018
(Unaudited)**



Consolidated Balance Sheet

Unaudited

	September 30, 2019	December 31, 2018									
Assets											
Cash and due from banks	\$38,627,085	\$48,467,586									
Federal funds sold	0	1,000									
Securities available for sale, at fair value	285,057,215	218,926,302									
Other equity investments, cost	1,996,300	1,933,400									
Loans held for sale	1,559,600	308,000									
Loans, net of allowance for loan losses of \$5,248,411 in 2019 and \$5,095,827 in 2018	533,621,132	506,203,879									
Cash management accounts, net of allowance of \$1,619,450 in 2019 and \$1,552,036 in 2018	29,895,957	32,884,399									
Bank premises and equipment, net	18,219,133	16,663,438									
Accrued interest receivable	3,458,605	3,558,153									
Foreclosed assets	3,707,720	2,708,399									
Bank-owned life insurance	20,695,552	14,797,610									
Other assets	6,856,361	8,314,254									
Total assets	\$943,694,660	\$854,766,420									
Liabilities and Shareholders' Equity											
Deposits											
Demand accounts	\$185,184,709	\$165,628,082									
Savings and interest-bearing demand deposits	409,571,481	360,662,903									
Certificates of deposits	228,979,172	222,890,463									
Total deposits	823,735,362	749,181,448									
Trust preferred capital notes	5,155,000	5,155,000									
Accrued interest payable	411,661	346,424									
Other liabilities	8,254,781	7,357,210									
Total liabilities	837,556,804	762,040,082									
Shareholders' equity											
Preferred stock, par value \$1 per share; authorized 50,000 shares; none outstanding	\$0	\$0									
Common stock, par value \$5 per share, voting	<table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">Sept 2019</th> <th style="text-align: right;">Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Shares authorized</td> <td style="text-align: right;">4,800,000</td> <td style="text-align: right;">4,800,000</td> </tr> <tr> <td>Shares outstanding</td> <td style="text-align: right;">4,110,567</td> <td style="text-align: right;">4,097,365</td> </tr> </tbody> </table>		Sept 2019	Dec 2018	Shares authorized	4,800,000	4,800,000	Shares outstanding	4,110,567	4,097,365	
	Sept 2019	Dec 2018									
Shares authorized	4,800,000	4,800,000									
Shares outstanding	4,110,567	4,097,365									
Common stock, par value \$5 per share, non-voting; authorized 635,000 shares; none outstanding	0	0									
Common stock distributable	4,109,850	0									
Additional paid in capital	19,459,102	1,849,887									
Accumulated other comprehensive income	8,408,713	2,206,406									
Retained earnings	53,746,666	68,333,385									
Total shareholders' equity	106,137,856	92,726,338									
Total liabilities and shareholders' equity	\$943,694,660	\$854,766,420									



Consolidated Statements of Income

Unaudited

	Nine Months Ended	
	September	
	2019	2018
Interest Income		
Interest and fees on loans	\$21,330,087	\$18,725,881
Interest on federal funds sold & deposits with other banks	696,999	110,171
Interest and dividends on securities available for sale	6,131,864	5,053,440
Total interest income	<u>\$28,158,950</u>	<u>\$23,889,491</u>
Interest Expense		
Interest on savings and interest bearing deposits	\$2,518,987	\$831,594
Interest on certificates of deposits	3,525,467	2,040,887
Other interest expense	187,044	437,204
Total interest expense	<u>\$6,231,499</u>	<u>\$3,309,684</u>
Net interest income	<u>\$21,927,451</u>	<u>\$20,579,808</u>
Provision for loan losses	524,997	474,997
Net interest income after provision for loan losses	<u>\$21,402,454</u>	<u>\$20,104,811</u>
Noninterest Income		
Income from fiduciary activities and wealth management	\$2,963,676	\$2,908,720
Service charges on deposit accounts	804,390	835,623
Securities gains, net	1,552,412	349,056
Merchant card income, net	3,334,381	3,247,322
ATM income	1,237,512	1,131,451
Cash management income	3,114,191	3,027,429
Other income	2,588,777	2,456,367
Total noninterest income	<u>\$15,595,340</u>	<u>\$13,955,968</u>
Noninterest Expense		
Salaries	\$12,076,150	\$11,181,543
Employee benefits	3,138,610	2,708,512
Occupancy expense	2,358,700	2,373,129
Loss on other real estate owned, net	231,469	15,877
ATM expense	662,101	534,538
Provision for cash management account losses	90,000	80,000
Other expense	7,480,476	6,930,238
Total noninterest expense	<u>\$26,037,505</u>	<u>\$23,823,838</u>
Income before income taxes	<u>\$10,960,288</u>	<u>\$10,236,939</u>
Income taxes	1,477,633	1,271,936
Net income	<u>\$9,482,655</u>	<u>\$8,965,003</u>
Earnings per share, basic*	\$1.923	\$1.827
Earnings per share, diluted*	\$1.906	\$1.800
Dividends per share	\$0.363	\$0.342

*On July 19, 2019, a 6-for-5 stock dividend was announced for shareholders of record on October 1, 2019. The stock dividend was paid on October 15, 2019. As a result, all earnings per share and dividend per share totals have been updated to reflect the stock dividend.



Consolidated Statements of Stockholders' Equity
 Periods ended September 30, 2019 and December 31, 2018
 Unaudited

	Common Stock, Voting	Common Stock Distributable	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	\$ 20,140,995	\$ --	\$ 1,516,257	\$ 60,062,597	\$ 5,042,173	\$ 86,762,022
Net income	--	--	--	10,819,960	--	10,819,960
Other comprehensive loss	--	--	--	--	(2,835,767)	(2,835,767)
Exercise of stock options	181,680	--	223,986	--	--	405,666
Vesting of restricted stock	112,920	--	(112,920)	--	--	--
Stock rewards surrendered in cashless exercise	(104,780)	--	(306,756)	(198,547)	--	(610,083)
Issuance of common stock for services	28,410	--	142,050	--	--	170,460
Repurchase of common stock	(22,565)	--	(11,203)	(101,002)	--	(134,770)
Stock-based compensation	--	--	398,473	--	--	398,473
Cash dividends (\$0.55 per share)	--	--	--	(2,249,623)	--	(2,249,623)
Balance, December 31, 2018	\$ 20,336,660	\$ --	\$ 1,849,887	\$ 68,333,385	\$ 2,206,406	\$ 92,726,338
Net income	--	--	--	9,482,655	--	9,482,655
Other comprehensive income	--	--	--	--	6,202,307	6,202,307
Reclassification due to right-of-use asset	--	--	--	(144,728)	--	(144,728)
Exercise of stock options	183,480	--	205,711	--	--	389,191
Vesting of restricted stock	82,230	--	(82,230)	--	--	--
Stock rewards surrendered in cashless exercise	(94,825)	--	(260,187)	(156,842)	--	(511,854)
Repurchase of common stock	(94,020)	--	(87,573)	(321,045)	--	(502,638)
Stock-based compensation	--	--	284,435	--	--	284,435
6-for-5 stock dividend	--	4,109,850	17,549,059	(21,658,909)	--	--
Cash dividends (\$0.363 per share)	--	--	--	(1,787,850)	--	(1,787,850)
Balance, September 30, 2019	\$ 20,413,525	\$ 4,109,850	\$ 19,459,102	\$ 53,746,666	\$ 8,408,713	\$ 106,137,856