

CHESAPEAKE FINANCIAL SHARES INC  
Form 10QSB  
November 13, 2002  
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**U. S. Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-QSB**

- x **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2002
- o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_
- Commission file number 0-18543

**CHESAPEAKE FINANCIAL SHARES, INC.**

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(Exact name of registrant as specified in its charter)

Virginia

54-1210845

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

97 N. Main St., Kilmarnock, VA

22482

(Address of principal executive offices)

(Zip Code)

(804) 435-1181

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

The number of shares outstanding of each of the issuer's classes of common stock as of November 1, 2002.

Class	Outstanding at November 1, 2002
Common Stock, voting, \$5.00 par value	1,284,198
Common Stock, non-voting, \$5.00 par value	0

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FORM 10-QSB

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Chesapeake Financial Shares, Inc.  
Consolidated Balance Sheets

	September 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 8,826,353	\$ 12,298,550
Federal funds sold	12,000,000	7,674,000
Securities available for sale		
U.S. Government agencies (book value of \$20,762,304 -2002 and \$17,700,819-2001)	21,253,377	17,965,367
Obligations of state and political subdivisions (book value of \$16,631,698-2002 and \$15,151,912-2001)	18,264,699	15,655,638
Other Securities (book value \$1,535,395-2002 and \$2,480,027-2001)	1,800,958	2,499,350
Loans	191,823,684	169,015,349
Less: Allowance for loan loss	(2,913,807)	(2,540,577)
Net loans	188,909,877	166,474,772
Bank premises and equipment, net	7,198,046	6,985,214
Accrued interest receivable	1,295,737	1,288,705
Business Manager Assets	16,445,959	10,882,704
Other assets	5,831,617	3,279,369
Total assets	\$ 281,826,623	\$ 245,003,669

See accompanying notes to consolidated financial statements.

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## PART I. FINANCIAL INFORMATION (cont d)

## Item 1. Financial Statements

Chesapeake Financial Shares, Inc.  
Consolidated Balance Sheets

	<b>September 30, 2002</b>		<b>December 31, 2001</b>	
	<b>(Unaudited)</b>			
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Deposits</b>				
Noninterest bearing deposits	\$	41,148,655	\$	33,592,404
Savings and interest bearing deposits		96,098,404		83,345,883
Certificates of deposit		107,446,522		94,879,030
<b>Total deposits</b>		<b>244,693,581</b>		<b>211,817,317</b>
Federal funds purchased and FHLB advances		10,973,399		10,000,000
Accrued interest payable		224,507		255,482
Other liabilities		1,497,561		1,564,010
Note payable		768,442		791,922
<b>Total liabilities</b>		<b>258,157,490</b>		<b>224,428,731</b>
<b>Commitments and contingent liabilities</b>				
<b>Stockholders' equity</b>				
Preferred stock, par value \$1 per share; authorized 50,000 shares; none outstanding		0		0
Common stock, voting, par value \$5		6,420,990		6,276,990
Common stock, non-voting		0		0
	<b>voting</b>		<b>non-voting</b>	
	<b>9/30/02</b>	<b>12/31/01</b>	<b>9/30/02</b>	<b>12/31/01</b>
Shares auth.	2,000,000	2,000,000	635,000	635,000
Shares o/s..	1,284,198	1,255,398	0	0
Paid in capital			310,383	229,948
Accumulated other comprehensive income			1,577,160	514,534
Retained earnings			15,360,600	13,553,466
<b>Total stockholders' equity</b>			<b>23,669,133</b>	<b>20,574,938</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$</b>		<b>281,826,623</b>	<b>\$ 245,003,669</b>

See accompanying notes to consolidated financial statements.

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## PART I. FINANCIAL INFORMATION (cont d)

## Item 1. Financial Statements

Chesapeake Financial Shares, Inc.  
Consolidated Statements of Earnings

	Three Months Ended	
	September 30, 2002	September 30, 2001
	(Unaudited)	
Interest Income		
Interest and fees on loans	\$ 3,419,689	\$ 3,572,992
Interest on federal funds sold	29,324	62,726
Interest on time deposits with banks	1,873	3,552
Interest on U.S. Agency Obligations	276,324	305,649
Interest on obligations of state and political subs	229,507	222,448
	<u>3,956,717</u>	<u>4,167,367</u>
Interest Expense		
Interest on savings and interest bearing deposits	328,757	429,597
Interest on certificates of deposit	919,786	1,330,744
Interest on federal funds purchased	62,518	62,926
Other interest expense	10,639	11,062
	<u>1,321,700</u>	<u>1,834,329</u>
Net interest income	2,635,017	2,333,038
Provision for loan losses	400,001	114,499
	<u>2,235,016</u>	<u>2,218,539</u>
Noninterest Income		
Income from fiduciary activities	475,113	395,578
Service charges on deposit accounts	239,657	210,339
Merchant card income	357,185	292,260
ATM income	91,561	74,885
Cash Management income	715,942	495,329
Other income	226,720	132,662
	<u>2,106,178</u>	<u>1,601,053</u>
Noninterest Expense		
Salaries	1,144,655	1,001,858
Employee benefits	285,976	261,759
Occupancy expenses	741,072	462,927
Merchant card expense	310,024	245,030
ATM expense	68,864	62,883
Cash management expense	175,397	192,543
Other expenses	553,210	653,837
	<u>3,279,198</u>	<u>2,880,837</u>

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Income before income taxes	1,061,996	938,755
Income taxes	242,305	247,892
<b>Net income</b>	<b>\$ 819,691</b>	<b>\$ 690,863</b>
Earnings per share, basic	\$ 0.64	\$ 0.56
Earnings per share, assuming dilution	\$ 0.62	\$ 0.54
Dividends per share	\$ 0.12	\$ 0.11

See accompanying notes to consolidated financial statements.

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PART I. FINANCIAL INFORMATION (cont d.)

Item 1. Financial Statements

Chesapeake Financial Shares, Inc.  
Consolidated Statement of Earnings

<b>Nine Months Ended</b>	
<b>September 30, 2002</b>	<b>September 30, 2001</b>