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CHESAPEAKE FINANCIAL SHARES INC
Form 10-Q
November 14, 2001

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, 2001

[] 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.

(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.)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 12, 13 or 15(d) of the Securities and Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's
classes of common stock as of November 1, 2001.

Class -----	Outstanding at November 1, 2001 -----
Common Stock, voting, \$5.00 par value	1,247,960
Common Stock, non-voting, \$5.00 par value	0

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CHESAPEAKE FINANCIAL SHARES, INC.

FORM 10-QSB

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PART I. Item 1. - FINANCIAL INFORMATION

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Chesapeake Financial Shares, Inc. Consolidated Balance Sheets	September 30, 2001	December 2000

ASSETS	(Unaudited)	
Cash and due from banks.....	\$ 10,190,552	\$ 8,965,
Federal funds sold.....	2,565,000	
Securities available for sale		
U.S. Government agencies (book value of \$18,226,219 -2001 and \$21,053,805-2000).....	19,669,468	21,167,
Obligations of state and political subdivisions (book value of \$14,692,998-2001 and \$15,110,437-2000).....	16,060,247	15,839,
Other Securities (book value \$2,294,661-2001 and \$2,551,294-2000).....	2,573,650	2,548,
Loans.....	164,497,104	158,455,
Less: Allowance for loan loss.....	(2,548,447)	(2,125,
Net loans.....	161,948,657	156,330,
Bank premises and equipment, net.....	5,446,450	5,580,
Accrued interest receivable.....	1,479,962	1,533,
Cash Management Assets, net of allowance for losses.....	10,774,439	9,209,
Other assets.....	3,294,606	3,037,
Total assets.....	\$234,003,031	\$224,212,
	=====	=====

See accompanying notes to consolidated financial statements. Page: 1

PART I. Item 1. - FINANCIAL INFORMATION

Chesapeake Financial Shares, Inc. Consolidated Balance Sheets	September 30, 2001	December 2000

LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)	
Deposits		
Noninterest bearing deposits.....	\$ 31,448,238	\$ 27,396
Savings and interest bearing deposits.....	77,229,714	64,744
Certificates of deposit.....	97,076,630	101,902
Total deposits.....	205,754,582	194,043
Federal funds purchased and FHLB advances.....	5,000,000	9,500
Accrued interest payable.....	275,907	397
Other liabilities.....	1,803,620	1,119
Note payable.....	799,536	821
Total liabilities.....	213,633,645	205,882
Commitments and contingent liabilities	0	

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Shareholders' equity

Preferred stock, par value \$1 per share; authorized 50,000 shares; none outstanding.....					0	
Common stock, voting, par value \$5.....					6,239,800	6,149
Common stock, non-voting.....					0	
		voting		non-voting		
	9/30/01	12/31/00		9/30/01	12/31/00	
	-----	-----		-----	-----	
Shares auth.	2,400,000	2,400,000		635,000	635,000	
Shares o/s..	1,247,960	1,229,840		0	0	
Paid in capital.....					172,771	153
Accumulated other comprehensive income.....					938,046	554
Retained earnings.....					13,018,769	11,473
					-----	-----
Total shareholders' equity.....					20,369,386	18,330
					-----	-----
Total liabilities and Shareholders' equity.....					\$234,003,031	\$224,212
					=====	=====

See accompanying notes to consolidated financial statements. Page: 2

PART I. Item 1. - FINANCIAL INFORMATION (cont'd.)

Chesapeake Financial Shares, Inc.
Consolidated Statements of Earnings

	Three Months Ended September 30,	
	2001	2000
	-----	-----
Interest Income	(Unaudited)	
Interest and fees on loans.....	\$3,572,992	\$3,411,800
Interest on federal funds sold.....	62,726	3,636
Interest on time deposits with banks.....	3,552	8,507
Interest on U.S. Agency Obligations.....	305,649	423,322
Interest on obligations of state and political subs.....	222,448	175,757
	-----	-----
Total interest income	4,167,367	4,023,022
	-----	-----
Interest Expense		
Interest on savings and interest bearing deposits.....	429,597	544,817
Interest on certificates of deposit.....	1,330,744	1,458,484
Interest on federal funds purchased.....	62,926	79,739
Other interest expense.....	11,062	11,463
	-----	-----
Total interest expense	1,834,329	2,094,503
	-----	-----
Net interest income.....	2,333,038	1,928,519
Provision for loan losses.....	114,499	88,874
	-----	-----
Net interest income after provision for loan losses.....	2,218,539	1,839,645
	-----	-----
Noninterest Income		

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Income from fiduciary activities.....	395,578	393,342
Service charges on deposit accounts.....	210,339	175,554
Merchant card income.....	292,260	348,199
ATM income.....	74,885	61,847
Cash Management income.....	495,329	362,813
Other income.....	132,662	142,055
	-----	-----
Total noninterest income	1,601,053	1,483,810
	-----	-----
Noninterest Expense		
Salaries.....	1,001,858	908,766
Employee benefits.....	261,759	174,418
Occupancy expenses.....	462,927	440,120
Merchant card expense.....	245,030	306,084
ATM expense.....	62,883	61,497
Cash management expense.....	192,543	195,109
Other expenses.....	653,837	450,672
	-----	-----
Total noninterest expense.....	2,880,837	2,536,666
	-----	-----
Income before income taxes.....	938,755	786,789
Income taxes.....	247,892	188,829
	-----	-----
Net income.....	\$ 690,863	\$ 597,960
	=====	=====
Earnings per share, basic.....	\$ 0.56	\$ 0.49
Earnings per share, assuming dilution.....	\$ 0.54	\$ 0.47

See accompanying notes to consolidated financial statements. Page: 3

PART I. Item 1. - FINANCIAL INFORMATION (cont'd.)

Chesapeake Financial Shares, Inc. Consolidated Statements of Earnings	Nine Months Ended September 30,	
	2001	2000
	-----	-----
Interest Income	(Unaudited)	
Interest and fees on loans.....	\$10,984,671	\$ 9,572,505
Interest on federal funds sold.....	92,743	5,696
Interest on time deposits with banks.....	17,815	17,383
Interest on U.S. Agency Obligations.....	989,697	1,216,472
Interest on obligations of state and political subs..	676,308	677,863
	-----	-----
Total interest income	12,761,234	11,489,919
	-----	-----
Interest Expense		
Interest on savings and interest bearing deposits....	1,340,103	1,649,686
Interest on certificates of deposit.....	4,329,292	3,694,562
Interest on federal funds purchased.....	291,039	309,816

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Other interest expense.....	33,493	30,784
	-----	-----
Total interest expense	5,993,927	5,684,848
	-----	-----
Net interest income.....	6,767,307	5,805,071
Provision for loan losses.....	437,165	269,122
	-----	-----
Net interest income after provision for loan losses..	6,330,142	5,535,949
	-----	-----
Noninterest Income		
Income from fiduciary activities.....	870,282	852,798
Service charges on deposit accounts.....	624,539	501,407
Security gains (losses) - net.....	(1,625)	0
Merchant card income.....	718,038	755,796
ATM income.....	199,629	176,197
Cash Management income.....	1,385,375	1,101,135
Other income.....	454,049	428,670
	-----	-----
Total noninterest income	4,250,287	3,816,003
	-----	-----
Noninterest Expense		
Salaries.....	2,977,367	2,628,831
Employee benefits.....	657,664	537,642
Occupancy expenses.....	1,319,815	1,213,333
Merchant card expense.....	632,077	680,426
ATM expense.....	180,527	180,760
Cash management expense.....	478,305	539,006
Other expenses.....	1,689,998	1,466,953
	-----	-----
Total noninterest expense.....	7,935,753	7,246,951
	-----	-----
Income before income taxes.....	2,644,676	2,105,001
Income taxes.....	688,958	505,200
	-----	-----
Net income.....	\$ 1,955,718	\$ 1,599,801
	=====	=====
Earnings per share, basic.....	\$ 1.58	\$ 1.30
Earnings per share, assuming dilution.....	\$ 1.54	\$ 1.26

See accompanying notes to consolidated financial statements. Page: 4

PART I. - FINANCIAL INFORMATION (cont'd.)

Chesapeake Financial Shares, Inc.
Consolidated Statements of Cash Flows

Nine Months Ended
September 30,
2001 2000

(Unaudited)

Cash flows from operating activities:

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Net income.....	\$ 1,955,718	\$ 1,599,801
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization.....	748,298	670,966
Provision for loan losses.....	437,165	269,122
Provision for cash management account losses.....	210,000	190,000
(Accretion) of discount and amortization of premiums, net.....	254,693	158,377
Net loss on sale of securities.....	1,625	0
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable.....	53,757	(204,406)
Decrease (increase) in other assets.....	(456,364)	(144,548)
Increase (decrease) in accrued interest payable.....	(121,337)	34,840
Increase (decrease) in other liabilities.....	684,023	209,496
	-----	-----
Net cash provided by (used for) operating activities.....	3,767,578	2,783,648
	-----	-----
Cash flows from investing activities:		
Purchases of securities available for sale.....	(2,124,323)	(3,001,715)
Proceeds from sale or call of securities available for sale.....	1,038,375	0
Proceeds from maturities of securities available for sale.....	2,664,709	3,406,732
Origination of loans available for sale.....	(8,817,380)	(1,698,360)
Proceeds from sale of loans available for sale.....	8,817,380	1,698,360
Net (increase) decrease in loans outstanding.....	(6,054,984)	(20,466,275)
Net (increase) decrease in Cash Management assets.....	(1,775,066)	658,311
Other capital expenditures.....	(614,339)	(889,887)
	-----	-----
Net cash provided by (used for) investing activities.....	(6,865,628)	(20,292,834)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in demand accounts, interest bearing demand deposit accounts and savings deposits.....	16,536,727	2,838,571
Net increase (decrease) in certificates of deposit.....	(4,825,941)	13,102,560
Net increase (decrease) in federal funds purchased.....	(4,500,000)	2,100,000
Cash dividends.....	(410,265)	(356,721)
Proceeds from issuance of voting common stock.....	119,000	110,790
Acquisition of voting common stock.....	(9,150)	(276,263)
Curtailement of long-term borrowings.....	(22,226)	(18,744)
	-----	-----
Net cash provided by (used for) financing activities.....	6,888,145	17,500,193
	-----	-----
Net (decrease) increase in cash and federal funds sold.....	3,790,095	(8,993)
Cash and federal funds sold at beginning of period.....	8,965,457	8,669,184
	-----	-----
Cash and federal funds sold at end of period.....	\$12,755,552	\$ 8,660,191
	=====	=====

See accompanying notes to consolidated financial statements. Page: 5

Consolidated Statement of Changes in Stockholder's Equity
Chesapeake Financial Shares, Inc.
Nine Months Ended September 30, 2000
(unaudited)

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	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (loss)
	-----	-----	-----	-----
Beginning balance	\$15,513,452		\$ 9,736,920	\$ (619,848)
Comprehensive Income:				
Net Income	1,599,801	\$ 1,599,801	1,599,801	
Other comprehensive income, net of tax:				
Unrealized gain on securities available for sale, net of deferred taxes of \$277,290	538,269	538,269		538,269
	-----	-----		-----
Total comprehensive income, net of tax:		\$ 2,138,070		
		=====		
Acquisition of common stock	(276,263)			
Issuance of common stock	110,790			
Dividends declared	(356,721)		(356,721)	
	-----		-----	
Ending balance	\$17,129,328		\$10,980,000	\$ (81,579)
	=====		=====	=====

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Consolidated Statement of Changes in Stockholder's Equity
Chesapeake Financial Shares, Inc.
Nine Months Ended September 30, 2001
(unaudited)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (loss)
	-----	-----	-----	-----
Beginning balance	\$18,330,317		\$11,473,316	\$ 554,280
Comprehensive Income:				
Net Income	1,955,718	\$ 1,955,718	1,955,718	
Other comprehensive income, net of tax:				
Unrealized gain on securities available for sale, net of deferred taxes of \$197,145	382,693	382,693		382,693
Add: reclassification				

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adjustment, net of income	1,073	1,073		1,073
taxes of \$552	-----	-----		-----
 Total comprehensive income, net of tax:		 \$ 2,339,484		 =====
 Acquisition of common stock	 (9,150)			
Issuance of common stock	119,000			
Dividends declared	(410,265)		(410,265)	-----
	-----		-----	-----
 Ending balance	 \$20,369,386		\$13,018,769	\$ 938,046
	=====		=====	=====

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PART I. Item 1. - FINANCIAL INFORMATION (cont'd.) 9/01-10QSB

Chesapeake Financial Shares, Inc.

Notes to Consolidated Financial Statements

1. Chesapeake Financial Shares, Inc. ("CFS") is a Virginia based financial services holding company which traces its roots to a national bank founded in Irvington, Virginia in 1900. The Company has two operating subsidiaries, Chesapeake Bank (the "Bank"), which constitutes the majority of its business activity, and Chesapeake Investment Group, Inc., an entity that has as its subsidiaries, Chesapeake Financial Group, Inc., Chesapeake Insurance Agency, Inc., d/b/a Chesapeake Investment Services, and Chesapeake Trust Company, Inc. Chesapeake Bank also is the 100% owner of CNB Properties, Inc. The consolidated financial statements include the accounts of CFS and its wholly owned subsidiaries. All significant intercompany accounts have been eliminated.

2. The accounting and reporting policies of the registrant conform to generally accepted accounting principles and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included.

The results of operations for the three and nine months ended September 30, 2001 are not necessarily indicative of the results expected for the full year. These financial statements should be read in conjunction with the financial statements and the footnotes included in the registrant's 2000 Annual Report to Shareholders.

3. The following data shows the amounts used in computing earnings per share and the effect on the weighted average number of shares of potential dilutive common stock. The potential common stock will not have a significant impact on net income.

	September 30, 2001	September 30, 2000
	-----	-----
Weighted average number of common shares, basic	1,241,171	1,229,019

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Effect of dilutive stock options	30,718	39,440
	-----	-----
Weighted number of common shares and dilutive potential common stock used in diluted EPS	1,271,889	1,268,459
	=====	=====

4. Recent accounting pronouncements

In July 2001, the Financial Accounting Standards Board issued two statements - Statement 141, Business Combinations, and Statement 142, Goodwill and Other Intangible Assets, which will potentially impact the accounting for goodwill and other intangible assets. Statement 141 eliminates the pooling method of accounting for business combinations and requires that intangible assets that meet certain criteria be reported separately from goodwill. The Statement also requires negative goodwill arising from a business combination to be recorded as an extraordinary gain. Statement 142 eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life. The Statement requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life.

Upon adoption of these Statements, an organization is required to re-evaluate goodwill and other intangible assets that arose from business combinations entered into before July 1, 2001. If the recorded other intangible assets do not meet the criteria for recognition, they should be classified as goodwill. Similarly, if there are other intangible assets that meet the criteria for recognition but were not separately recorded from goodwill, they should be reclassified from goodwill. An organization also must reassess the useful lives of intangible assets and adjust the remaining amortization periods accordingly. Any negative goodwill must be written off.

The standards generally are required to be implemented by the Company in its 2002 financial statements. The adoption of these statements will not have a material impact on the financial statements of the Company.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 9/01-10QSB

Chesapeake Financial Shares, Inc.

Management's Discussion and Analysis of Financial

Condition or Plan of Operation

(Unaudited)

A. Summary - liquidity and capital resources

Sufficient short-term assets are maintained at Chesapeake Financial Shares to meet cash needs anticipated by management. Management's primary sources of liquidity continue to be federal funds sold, short term borrowings from Federal Home Loan Bank Atlanta, securities maturing within one year, and principal payments from mortgage securities. The repayment and sale of loans also provides liquidity. The total of federal funds sold, securities maturing within one year, and estimated principal payments on mortgage-backed securities within one year at September 30, 2001 was approximately \$10,705,000, compared to \$4,731,000 one year ago and \$4,034,000 at December 31, 2000.

The liquidity ratio at September 30, 2001 was 19.2%, compared with 23.3% one year ago. This ratio is arrived at by dividing net liquid assets (sum of total Cash and Due from Banks, including Federal Reserve, unpledged and over pledged portions of Investment Securities at market value, and federal funds sold less reserves required at the Federal Reserve Bank) by net liabilities

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(total liabilities excluding valuation reserves and capital). Management has found in the past that 18% represents a sufficient level of liquidity to meet cash needs. Lower asset liquidity ratios are to be expected as management has positioned the Company to be more liability liquid to meet the demand for scarce deposits in the current market environment.

Management believes capital is adequate to meet current needs. Unencumbered capital (total capital net of accumulated other comprehensive income less intangibles plus reserves) as a percent of total adjusted assets (total assets less intangibles plus reserves) was 9.3% at September 30, 2001 and 8.7% at December 31, 2000, for CFS.

Chesapeake Financial Shares and Chesapeake Bank must have a ratio of Tier 1 capital (common equity, retained earnings less certain goodwill) to risk-adjusted assets of at least 4.0%. At September 30, 2001 and December 31, 2000 the consolidated ratio of Tier 1 risk-based capital to risk-adjusted assets was 10.3% and 9.1%, respectively. Total risk-based capital to risk weighted assets was 11.5% and 10.3% at September 30, 2001 and December 31, 2000, respectively. Tier one leverage capital was 8.3% and 7.6% at September 30, 2001 and December 31, 2000, respectively.

During the first quarter of 2002, the Bank expects to open a new office in an existing market, Gloucester County, Virginia. Funding for this office will come from existing capital reserves and general operations.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 9/01-10QSB

Chesapeake Financial Shares, Inc.

Management's Discussion and Analysis of Financial

Condition or Plan of Operation

(Unaudited)

B. Results of operations:

Earnings Summary:

Net income was \$1,955,718 for the nine months ended September 30, 2001, compared with income of \$1,599,801 for the same period in 2000. On a fully diluted per share basis, the net income was \$1.54 for the first nine months of 2001. Fully diluted earnings per share for the first nine months of 2000 were \$1.26. Net interest income before provision increased to \$6,767,307 for the nine months ended September 30, 2001, a 16.6% increase and noninterest income increased to \$4,250,287, an 11.4% increase for the same period. The Company experienced a net increase in noninterest expense (which includes other expense) of \$688,802 or 9.5%.

Net Interest Income:

Chesapeake Financial Shares' results of operation are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest-earning assets and interest-bearing liabilities. At September 30, 2001, the Company's interest-earning assets exceeded its interest-bearing liabilities by approximately \$34.7 million, compared with a \$29.8 million excess one year ago.

Net interest margins are 4.73% at September 30, 2001 compared to 4.43% at September 30, 2000. Margins had generally improved through the first quarter of 2000, but since then compression of margins actually occurred as short term rates continued upward, creating a flat yield curve through the end of 2000 and

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the competition with the brokerage firms for deposits through the last quarter of 2000 intensified. In the current falling rate environment of 2001 and steepening of the yield curve, management expects margins to improve slightly during the balance of the year due to higher priced deposits maturing in this lower rate environment. However, management believes margins will compress during 2002 due to assets repricing in this low rate environment.

There has been reasonable growth in deposits in all trade areas of the bank and total deposits increased 6.0% since December 31, 2000 and 7.9% from one year ago. Total certificates of deposit have increased 3.8% from one year ago, but are down 4.7% from December 31, 2000.

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PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 9/01-10QSB
Chesapeake Financial Shares, Inc.
Management's Discussion and Analysis of Financial
Condition or Plan of Operation (Unaudited)

Provision for Loan Losses:

The loan loss provision is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the credit quality and risk adverseness of the portfolio. Management makes a quarterly evaluation as to the adequacy of the current loan loss reserve. Management's detailed analysis as of September 30, 2001 supports the adequacy of the current loan loss level of \$2.5 million.

Chesapeake Bank's management maintains a reserve for loan loss that they feel represents a conservative estimate of potential losses in the Bank's loan portfolio. The methodology incorporates subjective factors into the evaluation of the adequacy of the ALLL such as:

- The effect of volume and trends in delinquencies and nonaccrual loans.
- The effect of trends in portfolio volume, maturity, and composition.
- An estimate of future loss on all significant loans and assessment of underwriting and lending policies and procedures including those for charge off, collection and recovery.
- Experience, ability and depth of lending management and staff.
- The effect of national and local economic conditions and downturns in specific industries.
- Concentrations of credit that might affect loss experience across one or more components of the portfolio.
- The results of any independent reviews of the portfolio.

Noninterest Income:

Noninterest income is up 11.4% or \$434,284 from the same period last year. Chesapeake Bank's Cash Management product generated \$1,385,375 in gross revenue for the first nine months ended September 30, 2001, compared to the same period last year of \$1,101,135. Managed assets in the Cash Management program were \$11,199,573 at September 30, 2001, and \$8,272,850 at September 30, 2000. Service Charges on deposit accounts were up 24.6%, or \$123,132, from one year ago due to increased account volume.

The Other Income category was \$454,049, up 5.9%, or \$25,379 from one year ago.

PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 9/01-10QSB
 Chesapeake Financial Shares, Inc.
 Management's Discussion and Analysis of Financial
 Condition or Plan of Operation (Unaudited)

 Noninterest Expenses:

Employee salary expense amounted to \$2,977,367 and \$2,628,831 for the nine months ended September 30, 2001 and 2000, respectively. Benefits expense is up 22.3% or \$120,022 from September 30, 2000. These increases are directly related to new hires and increases for existing staff. Occupancy expenses were up \$106,482 or 8.8% from the same period one year ago due to general increases in prices of services used by the Bank.

Cash Management expense was \$478,305 for the nine months ended September 30, 2001, down 11.3% from the same period one year ago. This decrease is mainly due to the timing of expense receipts related to the business activity and reduced costs of services.

PART I. Item 2. - FINANCIAL INFORMATION (cont'd.) 9/01-10QSB
 Chesapeake Financial Shares, Inc.
 Management's Discussion and Analysis of Financial
 Condition or Plan of Operation (Unaudited)

 Assets and Loans:

At September 30, 2001, Chesapeake Financial Shares had total assets of \$ 234.0 million, up 4.4% from \$224.2 million at December 31, 2000 and up 7.7% from \$217.3 million of one year ago. Management has budgeted a 7.0% growth in total assets for 2001.

Total loans (gross) at September 30, 2001 were \$164.5 million, representing an increase of 3.8% from December 31, 2000, when loans were \$158.5 million. Chesapeake Bank's loan quality is good as the following table shows. Management is confident that no serious delinquency trends are developing.

	9/30/01	12/31/00
	-----	-----
Nonaccrual loans	\$1,019,077	\$ 562,813
90 days past due	166,905	28,234
Restructured loans	0	0
	-----	-----
Totals	\$1,185,982	\$ 591,047

Management is also confident there will be no loss incurred as the Bank is well secured on these assets. There are no impaired loans outstanding at the end of either period.

Charged off loans through September 30, 2001, amounted to \$26,759 and charged off loans through September 30, 2000, were \$131,072. Recoveries through September 30, 2001 were \$13,019 as compared to \$2,676 as of September 30, 2000.

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Concentrations of credit in loans are compiled quarterly by management and reviewed with the Board of Director's Loan Review Committee. There have been no material changes in the concentrations of credit within the past three months that would warrant above average additions to the reserve. The Bank's only concentrations of credit greater than 70% of capital are individual consumer loans (224% of capital). Bank management feels that the current levels are consistent with the objectives of the Bank and do not represent unwarranted risk.

The Bank's Other Real Estate Owned (OREO) portfolio currently has two properties with a total carrying value of \$55,000. Bank management is currently marketing these properties. The Bank also has one repossessed asset valued at \$395.

Deposits:

Deposits were \$ 205.8 million at September 30, 2001 and \$194.0 million at December 31, 2000. Deposits were \$190.8 million at September 30, 2000. The Bank's mix of deposit dollars has changed from September 30, 2000 with net increases in all categories. However, there have been greater increases in transaction accounts than certificates of deposit. It is management's opinion that this trend will continue in the current economic and interest rate environment.

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PART II. Item 1. - OTHER INFORMATION 9/01-10QSB
Chesapeake Financial Shares, Inc.
Legal Proceedings

None to report

PART II. Item 2. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Changes in Securities

None to report.

PART II. Item 3. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Default Upon Senior Securities

None to report.

PART II. Item 4. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Submission of Matters to a Vote of Security Holders

None to report.

PART II. Item 5. - OTHER INFORMATION
Chesapeake Financial Shares, Inc.
Other Information

During the fourth quarter of 2000, the Company satisfactorily completed a Combined Safety and Soundness Examination performed by the Federal Reserve Bank of Richmond. As of December 2000, the Bank and the Company satisfactorily completed a Transfer Agent Examination, also performed by the

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Federal Reserve Bank. As a result of these examinations management is not aware of any current recommendations of the regulatory authorities, which, if they were implemented, would have a material effect on liquidity, capital resources, or operations of the Bank or Holding Company.

Forward-Looking Statements: The foregoing discussion may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to the plans, objectives, future performance and business of the Company. These forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) competitive pressure in the banking industry increases significantly; (2) changes in the interest rate environment reduce margins; (3) general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) changes in business conditions, impacting, among others, the Company's customers and vendors; and (6) changes in the securities market.

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PART II. Item 6. - OTHER INFORMATION 9/01-10QSB

Chesapeake Financial Shares, Inc.

Exhibits and Reports on Form 8-K

(Unaudited)

(a)	Exhibit 2	Plan of acquisition, reorganization, arrangement, liquidation or succession	N/A
	Exhibit 4	Instruments defining the rights of security holders, including indentures	N/A
	Exhibit 10	Material contracts	N/A
	Exhibit 11	Statement re: computation of earnings per share	See Part 1, Item 1, Note 3 of this Form 10-QSB
	Exhibit 15	Letter re: unaudited interim financial information	N/A
	Exhibit 18	Letter re: change in accounting principles	N/A
	Exhibit 19	Report furnished to security holders	N/A
	Exhibit 22	Published report regarding matters submitted to vote of security holders	Previously Filed
	Exhibit 23	Consents of experts and counsel	N/A
	Exhibit 24	Power of attorney	N/A
	Exhibit 99	Additional exhibits	N/A

(b) No filings were made on Form 8-K for the period.

SIGNATURES

Chesapeake Financial Shares, Inc.

SEC 10-QSB 9/01

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chesapeake Financial Shares, Inc.

(Registrant)

11/08/01

(Date)

/s/ Douglas D. Monroe, Jr.

(Signature)

Douglas D. Monroe, Jr.
Chairman and Chief Executive Officer

11/08/01

(Date)

/s/ John H. Hunt, II

(Signature)

John H. Hunt, II
Secretary and Chief Financial Officer