

Chesapeake Financial Shares, Inc.
Consolidated Balance Sheets

September 30
2004

December 31,
2003

ASSETS		(Unaudited)	
Cash and due from banks.....		\$ 13,910,875	\$ 16,157,496
Federal funds sold.....		0	0
Securities available for sale			
U.S. Government agencies(book value of \$37,838,591			
-2004 and \$47,206,692-2003).....		38,119,968	47,589,166
Obligations of state and political subdivisions			
(book value of \$23,151,053-2004 and \$22,367,089			
-2003).....		25,022,756	24,125,095
Other Debt Securities(book value \$504,554-2004 and			
\$1,534,971-2003).....		626,348	1,883,185
Loans.....		248,271,545	217,582,533
Less: Reserve for loan loss.....		(3,087,118)	(2,631,043)
Net loans.....		245,184,427	214,951,490
Bank premises and equipment, net.....		8,707,401	8,136,072
Accrued interest receivable.....		1,424,194	1,441,495
Business Manager Assets.....		14,542,311	11,519,102
Other assets.....		6,586,691	6,621,040
Total assets.....		\$ 354,124,971	\$ 332,424,141
LIABILITIES AND SHAREHOLDERS' EQUITY		(Unaudited)	
Deposits			
Noninterest bearing deposits.....		62,695,564	54,022,141
Savings and interest bearing deposits.....		123,201,359	121,302,850
Certificates of deposit.....		113,105,062	114,567,302
Total deposits.....		299,001,985	289,892,293
Federal funds purchased.....		10,507,000	5,000,000
Accrued interest payable.....		292,179	295,754
Other liabilities.....		7,499,917	1,393,647
Note payable.....		10,700,895	11,632,226
Total liabilities.....		328,001,976	308,213,920
Commitments			
Shareholders' equity			
Preferred stock, par value \$1 per share;			
authorized 50,000 shares; none outstanding		0	0
Common stock, voting.....		6,016,175	5,961,105
Common stock, non-voting.....		0	0
voting			
9/30/04	12/31/03	non-voting	
9/30/04	12/31/03	9/30/04	12/31/03
Shares auth..	2,400,000	2,400,000	635,000
Shares o/s...	1,203,235	1,192,221	0
Paid in capital.....			73,927
Unrealized gains (losses) on securities available			
for sale.....		1,501,417	1,642,538
Retained earnings.....		18,605,403	16,532,651
Total shareholders' equity.....		26,122,995	24,210,221
Total liabilities and shareholders' equity.....		\$ 354,124,971	\$ 332,424,141

See accompanying notes to consolidated financial statements.

Chesapeake Financial Shares, Inc.
Consolidated Statements of Earnings

Three Months Ended
September 30,
2004 2003

Interest Income	(Unaudited)	
Interest and fees on loans.....	\$ 3,735,030	\$ 3,740,926
Interest on federal funds sold.....	5,342	15,537
Interest on time deposits with banks.....	2,397	928
Interest on obligations of U.S. Agency Obligations....	259,997	57,194
Interest on obligations of state and political subs...	288,745	283,373
Total interest income	<u>4,291,511</u>	<u>4,097,958</u>
Interest Expense		
Interest on savings and interest bearing deposits.....	199,862	230,698
Interest on certificates of deposit.....	677,633	718,569
Interest on federal funds purchased.....	20,335	57,714
Other interest expense.....	88,171	119,846
Total interest expense	<u>986,001</u>	<u>1,126,827</u>
Net interest income.....	3,305,510	2,971,131
Provision for loan losses.....	290,001	350,000
Net interest income after provision for loan losses...	<u>3,015,509</u>	<u>2,621,131</u>
Noninterest Income		
Income from fiduciary activities.....	446,746	443,817
Service charges on deposit accounts.....	238,008	255,445
Securities gains (losses)-net.....	1,191	0
Merchant card income.....	491,696	421,792
ATM income.....	131,359	103,337
Business manager income.....	580,583	542,425
Other income.....	289,737	295,551
Total noninterest income.....	<u>2,179,320</u>	<u>2,062,367</u>
Noninterest Expense		
Salaries.....	1,532,147	1,388,149
Employee benefits.....	424,181	333,364
Occupancy expenses.....	605,699	546,693
Merchant card expense.....	305,173	363,398
ATM expense.....	101,090	83,738
Business manager expense.....	114,261	182,146
Other expenses.....	834,540	650,869
Total noninterest expense.....	<u>3,917,091</u>	<u>3,548,357</u>
Income before income taxes.....	1,277,738	1,135,141
Income taxes.....	301,312	288,278
Net income.....	<u>\$ 976,426</u>	<u>\$ 846,863</u>
Earnings per share, primary.....	\$ 0.81	\$ 0.71
Earnings per share, assuming dilution.....	\$ 0.79	\$ 0.70
Dividends per share	\$ 0.17	\$ 0.14

See accompanying notes to consolidated financial statements.

Chesapeake Financial Shares, Inc.
Consolidated Statements of Earnings

Nine Months Ended
September 30,
2004 2003

Interest Income	(Unaudited)	
Interest and fees on loans.....	\$ 11,078,347	\$ 10,927,547
Interest on federal funds sold.....	6,677	27,374
Interest on time deposits with banks.....	4,803	2,582
Interest on obligations of U.S. Agency Obligations....	907,741	472,610
Interest on obligations of state and political subs...	862,165	840,402
 Total interest income	 <u>12,859,733</u>	 <u>12,270,515</u>
 Interest Expense		
Interest on savings and interest bearing deposits.....	545,150	781,070
Interest on certificates of deposit.....	1,954,733	2,264,663
Interest on federal funds purchased.....	61,265	136,146
Other interest expense.....	582,086	390,160
 Total interest expense	 <u>3,143,234</u>	 <u>3,572,039</u>
Net interest income.....	9,716,499	8,698,476
Provision for loan loss.....	780,003	660,000
 Net interest income after provision for loan losses...	 <u>8,936,496</u>	 <u>8,038,476</u>
 Non-interest Income		
Income from fiduciary activities.....	995,600	961,770
Service charges on deposit accounts.....	738,358	773,921
Securities gains (losses)-net.....	275,315	0
Merchant card income.....	1,252,304	1,020,087
ATM income.....	365,347	308,151
Business manager income.....	1,581,500	1,834,069
Other income.....	858,908	790,221
 Total non-interest income.....	 <u>6,067,332</u>	 <u>5,688,219</u>
 Non-interest Expense		
Salaries	4,463,893	3,872,562
Employee Benefits.....	1,210,349	962,339
Occupancy expenses.....	1,757,853	1,646,501
Merchant card expense.....	920,183	884,954
ATM expense.....	295,808	240,202
Business manager expense.....	325,754	618,618
Other expenses.....	2,708,245	2,081,740
 Total non-interest expense.....	 <u>11,682,085</u>	 <u>10,306,916</u>
Income before income taxes.....	3,321,743	3,419,779
Applicable income taxes.....	810,557	868,296
 Net income.....	 <u>\$ 2,511,186</u>	 <u>\$ 2,551,483</u>
 Earnings per share, primary.....	 \$ 2.09	 \$ 2.11
Earnings per share, assuming dilution.....	\$ 2.04	\$ 2.07
Dividends per share	\$ 0.50	\$ 0.41

See accompanying notes to consolidated financial statements.

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