Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Michael Macielag
Name of the Holding Company Director and Official

Trustee
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

05/03/2017
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions
Legal Title of Holding Company

245 High St
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Chestertown	MD	21620

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Kara Wehmueller	Controller

410/778-1600
Area Code / Phone Number / Extension

443/282-0137
Area Code / FAX Number

kwehmueller@chesapeaketrust.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? (0=No, 1=Yes) 0

In accordance with the General Instructions for this report (check only one),

1. **a letter justifying this request is being provided along with the report** ☐
2. **a letter justifying this request has been provided separately** ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Chesapeake Bancorp
Legal Title of Subsidiary Holding Company

245 High St
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Chestertown	MD	21620

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Form FR Y-6

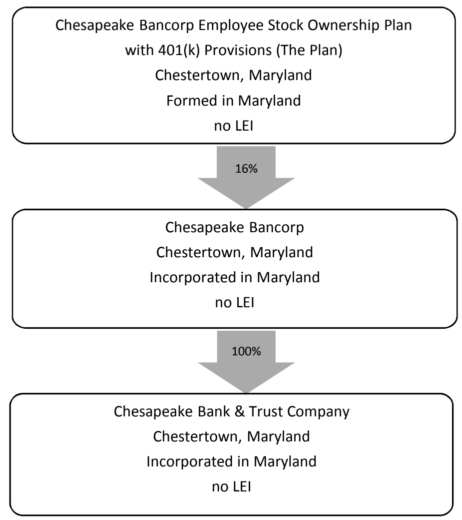
Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2016

Report Item

1:

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions does not prepare an annual report for its shareholders. Cheaspeake Bancorp prepares an annual report for its shareholders and is not registered with the SEC. A copy of the annual report is attached.

2a: Organizational Chart



2b: Domestic branch listing included and submitted via email to the Federal Reserve Bank on 02/16/2017.

Form FR Y-6

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2016

Results: A list of branches for your holding company: **CHESAPEAKE BANCORP EMPLOYEE STOCK OWNERSHIP PLAN WITH 401(K) PROVISIONS (2857758) of CHESTERTOWN, MD.**
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	304520	CHESAPEAKE BANK & TRUST COMPANY	245 HIGH STREET	CHESTERTOWN	MD	21620	KENT	UNITED STATES	36091	0	CHESAPEAKE BANK & TRUST COMPANY	304520	
Change	1/1/2016	Full Service	306627	CHESTERTOWN DRIVE-IN BRANCH	301 MORGNEC ROAD	CHESTERTOWN	MD	21620	KENT	UNITED STATES	204397	3	CHESAPEAKE BANK & TRUST COMPANY	304520	
Add	1/1/2016	Limited Service		HERON POINT BRANCH	501 E CAMPUS AVE	CHESTERTOWN	MD	21620	KENT	UNITED STATES			CHESAPEAKE BANK & TRUST COMPANY	304520	

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Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1)(a)	(1)(b)	(1)(c)	(2)(a)	(2)(b)	(2)(c)
Name City, State/Country	Country of Citizenship or Incorporation	Number and Percentage of Each Class of Voting Securities	Name City, State/Country	Country of Citizenship or Incorporation	Number and Percentage of Each Class of Voting Securities
Richard L. Coffman Chestertown, MD USA	USA	32,113 - 51% Beneficially Owned	N/A	N/A	N/A
R. Franklin Dulin Chestertown, MD USA	USA	18,087 - 28% Beneficially Owned			
Robert H. Thompson Chestertown, MD USA	USA	4,113 - 7% Beneficially Owned			

"On all matters for which a shareholder vote is provided, each Participant and Beneficiary of a deceased Participant shall, as designated fiduciaries for purposes of ERISA, have the right to exercise the voting and proxy rights with respect to all shares of Company Stock which are allocated to the account of the Participant or Beneficiary, as applicable. If the Trustee does not timely receive voting or proxy directions from a Participant or Beneficiary with respect to any Company Stock allocated to that Participant's or Beneficiary's Company Stock Account, the Trustee shall not vote or exercise proxy rights with respect to such shares of Company Stock. The Trustee shall have the right to vote or exercise proxy rights with respect to all shares of Company Stock held by it as part of the Plan assets which are not allocated to the Plan account of a Participant or Beneficiary."

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Chesapeake Bancorp
Chestertown, Maryland
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1)(a)	(1)(b)	(1)(c)	(2)(a)	(2)(b)	(2)(c)
Name City, State/Country	Country of Citizenship or Incorporation	Number and Percentage of Each Class of Voting Securities	Name City, State/Country	Country of Citizenship or Incorporation	Number and Percentage of Each Class of Voting Securities
Betty Brown Casey Trust Betty Brown Casey - Trustee Rockville, MD USA	USA	23,708 - 6% Common Stock	N/A	N/A	N/A
Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions Chestertown, MD USA	USA	63,169 - 16% Common Stock			
Richard L. Coffman Chestertown, MD USA	USA	3,800 - 1% Common Stock 32,113 - 8% Beneficially Owned			
Michael Macielag West Palm Beach, FL USA	USA	132,716 - 34% Common Stock			
Michael M. Messix Chestertown, MD USA	USA	20,680 - 5% Common Stock			

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Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name, City, State/Country	Principal Occupation if other than with Holding Company	Title/Position with Holding Company	Title/Position with Subsidiaries (including name of Subsidiary)	Title/Position with Other Companies (including names of Other Companies)	Percentage of Voting Securities in Holding Company	Percentage of Voting Securities in Subsidiaries (including names of Subsidiaries)	Percentage of Voting Securities/Interest in Other Companies if 25% or more (including names of companies and percentage held)
Richard L. Coffman Chestertown, MD USA	Retired	Trustee	Director (Chesapeake Bancorp), Director (Chesapeake Bank & Trust)	N/A	51%	1% Owned, 8% Beneficially Owned (Chesapeake Bancorp)	N/A
R. Franklin Dulin Chestertown, MD USA	Retired	N/A	N/A	N/A	28%	4% Beneficially Owned (Chesapeake Bancorp)	N/A
Michael Macielag West Palm Beach, FL USA	Retired	Trustee	Chairman (Chesapeake Bancorp), Chairman (Chesapeake Bank & Trust)	N/A	0%	34% (Chesapeake Bancorp)	N/A
M. Patricia Stanley Havre de Grace, MD USA	N/A	Administrator	Senior VP, CFO, Treasurer, & Secretary (Chesapeake Bancorp); Senior VP, CFO, Treasurer, & Secretary (Chesapeake Bank & Trust)	N/A	1%	1% Beneficially Owned (Chesapeake Bancorp)	N/A
Kara L. Wehmueller Millington, MD USA	N/A	Administrator	Controller (Chesapeake Bank & Trust)	N/A	1%	1% Beneficially Owned (Chesapeake Bancorp)	N/A
Glenn L. Wilson Chestertown, MD USA	N/A	Administrator	President, CEO, & Director (Chesapeake Bancorp); President, CEO, & Director (Chesapeake Bank & Trust)	Director (Sultana Education Foundation Inc.), Director (United Way of Kent County)	1%	1% Owned, 1% Beneficially Owned (Chesapeake Bancorp)	N/A

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Chesapeake Bancorp
Chestertown, Maryland
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name, City, State/Country	Principal Occupation if other than with Holding Company	Title/Position with Holding Company	Title/Position with Subsidiaries (including name of Subsidiary)	Title/Position with Other Companies (including names of Other Companies)	Percentage of Voting Securities in Holding Company	Percentage of Voting Securities in Subsidiaries (including names of Subsidiaries)	Percentage of Voting Securities/Interest in Other Companies if 25% or more (including names of companies and percentage held)
Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions Chestertown, MD USA	N/A	N/A	N/A	N/A	16%	N/A	N/A
Richard L. Coffman Chestertown, MD USA	Retired	Director	Director (Chesapeake Bank & Trust)	N/A	1% Owned, 8% Beneficially Owned	N/A	N/A
William R. Kirk, Jr. Chestertown, MD USA	Retired	Director	Director (Chesapeake Bank & Trust)	N/A	2%	N/A	N/A
Mirna L. Lopez Boyds, MD USA	Financial Management	Director	N/A	Vice President (Casey Management Inc.)	N/A	N/A	N/A
Michael Macielag West Palm Beach, FL USA	Retired	Chairman	Director (Chesapeake Bank & Trust)	N/A	34%	N/A	N/A
Michael M. Messix Chestertown, MD USA	Retired	Director	Director (Chesapeake Bank & Trust)	Director & Treasurer (Chester River Yacht & Country Club)	5%	N/A	N/A
M. Patricia Stanley Havre de Grace, MD USA	N/A	Senior VP, CFO, Treasurer, & Secretary	Senior VP, CFO, Treasurer, & Secretary (Chesapeake Bank & Trust)	N/A	1% Beneficially Owned	N/A	N/A
Ernest W. Strong Rock Hall, MD USA	Business Owner	Director	Director (Chesapeake Bank & Trust)	President (Rock Hall Lumber Co.), Director (Rock Hall Volunteer Fire Co.)	1%	N/A	100 % (Chestertown Lumber Inc.), 100% (Ernest W. Strong Inc.), 50% (Edes Farm LLC), 100% (Shirley LLC)
R. Raymond Tarrach Chestertown, MD USA	Retired	Director	Director (Chesapeake Bank & Trust)	N/A	1%	N/A	N/A
Robert D. Willard Chestertown, MD USA	Business Owner	Director	Director (Chesapeake Bank & Trust)	President (Willard Agri-Service of Lynch)	3%	N/A	60% (Willard Agri-Service of Lynch), 37.5% (Willard Agri-Service Inc.), 40% (Willard Agri-Service of Frederick Inc.), 50% (Willard Agri-Service of Mt. Airy Inc.), 50% (Willard Agri-Service of Greenwood LLC), 25% (Synatek LLC), 45% (Enterprise LLC)
Glenn L. Wilson Chestertown, MD USA	N/A	President, CEO, & Director	President, CEO, & Director (Chesapeake Bank & Trust)	Director (Sultana Education Foundation Inc.), Director (United Way of Kent County)	1% Owned, 1% Options, 1% Beneficially Owned	N/A	N/A

Chesapeake Bancorp and Subsidiary

Financial Statements

Years Ended December 31, 2016 and 2015

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

To the Board of Directors and Stockholders of
Chesapeake Bancorp and Subsidiary
Chestertown, Maryland

We have audited the accompanying consolidated financial statements of Chesapeake Bancorp (the "Company") and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Bancorp and its subsidiary as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

DHG
DIXON HUGHES GOODMAN LLP

Prior Period Consolidated Financial Statements

The consolidated financial statements as of December 31, 2015 were audited by Stegman & Company, certain of whose directors joined Dixon Hughes Goodman LLP as of June 1, 2016, and whose report dated February 17, 2016, expressed an unmodified opinion on those statements.

Dixon Hughes Goodman LLP

Baltimore, Maryland
February 15, 2017

Chesapeake Bancorp and Subsidiary
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and due from banks	**$ 11,790,159**	$ 16,783,479
Interest-bearing deposits in other banks	**100,000**	100,000
Investment securities available-for-sale, at fair value	**34,908,300**	28,536,640
Loans, less allowance for credit losses 2016 - $894,225; 2015 - $946,504	**63,324,704**	62,858,550
Other real estate owned	**839,498**	754,294
Restricted stock investments	**240,200**	367,900
Bank premises and equipment, at cost, net of accumulated depreciation and amortization	**285,863**	304,340
Bank-owned life insurance	**3,125,400**	3,060,940
Accrued interest receivable on investment securities and loans	**308,804**	241,597
Other assets	**117,316**	110,080
Total assets	**$ 115,040,244**	$ 113,117,820

	2016	2015
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 22,398,103**	$ 19,089,266
Savings and money market	**30,746,124**	31,960,781
Certificates of deposit	**16,889,025**	19,837,225
Other interest-bearing deposits	**5,847,118**	5,561,748
Total deposits	**75,880,370**	76,449,020
Accrued interest payable on deposits	**18,021**	25,045
Securities sold under agreements to repurchase	**26,155,318**	22,898,017
Line of credit	**500,000**	500,000
Federal Home Loan Bank borrowings	**424,931**	1,445,493
Other liabilities	**2,955,525**	2,747,066
Total liabilities	**105,934,165**	104,064,641
Stockholder's equity:		
Common stock, $.01 par value; 2,000,000 shares authorized, 381,700 and 380,100 shares issued and outstanding for 2016 and 2015, respectively	**3,817**	3,801
Surplus	**5,435,678**	5,371,462
Retained earnings	**3,743,035**	3,722,401
Accumulated other comprehensive loss	**(76,451)**	(44,485)
Total stockholder's equity	**9,106,079**	9,053,179
Total liabilities and stockholder's equity	**$ 115,040,244**	$ 113,117,820

Chesapeake Bancorp and Subsidiary
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2016 and 2015

	2016	2015
Interest income:		
Loans, including fees	**$ 3,218,276**	$ 3,363,403
U.S. Treasuries and Governmental Agency obligations	**232,690**	85,331
Federal funds sold	**36,244**	10,517
Other investment income	**17,047**	16,338
Total interest income	**3,504,257**	3,475,589
Interest expense:		
Deposits	**233,635**	258,423
Securities sold under agreement to repurchase	**65,682**	19,225
Other borrowed funds	**47,037**	50,713
Total interest expense	**346,354**	328,361
Net interest income	**3,157,903**	3,147,228
Provision for credit losses	**-**	108,000
Net interest income after provision for for credit losses	**3,157,903**	3,039,228
Non-interest income:		
Gain on sale of loans	**43,005**	16,316
Service charges on deposit accounts	**85,362**	94,496
Investment service fee income	**4,888**	33,322
Income from bank-owned life insurance	**104,065**	102,500
Other non-interest income	**192,042**	258,563
Total non-interest income	**429,362**	505,197
Non-interest expense:		
Salaries and employee benefits	**1,430,100**	1,392,243
Premises and equipment	**176,292**	204,045
Data processing and communications	**261,999**	196,035
Miscellaneous loan expense	**43,263**	26,311
Other real estate owned expense	**58,161**	176,504
FDIC insurance expense	**50,335**	87,000
Professional fees	**100,338**	45,134
Other expenses	**260,622**	205,715
Total non-interest expense	**2,381,110**	2,332,987
Net income	**$ 1,206,155**	$ 1,211,438

See accompanying notes.

	2016	2015
Comprehensive income:		
Net income	**$ 1,206,155**	$ 1,211,438
Unrealized loss on securities available-for-sale	**(31,966)**	(37,036)
Comprehensive income	**$ 1,174,189**	$ 1,174,402
Net income per common share:		
Basic:		
Net income	**$ 1,206,155**	$ 1,211,438
Weighted average common shares outstanding	**380,983**	381,463
Basic net income per share	**$ 3.17**	$ 3.18
Diluted:		
Net income	**$ 1,206,155**	$ 1,211,438
Weighted average common shares outstanding	**380,983**	381,463
Dilutive effect of stock options outstanding	**458**	436
Diluted weighted average common shares outstanding	**381,441**	381,899
Diluted net income per share	**$ 3.16**	$ 3.17

See accompanying notes.

Chesapeake Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2016 and 2015

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balance, January 1, 2015	$ 3,805	$ 5,376,658	$ 3,884,063	$ (7,449)	$ 9,257,077
Net income	-	-	1,211,438	-	1,211,438
Cash dividends ($3.60 per share)	-	-	(1,373,100)	-	(1,373,100)
Stock redemption	(15)	(52,485)	-	-	(52,500)
Stock issued	11	47,289	-	-	47,300
Net unrealized loss on securities available-for-sale	-	-	-	(37,036)	(37,036)
Balance, December 31, 2015	3,801	5,371,462	3,722,401	(44,485)	9,053,179
Net income	-	-	1,206,155	-	1,206,155
Cash dividends ($3.90 per share)	-	-	(1,185,521)	-	(1,185,521)
Stock based compensation		7,340			7,340
Stock redemption	(5)	(17,972)	-	-	(17,977)
Stock issued	21	74,848	-	-	74,869
Net unrealized loss on securities available-for-sale	-	-	-	(31,966)	(31,966)
Balance, December 31, 2016	$ 3,817	$ 5,435,678	$ 3,743,035	$ (76,451)	$ 9,106,079

See accompanying notes.

	2016	2015
Cash flows from operating activities:		
Net income	**$ 1,206,155**	$ 1,211,438
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	**7,340**	-
Provision for credit losses	**-**	108,000
Valuation allowance on other real estate owned	**-**	94,044
Depreciation, amortization and accretion	**24,996**	31,248
Loss (gain) on sale of other real estate owned	**4,461**	(26,115)
Gain on sale of loans	**(43,005)**	(16,316)
Origination of loans held for sale	**(3,257,327)**	(1,609,500)
Proceeds from sales of loans held for sale	**3,300,332**	1,625,816
Increase in cash surrender value of bank-owned life insurance	**(64,460)**	(67,278)
Net changes in:		
Accrued interest receivable	**(67,207)**	29,427
Other assets	**(7,236)**	(74,576)
Accrued interest payable	**(7,024)**	(6,918)
Other liabilities	**208,459**	(83,520)
Net cash provided by operating activities	**1,305,484**	1,215,750
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	**(36,983,516)**	(42,964,684)
Proceeds from sales and maturities of investment securities available-for-sale	**30,598,788**	38,696,250
Sale of restricted stock investments	**127,700**	100
Net (increase) decrease in loans	**(1,180,684)**	2,205,433
Proceeds from sale of other real estate owned	**624,865**	745,814
Purchases of bank premises and equipment	**(25,417)**	(11,840)
Net cash used in investing activities	**(6,838,264)**	(1,328,927)
Cash flows from financing activities:		
(Decrease) increase in deposits	**(568,650)**	11,159,005
Increase in securities sold under agreement to repurchase	**3,257,301**	343,405
Payments on line of credit	**-**	(100,000)
Net (decrease) increase in advances from FHLB	**(1,020,562)**	(19,176)
Dividends paid on common stock	**(1,185,521)**	(1,373,100)
Proceeds from issuance of common stock	**74,869**	47,300
Common stock repurchased and retired	**(17,977)**	(52,500)
Net cash provided by financing activities	**539,460**	10,004,934

	2016	2015
(Decrease) increase in cash and cash equivalents	**$ (4,993,320)**	$ 9,891,757
Cash and cash equivalents - beginning of year	**16,783,479**	6,891,722
Cash and cash equivalents - end of year	**$ 11,790,159**	$ 16,783,479
Supplemental cash flows information:		
Interest paid	**$ 353,431**	$ 335,279
Change in unrealized gain/(loss) on investment securities available-for-sale	**$ (31,966)**	$ (37,036)
Transfers from loans to other real estate owned	**$ 714,530**	$ -

Notes To Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of operations

Chesapeake Bancorp (the "Company") is a Bank Holding Company that provides, through its subsidiary Chesapeake Bank and Trust (the "Bank"), a full range of financial services including banking, lending, and investment services to individuals and corporate customers through its main office and branch in Kent County, Maryland, and is subject to competition from other financial institutions. Its primary deposit products are certificates of deposit and demand, savings and money market accounts. Its primary lending products are business and personal loans and real estate mortgages. Its primary investment services are financial planning, asset management and qualified retirement plans. The Bank is subject to the regulations of certain Federal and state agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Bank conform to accounting principles generally accepted in the United States of America.

Significant accounting policies not disclosed elsewhere in the consolidated financial statements are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of Chesapeake Bancorp and its wholly-owned subsidiary, Chesapeake Bank and Trust Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The Parent Only financial statements of the Company account for the subsidiary using the equity method of accounting.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

The Bank's loan portfolio consists primarily of residential and commercial real estate mortgage loans in Kent, southern Cecil and northern Queen Anne's counties on the Eastern Shore of Maryland. Accordingly, the collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local economy and the real estate markets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Investment securities available-for-sale

Securities designated as available for sale are stated at estimated fair value. They represent those securities that management may decide to sell as part of the Bank's asset/liability strategy or that may be sold in response to changing interest rates or liquidity needs. Changes in unrealized gains and losses on securities available-for-sale are reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in non-interest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on securities sold are determined by the specific identification method. Premiums and discounts on investment securities are amortized over the term of the security using methods that approximate the interest method.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses for debt securities, management considers whether the Bank has the intent to sell the security, or will more likely than not be required to sell the security before its anticipated recovery.

Restricted stock investments

The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Atlanta ("FHLB") in varying amounts based on balances of outstanding home loans and on amounts borrowed from the FHLB. Because no ready market exists for this stock and it has no quoted market value, the Bank's investment in this stock is carried at cost.

The Bank maintains an investment in capital stock of Atlantic Central Bankers Bank. Because no ready market exists for this stock and it has no quoted market value, the Bank's investment in this stock is carried at cost.

Restricted stock investments are periodically evaluated for impairment based on ultimate recovery of par value.

Loans held for sale

The Bank has a program to sell newly originated long-term fixed rate residential mortgages to a financial institution. These loans are usually sold within 10 - 14 days of settlement. The Bank has no obligations with regard to these loans once the sale is completed. Loans originated for sale are carried at the lower of aggregate cost or market value. Market value is based on commitments from investors. Gains and losses on sales are determined using the specific identification method. As of December 31, 2016 and 2015, there were no loans held for sale.

Loans

Loans are stated at their unpaid principal balance outstanding net of the allowance for credit losses and related net deferred fees. Interest income on loans is accrued at the contractual rate based on the principal outstanding. Loans are placed in nonaccrual status when they are contractually past due 90 days as to either principal or interest, unless the loan is well secured and in the process of collection or earlier when, in the opinion of management, the collection of principal and interest is in doubt. A loan remains in nonaccrual status until the loan is current as to payment of both principal and interest and future payments are reasonably assured. Cash collections on such loans are applied as reductions of the loan principal balance and no interest income is recognized on those loans until the principal balance has been collected. Interest income on nonaccrual loans is recognized only to the extent of interest payments received. Fees charged for originating loans are being amortized on the interest method over the term of the loan.

Allowance for credit losses

The allowance for credit losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio at the balance sheet date. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed.

The allowance consists of specific and general reserve components. The specific reserve component relates to loans that typically are classified as substandard or doubtful. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying amount of that loan. The general reserve component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The Bank's charge-off policy states that after all collection efforts have been exhausted, the loan is deemed to be a loss when the loss amount has been determined and the loss amount is charged to the Bank's established allowance for credit losses. Loans secured by real estate, either residential or commercial, are evaluated for loss potential at the 60 day past due threshold. At 90 days past due the loan is placed on nonaccrual status and a specific reserve is established if the net realizable value is less than the principal value of the loan balance(s). Once the actual loss value has been determined, a charge-off for the amount of the loss is taken. Each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss. Unsecured loans are charged-off at the 90 day past due threshold or when an actual loss has been determined. Past due status is based on the contractual terms of the loan.

In situations where, for economic or legal reasons related to a borrowers' financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the borrower new terms that provide for a reduction of either interest or principal, the Bank measures any impairment on the restructuring as previously noted for impaired loans.

Long-Lived Assets

The carrying value of long-lived assets is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in accounting guidance issued by the Financial Accounting Standards Board ("FASB"). As of December 31, 2016 and 2015, no long-lived assets existed which management considered impaired.

Other real estate owned (OREO)

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Any subsequent write-downs are recorded as a charge to operations. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Any gains or losses realized from the sale of OREO are included in non-interest income or expense.

Bank-owned life insurance

Bank-owned life insurance is carried at the aggregate cash surrender value of life insurance policies owned where the Company or its subsidiary are named beneficiaries. Increases in cash surrender value of the underlying insurance policies is recorded as non-interest income.

Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are comprised of customer deposit agreements with maturities ranging from one day to two years. These obligations are not federally insured, but are collateralized by a security interest in various investment securities. These pledged securities are segregated and maintained by a third-party institution. At December 31, 2016 and 2015 the weighted average interest rate paid on securities sold under agreements to repurchase was 0.33% and 0.10%, respectively.

Income taxes

Effective January 1, 2000 the Company elected S Corporation status. As an S Corporation, consolidated earnings are attributable to the Company's stockholders and are taxed at the stockholder level. The Company files consolidated income tax returns with its subsidiary.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements.

Statements of cash flows

The Company has included cash and due from banks (with original maturities of three months or less), and Federal funds sold as cash and cash equivalents for the purposes of reporting cash flows.

Credit risk

The Bank has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Earnings per common share

Basic earnings per common share is calculated on the basis of the weighted average number of shares outstanding for each year, giving retroactive effect to stock splits and dividends. Calculations of diluted earnings per common share include the effect of weighted average dilutive common stock equivalents outstanding during the period. Dilutive common equivalent shares consist of stock options calculated using the treasury stock method.

Stock-based compensation

Share-based payments to employees and directors are recognized in the financial statements based on their fair values, using prescribed option-pricing models. The Company applies the Black-Scholes option pricing model to value share-based payments. The Company has recognized compensation expense for stock awards of $7,340 and $0 for the years ended December 31, 2016 and 2015, respectively.

Comprehensive income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated statement of financial condition. Such items, along with net income, are components of comprehensive income.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were $45,578 and $30,948 for the years ended December 31, 2016 and 2015, respectively.

Off- balance sheet financial instruments

The Bank is a party to off-balance sheet financial instruments in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and purchase commitments. The Bank's exposure to loss in the event of nonperformance by the other party to these financial instruments is the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank generally requires collateral or other security to support the financial instruments that have credit risk. The amount of collateral or other security is determined based on management's credit evaluation of the counter party.

Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Subsequent events

Subsequent events have been evaluated for potential recognition and/or disclosure through the date of the auditors' report which is the date these consolidated financial statements were available to be issued.

2. Investment Securities

The amortized cost and fair values of investment securities available-for-sale are as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government agencies and corporations	$ 34,984,751	$ -	$ 76,451	$ 34,908,300
December 31, 2015				
Obligations of U.S. Government agencies and corporations	$ 28,581,125	$ 845	$ 45,330	$ 28,536,640

The amortized cost and fair value of debt securities by contractual maturities at December 31, 2016 are shown below. Expected maturities may differ from contractual maturities because borrowers may have to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 12,993,830	$ 12,982,140
Due after one year through five years	21,990,921	21,926,160
	$ 34,984,751	$ 34,908,300

Securities with an amortized cost of $27,000,000 and $24,900,000, and a fair value of $26,931,720 and $24,839,924 at December 31, 2016 and 2015, respectively, were pledged as collateral for qualified customer accounts.

The gross unrealized losses and fair value, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015, are as follows:

	Less than 12 Months		12 Months or More		Total	
December 31, 2016	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Obligations of U.S. Government agencies and corporations	$ 32,911,600	$ 73,798	$ 1,996,700	$ 2,653	$ 34,908,300	$ 76,451
December 31, 2015						
Obligations of U.S. Government agencies and corporations	$ 18,439,655	$ 44,380	$ 1,099,050	$ 950	$ 19,538,705	$ 45,330

For individual securities, the Bank must determine whether a decline in fair value below the amortized cost basis is other-than-temporary. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Bank's intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value without requirement to sell.

At December 31, 2016, there are fifteen debt securities in an unrealized losses position. These securities are guaranteed by the U.S. Government. These unrealized losses relate principally to current interest rates for similar types of securities. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

3. Loans And Allowances For Credit Losses

The principal categories of the loan portfolio of the Bank for the years ended December 31, 2016 and 2015 are as follows:

	2016	**2015**
Real estate loans:		
Construction and land development	**$ 3,332,724**	$ 3,399,812
Secured by farmland	**4,578,133**	2,922,266
Secured by residential properties	**33,180,720**	31,191,953
Secured by non-farm, non-residential properties	**15,736,598**	17,411,635
Loans to farmers	**1,445,783**	1,423,886
Commercial and industrial loans	**4,956,274**	6,608,910
Consumer loans	**1,012,926**	870,863
	64,243,158	63,829,325
Less net deferred loan fees	**24,229**	24,271
Total loans	**64,218,929**	63,805,054
Less allowance for credit losses	**894,225**	946,504
Total loans, net	**$ 63,324,704**	$ 62,858,550

The Bank has had an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for "loan" or "credit" losses, the Bank segments loans into the following pools by segment type: Residential Real Estate, Commercial and Industrial Real Estate and Other, and Personal Secured and Unsecured. Each class of loan requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The Bank uses an internally developed model for this process which requires use of judgment in establishing input metrics. The Bank uses a three year historical loss experience for each of the segments discussed above.

Reflected in the portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of management's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for credit loss. Changes in the allowance for credit loss and the related provision expense can materially affect net income.

The following table presents, by portfolio segment, the changes in the allowance for credit losses and recorded investment in loans as of and for the years ended December 31, 2016 and 2015:

December 31, 2016	**Residential Real Estate**	**Commercial and Industrial Real Estate and Other**	**Personal Secured and Unsecured**	**Total**
Allowance for credit losses:				
Beginning balance	$ 490,283	$ 280,067	$ 176,154	$ 946,504
Charge-offs	(34,459)	-	(18,421)	(52,880)
Recoveries	319	-	282	601
Provisions	-	-	-	-
Ending balance	$ 456,143	$ 280,067	$ 158,015	$ 894,225
Loans individually evaluated for impairment	$ 351,144	$ 454,898	$ -	$ 806,042
Loans collectively evaluated for impairment	$ 33,013,291	$ 27,934,360	$ 2,489,465	$ 63,437,116
Total	$ 33,364,435	$ 28,389,258	$ 2,489,465	$ 64,243,158
December 31, 2015				
Allowance for credit losses:				
Beginning balance	$ 477,404	$ 270,520	$ 93,242	$ 841,166
Charge-offs	(4,384)	-	(4,321)	(8,705)
Recoveries	6,043	-	-	6,043
Provisions	54,831	48,554	4,615	108,000
Ending balance	$ 533,894	$ 319,074	$ 93,536	$ 946,504
Loans individually evaluated for impairment	$ 2,019,669	$ 476,463	$ -	$ 2,496,132
Loans collectively evaluated for impairment	$ 30,386,097	$ 28,219,552	$ 2,727,544	$ 61,333,193
Total	$ 32,405,766	$ 28,696,015	$ 2,727,544	$ 63,829,325

The bank regularly reviews credit quality indicators as part of its loan review process. Credit quality indications are evaluated and updated annually. The bank considers loans as non-classified, special mention, substandard, doubtful, and loss as follows:

December 31, 2016	Residential Real Estate	Commercial and Industrial Real Estate and Other	Personal Secured and Unsecured	Total
Non-classified	$ 32,528,847	$ 23,744,654	$ 2,477,410	$ 58,750,911
Special mention	636,722	4,424,181	12,055	5,072,958
Substandard	198,866	220,423	-	419,289
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 33,364,435	$ 28,389,258	$ 2,489,465	$ 64,243,158
December 31, 2015				
Non-classified	$ 29,567,848	$ 24,440,028	$ 2,727,544	$ 56,735,420
Special mention	818,249	4,022,375	-	4,840,624
Substandard	2,019,669	233,612	-	2,253,281
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 32,405,766	$ 28,696,015	$ 2,727,544	$ 63,829,325

- **Special mention** - A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
- **Substandard** - Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.
- **Doubtful** - Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- **Loss** - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

Impaired loans as of and for the year ended December 31, 2016 and 2015 are as follows:

December 31, 2016	Residential Real Estate	Commercial and Industrial Real Estate and Other	Personal Secured and Unsecured	Total
With no related allowance recorded:				
Recorded investment	$ 152,278	$ 454,898	$ -	$ 607,176
Unpaid principal balance	152,278	665,456	-	817,734
Average recorded investment	153,714	466,108	-	619,822
Interest income that would have been recognized	-	16,202	-	16,202
Interest income recognized	10,722	55,074	-	65,796
Interest income foregone	-	4,571	-	4,571
With an allowance recorded:				
Recorded investment	198,866	-	-	198,866
Unpaid principal balance	198,866	-	-	198,866
Related allowance	64,653	-	-	64,653
Average recorded investment	200,141	-	-	200,141
Interest income that would have been recognized	-	-	-	-
Interest income recognized	16,557	-	-	16,557
Interest income foregone	-	-	-	-
Total				
Recorded investment	351,144	454,898	-	806,042
Unpaid principal balance	351,144	665,456	-	1,016,600
Related allowance	64,653	-	-	64,653
Average recorded investment	353,855	466,108	-	819,963
Interest income that would have been recognized	-	16,202	-	16,202
Interest income recognized	27,279	55,074	-	82,353
Interest income foregone	-	4,571	-	4,571

December 31, 2015	Residential Real Estate	Commercial and Industrial Real Estate and Other	Personal Secured and Unsecured	Total
With no related allowance recorded:				
Recorded investment	$ 1,717,761	$ 466,851	$ -	$ 2,184,612
Unpaid principal balance	1,739,867	672,402	-	2,412,269
Average recorded investment	1,726,381	476,026	-	2,202,407
Interest income that would have been recognized	11,960	16,412	-	28,372
Interest income recognized	102,566	59,527	-	162,093
Interest income foregone	15,762	511	-	16,273
With an allowance recorded:				
Recorded investment	301,908	9,612	-	311,520
Unpaid principal balance	301,908	9,612	-	311,520
Related allowance	79,158	9,612	-	88,770
Average recorded investment	304,153	9,612	-	313,765
Interest income that would have been recognized	-	-	-	-
Interest income recognized	23,063	458	-	23,521
Interest income foregone	-	-	-	-
Total				
Recorded investment	2,019,669	476,463	-	2,496,132
Unpaid principal balance	2,041,775	682,014	-	2,723,789
Related allowance	79,158	9,612	-	88,770
Average recorded investment	2,030,534	485,638	-	2,516,172
Interest income that would have been recognized	11,960	16,412	-	28,372
Interest income recognized	125,629	59,985	-	185,614
Interest income foregone	15,762	511	-	16,273

An aged analysis of loans as of December 31, 2016 and 2015 are as follows:

December 31, 2016	Residential Real Estate	Commercial and Industrial Real Estate and Other	Personal Secured and Unsecured	Total
Current	$ 32,699,003	$ 27,454,635	$ 2,461,770	$ 62,615,408
30 - 59 days past due	538,688	868,048	27,695	1,434,431
60 - 89 days past due	126,744	66,575	-	193,319
Greater than 90 days past due	-	-	-	-
Total past due	665,432	934,623	27,695	1,627,750
Total	$ 33,364,435	$ 28,389,258	$ 2,489,465	$ 64,243,158

December 31, 2015	Residential Real Estate	Commercial and Industrial Real Estate and Other	Personal Secured and Unsecured	Total
Current	$ 32,195,340	$ 28,524,715	$ 2,695,035	$ 63,415,090
30 - 59 days past due	-	83,533	16,613	100,146
60 - 89 days past due	65,892	78,886	-	144,778
Greater than 90 days past due	144,534	8,881	15,896	169,311
Total past due	210,426	171,300	32,509	414,235
Total	$ 32,405,766	$ 28,696,015	$ 2,727,544	$ 63,829,325

Nonaccrual loans as of December 31, 2016 and 2015 are as follows:

	2016	2015
Nonaccrual loans with a valuation allowance	$ -	$ -
Nonaccrual loans without a valuation allowance	220,423	547,498
Total nonaccrual loans	$ 220,423	$ 547,498
Allowance for credit losses related to nonaccrual loans	$ -	$ -

On December 31, 2016, the $220,423 in nonaccrual loans represented three loan relationships with the largest amount being approximately $139,414. On December 31, 2015 the $547,498 in nonaccrual loans represented six loan relationships with the largest amount being approximately $167,182.

Troubled debt restructures ("TDRs") are modifications of loans to assist borrowers who are unable to meet the original terms of their loans, in an effort to minimize the potential loss on the loan. The following table shows the breakdown of TDRs by type:

	December 31, 2016	December 31, 2015
Real estate loans	$ 152,278	$ 1,550,579
Commercial and industrial real estate	373,889	387,964
Personal secured and unsecured	-	-
	$ 526,167	$ 1,938,543
Nonaccrual TDRs (included in above totals)	$ 139,414	$ 355,540

At December 31, 2016, the bank had four accruing TDRs totaling $386,753 compared to three accruing TDRs totaling $1,583,003 as of December 31, 2015. The company had no specific reserves on these TDRs as of December 31, 2016 or 2015. Interest income in the amount of $33,535 and $27,278 was recognized on outstanding TDR loans for the years ended December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015 the bank added no TDRs and 2 TDR loans totaling $144,543, respectively. TDR disposals, which included transfers to other real estate owned and refinancing for the year ended December 31, 2016 decreased by two loans or $1,412,376. There were no TDRs which were disposed on for the year ended December 31, 2015.

During the year ended December 31, 2016, the $526,167 of TDRs consisted of 2 commercial real estate loans, 2 farm loans, and 1 commercial boat loan. During the year ended December 31, 2015, the $1,938,543 of TDRs consisted of 3 commercial real estate loans, 3 farm loans, and 1 commercial boat loan.

Outstanding loan commitments and unused lines of credit were $20,608,109 and $20,413,369, and outstanding letters of credit were $74,548 and $552,553 at December 31, 2016 and 2015, respectively.

The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers. $120,000 has been recognized in the statement of financial condition at December 31, 2016 and 2015 as a liability for credit loss related to these commitments.

In the normal course of banking business, loans are made to officers and directors and their affiliated interests. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations and do not involve more than the normal risk of collection. Loans to such borrowers as of December 31, are summarized as follows:

	2016	2015
Balance at beginning of year	**$ 2,012,525**	$ 2,117,561
New loans and advances	**3,007,614**	1,531,955
Change in officers and directors	**253**	-
Repayments	**(1,822,300)**	(1,636,991)
Balance at end of year	**$ 3,198,092**	$ 2,012,525

4. Bank Premises and Equipment

A summary of bank premises and equipment, at cost, and accumulated depreciation and amortization is as follows:

	2016	2015
Land	**$ 50,000**	$ 50,000
Premises and leasehold improvements	**995,103**	969,685
Furniture and fixtures	**166,316**	216,426
Equipment	**301,562**	301,563
	1,512,981	1,537,674
Less accumulated depreciation and amortization	**(1,227,118)**	(1,233,334)
Net bank premises and equipment	**$ 285,863**	$ 304,340

Depreciation and amortization expense was $43,894 and $47,031 for the years ended December 31, 2016 and 2015, respectively.

The Bank leases its branch office from one of its directors. The lease has an initial three year term ending on June 1, 2019 with four separate options to extend the lease term of three years each. This arrangement, as with other related party transactions, was made on substantially the same terms as those prevailing for comparable agreements with outsiders. Lease expense under this arrangement totaled $17,926 and $17,823 for the years ended December 31, 2016 and 2015, respectively. The Bank also leases space at Heron Point under a three year lease with monthly payments of $100. The total amount of lease expense under this arrangement was $1,200 and $0 for the years ended December 31, 2016 and 2015, respectively. This lease expires on December 31, 2018.

Future minimum lease payments as of December 31, 2016 are as follows:

2017	$	19,200
2018		19,200
2019		9,000
2020		-
2021		-
Thereafter		-

5. Deposits

Certificates of deposits and their remaining maturities at December 31, 2016 are as follows:

2017	$	8,802,966
2018		3,118,597
2019		1,178,594
2020		1,683,626
2021		1,112,750
Thereafter		992,492
	$	16,889,025

Certificates of deposit of $100,000 or more at December 31, 2016 and 2015 and their maturities are as follows:

		2016		2015
Three months or less	**$**	**1,097,773**	$	1,354,868
Three through six months		**449,368**		302,594
Six through twelve months		**3,331,286**		1,733,295
Over twelve months		**4,197,617**		7,225,436
	$	**9,076,044**	$	10,616,193

Interest expense on deposits for the years ended December 31, 2016 and 2015 are as follows:

		2016		2015
NOW and money market	**$**	**45,726**	$	32,766
Savings		**11,086**		9,131
Time, $100,000 or more		**119,239**		140,555
Other time		**57,584**		75,971
	$	**233,635**	$	258,423

As of December 31, 2016 and 2015 certificate of deposits of $250,000 or more were $4,822,606 and $5,368,149, respectively.

Deposit balances of officers and directors and their affiliated interest totaled $3,074,694 and $4,007,760 at December 31, 2016 and 2015, respectively.

6. Benefit Plans

Employee stock ownership plan (ESOP)

The Bank has an Employee Stock Ownership Plan with section 401(k) provisions which covers all employees 21 years of age or older and who have completed 1,000 hours of employment during the plan year. The 401(k) provisions of the plan allow participants to make contributions up to the maximum allowed by IRS regulation, with the Bank matching a percentage of employee contributions with certain limitations. These contributions are immediately vested to the employee.

The Bank may also make discretionary contributions as authorized by the Board of Directors, which vest at the rate of 20% per year, beginning with the third year of credited service with the Bank. Contributions by the Bank totaled approximately $46,000 and $63,000 for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, the ESOP holds 63,169 shares, or approximately 16.55%, of the Company's outstanding common stock. At December 31, 2016, all 63,169 shares held in the ESOP were fully allocated to participants with a value of approximately $35.00 per share. Eligible shares of common stock are ratably released to participants' accounts each year based upon cash available and the reduction of ESOP indebtedness during the year.

Deferred compensation and supplemental income plans

The Bank has a voluntary deferred compensation plan that permits directors to defer portions of their fees and an executive supplemental income plan that provides participants with certain pre and post-retirement benefits. The Bank has purchased life insurance contracts on its participants. The Bank is the owner and sole beneficiary of all life insurance policies. Amounts expensed under the plans aggregated $91,805 and $88,223 for the years ended December 31, 2016 and 2015, respectively. Cash surrender value and accrued benefit obligation, reported as bank-owned life insurance and included in other liabilities, respectively, for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Cash surrender value	**$ 3,125,400**	$ 3,060,940
Accrued benefit obligations	**2,072,576**	2,063,190

Phantom stock plan

During 2000, the Board of Directors entered into agreements with the Company that provides for awarding of stock units for board services performed. The values of these units are recorded as they are earned. No stock certificates are issued. The values of the accounts are adjusted by increases or decreases in the market value of the stock, adjusted for dividend payments.

At retirement or change of control, cumulative benefits earned are paid monthly over a ten-year period, with interest at prevailing rates. Expense accrued under this plan totaled $36,500 and $59,000, for the years ended December 31, 2016 and 2015, respectively.

7. Line of Credit

The Company has a $600,000 revolving line of credit with another institution. Interest is payable based on the prime rate plus 0.5% with a 4.0% floor. This loan is unsecured. As of December 31, 2016 and 2015 the outstanding balance was $500,000. The maturity date is June 1, 2017.

8. Stock Options

Following is a summary of the activity of stock options during the years ended December 31:

	2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**4,000**	**$ 42.50**	-	$ -
Granted	**-**	**-**	4,000	42.50
Exercised	**-**	**-**	-	-
Expired/cancelled/forfeited	**-**	**-**	-	-
Outstanding at end of year	**4,000**	**$ 42.50**	4,000	$ 42.50
Options exercisable at end of year	**2,500**	**$ 42.50**	-	$ -

During the year ended December 31, 2015, the Company granted 4,000 stock options to one of its executive officers, with a weighted average fair value of $3.67 per share. As of December 31, 2016 the aggregate intrinsic value of the options outstanding was $22,000 based on an assumed market price of $48.00 per share for the Company's outstanding stock. The weighted average remaining life is five years. Stock based compensation expense has been recorded by the Company related to these grants in the amount of $7,340 and $0, for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 there is approximately $7,000 of stock based compensation expense that is expected to be recognized over the next two years.

The fair value of stock options granted were estimated at the grant date fair value using the Black-Scholes model. The Company used the following assumptions for determining the fair value of options granted during the year ended December 31, 2015:

Risk-free interest rate	1.08%
Expected volatility	15.0%
Expected life (in years)	7
Expected forfeiture rate	0.00%
Expected dividend yield	4.85%

9. Federal Home Loan Bank Borrowings

The Bank has approved credit facilities with The Federal Home Loan Bank of Atlanta (FHLB), for short-term liquidity of $15,882,891 and $16,965,230 as of December 31, 2016 and 2015, respectively. The Bank also has an Affordable Housing Program Agreement with the Federal Home Loan Bank and a customer of the Bank. This agreement allows the Bank to borrow up to $640,000 to fund loans to a customer to complete a housing project. The loan bears interest at 5%, matures in February 2019, and is secured by qualified single-family residential mortgage loans. The total outstanding balance with the FHLB was $424,931 and $1,445,493 as of December 31, 2016 and 2015, respectively. This borrowing reduces the available funds under the $15,882,891 credit facility previously mentioned. There are no other borrowings outstanding under this facility as of December 31, 2016 and 2015.

Principal maturities of Federal Home Loan Bank Borrowings at December 31, 2016 are approximately as follows:

2017	$ -
2018	-
2019	424,931
2020	-
2021	-
Thereafter	-
	$ 424,931

10. Capital Standards And Dividend Restrictions

The Company and Bank are subject to various regulatory capital requirements administered by Federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting principles. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Capital amounts and ratios for December 31, 2016 are calculated using Basel II rules.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2016 and 2015, that the Company and Bank meet all capital adequacy requirements to which it is subject. There are no conditions or events since December 31, 2016 that management believes have changed the Company's or the Bank's capital rating.

Following is a summary of the actual and required capital ratios required to be maintained by the Company and the Bank:

	Actual		For Capital Adequacy Purposes- Phase-In Schedule		To be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2016	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Company	$ 9,182,530	13.05%	$ 3,166,965	4.50%	$ 4,574,505	6.50%
Bank	9,820,016	13.95%	3,166,965	4.50%	4,574,505	6.50%
Tier 1 (Core) Capital (to risk-weighted assets)						
Company	9,182,530	13.05%	4,222,620	6.00%	5,630,160	8.00%
Bank	9,820,016	13.95%	4,222,620	6.00%	5,630,160	8.00%
Common Tier 1 (CET 1)						
Company	10,062,243	14.30%	5,630,160	8.00%	7,037,700	10.00%
Bank	10,699,728	15.20%	5,630,160	8.00%	7,037,700	10.00%
Tier 1 Capital (to average assets)						
Company	9,182,530	8.00%	4,592,200	4.00%	5,740,250	5.00%
Bank	9,820,016	8.55%	4,592,200	4.00%	5,740,250	5.00%

	Actual		For Capital Adequacy Purposes-Phase-In Schedule		To be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2015	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Company	$ 9,955,715	14.50%	$ 7,207,620	10.50%	N/A	
Bank	10,613,189	15.49%	7,207,620	10.50%	6,864,400	10.00%
Tier 1 (Core) Capital (to risk-weighted assets)						
Company	9,097,665	13.25%	4,118,640	6.00%	N/A	
Bank	9,773,139	14.24%	4,118,640	6.00%	5,491,520	8.00%
Common Tier 1 (CET 1)						
Company	9,097,665	13.25%	3,088,980	4.50%	N/A	
Bank	9,773,139	14.24%	3,088,980	4.50%	4,461,860	6.50%
Tier 1 Capital (to average assets)						
Company	9,097,665	8.21%	4,430,598	4.00%	N/A	
Bank	9,773,139	8.82%	4,430,598	4.00%	5,538,248	5.00%

Under Maryland law, the Bank may pay dividends from retained earnings without prior approval from the Bank Commissioner. Based on minimum capital ratio requirements noted above and Maryland law, at December 31, 2016 and 2015 the Bank had available approximately $3,918,500 and $3,903,587, for the payment of dividends without prior regulatory approval.

11. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, provides a framework for measuring fair value that requires an entity to determine fair value based on exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities as follows:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table presents the financial assets measured at fair value on a recurring basis as of December 31, 2016 and 2015:

		Fair Value Measuring at Reporting Date Using		
December 31, 2016	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities				
Obligations of U.S. Government Agencies and Corporations	$ 34,908,300	$ -	$ 34,908,300	$ -
December 31, 2015				
Available-for-sale securities				
Obligations of U.S. Government Agencies and Corporations	$ 28,536,640	$ -	$ 28,536,640	$ -

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the terms and conditions of the security, among other things.

Certain financial and non-financial assets are measured at fair value on a nonrecurring basis. Financial assets measured at fair value on a nonrecurring basis include impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Non-financial assets measured at fair value on a nonrecurring basis include foreclosed assets. Collateral values and foreclosed assets are estimated using Level 2 inputs based on observable market data.

The following table presents the financial and non-financial assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015:

		Fair Value Measuring at Reporting Date Using		
December 31, 2016	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 741,389	$ -	$ 741,389	$ -
Other real estate owned	839,498	-	839,498	-
December 31, 2015	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 2,407,362	$ -	$ 2,407,362	$ -
Other real estate owned	754,294	-	754,294	-

12. Fair Value of Financial Instruments

Accounting guidance requires the Bank to disclose fair value information about financial instruments for which it is practicable to estimate, whether or not such fair values are reflected in the consolidated balance sheets. Estimated fair value amounts have been determined using available market information and other valuation methodologies. However, considerable judgment is required to interpret market data in developing the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and due from banks

The carrying amount reported in the consolidated statement of financial condition for cash and due from banks is a reasonable estimation of fair value.

Interest-bearing deposits in other banks

The carrying amount reported in the consolidated statement of financial condition for interest-deposits in other banks is a reasonable estimation of fair value.

Investment securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans

The fair value of the loan portfolio is estimated by discounting contractual cash flows adjusted for estimated prepayments. Assumptions regarding prepayment estimates and discount rates are judgmentally determined by using available market and historical information. The reserve for possible credit losses is allocated to the various components of the loan portfolio in determining the fair value.

The impact of delinquent loans on the estimation of fair values described above is not considered to have a material effect and, accordingly, delinquent loans are disregarded in the valuation methodologies used.

Restricted stock investments

Due to its restrictive nature, the fair value of these stock investments approximates their carrying value.

Accrued interest receivable

The accrued interest receivable represents interest on loans and investments. The carrying amounts of accrued interest receivable approximates its fair value.

Deposit and securities sold under agreements to repurchase

The fair value for demand deposits is, by definition, equal to the amount payable on demand at the reporting date. The carrying amounts for savings and interest bearing demand deposits approximate their fair values at the reporting date. Fair values for certificates of deposit are estimated using discounted cash flow analysis, adjusted for estimated decay rates, that applies interest rates currently offered for funding sources with similar maturities. Assumptions regarding discount rates and decay estimates are judgmentally determined by using available market information.

Line of credit

The carrying amounts of short-term borrowings maturing within 90 days or due on demand approximate their fair values.

Federal Home Loan Bank borrowings

The fair values of Federal Home Loan Bank borrowings are estimated by discounting carrying values using a cash flow approach based on market rates as of December 31, 2016 and 2015.

Interest payable

Interest payable represents interest on members' share and savings accounts and borrowed funds. The carrying amounts of interest payable approximate its fair values.

Commitments to extend credit

The Bank's adjustable rate commitments to extend credit move with market rates and are not subject to interest rate risk. The rates and terms of the Bank's fixed rate commitments to extend credit are competitive with others in the various markets in which the Bank operates. The fair value of these instruments are immaterial.

The carrying value and estimated fair value of financial instruments are as follows:

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and due from banks	$ 11,790,159	$ 11,790,159	$ 16,783,479	$ 16,783,479
Interest-bearing deposits other banks	100,000	100,000	100,000	100,000
Investment securities	34,908,300	34,908,300	28,536,640	28,536,640
Restricted stock investments	240,200	240,200	367,900	367,900
Loans	63,324,704	63,321,611	62,858,550	62,955,061
Accrued interest receivable	308,804	308,804	241,597	241,597
Financial Liabilities:				
Deposits	$ 75,880,370	$ 75,891,752	$ 76,449,020	$ 76,344,074
Securities sold under agreements to repurchase	26,155,318	26,155,318	22,898,017	22,898,017
Line of credit	500,000	500,000	500,000	500,000
Accrued interest payable	18,021	18,021	25,045	25,045
Federal Home Loan Bank borrowings	424,931	423,421	1,445,493	1,442,055
Unrecognized Financial Instruments:				
Commitments to extend credit	$ -	$ -	$ -	$ -

13. Parent Company Financial Information

The condensed balance sheets and statements of income and cash flows for Chesapeake Bancorp, Inc. (parent only) are presented below:

Assets	**2016**	**2015**
Assets:		
Cash and due from banks	**$ 196,593**	$ 124,928
Investment in subsidiary, equity method	**9,743,565**	9,728,654
Total assets	**$ 9,940,158**	$ 9,853,582

Liabilities and Stockholders' Equity	**2016**	**2015**
Liabilities:		
Phantom stock plan accrual	**$ 334,079**	$ 300,403
Line of credit	**500,000**	500,000
Total liabilities	**834,079**	800,403
Stockholders' equity:		
Common stock, par value $.01, authorized 2,000,000 shares; Issued and outstanding 2016 – 381,690 shares; and 2015 – 380,100 shares	**3,817**	3,801
Surplus	**5,435,678**	5,371,462
Retained earnings	**3,743,035**	3,722,401
Accumulated other comprehensive loss	**(76,451)**	(44,485)
Total stockholders' equity	**9,106,079**	9,053,179
Total liabilities and stockholders' equity	**$ 9,940,158**	$ 9,853,582

Statements of Income	**2016**	2015
Cash dividends from subsidiary	**$ 1,224,000**	$ 1,440,000
Interest income	**89**	26
Expenses	**(64,811)**	(81,563)
Income before equity in undistributed net income of subsidiary	**1,159,278**	1,358,463
Equity in undistributed net income of subsidiary	**46,877**	(147,025)
Net income	**$ 1,206,155**	$ 1,211,438

Statements of Cash Flows	**2016**	2015
Cash flows from operating activities:		
Net income	**$ 1,206,155**	$ 1,211,438
Equity in undistributed net income of subsidiary	**(46,877)**	147,025
Other	**41,016**	56,281
Net cash provided by operating activities	**1,200,294**	1,414,744
Cash flows from financing activities:		
Redemption of stock	**(17,977)**	(52,500)
Proceeds from issuance of stock	**74,869**	47,300
Proceeds on line of credit	**-**	-
Payments on line of credit	**-**	(100,000)
Dividends paid on common stock	**(1,185,521)**	(1,373,100)
Net cash used in financing activities	**(1,128,629)**	(1,478,300)
Net decrease in cash	**71,665**	(63,556)
Cash at beginning of year	**124,928**	188,484
Cash at end of year	**$ 196,593**	$ 124,928