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FRB RICHMOND

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, Richard L. Coffman
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

04/09/2019
Date of Signature

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

- [x] 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 2857758
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
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 Street
(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:

Pat Stanley — SVP & CFO
Name / Title

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

410-778-2181
Area Code / FAX Number

pstanley@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."

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 Bancrop
Legal Title of Subsidiary Holding Company

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

Chestertown	MD	21620
City	State	Zip Code

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)

Legal Title of Subsidiary Holding Company

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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

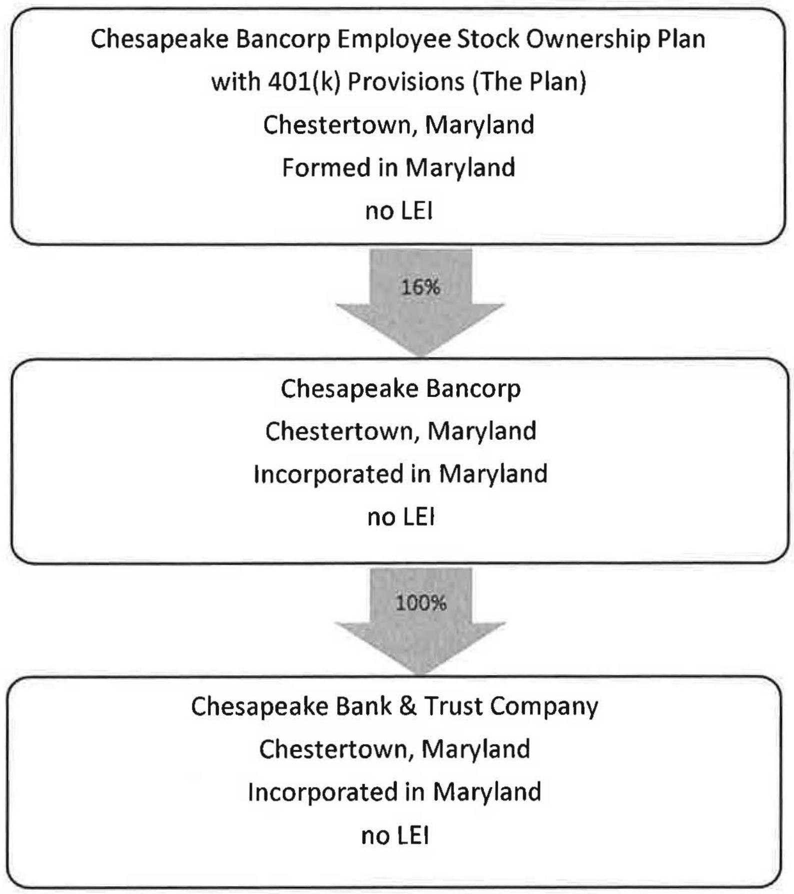
Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2018

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 provided to the Federal Reserve Bank.

Results: A list of branches for your depository institution: CHESAPEAKE BANK & TRUST COMPANY (ID_RSSD: 304520).
This depository institution is held by CHESAPEAKE BANCORP (1866418) of CHESTERTOWN, MD.
The data are as of 12/31/2018. Data reflects information that was received and processed through 04/03/2019.

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	Not Required	Not Required	CHESAPEAKE BANK & TRUST COMPANY	304520	
OK		Full Service	306627	CHESTERTOWN DRIVE-IN BRANCH	301 MORGNEC ROAD	CHESTERTOWN	MD	21620	KENT	UNITED STATES	Not Required	Not Required	CHESAPEAKE BANK & TRUST COMPANY	304520	
OK		Limited Service	5099924	HERON POINT BRANCH	501 EAST CAMPUS AVENUE	CHESTERTOWN	MD	21620	KENT	UNITED STATES	Not Required	Not Required	CHESAPEAKE BANK & TRUST COMPANY	304520	

Form FR Y-6

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2017

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 - 56% 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	4,595 - 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."

Form FR Y-6

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

Chesapeake Bancorp
Chestertown, Maryland
Fiscal Year Ending December 31, 2018

(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	26,178 - 7% Common Stock	N/A	N/A	N/A
Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions Chestertown, MD USA	USA	64,669 - 17% 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	119,646 - 31% Common Stock			
Michael M. Messix Chestertown, MD USA	USA	20,680 - 5% Common Stock			
Robert D. Willard Chestertown, MD USA	USA	21,633 - 6% Common Stock			

Form FR Y-6

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2018

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	50%	1% Owned, 8% Beneficially Owned (Chesapeake Bancorp)	N/A
R. Franklin Dulin Chestertown, MD USA	Retired	N/A	N/A	N/A	28%	5% 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%	31% (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%	0% Beneficially Owned (Chesapeake Bancorp)	N/A
Joeseph F. Mitchell Havre de Grace, MD USA	N/A	Administrator	Controller (Chesapeake Bank & Trust)	N/A	0%	0% 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)	2%	0% Owned, 1% Beneficially Owned (Chesapeake Bancorp)	N/A

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Chesapeake Bancorp
Chestertown, Maryland
Fiscal Year Ending December 31, 2018

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	17%	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
James E. Gillespie Chestertown MD USA	Business Owner	Director	Director (Chesapeake Bank & Trust)	CEO-Gillespie & Son Inc.; CEO-Gillespie Precast LLC	1%	N/A	50%-Gillespie & Son Inc; 57%-Gillespie Precast LLC; 55% Delmarva Castings & Supply LLC
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	31%	N/A	N/A
Michael M. Messix Chestertown, MD USA	Retired	Director	Director (Chesapeake Bank & Trust)	Director & Asst. Treasurer (Chester River Yacht & Country Club); Treasurer (Father Bradford Council Knights of Columbus); Finance Committee Members (Sacred Heart Church, Chestertown, MD)	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	0% 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.)	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 H. Thompson Worton, MD USA	N/A	N/A	Senior VP & Senior Lending Officer	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), 33.3% (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), Director (University of Maryland-Shore Regional Health Board)	0% Owned, 1% Options, 1% Beneficially Owned	N/A	N/A

Chesapeake Bancorp and Subsidiary

Consolidated Financial Statements

December 31, 2018

Chesapeake Bancorp and Subsidiary

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ROWLES
& Company, LLP
Certified Public Accountants

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

Report of Independent Auditors

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, 2018 and 2017, and the related consolidated statements of income, 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 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, 2018 and 2017, 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.

Rowles & Company, LLP

Baltimore, Maryland
February 21, 2019

8100 Sandpiper Circle, Suite 308, Baltimore, Maryland 21236
443-725-5395 Fax 443-725-5074
Website: www.Rowles.com

Chesapeake Bancorp and Subsidiary

Consolidated Balance Sheets

December 31,	**2018**	2017
Assets		
Cash and due from banks	**$ 6,627,606**	$ 4,832,658
Interest-bearing deposits in financial institutions	**100,000**	100,000
Investment securities available-for-sale	**24,397,075**	29,875,860
Restricted stock investments	**297,800**	313,300
Loans, less allowance for loan losses of **$988,459** and $943,629	**72,162,260**	69,436,567
Foreclosed real estate	**497,329**	131,468
Premises and equipment	**234,198**	253,942
Bank-owned life insurance	**3,252,544**	3,188,728
Accrued interest receivable	**317,434**	295,569
Other assets	**75,117**	90,454
Total assets	**$107,961,363**	$108,518,546
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	**$ 24,075,168**	$ 22,617,215
Interest-bearing	**50,426,323**	51,518,725
Total deposits	**74,501,491**	74,135,940
Federal Home Loan Bank advances	**379,241**	402,883
Securities sold under repurchase agreements	**20,209,996**	21,452,836
Accrued interest payable	**17,700**	16,602
Other liabilities	**2,736,616**	2,726,027
Total liabilities	**97,845,044**	98,734,288
Stockholders' equity		
Common stock, $.01 par value; 2,000,000 shares authorized, **386,190** and 383,190 shares issued and outstanding at December 31, 2018 and 2017, respectively	**3,862**	3,832
Additional paid-in capital	**5,649,346**	5,492,708
Retained earnings	**4,486,882**	4,402,217
Accumulated other comprehensive loss	**(23,771)**	(114,499)
Total stockholders' equity	**10,116,319**	9,784,258
Total liabilities and stockholders' equity	**$107,961,363**	$108,518,546

The accompanying notes are an integral part of these consolidated financial statements.

Chesapeake Bancorp and Subsidiary

Consolidated Statements of Income

Years Ended December 31,	**2018**	2017
Interest income		
Loans, including fees	**$3,539,987**	$3,343,949
U.S. treasuries and government agency obligations	**365,801**	280,412
Federal funds sold and interest-bearing deposits	**35,028**	33,266
Other	**21,552**	15,075
Total interest income	**3,962,368**	3,672,702
Interest expense		
Deposits	**221,024**	201,938
Securities sold under repurchase agreements	**260,462**	158,023
Other borrowed funds	**47,063**	35,304
Total interest expense	**528,549**	395,265
Net interest income	**3,433,819**	3,277,437
Provision for loan losses	**75,000**	45,000
Net interest income after provision for loan losses	**3,358,819**	3,232,437
Noninterest income		
Service charges on deposit accounts	**82,040**	81,833
Gain on sale of loans held for sale	**27,389**	32,802
Investment service fee income	**31,450**	30,426
Bank-owned life insurance income	**89,787**	106,270
Gain on sale of foreclosed real estate	**2,919**	587,651
Other fees and commissions	**124,556**	138,873
Total noninterest income	**358,141**	977,855
Noninterest expenses		
Salaries and employee benefits	**1,616,082**	1,590,102
Premises and equipment	**153,777**	186,336
Data processing and communications	**238,013**	226,901
Loan processing and collection expense	**67,028**	70,488
Foreclosed real estate expense	**57,444**	21,527
FDIC insurance expense	**37,519**	36,986
Audit and professional fees	**91,335**	102,905
Other operating	**262,470**	215,878
Total noninterest expenses	**2,523,668**	2,451,123
Net income	**$1,193,292**	$1,759,169
Weighted average common shares outstanding	**383,497**	381,963
Basic earnings per share	**$ 3.11**	$ 4.61
Diluted earnings per share	**$ 3.11**	$ 4.61

The accompanying notes are an integral part of these consolidated financial statements.

Chesapeake Bancorp and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31,	**2018**	2017
Net income	**$1,193,292**	$1,759,169
Other comprehensive income (loss)		
Unrealized gain (loss) on securities available-for-sale	**90,728**	(38,048)
Total comprehensive income	**$1,284,020**	$1,721,121

The accompanying notes are an integral part of these consolidated financial statements.

Chesapeake Bancorp and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2017 and 2016

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity
Balance, December 31, 2016	**$3,817**	**$5,435,678**	**$3,743,035**	**$ (76,451)**	**$ 9,106,079**
Net income	-	-	1,759,169	-	1,759,169
Cash dividends, $2.88 per share	-	-	(1,099,987)	-	(1,099,987)
Stock-based compensation	-	3,670	-	-	3,670
Stock issued	15	53,360	-	-	53,375
Net unrealized loss on securities available-for-sale	-	-	-	(38,048)	(38,048)
Balance, December 31, 2017	**3,832**	**5,492,708**	**4,402,217**	**(114,499)**	**9,784,258**
Net income	-	-	**1,193,292**	-	**1,193,292**
Cash dividends, **$2.88** per share	-	-	**(1,108,627)**	-	**(1,108,627)**
Stock-based compensation	-	**18,668**	-	-	**18,668**
Stock issued	**30**	**137,970**	-	-	**138,000**
Net unrealized gain on securities available-for-sale	-	-	-	**90,728**	**90,728**
Balance, December 31, 2018	**$3,862**	**$5,649,346**	**$4,486,882**	**$ (23,771)**	**$10,116,319**

The accompanying notes are an integral part of these consolidated financial statements.

Chesapeake Bancorp and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31,	**2018**	2017
Cash flows from operating activities		
Net income	**$ 1,193,292**	$ 1,759,169
Adjustments to reconcile net income to net cash provided by operating activities		
Stock-based compensation	**18,668**	3,670
Provision for loan losses	**75,000**	45,000
Depreciation and amortization of premises, equipment, and software	**37,797**	45,320
Amortization of discounts, net of accretion	**(64,065)**	(16,643)
Loss (gain) on sale of foreclosed real estate	**(2,919)**	(587,651)
Gain on sale of loans held for sale	**(27,389)**	(32,802)
Origination of loans held for sale	**(2,042,195)**	(2,880,714)
Proceeds from sales of loans held for sale	**2,069,584**	2,913,516
Decrease (increase) in		
Accrued interest receivable	**(21,865)**	13,235
Cash surrender value of bank-owned life insurance	**(63,816)**	(63,328)
Deferred gain on foreclosed real estate	**-**	185,587
Other assets	**15,337**	26,862
Increase (decrease) in		
Deferred loan fees and costs, net	**4,882**	12,793
Accrued interest payable	**1,098**	(1,698)
Other liabilities	**10,589**	(229,219)
Net cash provided by operating activities	**1,203,998**	1,193,097
Cash flows from investing activities		
Purchase of investment securities available-for-sale	**(24,366,422)**	(7,988,965)
Proceeds from maturities and calls of investment securities available-for-sale	**30,000,000**	13,000,000
(Purchase) sale of restricted stock investments	**15,500**	(73,100)
Loans made, net of principal collected	**(3,171,436)**	(6,169,656)
Proceeds from sale of foreclosed real estate	**2,919**	1,110,094
Purchase of premises and equipment	**(18,053)**	(13,399)
Net cash provided by (used in) investing activities	**2,462,508**	(135,026)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**365,551**	(1,744,430)
Securities sold under repurchase agreements	**(1,242,840)**	(4,702,482)
Line of credit advances	**-**	(500,000)
Federal Home Loan Bank advances	**(23,642)**	(22,048)
Dividends paid on common stock	**(1,108,627)**	(1,099,987)
Proceeds from issuance of common stock	**138,000**	53,375
Net cash used by financing activities	**(1,871,558)**	(8,015,572)
Net increase (decrease) in cash and cash equivalents	**1,794,948**	(6,957,501)
Cash and cash equivalents at beginning of year	**4,832,658**	11,790,159
Cash and cash equivalents at end of year	**$ 6,627,606**	$ 4,832,658
Supplemental cash flows information		
Change in unrealized loss on investment securities available-for-sale	**$ 90,728**	$ (38,048)
Transfers from loans to foreclosed real estate	**$ 365,861**	$ -
Interest paid	**$ 527,550**	$ 396,963

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the accompanying consolidated financial statements conform to generally accepted accounting principles and to general practices within the banking industry.

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 branches 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 Company conform to accounting principles generally accepted in the United States of America.

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.

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 loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

While management uses available information to recognize losses on loans, further reductions in the carrying amount 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.

1. **Summary of Significant Accounting Policies** (Continued)

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 noninterest 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 with no call dates are amortized over the term of the security using methods that approximate the interest method. Premiums on investment securities with call dates are amortized through the earliest call date.

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 the recorded investment.

Loans held for sale

The Bank has a program to sell newly originated long-term fixed rate residential mortgages on the secondary market. These loans are usually sold within 10 to 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, 2018 and 2017, there were no loans held for sale outstanding.

Loans

Loans are stated at their unpaid principal balance outstanding net of the allowance for loan 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.

1. **Summary of Significant Accounting Policies** (Continued)

Allowance for loan losses

The allowance for loan 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 loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

The allowance consists of specific and general reserve components. For loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan, if the loan is collateral dependent, is lower than the carrying amount of that loan. The general reserve component covers pools of nonclassified 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.

Loan losses are charged to the allowance when management believes that collectability is unlikely. 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. Once the actual loss amount 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. Collections of loans previously charged off are added to the allowance at the time of recovery.

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.

1. **Summary of Significant Accounting Policies** (Continued)

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, 2018 and 2017, there were no long-lived assets which management considered to be impaired.

Foreclosed real estate

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 loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at fair value less costs 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 foreclosed real estate are included in noninterest income.

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 noninterest income.

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 on hand, cash due from banks, and federal funds sold as cash and cash equivalents for the purposes of reporting cash flows.

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. For the years ended December 31, 2018 and 2017, the stock options outstanding were not dilutive.

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 uses the Black-Scholes option pricing model to value share-based payments. The Company has recognized compensation expense for stock awards of **$18,668** and $3,670 for the years ended December 31, 2018 and 2017, respectively.

1. **Summary of Significant Accounting Policies** (Continued)

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 balance sheet. Such items, along with net income, are components of comprehensive income.

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

The Company has evaluated events and transactions subsequent to December 31, 2018 through February 21, 2019, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. **Cash and Cash Equivalents**

The Bank normally carries balances with other banks that exceed the federally insured limit. The average balances carried in excess of the limit, including federal funds sold on an unsecured basis, were **$1,698,663** for the year ended December 31, 2018 and $2,123,793 for the year ended December 31, 2017.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category. The combined total is insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC).

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

3. **Investment Securities**

Investment securities are summarized as follows:

December 31, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale				
U.S. government agency	**$ 8,503,044**	**$ 939**	**$ 8,598**	**$ 8,495,385**
U.S. Treasury	**15,917,802**	**-**	**16,112**	**15,901,690**
	$24,420,846	**$ 939**	**$ 24,710**	**$24,397,075**

December 31, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale				
U.S. government agency	$ 29,990,359	$ -	$ 114,499	$ 29,875,860

The amortized cost and fair value of debt securities by contractual maturities at December 31, 2018, are shown below. Actual maturities will differ from contractual maturities because borrowers may call or repay obligations with or without call or prepayment penalties.

	Amortized cost	Fair value
Maturing		
Within one year	$ 18,443,872	$ 18,422,585
Over one to three years	5,976,974	5,974,490
	$ 24,420,846	$ 24,397,075

Securities with an amortized cost of **$22,235,846** and $21,675,000, and a fair value of **$22,218,058** and $21,587,958 at December 31, 2018 and 2017, respectively, were pledged as collateral for customer repurchase agreement accounts.

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer are as follows:

	Less than 12 months		12 months or more		Total	
December 31, 2018	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available for sale						
U.S. government agency	**$ -**	**$ -**	**$4,992,670**	**$8,598**	**$ 4,992,670**	**$ 8,598**
U.S. Treasury	**15,901,690**	**16,112**	**-**	**-**	**15,901,690**	**16,112**
	$15,901,690	**$16,112**	**$4,992,670**	**$8,598**	**$20,894,360**	**$24,710**
December 31, 2017						
Available for sale						
U.S. government agency	$ 7,964,720	$ 29,743	$ 21,911,140	$84,756	$ 29,875,860	$114,499

3. **Investment Securities** (Continued)

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.

These securities are guaranteed by the full faith and credit of the U.S. government. These unrealized losses are the result of changes in interest rates for similar types of securities. As management has the ability to hold debt securities until maturity, no declines are deemed to be other-than-temporary.

There were no sales of investment securities in either 2018 or 2017.

4. **Loans and Allowances for Loan Losses**

The principal categories of the loan portfolio of the Bank for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Real estate		
Residential	**$47,700,894**	$39,759,212
Construction, land, and land development	**4,213,605**	4,318,669
Nonfarm, nonresidential	**13,003,249**	15,788,878
Farmland	**3,479,785**	2,571,650
Loans to farmers	**554,059**	1,447,140
Commercial and industrial	**3,336,466**	5,682,958
Consumer	**904,565**	848,711
	73,192,623	70,417,218
Deferred loan origination fees, net of costs	**(41,904)**	(37,022)
Allowance for loan losses	**(988,459)**	(943,629)
Total loans, net	**$72,162,260**	$69,436,567

During the year ended December 31, 2018, management of the Bank reclassified certain loans between categories in the table above to better reflect the nature of the related loans. The classifications as of December 31, 2017, in the table above were not updated.

The Bank has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. 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 loan losses. Changes in the allowance for loan losses and the related provision expense can materially affect net income.

4. **Loans and Allowances for Loan Losses** (Continued)

The following table presents the changes in the allowance for loan losses for the years ended December 31, 2018 and 2017:

December 31, 2018	Residential real estate	Commercial and industrial real estate and other	Personal secured and unsecured	Total
Allowance for loan losses				
Beginning balance	**$478,778**	**$ 294,161**	**$170,690**	**$943,629**
Charge-offs	**-**	**(49,651)**	**-**	**(49,651)**
Recoveries	**14,388**	**4,972**	**121**	**19,481**
Provision for loan losses	**38,250**	**23,250**	**13,500**	**75,000**
Ending balance	**$531,416**	**$ 272,732**	**$184,311**	**$988,459**
December 31, 2017				
Allowance for loan losses				
Beginning balance	$ 456,143	$ 280,067	$ 158,015	$ 894,225
Charge-offs	(319)	-	-	(319)
Recoveries	-	-	4,723	4,723
Provision for loan losses	22,954	14,094	7,952	45,000
Ending balance	$ 478,778	$ 294,161	$ 170,690	$ 943,629

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 nonclassified, special mention, substandard, and doubtful as follows:

December 31, 2018	Nonclassified	Pass/watch	Special mention	Substandard	Doubtful	Total
Residential real estate	**$44,585,028**	**$2,270,471**	**$ 519,969**	**$ 158,509**	**$166,917**	**$47,700,894**
Construction, land, and land development	**1,326,263**	**2,367,191**	**514,421**	**5,730**	**-**	**4,213,605**
Nonfarm, nonresidential	**9,181,606**	**2,165,115**	**818,919**	**837,609**	**-**	**13,003,249**
Farmland	**3,330,427**	**149,358**	**-**	**-**		**3,479,785**
Loans to farmers	**554,059**	**-**	**-**	**-**	**-**	**554,059**
Commercial and industrial	**2,935,591**	**400,875**	**-**	**-**	**-**	**3,336,466**
Consumer	**878,940**	**18,235**	**7,390**	**-**	**-**	**904,565**
Total	**$62,791,914**	**$7,371,245**	**$1,860,699**	**$1,001,848**	**$166,917**	**$73,192,623**

4. **Loans and Allowances for Loan Losses** (Continued)

December 31, 2017	Nonclassified	Pass/watch	Special mention	Substandard	Doubtful	Total
Residential real estate	$ 36,393,751	$ 2,317,187	$ 526,495	$ 333,998	$ 187,781	$ 39,759,212
Construction, land, and land development	3,313,393	994,076	11,200	-	-	4,318,669
Nonfarm, nonresidential	9,222,898	4,478,795	1,196,564	890,621	-	15,788,878
Farmland	2,390,099	181,551	-	-	-	2,571,650
Loans to farmers	1,447,140	-	-	-	-	1,447,140
Commercial and industrial	5,228,309	286,909	167,740	-	-	5,682,958
Consumer	806,735	23,306	18,670	-	-	848,711
Total	$ 58,802,325	$ 8,281,824	$ 1,920,669	$ 1,224,619	$ 187,781	$ 70,417,218

Special mention

A special mention loan 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 Bank's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans 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.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by senior management.

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan 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

A loss loan is considered uncollectible and of such little value that its continuance as a bankable asset 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 the asset even though partial recovery may be affected in the future.

4. **Loans and Allowances for Loan Losses** (Continued)

Loans individually and collectively evaluated for impairment as of December 31, 2018 and 2017, were as follows:

December 31, 2018	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total
Residential real estate	**$ 325,426**	**$47,375,468**	**$47,700,894**
Construction, land, and land development	**5,730**	**4,207,875**	**4,213,605**
Nonfarm, nonresidential	**208,420**	**12,794,829**	**13,003,249**
Farmland	-	**3,479,785**	**3,479,785**
Loans to farmers	-	**554,059**	**554,059**
Commercial and industrial	-	**3,336,466**	**3,336,466**
Consumer	**7,390**	**897,175**	**904,565**
Total	**$ 546,966**	**$72,645,657**	**$73,192,623**
December 31, 2017			
Residential real estate	$ 521,779	$ 39,237,433	$ 39,759,212
Construction, land, and land development	-	4,318,669	4,318,669
Nonfarm, nonresidential	1,103,135	14,685,743	15,788,878
Farmland	-	2,571,650	2,571,650
Loans to farmers	-	1,447,140	1,447,140
Commercial and industrial	-	5,682,958	5,682,958
Consumer	12,905	835,806	848,711
Total	$ 1,637,819	$ 68,779,399	$ 70,417,218

Impaired loans include loans that have been assessed for impairment, although management may determine that the loan does not require a specific reserve. Impaired loans as of December 31, 2018 and 2017, were as follows:

December 31, 2018	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Residential real estate	**$373,306**	**$158,509**	**$166,917**	**$325,426**	**$68,974**	**$399,555**	**$ (389)**
Construction, land, and land development	**5,926**	**5,730**	-	**5,730**	-	**6,062**	**14,465**
Nonfarm, nonresidential	**208,420**	**208,420**	-	**208,420**	-	**210,398**	**143**
Consumer	**7,390**	**7,390**	-	**7,390**	-	**10,044**	**703**
Total	**$595,042**	**$380,049**	**$166,917**	**$546,966**	**$68,974**	**$626,059**	**$14,922**
December 31, 2017							
Residential real estate	$ 539,994	$ 333,998	$ 187,781	$ 521,779	$ 89,838	$ 521,589	$ 16,545
Nonfarm, nonresidential	1,316,178	1,103,135	-	1,103,135	-	1,118,068	91,780
Consumer	12,905	12,905	-	12,905	-	15,347	1,074
Total	$1,869,077	$1,450,038	$ 187,781	$1,637,819	$ 89,838	$1,655,004	$109,399

4. **Loans and Allowances for Loan Losses** (Continued)

Past due loans as of December 31, 2018 and 2017, were as follows:

December 31, 2018	Loans 30 - 59 days past due	Loans 60 - 89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Total loans
Residential real estate	**$ 736,618**	**$ -**	**$37,834**	**$ 774,452**	**$46,926,442**	**$47,700,894**
Construction, land, and land development	**-**	**5,730**	**-**	**5,730**	**4,207,875**	**4,213,605**
Nonfarm, nonresidential	**1,104,132**	**-**	**-**	**1,104,132**	**11,899,117**	**13,003,249**
Farmland	**-**	**-**	**-**	**-**	**3,479,785**	**3,479,785**
Loans to farmers	**-**	**-**	**-**	**-**	**554,059**	**554,059**
Commercial and industrial	**-**	**-**	**-**	**-**	**3,336,466**	**3,336,466**
Consumer	**-**	**-**	**-**	**-**	**904,565**	**904,565**
Total	**$1,840,750**	**$ 5,730**	**$37,834**	**$1,884,314**	**$71,308,309**	**$73,192,623**
December 31, 2017						
Residential real estate	$ 201,970	$ 172,372	$ 92,118	$ 466,460	$ 39,292,752	$ 39,759,212
Construction, land, and land development	-	-	-	-	4,318,669	4,318,669
Nonfarm, nonresidential	851,210	151,950	253,234	1,256,394	14,532,484	15,788,878
Farmland	-	-	-	-	2,571,650	2,571,650
Loans to farmers	-	-	-	-	1,447,140	1,447,140
Commercial and industrial	-	-	-	-	5,682,958	5,682,958
Consumer	2,128	-	-	2,128	846,583	848,711
Total	$ 1,055,308	$ 324,322	$345,352	$ 1,724,982	$ 68,692,236	$ 70,417,218

Nonaccrual loans as of December 31, 2018 and 2017, were as follows:

December 31,	**2018**	2017
Residential real estate	**$325,426**	$349,407
Construction, land, and land development	**5,730**	-
Nonfarm, nonresidential	**-**	253,233
Total nonaccrual loans	**$331,156**	$602,640
Allowance for loan losses related to nonaccrual loans	**$ 68,974**	$ 89,838
Nonaccrual interest not accrued	**$ 49,053**	$ 53,614

4. **Loans and Allowances for Loan Losses** (Continued)

Troubled debt restructures (TDR) 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, 2018	Number of contracts	Performing	Nonperforming	Total
Residential real estate	**1**	**$ -**	**$ 60,796**	**$ 60,796**
Nonfarm, nonresidential	**1**	**208,420**	**-**	**208,420**
Consumer	**1**	**7,390**	**-**	**7,390**
	3	**$ 215,810**	**$ 60,796**	**$ 276,606**
December 31, 2017				
Nonfarm, nonresidential	2	$ 212,514	$ 131,898	$ 344,412
Consumer	1	12,905	-	12,905
	3	$ 225,419	$ 131,898	$ 357,317

Interest income in the amount of **$15,168** and $58,060 was recognized on outstanding TDR loans for the years ended December 31, 2018 and 2017, respectively.

During the year ended December 31, 2018, the Bank added one new residential real estate TDR with a recorded investment balance of **$60,794** and a pre-modification investment balance of **$140,417**. During the year ended December 31, 2017, the Bank did not add any new TDRs.

There were no loans secured by one to four family residential properties in the process of foreclosure as of December 31, 2018. There were $87,111 of loans secured by one to four family residential properties in the process of foreclosure as of December 31, 2017.

5. **Bank Premises and Equipment**

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

	2018	2017
Land	**$ 50,000**	$ 50,000
Buildings and leasehold improvements	**1,008,498**	1,008,498
Furniture and fixtures	**166,317**	166,317
Equipment	**319,617**	301,564
	1,544,432	1,526,379
Accumulated depreciation and amortization	**(1,310,234)**	(1,272,437)
Net premises and equipment	**$ 234,198**	$ 253,942

Depreciation and amortization expense was **$37,797** and $45,320 for the years ended December 31, 2018 and 2017, respectively.

6. Lease Commitments

The Bank leases one 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 for 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 **$18,000** for the years ended December 31, 2018 and 2017.

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** for the years ended December 31, 2018 and 2017, respectively. This lease was renewed through November 30, 2019.

Future minimum lease payments under noncancellable leases as of December 31, 2018, are as follows:

Year ended December 31,	Minimum rentals
2019	$ 10,200

7. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	2018	2017
Savings	**$11,170,459**	$11,259,481
Money market	**20,115,980**	19,273,832
NOW	**3,254,006**	4,618,773
Certificates of deposit	**15,885,878**	16,366,639
	$50,426,323	$51,518,725

Maturities of time deposits, are as follows:

	2018
Within one year	**$ 5,037,174**
One year to within two years	**5,536,306**
Two years to within three years	**1,586,385**
Three years to within four years	**1,665,227**
Four years to within five years	**1,408,282**
Five years and longer	**652,504**
Total	**$15,885,878**

7. **Interest-Bearing Deposits** (Continued)

Interest expense on deposits for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Savings	$ 16,450	$ 13,062
Money market	61,362	51,924
NOW	2,238	2,579
Certificates of deposit	140,974	134,373
	$ 221,024	$ 201,938

As of December 31, 2018 and 2017, certificate of deposits of $250,000 or more totaled **$5,180,652** and $4,636,519, respectively.

8. **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 second year of credited service with the Bank. Contributions by the Bank totaled approximately **$73,991** and $72,124 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the ESOP holds 64,669 shares, or approximately 16.75%, of the Company's outstanding common stock. At December 31, 2018, all 64,669 shares held in the ESOP were fully allocated to participants. 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 **$86,270** and $99,342 for the years ended December 31, 2018 and 2017, respectively. Cash surrender value and accrued benefit obligation, reported as bank-owned life insurance and included in other liabilities, respectively, as of December 31, 2018 and 2017, are as follows:

	2018	2017
Cash surrender value	$3,252,544	$3,188,728
Accrued benefit obligations	$2,037,883	$2,054,514

8. **Benefit Plans** (Continued)

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 Company's 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 **$44,000** and $45,000, for the years ended December 31, 2018 and 2017, respectively.

9. **Credit Commitments**

The following credit commitments are outstanding as of December 31:

	2018	2017
Unused lines of credit		
Construction loans	**$ 660,563**	$ 1,294,164
Mortgage loans	**1,100,297**	2,195,373
Home equity lines of credit	**7,751,568**	6,322,590
Business and consumer lines of credit	**10,313,129**	8,943,834
	$19,825,557	$ 18,755,961
Loan commitments		
Mortgage loans	**$ 1,680,000**	$ 542,000
Standby letters of credit	**$ 357,115**	$ 317,464

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have fixed interest at current market rates, fixed expiration dates, and may require payment of a fee. Three of the five mortgage loan commitments at December 31, 2018, totaling **$1,465,000**, had fixed interest rates. Two of the mortgage loan commitments at December 31, 2018, totaling **$215,000**, had variable interest rates. The two mortgage commitments at December 31, 2017, had fixed rates.

Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank's exposure to credit loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment. Management is not aware of any accounting loss the Bank will incur by funding these commitments.

The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers. The Bank recognized $120,000 in the statement of financial condition at December 31, 2018 and 2017, as a liability for credit loss related to these commitments.

10. **Stock Options**

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

	2018		2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	**4,000**	**$42.50**	4,000	$ 42.50
Granted	**4,000**	**42.50**	-	-
Exercised	-	-	-	-
Expired/cancelled/forfeited	-	-	-	-
Outstanding at end of year	**8,000**	**$42.50**	4,000	$ 42.50
Options exercisable at end of year	**4,000**	**$42.50**	2,000	$ 42.50

A summary of information about stock options outstanding is as follows as of December 31, 2018:

	Exercise price	Remaining average life (in years)	Outstanding shares	Exercisable shares
	$ 42.50	**3.0**	**4,000**	**4,000**
	42.50	**6.1**	**4,000**	**-**
	$ 42.50	**4.6**	**8,000**	**4,000**
Intrinsic value on December 31, 2018			**$ 28,000**	**$14,000**

During the year ended December 31, 2018, the Company granted 4,000 stock options to one of its executive officers, with a weighted average fair value of **$7.85** per option. The aggregate intrinsic value is calculated by evaluating the difference between the estimated fair value of the stock and the exercise price of the option and multiplying by the number of options outstanding. There are no stock options with exercise prices greater than the estimated fair value of the stock. The assumed market prices for the Company's outstanding stock were based on the most recent trade prices as of December 31, 2018 and 2017, which were **$46** and $44, respectively. Stock-based compensation expense has been recorded by the Company related to these grants in the amount of **$18,668** and $3,670, for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there is approximately **$16,418** of stock based compensation expense that is expected to be recognized over the next four years.

The weighted average fair value of options granted during 2018 were estimated using the Black-Scholes option-pricing model with the following assumptions:

	2018
Risk free interest rate	**2.55%**
Expected volatility	**7.98%**
Expected life in years	**7.0**

11. Borrowed Funds and Lines of Credit

Federal Home Loan Bank advances

The Bank has approved credit facilities with the Federal Home Loan Bank of Atlanta (FHLB), for short-term liquidity of **$21,299,362** as of December 31, 2018. Because the Bank has pledged as collateral a portfolio of Home Equity Lines of Credit (HELOC) and first mortgages on residential properties, the total available advances is limited by this portfolio. The Bank also has an Affordable Housing Program Agreement with the FHLB 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 total outstanding balance with the FHLB was **$379,241** and $402,883 as of December 31, 2018 and 2017, respectively. The outstanding balance matures on February 11, 2019, and bears interest at 5%. This borrowing reduces the available advances to **$20,920,121** at December 31, 2018.

Securities sold under repurchase agreements

The Bank sells securities under repurchase agreements to provide cash management services to commercial account customers. 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 borrowings are summarized as follows:

	2018	2017
Average amount outstanding	**$14,910,325**	$17,367,848
Maximum month-end amount outstanding	**22,490,806**	25,254,411
Average rate paid during the year	**1.75%**	0.91%

Other lines of credit

The Company has a $600,000 revolving line of credit with another financial institution. Interest is payable based on the prime rate plus 0.5% with a 4.0% floor. This loan is unsecured. The line of credit has a maturity date of June 1, 2019.

The Bank has an available line of credit of $2,000,000 in unsecured, overnight federal funds from another financial institution.

12. Related-Party Transactions

In the normal course of banking business, loans are made to senior officers and directors of the Bank. The terms of these transactions are substantially the same as the terms provided to other borrowers entering into similar loan transactions. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations, and do not involve more than normal credit risk.

A summary of these loans is as follows:

	2018	2017
Balance at beginning of year	**$ 2,002,120**	$ 3,198,092
New loans and advances	**558,063**	879,028
Change in officers and directors	**240,109**	-
Repayments	**(976,192)**	(2,075,000)
Balance at end of year	**$ 1,824,100**	$ 2,002,120

Deposit balances of senior officers and directors and their affiliated interest totaled **$6,973,858** and $3,153,200 at December 31, 2018 and 2017, respectively.

12. **Related-Party Transactions** (Continued)

The Bank paid **$3,280** and $3,560 to a director for appraisal review services in 2018 and 2017, respectively. The Bank paid **$18,000** rent to a director for a branch in 2018 and 2017. The Bank paid **$6,347** and $7,645 to a director for foreclosed real estate management services in 2018 and 2017, respectively.

13. **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 possible additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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 Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, if any.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%.

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank. Management believes that, as of December 31, 2018, the Company and the Bank met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were fully in effect.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The tables below present actual and required capital ratios as of December 31, 2018 and 2017, for the Bank and the Company under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2018 and 2017, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

13. Capital Standards and Dividend Restrictions (Continued)

As of December 31, 2018, the most recent notification from the Federal Reserve Bank and FDIC has categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company and Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Company's or Bank's category.

The Federal Reserve Bank or FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

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

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	**$11,020**	**15.38%**	**$6,935**	**9.88%**	**$7,023**	**10.00%**
Bank	**11,064**	**15.75%**	**6,935**	**9.88%**	**7,023**	**10.00%**
Tier I (core) capital (to risk-weighted assets)						
Company	**$10,140**	**14.44%**	**$5,531**	**7.88%**	**$5,618**	**8.00%**
Bank	**10,184**	**14.50%**	**5,531**	**7.88%**	**5,618**	**8.00%**
Common tier I (CET 1)						
Company	**$10,140**	**14.44%**	**$4,477**	**6.38%**	**$4,565**	**6.50%**
Bank	**10,184**	**14.50%**	**4,477**	**6.38%**	**4,565**	**6.50%**
Tier I capital (to average assets)						
Company	**$10,140**	**9.40%**	**$4,314**	**4.00%**	**$5,392**	**5.00%**
Bank	**10,184**	**9.44%**	**4,314**	**4.00%**	**5,392**	**5.00%**
December 31, 2017						
Total capital (to risk-weighted assets)						
Company	$ 10,801	14.97%	$ 6,673	9.25%	$ 7,214	10.00%
Bank	10,983	15.22%	6,673	9.25%	7,214	10.00%
Tier I (core) capital (to risk-weighted assets)						
Company	$ 9,899	13.72%	$ 5,230	7.25%	$ 5,772	8.00%
Bank	10,080	13.97%	5,230	7.25%	5,772	8.00%
Common tier I (CET 1)						
Company	$ 9,899	13.72%	$ 4,148	5.75%	$ 4,689	6.50%
Bank	10,080	13.97%	4,148	5.75%	4,689	6.50%
Tier I capital (to average assets)						
Company	$ 9,899	8.87%	$ 4,466	4.00%	$ 5,582	5.00%
Bank	10,080	9.03%	4,466	4.00%	5,582	5.00%

14. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, expand disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation method are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 – Inputs to the valuation method include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation method are unobservable and significant to the fair value measurement.

Fair value measurements on a recurring basis

Investment securities available for sale - If quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 includes securities that have quoted prices in an active market for identical assets. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows which are considered Level 2 inputs. The Company has categorized its investment securities available for sale as follows as of December 31, 2018 and 2017:

December 31, 2018	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
U.S. government agency	**$ 8,495,385**	**$ -**	**$ 8,495,385**	**$ -**
U.S. Treasury	**15,901,690**	**-**	**15,901,690**	**-**
	$24,397,075	**$ -**	**$24,397,075**	**$ -**
December 31, 2017				
U.S. government agency	$ 29,875,860	$ -	$ 29,875,860	$ -

Fair value measurements on a nonrecurring basis

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values.

14. **Fair Value Measurements** (Continued)

Fair value measurements on a nonrecurring basis (Continued)

Foreclosed real estate is measured at fair value less estimated cost to sell. The fair value of foreclosed real estate is based on offers and/or appraisals. Cost to sell the real estate is based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3. Transactions in foreclosed real estate during the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Balance, beginning of year	**$ 131,468**	$ 839,498
Additions and improvements	**365,861**	-
Proceeds from sale	**(2,919)**	(1,110,094)
Gain on sales	**2,919**	402,064
Balance, end of year	**$ 497,329**	$ 131,468
Gain (loss) on sales per schedule above	**$ 2,919**	$ 402,064
Deferred gains recognized	**-**	185,587
Gain on sale of foreclosed real estate per consolidated statements of income	**$ 2,919**	$ 587,651

The Bank has categorized its impaired loans and foreclosed real estate as follows:

December 31, 2018	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Impaired loans	**$ 477,992**	$ -	$ -	**$ 477,992**
Foreclosed real estate	**497,329**	-	-	**497,329**
December 31, 2017				
Impaired loans	$ 1,547,981	$ -	$ -	$ 1,547,981
Foreclosed real estate	131,468	-	-	131,468

15. Parent Company Financial Information

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

Balance Sheets

December 31,	**2018**	2017
Assets		
Cash and due from banks	$ **377,760**	$ 196,592
Investment in subsidiary	**10,160,420**	9,965,527
Total assets	**$10,538,180**	$10,162,119
Liabilities and Stockholders' Equity		
Liabilities		
Phantom stock plan accrual	$ **421,861**	$ 377,861
Total liabilities	**421,861**	377,861
Stockholders' equity		
Common stock, par value $.01; authorized 2,000,000 shares; **386,190** and 383,190 shares issued and outstanding at December 31, 2018 and 2017, respectively	**3,862**	3,832
Additional paid-in capital	**5,649,346**	5,492,708
Retained earnings	**4,486,882**	4,402,217
Accumulated other comprehensive loss	**(23,771)**	(114,499)
Total stockholders' equity	**10,116,319**	9,784,258
Total liabilities and stockholders' equity	**$10,538,180**	$10,162,119

Statements of Income

December 31,	**2018**	2017
Cash dividends from subsidiary	**$ 1,152,000**	$ 1,552,000
Interest income	**595**	207
Expenses	**(44,800)**	(53,056)
Income before equity in undistributed net income of subsidiary	**1,107,795**	1,499,151
Equity in undistributed net income of subsidiary	**85,497**	260,018
Net income	**$ 1,193,292**	$ 1,759,169

15. **Parent Company Financial Information** (Continued)

Statements of Cash Flows

December 31,	**2018**	2017
Cash flows from operating activities		
Net income	**$1,193,292**	$1,759,169
Equity in undistributed net income of subsidiary	**(85,497)**	(260,018)
Stock-based compensation	**-**	3,670
Increase in other liabilities	**44,000**	43,790
Net cash provided by operating activities	**1,151,795**	1,546,611
Cash flows from financing activities		
Decrease in line of credit	**-**	(500,000)
Proceeds from issuance of common stock	**138,000**	53,375
Dividends paid on common stock	**(1,108,627)**	(1,099,987)
Net cash used by financing activities	**(970,627)**	(1,546,612)
Net increase (decrease) in cash	**181,168**	(1)
Cash at beginning of year	**196,592**	196,593
Cash at end of year	**$ 377,760**	$ 196,592