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FR Y-6
OMB Number 7100-0297
Approval expires November 30, 2022
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Board of Governors of the Federal Reserve System



FRB RICHMOND

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.

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

December 31, 2019

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

Chestertown Maryland 21650
City State Zip Code

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@chesapeakestrust.com

E-mail Address

N/A

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

I, Rick 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

2/26/20

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 2857758

C.I.

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 Bancorp
Legal Title of Subsidiary Holding Company

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

Chestertown Maryland 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)

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Form FR Y-6

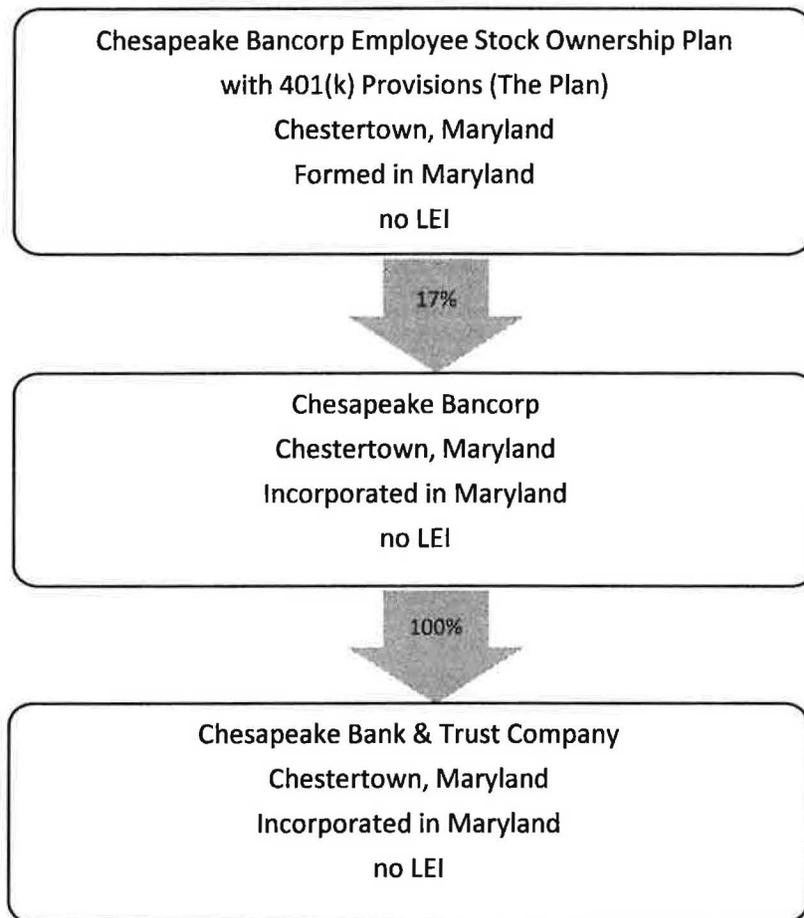
Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2019

Report Item

1:

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions does not prepare an annual report for its shareholders. Chesapeake 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 12/31/2019. Data reflects information that was received and processed through 02/21/19.

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	

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2019

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 - 50% 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	4,608 - 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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Report Item 3: Securities Holders
 (1)(a)(b)(c) and (2)(a)(b)(c)

Chesapeake Bancorp
Chestertown, Maryland
Fiscal Year Ending December 31, 2019

(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			

Chesapeake Bancorp Employee Stock Ownership Plan with 401(k) Provisions (The Plan)
Chestertown, Maryland
Fiscal Year Ending December 31, 2019

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%	1% Beneficially Owned (Chesapeake Bancorp)	N/A
Margaret H. Simmons Stevensville, 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

ATTACHMENT #5

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

Name, City State, Country	Principal Occupation if other than with Holding Company	Title & Position with Holding Company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	List of names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) (4)(c)
(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
A. Bahmann Abbot, III Greenwood, VA	Retired Architect	President & Director	Director Fayette County National Bank	Owner	1.35%	N/A	School House Studio Works - 100%
Michael L. Rahall Fayetteville, WV	Merchant	Chairman	Chairman & President Fayette County National Bank	President/Member Meld, Inc. M & D's Almost Heaven Properties, LLC	1.04%	N/A	MELD, Inc. - 50% M & D's Almost Heaven Properties, LLC - 50%
Linda L. Ramsey Fayetteville, WV	N/A	Director & Secretary/Treasurer	Director Fayette County National Bank	N/A	1.20%	N/A	N/A
John Franklin Hindson, III Fayetteville, WV	Business Owner	Director	Director Fayette County National Bank	Business Owner F & D Rentals	0.42%	N/A	Hindson Inc. - 50%
Charles M. Mahood Fayetteville, WV	N/A	Director	Director Fayette County National Bank	N/A	7.49%	N/A	N/A
Stephanie K. Ford Fayetteville, WV	Psychologist	Director	Director Fayette County National Bank	N/A	8.28%	N/A	N/A
Denise A. Light Fayetteville, WV	Banker	Director	EVP, CEO & Cashier Director Fayette County National Bank	N/A	0.42%	N/A	N/A
Helen L. Rakes Fayetteville, WV	Banker	Director	SVP, SLO & Compliance Officer Director Fayette County National Bank	N/A	0.42%	N/A	N/A

Chesapeake Bancorp and Subsidiary

Consolidated Financial Statements

December 31, 2019

Chesapeake Bancorp and Subsidiary

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

Report of Independent Auditors

Report on the Financial Statements

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, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
February 19, 2020

Chesapeake Bancorp and Subsidiary

Consolidated Balance Sheets

December 31,	2019	2018
Assets		
Cash and due from banks	\$ 3,212,965	\$ 6,627,606
Interest-bearing deposits in financial institutions	100,000	100,000
Investment securities available-for-sale	22,503,940	24,397,075
Restricted stock investments	621,000	297,800
Loans held for sale	177,697	-
Loans, less allowance for loan losses of \$1,032,843 and \$988,459	76,053,540	72,162,260
Foreclosed real estate	90,000	497,329
Premises and equipment	329,777	234,198
Bank-owned life insurance	3,316,251	3,252,544
Accrued interest receivable	343,379	317,434
Other assets	150,565	75,117
Total assets	<u>\$106,899,114</u>	<u>\$107,961,363</u>
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	\$ 23,161,689	\$ 24,075,168
Interest-bearing	<u>51,278,768</u>	<u>50,426,323</u>
Total deposits	74,440,457	74,501,491
Federal Home Loan Bank advances	9,250,000	379,241
Securities sold under repurchase agreements	9,637,299	20,209,996
Accrued interest payable	23,184	17,700
Other liabilities	<u>2,807,384</u>	<u>2,736,616</u>
Total liabilities	<u>96,158,324</u>	<u>97,845,044</u>
Stockholders' equity		
Common stock, \$.01 par value; 2,000,000 shares authorized, 386,201 and 386,190 shares issued and outstanding at December 31, 2019 and 2018, respectively	3,862	3,862
Additional paid-in capital	5,659,015	5,649,346
Retained earnings	5,033,105	4,486,882
Accumulated other comprehensive income (loss)	<u>44,808</u>	<u>(23,771)</u>
Total stockholders' equity	<u>10,740,790</u>	<u>10,116,319</u>
Total liabilities and stockholders' equity	<u>\$106,899,114</u>	<u>\$107,961,363</u>

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

Chesapeake Bancorp and Subsidiary

Consolidated Statements of Income

Years Ended December 31,	2019	2018
Interest income		
Loans, including fees	\$3,820,468	\$3,539,987
U.S. treasuries and government agency obligations	499,395	365,801
Federal funds sold and interest-bearing deposits	46,233	35,028
Other	28,948	21,552
Total interest income	<u>4,395,044</u>	<u>3,962,368</u>
Interest expense		
Deposits	280,490	221,024
Securities sold under repurchase agreements	280,416	260,462
Other borrowed funds	51,049	47,063
Total interest expense	<u>611,955</u>	<u>528,549</u>
Net interest income	3,783,089	3,433,819
Provision for loan losses		
Net interest income after provision for loan losses	<u>47,000</u>	<u>75,000</u>
	<u>3,736,089</u>	<u>3,358,819</u>
Noninterest income		
Service charges on deposit accounts	100,022	82,040
Gain on sale of loans held for sale	21,362	27,389
Investment service fee income	37,050	31,450
Bank-owned life insurance income	63,707	89,787
Gain on sales of foreclosed real estate, net	91,743	2,919
Write-down of foreclosed real estate	(41,468)	-
Other fees and commissions	142,907	124,556
Total noninterest income	<u>415,323</u>	<u>358,141</u>
Noninterest expenses		
Salaries and employee benefits	1,687,758	1,616,082
Premises and equipment	166,312	153,777
Data processing and communications	269,599	238,013
Loan processing and collection expense	7,962	67,028
Foreclosed real estate expense	11,695	57,444
FDIC insurance expense	11,500	37,519
Audit and professional fees	88,801	91,335
Other operating	249,334	262,470
Total noninterest expenses	<u>2,492,961</u>	<u>2,523,668</u>
Net income	<u>\$1,658,451</u>	<u>\$1,193,292</u>
Weighted average common shares outstanding	<u>386,191</u>	<u>383,497</u>
Basic earnings per share	<u>\$ 4.29</u>	<u>\$ 3.11</u>
Diluted earnings per share	<u>\$ 4.29</u>	<u>\$ 3.11</u>

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,	2019	2018
Net income	\$1,658,451	\$1,193,292
Other comprehensive income (loss)		
Unrealized gain (loss) on securities available-for-sale	<u>68,579</u>	<u>90,728</u>
Total comprehensive income	<u>\$1,727,030</u>	<u>\$1,284,020</u>

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, 2019 and 2018

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
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 investment 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
Net income	-	-	1,658,451	-	1,658,451
Cash dividends, \$2.88 per share	-	-	(1,112,228)	-	(1,112,228)
Stock-based compensation	-	9,163	-	-	9,163
Stock issued	-	506	-	-	506
Net unrealized gain on investment securities available-for-sale	-	-	-	68,579	68,579
Balance, December 31, 2019	<u>\$3,862</u>	<u>\$5,659,015</u>	<u>\$5,033,105</u>	<u>\$ 44,808</u>	<u>\$10,740,790</u>

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,	2019	2018
Cash flows from operating activities		
Net income	\$ 1,658,451	\$ 1,193,292
Adjustments to reconcile net income to net cash provided by operating activities		
Stock-based compensation	9,163	18,668
Provision for loan losses	47,000	75,000
Depreciation and amortization of premises, equipment, and software	36,343	37,797
Amortization of discounts, net of accretion	(123,511)	(64,065)
Write-downs of foreclosed real estate	41,468	-
Loss (gain) on sale of foreclosed real estate	(91,743)	(2,919)
Gain on sale of loans held for sale	(21,362)	(27,389)
Origination of loans held for sale	(1,820,463)	(2,042,195)
Proceeds from sales of loans held for sale	1,664,128	2,069,584
Decrease (increase) in		
Accrued interest receivable	(25,945)	(21,865)
Cash surrender value of bank-owned life insurance	(63,707)	(63,816)
Other assets	(75,448)	15,337
Increase (decrease) in		
Deferred loan fees and costs, net	15,261	4,882
Accrued interest payable	5,484	1,098
Other liabilities	70,768	10,589
Net cash provided by operating activities	<u>1,325,887</u>	<u>1,203,998</u>
Cash flows from investing activities		
Purchase of investment securities available-for-sale	(23,414,775)	(24,366,422)
Proceeds from maturities and calls of investment securities available-for-sale	25,500,000	30,000,000
(Purchase) sale of restricted stock investments	(323,200)	15,500
Loans made, net of principal collected	(3,953,541)	(3,171,436)
Proceeds from sale of foreclosed real estate	457,604	2,919
Purchase of premises and equipment	(131,922)	(18,053)
Net cash provided by (used in) investing activities	<u>(1,865,834)</u>	<u>2,462,508</u>
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	(61,034)	365,551
Securities sold under repurchase agreements	(10,572,697)	(1,242,840)
Federal Home Loan Bank advances	8,870,759	(23,642)
Dividends paid on common stock	(1,112,228)	(1,108,627)
Proceeds from issuance of common stock	506	138,000
Net cash used by financing activities	<u>(2,874,694)</u>	<u>(1,871,558)</u>
Net increase (decrease) in cash and cash equivalents	(3,414,641)	1,794,948
Cash and cash equivalents at beginning of year	<u>6,627,606</u>	<u>4,832,658</u>
Cash and cash equivalents at end of year	<u>\$ 3,212,965</u>	<u>\$ 6,627,606</u>
Supplemental cash flows information		
Change in unrealized loss on investment securities available-for-sale	<u>\$ 68,579</u>	<u>\$ 90,728</u>
Transfers from loans to foreclosed real estate	<u>\$ -</u>	<u>\$ 365,861</u>
Interest paid	<u>\$ 606,541</u>	<u>\$ 527,550</u>

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

Chesapeake Bancorp and Subsidiary

Notes to 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.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

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 and 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.

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.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

I. 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.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

I. 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, 2019 and 2018, 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, 2019 and 2018, 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 \$9,163 and \$18,668 for the years ended December 31, 2019 and 2018, respectively.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

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, 2019 through February 19, 2020, the date these financial statements were available to be issued.

On January 15, 2020, the Board of Directors of the Company declared a special cash dividend of \$1.00 per share to stockholders of record on January 15, 2020, which was paid on January 22, 2020. No other 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 \$1,805,037 for the year ended December 31, 2019, and \$1,698,663 for the year ended December 31, 2018.

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.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

3. Investment Securities Available for Sale

Investment securities are summarized as follows:

December 31, 2019	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agency	\$11,473,432	\$ 32,263	\$ -	\$11,505,695
U.S. Treasury	<u>10,985,700</u>	<u>12,771</u>	<u>226</u>	<u>10,998,245</u>
	<u>\$22,459,132</u>	<u>\$ 45,034</u>	<u>\$ 226</u>	<u>\$22,503,940</u>
<hr/>				
December 31, 2018				
U.S. government agency	\$ 8,503,044	\$ 939	\$ 8,598	\$ 8,495,385
U.S. Treasury	<u>15,917,802</u>	<u>-</u>	<u>16,112</u>	<u>15,901,690</u>
	<u>\$ 24,420,846</u>	<u>\$ 939</u>	<u>\$ 24,710</u>	<u>\$ 24,397,075</u>

The amortized cost and fair value of debt securities by contractual maturities at December 31, 2019, 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	\$ 17,476,108	\$ 17,510,680
Over one to three years	<u>4,983,024</u>	<u>4,993,260</u>
	<u>\$ 22,459,132</u>	<u>\$ 22,503,940</u>

Securities with an amortized cost of \$12,450,000 and \$22,235,846, and a fair value of \$12,448,405 and \$22,218,058 at December 31, 2019 and 2018, 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:

December 31, 2019	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government agency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury	<u>999,380</u>	<u>226</u>	<u>-</u>	<u>-</u>	<u>999,380</u>	<u>226</u>
	<u>\$ 999,380</u>	<u>\$ 226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 999,380</u>	<u>\$ 226</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

3. Investment Securities Available for Sale (Continued)

December 31, 2018	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
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
	<u>\$15,901,690</u>	<u>\$ 16,112</u>	<u>\$4,992,670</u>	<u>\$ 8,598</u>	<u>\$20,894,360</u>	<u>\$ 24,710</u>

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 2019 or 2018.

4. Loans and Allowances for Loan Losses

The principal categories of the loan portfolio of the Bank for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Real estate		
Residential	\$49,464,374	\$47,700,894
Construction, land, and land development	5,473,544	4,213,605
Nonfarm, nonresidential	13,303,033	13,003,249
Farmland	3,748,390	3,479,785
Loans to farmers	381,898	554,059
Commercial and industrial	3,324,873	3,336,466
Consumer	1,447,436	904,565
	<u>77,143,548</u>	<u>73,192,623</u>
Deferred loan origination fees, net of costs	(57,165)	(41,904)
Allowance for loan losses	(1,032,843)	(988,459)
Total loans, net	<u>\$76,053,540</u>	<u>\$72,162,260</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans and Allowances for Loan Losses (Continued)

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.

The following table presents the changes in the allowance for loan losses for the years ended December 31, 2019 and 2018:

	Residential real estate	Commercial and industrial real estate and other	Personal secured and unsecured	Total
December 31, 2019				
Allowance for loan losses				
Beginning balance	\$ 582,922	\$ 336,671	\$ 68,866	\$ 988,459
Charge-offs	-	-	(2,970)	(2,970)
Recoveries	-	-	354	354
Provision for loan losses	<u>53,865</u>	<u>2,892</u>	<u>(9,757)</u>	<u>47,000</u>
Ending balance	<u>\$ 636,787</u>	<u>\$ 339,563</u>	<u>\$ 56,493</u>	<u>\$ 1,032,843</u>
December 31, 2018				
Allowance for loan losses				
Beginning balance	\$ 587,122	\$ 266,665	\$ 89,842	\$ 943,629
Charge-offs	-	(49,651)	-	(49,651)
Recoveries	14,388	4,972	121	19,481
Provision for loan losses	<u>(18,588)</u>	<u>114,685</u>	<u>(21,097)</u>	<u>75,000</u>
Ending balance	<u>\$ 582,922</u>	<u>\$ 336,671</u>	<u>\$ 68,866</u>	<u>\$ 988,459</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans and Allowances for Loan Losses (Continued)

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, 2019	Nonclassified	Pass/watch	Special mention	Substandard	Doubtful	Total
Residential real estate	\$46,293,667	\$2,084,434	\$ 769,738	\$ 56,707	\$259,828	\$49,464,374
Construction, land, and land development	2,371,407	2,587,772	-	514,365	-	5,473,544
Nonfarm, nonresidential	8,515,259	2,206,227	1,677,456	904,091	-	13,303,033
Farmland	3,628,105	120,285	-	-	-	3,748,390
Loans to farmers	381,898	-	-	-	-	381,898
Commercial and industrial	2,923,589	387,255	-	14,029	-	3,324,873
Consumer	1,445,666	1,770	-	-	-	1,447,436
Total	<u>\$65,559,591</u>	<u>\$7,387,743</u>	<u>\$2,447,194</u>	<u>\$1,489,192</u>	<u>\$259,828</u>	<u>\$77,143,548</u>

December 31, 2018

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	<u>\$ 62,791,914</u>	<u>\$ 7,371,245</u>	<u>\$ 1,860,699</u>	<u>\$ 1,001,848</u>	<u>\$ 166,917</u>	<u>\$ 73,192,623</u>

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.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans and Allowances for Loan Losses (Continued)

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.

Loans individually and collectively evaluated for impairment as of December 31, 2019 and 2018, were as follows:

	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total
December 31, 2019			
Residential real estate	\$ 383,903	\$ 49,080,471	\$ 49,464,374
Construction, land, and land development	-	5,473,544	5,473,544
Nonfarm, nonresidential	-	13,303,033	13,303,033
Farmland	-	3,748,390	3,748,390
Loans to farmers	-	381,898	381,898
Commercial and industrial	14,029	3,310,844	3,324,873
Consumer	-	1,447,436	1,447,436
Total	<u>\$ 397,932</u>	<u>\$ 76,745,616</u>	<u>\$ 77,143,548</u>
December 31, 2018			
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	<u>\$ 546,966</u>	<u>\$ 72,645,657</u>	<u>\$ 73,192,623</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans and Allowances for Loan Losses (Continued)

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, 2019 and 2018, were as follows:

December 31, 2019	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	\$451,435	\$124,075	\$259,828	\$383,903	\$108,360	\$412,334	\$ 25
Construction, land, and land development	-	-	-	-	-	-	-
Nonfarm, nonresidential	-	-	-	-	-	-	-
Commercial and industrial	14,295	14,029	-	14,029	-	16,852	344
Consumer	-	-	-	-	-	-	-
Total	<u>\$465,730</u>	<u>\$138,104</u>	<u>\$259,828</u>	<u>\$397,932</u>	<u>\$108,360</u>	<u>\$429,186</u>	<u>\$ 369</u>

December 31, 2018

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	<u>\$ 595,042</u>	<u>\$ 380,049</u>	<u>\$ 166,917</u>	<u>\$ 546,966</u>	<u>\$ 68,974</u>	<u>\$ 626,059</u>	<u>\$ 14,922</u>

Past due loans as of December 31, 2019 and 2018, were as follows:

December 31, 2019	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	\$ 157,025	\$ 109,043	\$ -	\$ 266,068	\$49,198,306	\$49,464,374
Construction, land, and land development	-	-	-	-	5,473,544	5,473,544
Nonfarm, nonresidential	1,082,186	-	-	1,082,186	12,220,847	13,303,033
Farmland	120,285	-	-	120,285	3,628,105	3,748,390
Loans to farmers	-	-	-	-	381,898	381,898
Commercial and industrial	14,611	-	14,029	28,640	3,296,233	3,324,873
Consumer	-	-	-	-	1,447,436	1,447,436
Total	<u>\$1,374,107</u>	<u>\$ 109,043</u>	<u>\$ 14,029</u>	<u>\$1,497,179</u>	<u>\$75,646,369</u>	<u>\$77,143,548</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans and Allowances for Loan Losses (Continued)

December 31, 2018	Loans			Total past due loans	Current loans	Total loans
	Loans 30 - 59 days past due	Loans 60 - 89 days past due	Loans 90 or more days past due			
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	<u>\$ 1,840,750</u>	<u>\$ 5,730</u>	<u>\$ 37,834</u>	<u>\$ 1,884,314</u>	<u>\$ 71,308,309</u>	<u>\$ 73,192,623</u>

Nonaccrual loans as of December 31, 2019 and 2018, were as follows:

December 31,	2019	2018
Residential real estate	<u>\$316,535</u>	\$325,426
Construction, land, and land development	-	5,730
Nonfarm, nonresidential	<u>14,029</u>	-
Total nonaccrual loans	<u>\$330,564</u>	<u>\$331,156</u>
Allowance for loan losses related to nonaccrual loans	<u>\$108,360</u>	<u>\$ 68,974</u>
Nonaccrual interest not accrued	<u>\$ 64,236</u>	<u>\$ 49,053</u>

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, 2019	Number of contracts	Performing	Nonperforming	Total
Residential real estate	1	\$67,368	\$ -	\$67,368
Nonfarm, nonresidential	-	-	-	-
Consumer	-	-	-	-
	<u>1</u>	<u>\$67,368</u>	<u>\$ -</u>	<u>\$67,368</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans and Allowances for Loan Losses (Continued)

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
	<u>3</u>	<u>\$215,810</u>	<u>\$ 60,796</u>	<u>\$276,606</u>

During the year ended December 31, 2019, the Bank did not add any new TDRs. 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.

There were no loans secured by one to four family residential properties in the process of foreclosure as of December 31, 2019 or 2018.

5. Bank Premises and Equipment

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

	2019	2018
Land	\$ 50,000	\$ 50,000
Buildings and leasehold improvements	1,041,644	1,008,498
Furniture and fixtures	166,317	166,317
Equipment	<u>285,715</u>	<u>319,617</u>
	<u>1,543,676</u>	<u>1,544,432</u>
Accumulated depreciation and amortization	<u>(1,213,899)</u>	<u>(1,310,234)</u>
Net premises and equipment	<u>\$ 329,777</u>	<u>\$ 234,198</u>

Depreciation and amortization expense was \$36,343 and \$37,797 for the years ended December 31, 2019 and 2018, respectively.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

6. Lease Commitments

The Bank leases one branch office from one of its directors. The lease had 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, 2019 and 2018.

The Bank also leases space at Heron Point under a month-to-month lease with monthly payments of \$100. The total amount of lease expense under this arrangement was **\$1,200** for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments under leases as of December 31, 2019, are as follows:

<u>Year ended</u> <u>December 31,</u>	<u>Minimum rentals</u>
2020	\$ 19,200
2021	18,000
2022	18,000
2023	18,000
2024	18,000
After 2024	115,500

7. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	<u>2019</u>	<u>2018</u>
Savings	\$10,827,686	\$11,170,459
Money market	22,126,226	20,115,980
NOW	3,127,746	3,254,006
Certificates of deposit	15,197,110	15,885,878
	<u>\$51,278,768</u>	<u>\$50,426,323</u>

Maturities of time deposits, are as follows:

	<u>2019</u>
Within one year	\$ 8,531,855
One year to within two years	1,976,677
Two years to within three years	1,404,021
Three years to within four years	2,013,549
Four years to within five years	1,147,344
Over five years	123,664
Total	<u>\$15,197,110</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

7. Interest-Bearing Deposits (Continued)

Interest expense on deposits for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Savings	\$ 16,778	\$ 16,450
Money market	91,406	61,362
NOW	1,656	2,238
Certificates of deposit	170,650	140,974
	\$ 280,490	\$ 221,024

As of December 31, 2019 and 2018, certificate of deposits of \$250,000 or more totaled **\$5,439,066** and \$5,180,652, 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 **\$82,516** and \$73,991 for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019, the ESOP holds 64,669 shares, or approximately 16.75%, of the Company's outstanding common stock. At December 31, 2019, 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 **\$102,800** and \$99,300 for the years ended December 31, 2019 and 2018, respectively. Cash surrender value and accrued benefit obligation, reported as bank-owned life insurance and included in other liabilities, respectively, as of December 31, 2019 and 2018, are as follows:

	2019	2018
Cash surrender value	\$ 3,316,251	\$ 3,252,544
Accrued benefit obligations	\$ 2,036,371	\$ 2,037,883

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

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 \$64,000 and \$44,000, for the years ended December 31, 2019 and 2018, respectively.

9. Credit Commitments

The following credit commitments are outstanding as of December 31:

	2019	2018
<hr/>		
Unused lines of credit		
Construction loans	\$ 960,929	\$ 660,563
Mortgage loans	378,582	1,100,297
Home equity lines of credit	8,089,767	7,751,568
Business and consumer lines of credit	<u>10,180,392</u>	<u>10,313,129</u>
	<u>\$19,609,670</u>	<u>\$19,825,557</u>
Loan commitments		
Construction loans	\$ 322,500	\$ -
Mortgage loans	725,000	1,680,000
Commercial	<u>275,000</u>	<u>-</u>
	<u>\$ 1,322,500</u>	<u>\$ 1,680,000</u>
Standby letters of credit	<u>\$ 348,538</u>	<u>\$ 357,115</u>

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. Five of the six loan commitments at December 31, 2019, totaling \$1,297,500, had fixed interest rates. One of the mortgage loan commitments at December 31, 2019, in the amount of \$25,000, had a variable interest rate. 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.

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, 2019 and 2018, as a liability for credit loss related to these commitments.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

10. Stock Options

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

	2019		2018	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	8,000	\$42.50	4,000	\$ 42.50
Granted	-	-	4,000	42.50
Exercised	-	-	-	-
Expired/cancelled/forfeited	-	-	-	-
Outstanding at end of year	<u>8,000</u>	<u>\$42.50</u>	<u>8,000</u>	<u>\$ 42.50</u>
Options exercisable at end of year	<u>5,000</u>	<u>\$42.50</u>	<u>4,000</u>	<u>\$ 42.50</u>

A summary of information about stock options outstanding is as follows as of December 31, 2019:

	Exercise price	Remaining average life (in years)	Outstanding shares	Exercisable shares
	\$42.50	2.1	4,000	4,000
	\$42.50	5.1	<u>4,000</u>	<u>1,000</u>
	\$42.50	3.6	<u>8,000</u>	<u>5,000</u>
Intrinsic value on December 31, 2019			<u>\$ 28,000</u>	<u>\$17,500</u>

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, 2019 and 2018, which were \$46. Stock-based compensation expense has been recorded by the Company related to these grants in the amount of \$9,163 and \$18,668, for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, there is approximately \$7,255 of stock based compensation expense that is expected to be recognized over the next three 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

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

11. Borrowed Funds and Lines of Credit

Federal Home Loan Bank advances

The Bank had the following advances outstanding from the Federal Home Loan Bank of Atlanta as of December 31, 2019 and 2018:

Date of note	Maturity date	Interest rate	2019	2018
June 21, 2019	June 21, 2024	2.1580%	\$ 1,000,000	\$ -
July 1, 2019	July 1, 2024	2.0275%	1,000,000	-
September 10, 2019	September 10, 2020	1.7800%	3,250,000	-
October 11, 2019	October 8, 2024	1.6590%	1,000,000	-
December 17, 2019	January 16, 2020	1.7000%	3,000,000	-
Various	February 11, 2019	5.0000%	-	379,241
			<u>\$ 9,250,000</u>	<u>\$ 379,241</u>

The Bank has approved credit facilities with the Federal Home Loan Bank of Atlanta (FHLB), for short-term liquidity of **\$24,830,377** and \$21,299,362 as of December 31, 2019 and 2018, respectively. 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 borrowings outstanding reduce the available advances to **\$15,580,377** at December 31, 2019, and \$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:

	2019	2018
Average amount outstanding	\$13,489,475	\$14,910,325
Maximum month-end amount outstanding	20,764,306	22,490,806
Average rate paid during the year	2.08%	1.75%

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 Bank has an available line of credit of \$2,000,000 in unsecured, overnight federal funds from another financial institution. Interest will be at prevailing rates at the time of any advances.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

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:

	2019	2018
Balance at beginning of year	\$ 1,824,100	\$2,002,120
New loans and advances	1,692,903	558,063
Change in officers and directors	-	240,109
Repayments	<u>(843,916)</u>	<u>(976,192)</u>
Balance at end of year	<u>\$ 2,673,087</u>	<u>\$ 1,824,100</u>

Deposit balances of senior officers and directors and their affiliated interest totaled **\$6,751,910** and **\$6,973,858** at December 31, 2019 and 2018, respectively.

The Bank paid **\$3,720** and **\$3,280** to a director for appraisal review services in 2019 and 2018, respectively. The Bank paid **\$18,000** to a director for rent for a branch in 2019 and 2018. The Bank paid **\$6,347** to a director for foreclosed real estate management services in 2018.

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%.

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

13. Capital Standards and Dividend Restrictions (Continued)

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 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.

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, 2019 and 2018, 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, 2019 and 2018, 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.

As of December 31, 2019, 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) December 31, 2019	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	\$11,600	16.09%	\$7,572	10.50%	\$7,211	10.00%
Bank	11,564	16.04%	7,572	10.50%	7,211	10.00%
Tier I (core) capital (to risk-weighted assets)						
Company	\$10,696	14.83%	\$6,129	8.50%	\$5,679	8.00%
Bank	10,660	14.78%	6,129	8.50%	5,769	8.00%
Common tier I (CET 1)						
Company	\$10,696	14.83%	\$5,048	7.00%	\$4,687	6.50%
Bank	10,660	14.78%	5,048	7.00%	4,687	6.50%
Tier I capital (to average assets)						
Company	\$10,696	9.59%	\$5,577	4.00%	\$4,461	5.00%
Bank	10,660	9.56%	5,577	4.00%	4,461	5.00%

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

13. Capital Standards and Dividend Restrictions (Continued)

(in thousands) December 31, 2018	Actual		Minimum capital adequacy		To be well capitalized	
	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%

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, 2019 and 2018:

December 31, 2019	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
U.S. government agency	\$11,505,695	\$ -	\$11,505,695	\$ -
U.S. Treasury	<u>10,998,245</u>	<u>-</u>	<u>10,998,245</u>	<u>-</u>
	<u>\$22,503,940</u>	<u>\$ -</u>	<u>\$22,503,940</u>	<u>\$ -</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

14. Fair Value Measurements (Continued)

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	-
	<u>\$ 24,397,075</u>	<u>\$ -</u>	<u>\$ 24,397,075</u>	<u>\$ -</u>

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.

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, 2019 and 2018, are as follows:

	2019	2018
Balance, beginning of year	\$ 497,329	\$ 131,468
Additions and improvements	-	365,861
Proceeds from sale	(457,604)	(2,919)
Write-downs	(41,468)	-
Gain on sales, net	91,743	2,919
Balance, end of year	<u>\$ 90,000</u>	<u>\$ 497,329</u>

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

December 31, 2019	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Impaired loans	\$ 289,572	\$ -	\$ -	\$ 289,572
Foreclosed real estate	90,000	-	-	90,000
December 31, 2018				
Impaired loans	\$ 477,992	\$ -	\$ -	\$ 477,992
Foreclosed real estate	497,329	-	-	497,329

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

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,	2019	2018
Assets		
Cash and due from banks	\$ 522,099	\$ 377,760
Investment in subsidiary	<u>10,704,552</u>	<u>10,160,420</u>
Total assets	<u>\$11,226,651</u>	<u>\$10,538,180</u>
Liabilities and Stockholders' Equity		
Liabilities		
Phantom stock plan accrual	<u>\$ 485,861</u>	<u>\$ 421,861</u>
Total liabilities	<u>485,861</u>	<u>421,861</u>
Stockholders' equity		
Common stock, par value \$0.01; authorized 2,000,000 shares; 386,201 and 386,190 shares issued and outstanding at December 31, 2019 and 2018, respectively	3,862	3,862
Additional paid-in capital	5,659,015	5,649,346
Retained earnings	5,033,105	4,486,882
Accumulated other comprehensive loss	<u>44,808</u>	<u>(23,771)</u>
Total stockholders' equity	<u>10,740,790</u>	<u>10,116,319</u>
Total liabilities and stockholders' equity	<u>\$11,226,651</u>	<u>\$10,538,180</u>

Statements of Income

December 31,	2019	2018
Cash dividends from subsidiary	\$ 1,256,000	\$ 1,152,000
Interest income	861	595
Expenses	<u>(64,800)</u>	<u>(44,800)</u>
Income before equity in undistributed net income of subsidiary	1,192,061	1,107,795
Equity in undistributed net income of subsidiary	<u>466,390</u>	<u>85,497</u>
Net income	<u>\$ 1,658,451</u>	<u>\$ 1,193,292</u>

Chesapeake Bancorp and Subsidiary

Notes to Consolidated Financial Statements (Continued)

15. Parent Company Financial Information (Continued)

Statements of Cash Flows

December 31,	2019	2018
Cash flows from operating activities		
Net income	\$1,658,451	\$1,193,292
Equity in undistributed net income of subsidiary	(466,390)	(85,497)
Increase in other liabilities	<u>64,000</u>	<u>44,000</u>
Net cash provided by operating activities	<u>1,256,061</u>	<u>1,151,795</u>
Cash flows from financing activities		
Proceeds from issuance of common stock	506	138,000
Dividends paid on common stock	<u>(1,112,228)</u>	<u>(1,108,627)</u>
Net cash used by financing activities	<u>(1,111,722)</u>	<u>(970,627)</u>
Net increase in cash	144,339	181,168
Cash at beginning of year	<u>377,760</u>	<u>196,592</u>
Cash at end of year	<u>\$ 522,099</u>	<u>\$ 377,760</u>