"Chesapeake Bank epitomizes the ideal of a community bank."

– nonprofit partner

6.1%
INCREASE IN ASSETS OVER YEAR-END 2015

9.8%
INCREASE IN LOANS OUTSTANDING

CHESAPEAKE
FINANCIAL SHARES, INC.

We've Got Great Stories to Tell

'Best Banks to Work For' for the fourth consecutive year

– American Banker

'Top 200 Community Banks' in the United States for the ninth consecutive year

– American Banker

2016 ANNUAL REPORT

At a Glance as of December 31, 2016

CHESAPEAKE FINANCIAL SHARES INC.

$721 million

Total Assets

Total Liabilities

$643 million

Total Capital

$78 million

Net Income

$7.03 million

Financial Results (year over year):

- Loan growth of $40.5 million or 9.8%
- Deposit growth of $44.2 million or 7.8%
- Net interest margin dollars increased 4.4%
- Merchant Card income net up $749 thousand or 29.3%
- Cash Flow income net up $206 thousand or 7.2%
- Return on Average Assets for 2016: 0.99%
- Return on Average Equity for 2016: 8.86%

Asset Quality (year over year):

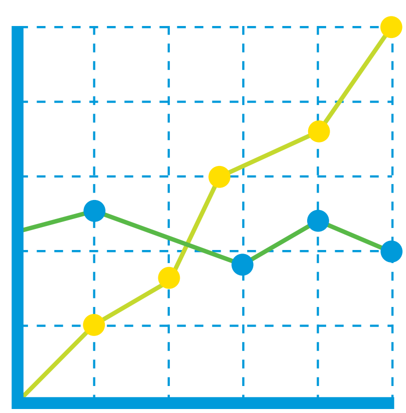
- Non-performing assets down $2.5 million or 24.7%
- Other real estate owned down $762 thousand or 38%
- Loan loss reserve remained adequate at 1.10% of total loans

Capital:

- Total Risk-based capital ratio of 15.30%
- Tier 1 Risk-based capital ratio of 14.16%
- Leverage capital ratio of 11.15%

CPKF Performance:

- Dividends per share: $0.49
- Dividend yield: 2.31%
- Book value per share: $19.34
- Price/Earnings ratio: 12.64x
- Price/Book value: 1.12x
- Earnings per share, fully diluted: $1.71



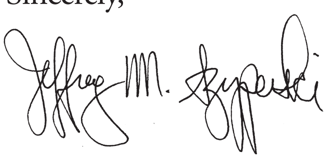
2016 was another great year for Chesapeake Financial Shares! For the ninth year in a row we were recognized by *American Banker* magazine as one of the "Top 200 Community Banks" in the country based on our return on equity. Additionally, we have also made that same periodical's "Best Banks To Work For" list four years running. These two awards are truly symbiotic, reflecting the fact that great and happy employees drive a strong organization.

Our 2016 earnings were $7,026,400, slightly less than 2015, but stronger in core earnings. Our continued strategic emphasis on increasing our non-interest income has continued to prove to be the correct direction for our company. We have done this while continuing to grow our traditional banking franchise. Our Richmond market grew to two locations in 2016. The Patterson Avenue office had its first full year, and we opened a new branch in the Lakewood retirement community.

There is a quote from the 1989 movie *Dead Poets Society* that says, "That the powerful play goes on, and you may contribute a verse." The following notable passings in 2016 have each contributed more than their fair share to life's rich pageant – John Glenn, Arnold Palmer, Nancy Reagan, Antonin Scalia, Harper Lee, Muhammed Ali, Elie Wiesel and Gene Wilder. We will miss their verses.

We feel well situated going into 2017 to continue to thrive while many of our local competitors are merging into new entities. Please plan on joining us Friday, April 7th at Rappahannock Westminster-Canterbury in Irvington for our Annual Shareholders Meeting. We look forward to seeing you there!

Sincerely,



Jeffrey M. Szyperski
Chairman, CEO & President
Chesapeake Financial Shares, Inc.

	2016	2015	2014	2013	2012
	(Dollars in thousands except ratios and per share amounts)				
Results of Operations					
Interest income	$ 27,889	$ 26,801	$ 26,651	$ 27,415	$ 28,866
Interest expense	3,440	3,378	3,533	4,121	5,811
Net interest income	24,449	23,423	23,118	23,294	23,055
Provision for loan losses	550	241	600	1,133	600
Net interest income after provision for loan losses	23,899	23,182	22,518	22,161	22,455
Noninterest income	21,392	20,108	16,219	17,150	15,417
Noninterest expense	37,108	34,405	31,048	30,162	28,172
Income before tax	8,183	8,885	7,689	9,149	9,700
Income tax expense	1,156	1,481	1,155	1,796	2,024
Net income	$ 7,027	$ 7,404	$ 6,534	$ 7,353	$ 7,676
Financial Condition					
Total assets	$ 720,761	$ 679,058	$ 663,186	$ 662,992	$ 667,718
Total deposits	609,730	565,553	562,721	572,405	564,234
Net loans	448,418	407,405	385,304	374,275	366,878
Long-term debt	10,078	10,247	10,390	10,527	23,709
Short-term debt	10,873	15,803	–	–	–
Trust preferred capital notes	5,155	5,155	10,310	15,465	15,465
Shareholders' equity	77,906	75,957	70,610	61,824	60,909
Average assets	710,007	667,260	661,669	655,170	643,079
Average shareholders' equity	79,296	73,473	62,981	56,790	51,612
Key Financial Ratios					
Return on average assets	0.99%	1.11%	0.99%	1.12%	1.19%
Return on average equity*	8.86%	10.08%	10.37%	12.95%	14.87%
Cash dividends paid as a percent of net income	28.06%	25.16%	27.41%	22.70%	19.33%
Per Share Data**					
Net income, assuming dilution	$ 1.71	$ 1.82	$ 1.62	$ 1.84	$ 1.93
Cash dividends declared	$ 0.49	$ 0.47	$ 0.45	$ 0.425	$ 0.375
Book value	$ 19.34	$ 18.92	$ 17.71	$ 15.63	$ 15.67

**Return on average equity is calculated by dividing net income by average equity for the period excluding accumulated other comprehensive income or loss and unearned ESOP shares.*

***On July 18, 2014, the Board of Directors approved a 6 for 5 stock split of CFS's common stock payable on or before October 15, 2014. All per share information for all periods presented has been retroactively restated to reflect the stock split.*

	December 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 11,360,272	$ 11,734,624
Interest-bearing deposits in banks	1,450,456	3,069,202
Securities available for sale, at fair value	185,519,078	186,372,385
Other equity investments, at cost	2,689,500	2,677,400
Loans held for sale	405,000	578,000
Loans, net of allowance for loan losses of $5,009,817 in 2016 and $5,488,068 in 2015	448,417,820	407,404,583
Premises and equipment, net	18,664,790	18,724,375
Accrued interest receivable	3,059,328	2,737,675
Cash management accounts, net of allowance of $1,434,008 in 2016 and $1,158,749 in 2015	26,151,356	24,338,473
Foreclosed assets, net of allowance of $698,212 in 2016 and $809,861 in 2015	1,286,400	2,078,493
Bank-owned life insurance	11,371,147	11,069,462
Other assets	10,385,633	8,273,480
Total assets	$ 720,760,780	$ 679,058,152
Liabilities and Shareholders' Equity		
Deposits:		
Demand accounts	$ 144,458,129	$ 138,987,307
Savings and interest-bearing demand deposits	278,422,884	253,318,726
Certificates of deposit		
Denominations less than $250,000	165,583,108	150,607,379
Denominations of $250,000 or more	21,266,015	22,639,319
Total deposits	$ 609,730,136	$ 565,552,731
Trust preferred capital notes	5,155,000	5,155,000
Long-term debt	10,077,957	10,247,464
Short-term debt	10,872,614	15,803,000
Accrued interest payable	129,386	104,188
Accrued expenses and other liabilities	6,889,784	6,238,610
Total liabilities	$ 642,854,877	$ 603,100,993
Shareholders' equity:		
Preferred stock, par value $1 per share; authorized 50,000 shares; no shares outstanding	$ –	$ –
Common stock, voting, par value $5 per share; authorized 4,800,000 shares; issued and outstanding 4,027,276 in 2016 and 4,015,233 in 2015	19,873,415	19,771,365
Common stock, nonvoting, par value $5 per share; authorized 635,000 shares; no shares outstanding	–	–
Additional paid-in capital	1,133,078	834,401
Retained earnings	54,323,553	49,746,710
Accumulated other comprehensive income	2,575,857	5,604,683
Total shareholders' equity	$ 77,905,903	$ 75,957,159
Total liabilities and shareholders' equity	$ 720,760,780	$ 679,058,152

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2016	2015
Interest and Dividend Income		
Interest and fees on loans	$ 21,840,541	$ 20,552,863
Interest on interest-bearing deposits and federal funds sold	9,953	16,129
Interest and dividends on securities available for sale:		
Taxable	1,889,289	2,094,143
Nontaxable	4,015,142	4,030,393
Dividends	134,450	107,174
Total interest and dividend income	$ 27,889,375	$ 26,800,702
Interest Expense		
Savings and interest-bearing accounts	$ 772,526	$ 625,863
Certificates of deposit	2,139,186	2,294,412
Short-term borrowings and FHLB advances	413,968	350,727
Long-term debt and trust preferred capital notes	114,732	106,918
Total interest expense	$ 3,440,412	$ 3,377,920
Net interest income	$ 24,448,963	$ 23,422,782
Provision for loan losses	549,996	241,341
Net interest income after provision for loan losses	$ 23,898,967	$ 23,181,441
Noninterest Income		
Trust income	$ 2,273,869	$ 2,223,701
Service charges	1,185,248	1,319,600
Net gain on sales of securities available for sale	262,418	1,186,691
Other-than-temporary impairment losses on investments	(150,550)	(535,764)
Other income	17,820,902	15,914,339
Total noninterest income	$ 21,391,887	$ 20,108,567
Noninterest Expenses		
Salaries and benefits	$ 17,846,873	$ 16,636,703
Occupancy expenses	3,784,850	3,641,948
Net loss on other real estate owned	383,382	267,171
Other expenses	15,093,314	13,859,137
Total noninterest expenses	$ 37,108,419	$ 34,404,959
Income before income taxes	$ 8,182,435	$ 8,885,049
Income tax expense	1,156,035	1,480,709
Net income	$ 7,026,400	$ 7,404,340
Earnings per common share, basic	$ 1.75	$ 1.85
Earnings per common share, diluted	$ 1.71	$ 1.82

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

	Years Ended December 31,	
	2016	**2015**
Net income	$ 7,026,400	$ 7,404,340
Other comprehensive income (loss):		
Unrealized holding losses on securities available for sale, net of tax benefit of $1,522,270 and $89,181	$ (2,954,993)	$ (173,115)
Reclassification adjustment, net of income tax expense of $38,036 and $221,315	(73,833)	(429,612)
Other comprehensive loss, net of tax	$ (3,028,826)	$ (602,727)
Comprehensive income	$ 3,997,574	$ 6,801,613

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

	Years Ended December 31, 2016	2015
Cash Flows from Operating Activities		
Net income	$ 7,026,400	$ 7,404,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,672,604	1,651,054
Provision for loan losses	549,996	241,341
Provision for cash management account losses	99,996	225,000
Deferred income tax (benefit) expense	(198,711)	92,086
Amortization of premiums, net	1,533,910	1,638,022
Net gain on securities available for sale	(262,418)	(1,186,691)
Gain on redemption of trust preferred capital note	–	(1,100,000)
Net other-than-temporary impairment losses	150,550	535,764
Net loss on foreclosed assets	238,207	267,171
Stock-based compensation	527,503	429,282
Release of ESOP shares	–	196,068
Origination of loans for sale	(33,947,615)	(25,633,080)
Proceeds from sale of loans	34,746,700	25,695,473
Gain on sale of loans	(626,085)	(490,393)
Issuance of common stock for services	71,253	95,342
Changes in other assets and liabilities:		
(Increase) decrease in accrued interest receivable	(321,653)	184,700
Increase in other assets	(568,695)	(907,841)
Increase (decrease) in accrued interest payable	25,198	(44,076)
Increase (decrease) in other liabilities	651,174	(2,768,336)
Net cash provided by operating activities	$ 11,368,314	$ 6,525,226
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (36,255,894)	$ (40,012,601)
Proceeds from sales and calls of securities available for sale	5,731,946	17,835,097
Proceeds from maturities and paydowns of securities available for sale	25,366,081	24,204,044
Purchase of equity investments, net	(12,100)	(390,800)
Proceeds from sale of foreclosed assets	658,146	738,214
Net increase in loans	(41,667,494)	(22,724,149)
Net increase in cash management accounts	(1,912,879)	(7,377,504)
Other capital expenditures	(1,699,144)	(2,920,626)
Net cash used in investing activities	$ (49,791,338)	$ (30,648,325)

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

	Years Ended December 31, 2016	2015
Cash Flows from Financing Activities		
Net increase in demand accounts, interest-bearing demand accounts and savings accounts	$ 30,574,980	$ 18,281,229
Net decrease in certificates of deposit	13,602,425	(15,449,602)
Exercise of stock options	554,816	412,337
Repurchase of common stock	(1,230,795)	(724,083)
Cash dividends	(1,971,607)	(1,862,977)
Net increase in federal funds purchased	(4,951,000)	5,803,000
Proceeds from issuance of short-term debt	–	10,000,000
Curtailment of long-term debt and redemption of trust preferred securities	(148,893)	(4,197,875)
Net cash provided by financing activities	$ 36,429,926	$ 12,262,029
Net decrease in cash and cash equivalents	$ (1,993,098)	$ (11,861,070)
Cash and cash equivalents at beginning of year	14,803,826	26,664,896
Cash and cash equivalents at end of year	$ 12,810,728	$ 14,803,826
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 3,415,214	$ 3,421,995
Income taxes	$ 841,000	$ 1,652,500
Supplemental Schedule of Noncash Investing and Financing Activities		
Unrealized loss on securities available for sale, net	$ (4,589,132)	$ (913,223)
Other real estate acquired in settlement of loans	$ 104,261	$ 382,541

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

Years Ended December 31, 2016 and 2015

	Common Stock, Voting	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	$ 19,682,730	$ 389,534	$ 44,468,303	$ (138,400)	$ 6,207,410	$ 70,609,577
Net income	–	–	7,404,340	–	–	7,404,340
Other comprehensive income	–	–	–	–	(602,727)	(602,727)
Exercise of stock options	184,845	227,492	–	–	–	412,337
Vesting of restricted stock	98,600	(98,600)	–	–	–	–
Release of ESOP shares	–	57,668	–	138,400	–	196,068
Issuance of common stock for services	30,835	64,507	–	–	–	95,342
Repurchase of common stock	(225,645)	(235,482)	(262,956)	–	–	(724,083)
Stock-based compensation	–	429,282	–	–	–	429,282
Cash dividends ($0.465 per share)	–	–	(1,862,977)	–	–	(1,862,977)
Balance, December 31, 2015	$ 19,771,365	$ 834,401	$ 49,746,710	$ –	$ 5,604,683	$ 75,957,159
Net income	–	–	7,026,400	–	–	7,026,400
Other comprehensive loss	–	–	–	–	(3,028,826)	(3,028,826)
Exercise of stock options	249,120	305,696	–	–	–	554,816
Vesting of restricted stock	150,750	(150,750)	–	–	–	–
Issuance of common stock for services	20,300	50,953	–	–	–	71,253
Repurchase of common stock	(318,120)	(434,725)	(477,950)	–	–	(1,230,795)
Amortization of restricted stock	–	527,503	–	–	–	527,503
Cash dividends ($0.49 per share)	–	–	(1,971,607)	–	–	(1,971,607)
Balance, December 31, 2016	$ 19,873,415	$ 1,133,078	$ 54,323,553	$ –	$ 2,575,857	$ 77,905,903

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

Note 1. Summary of Significant Accounting Policies

General

Chesapeake Financial Shares, Inc. ("CFS" or "Company") owns 100% of Chesapeake Bank (the "Bank"), Chesapeake Investment Group, Inc. ("CIG"), and CFS Capital Trust (the "Trusts"). Three additional companies, Chesapeake Financial Group, Inc., Chesapeake Insurance Agency, Inc. T/A Chesapeake Investment Services and Chesapeake Trust Company (the "Trust Company") are wholly-owned subsidiaries of CIG. The consolidated financial statements include the accounts of CFS and its wholly-owned subsidiaries. All significant intercompany accounts have been eliminated.

Subsequent Events

Subsequent events have been considered through February 13, 2017, the same date on which these consolidated financial statements were issued.

Significant Accounting Policies

The accounting and reporting policies of CFS are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more significant of these policies are summarized below.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. CFS classifies all securities as available for sale.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (a) the intent is to sell the security or (b) it is more-likely-than-not that it will be necessary to sell the security prior to recovery of its amortized cost. If, however, management's intent is not to sell the security and it is not more than likely that management will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income. For equity securities carried at cost, impairment is considered to be other-than-temporary based on CFS's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income. Management regularly reviews each security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the best estimate of the present value of cash flows expected to be collected from debt securities, the intention with regards to holding the security to maturity and the likelihood that CFS would be required to sell the security before recovery.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans and commercial real estate throughout the Northern Neck, Middle Peninsula, Williamsburg, James City County, and Richmond areas of Virginia. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

The Bank's recorded investments in loans are stated at face value, net of unearned discount and the allowance for loan losses. Interest is computed by methods which result in level rates of return on principal. Nonrefundable loan fees and direct loan origination costs are recognized in operations when received and incurred. The impact of this methodology is not significantly different from recognizing the net of the fees and costs over the contractual life of the related loan.

The Bank analyzes its loan portfolio by segment. Segments are based on the level at which the allowance for loan losses is calculated and monitored. The Bank's loan segments are commercial, commercial – real estate, consumer – non real estate, and residential real estate. The Bank further segregates each segment of the loan portfolio into classes based on how each loan was initially recorded. Classes are a level of detail that appropriately exhibits the risks inherent in the loan portfolio.

The loan portfolio is segmented based on risk characteristics. Particular characteristics associated with each segment are detailed below:

Commercial: Commercial loans include both secured and unsecured loans for working capital, expansion, and other business purposes. Short-term working capital loans are secured by business assets. The Bank also makes term commercial loans secured by equipment and real estate. Lending decisions are based on an evaluation of the financial strength, cash flow, management and credit history of the borrower, and the quality of the collateral securing the loan. With few exceptions, the Bank requires personal guarantees and secondary sources of repayment. Commercial loans generally provide greater yields and re-price more frequently than other types of loans, such as real estate loans.

Commercial – Real Estate: Loans secured by commercial real estate also carry risks associated with the success of the business and ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral. Some real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan.

Consumer – Non Real Estate: Consumer non real estate loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, personal bankruptcy or other life events.

Residential – Real Estate: Consumer real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

Loans of each class are placed on nonaccrual status when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Generally, the Bank will return a loan to accrual status when all delinquent interest and principal becomes current and remains current for six consecutive months under the terms of the loan agreement or the loan is well-secured and in the process of collection.

Mortgage loans held for resale are stated at the lower of cost or market on an individual loan basis. Loan discounts and origination fees received on loans held for resale are deferred until the related loans are sold to third party investors. Gains are recognized at the time of sale.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loans of each segment are fully or partially charged off against the allowance when the Bank deems the amount to be uncollectible. General conditions for charge-off include repayment schedules that are deemed to be protracted beyond a reasonable timeframe, the loan has been classified as a loss either internally or by regulators, or the loan is 180 days past due unless well-secured and in the process of collection. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price less costs to liquidate) of the impaired loan are lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off by segment and expected default derived from CFS's loss experience by loan type. Other adjustments may be made to the allowance based on an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. Adjustments to the general component of the allowance are made for each segment based on management's assessment of the state of the economy, delinquencies, exceptions to loan underwriting/monitoring policies, and local unemployment. There were no significant changes to the Bank's allowance methodology during the current year.

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

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before the loan reaches nonaccrual status. 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 borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using both straight-line and accelerated methods over the assets' estimated useful lives. Estimated useful lives range from 10 to 39 years for buildings, 3 to 7 years for furniture, fixtures and equipment, and no longer than the term of the lease for leasehold improvements.

Foreclosed Assets

Foreclosed assets are recorded at the time of foreclosure at their fair value net of estimated costs to sell. At foreclosure, any excess of the loan balance over the fair value of the property is charged to the allowance for loan losses. Such carrying value is periodically reevaluated and written down as a direct expense if there is an indicated decline in fair value. Costs to bring a property to salable condition are capitalized up to the fair value of the property, while costs to maintain a property in salable condition are expensed as incurred.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (a) the assets have been isolated from CFS – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (b) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (c) CFS does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying provisions of the enacted tax law to the taxable income or excess deductions over revenues. CFS determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained under examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

CFS accounts for income taxes in accordance with the accounting guidance related to uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Consolidated Statements of Cash Flows

For purposes of the consolidated statement of cash flows, CFS considers cash equivalents to include cash on hand, amounts due from banks, interest bearing deposits, and federal funds sold.

Advertising Costs

CFS follows the policy of charging the production costs of advertising to expense as incurred.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, other-than-temporary impairments of securities, and the valuation of foreclosed assets.

Earnings Per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by CFS relate solely to outstanding stock options and restricted stock, are determined using the treasury stock method.

Cash Management Accounts

CFS purchases trade accounts receivable from customers. These receivables are stated at face value net of discounts and an allowance for losses. CFS retains reserves against these customer balances in a separate liability account on the general ledger to cover unpaid receivables, returns, allowances and other adjustments.

Stock-Based Compensation

Stock-based compensation accounting requires that the compensation cost relating to stock-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of stock-based compensation arrangements including stock options, restricted share plans, and performance-based awards.

The stock-based compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service periods, generally defined as the vesting period. Compensation cost is recognized on a straight-line basis over the requisite service period for the award. A Black-Scholes model is used to estimate the fair value of stock options, while the fair value of the Company's common stock at the date of grant is used for restricted awards. There were no options granted in 2015 or 2016.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions significantly affect the estimates.

Trust Company Assets

Securities and other property held by the Trust Company in a fiduciary or agency capacity are not assets of CFS and are not included in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

ASU 2014-09:

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2015-01:

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company applied the guidance prospectively. These amendments will not have a material effect on the Company's financial statements.

ASU 2015-02:

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. These amendments will not have a material effect on the Company's financial statements.

ASU 2015-14:

In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a full retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-01:

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-02:

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

ASU 2016-08:

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-09:

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-10:

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-12:

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-13:

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

ASU 2016-15:

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-17:

In October 2016, the FASB amended the Consolidation topic of the Accounting Standards Codification to revise the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments will be effective for the Company for fiscal years beginning after December 15, 2016 including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-19:

In December 2016, the FASB issued amendments to clarify the Accounting Standards Codification (ASC), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (December 14, 2016) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-20:

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a full retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Reclassification

Certain items for prior years have been reclassified to conform to the current year presentation. Such reclassifications had no effect on net income, total assets or shareholders' equity as previously reported.

Note 2. Securities

Amortized cost and fair values of securities available for sale as of December 31, 2016 and 2015, are as follows:

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of state and political subdivisions	$ 126,457,719	$ 3,887,998	$ (1,340,225)	$ 129,005,492
Mortgage-backed securities	54,658,546	1,642,320	(290,033)	56,010,833
Other domestic debt securities	500,000	2,753	–	502,753
Total	$ 181,616,265	$ 5,533,071	$ (1,630,258)	$ 185,519,078

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of state and political subdivisions	$ 114,778,856	$ 7,048,354	$ (126,780)	$ 121,700,430
Mortgage-backed securities	63,101,584	1,941,884	(371,513)	64,671,955
Total	$ 177,880,440	$ 8,990,238	$ (498,293)	$ 186,372,385

The amortized cost and fair value of securities available for sale as of December 31, 2016, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 19,561,518	$ 19,609,415
Due after one year through five years	91,340,589	94,704,664
Due after five years through ten years	63,029,845	63,376,162
Due after ten years	7,684,313	7,828,837
Total	$ 181,616,265	$ 185,519,078

Proceeds from sales and calls of securities available for sale during 2016 and 2015 were $5,731,946 and $17,835,097, respectively. Gross realized gains amounted to $272,890 and $1,187,124 in 2016 and 2015. Gross realized losses amounted to $10,472 and $433 in 2016 and 2015, respectively. The tax provision applicable to these net realized gains amounted to $89,222 and $403,475 in 2016 and 2015, respectively.

The amortized cost of securities pledged to secure public deposits, borrowings from the Federal Home Loan Bank, fiduciary powers and for other purposes required or permitted by law amounted to $104,399,760 and $89,204,106 at December 31, 2016 and 2015, respectively.

Temporarily Impaired Securities

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2016			
	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of state and political subdivisions	$ 33,368,939	$ (1,340,225)	$ –	$ –
Mortgage-backed securities	17,106,660	(146,946)	10,759,470	(143,087)
	$ 50,475,599	$ (1,487,171)	$ 10,759,470	$ (143,087)

	2015			
	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of state and political subdivisions	$ 4,717,708	$ (48,162)	$ 1,890,706	$ (78,618)
Mortgage-backed securities	23,856,706	(234,967)	9,003,165	(136,546)
	$ 28,574,414	$ (283,129)	$ 10,893,871	$ (215,164)

Securities of State and Political Subdivisions

CFS's unrealized losses on investments in 47 municipal bonds relate to investments in longer-term securities of municipalities throughout the U.S. The unrealized losses are primarily caused by the trend in interest rates. CFS currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because CFS does not intend to sell the investments and it is not more-likely-than-not that CFS will be required to sell the investments before recovery of its par value, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

Mortgage-Backed Securities

The unrealized losses on CFS's investment in 12 government-sponsored enterprise mortgage-backed securities were caused by interest rate movements. CFS purchased those investments at a premium relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of CFS's investments. CFS does not consider these investments to be other-than-temporarily impaired at December 31, 2016 due to the following:

- The decline in the market value is attributable to changes in interest rates and not credit quality;
- CFS does not intend to sell the investments; and
- It is not more-likely-than-not that CFS will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

The unrealized losses associated with 9 private-label residential mortgage-backed securities are primarily driven by higher projected collateral losses, wider credit spreads and changes in interest rates. CFS assessed credit impairment using an economic cash flow model. Based upon the Company's assessment of the expected credit losses of the security given the performance of the underlying collateral, CFS has appropriately recognized the related other-than-temporary impairment losses in these private-label residential mortgage-backed securities. The remaining unrealized losses are deemed to be related to factors other than credit.

Management continuously monitors the mortgage-backed securities portfolio for potential permanent impairment. Analytical tools used include robust credit risk analysis. CFS strives to maintain exposure only to securities that have credit support in excess of original issue levels. Generally, it is CFS's intent to hold the securities for the time necessary to recover the amortized cost unless prudent business decisions warrant otherwise.

Other-Than-Temporary Impairment

CFS routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment (OTTI) has occurred. The initial indicator of OTTI is a decline in market value (unrealized loss) below the amount recorded for an investment as well as the severity and duration of the decline. If the decline in fair value is below amortized cost, CFS recognizes OTTI if (1) CFS has the intent to sell the security, (2) it is more-likely-than-not that CFS will be required to sell the security before recovery of its amortized cost basis, or (3) CFS does not expect to recover the entire amortized cost of the security. While all securities are considered, the securities primarily impacted by management's OTTI analysis are private-label residential mortgage-backed securities. CFS uses economic models to aid in its determination of OTTI. Various inputs into the economic models are used to determine if OTTI exists. The most significant inputs in determining OTTI are:

- Length of time and extent to which fair value has been less than amortized cost;
- Cause of the decline, such as interest rates or adverse conditions in the market;
- Payment structure of the security;
- Credit performance of the underlying collateral, including delinquency rates, nonperforming collateral/defaults, severities of losses, collateral values and expected credit losses;
- Current rating of security; and
- Independent analysts' reports and forecasts.

Other inputs may include the actual collateral attributes and other performance indicators of the underlying asset.

If CFS determines that a given security is subject to OTTI write-down or loss, CFS records the expected credit portion loss as a charge to earnings. The measurement of the credit loss component is equal to the difference between the security's cost basis and the present value of its expected future cash flows, using the economic models, discounted at the security's purchase yield assumption. The remaining non-credit portion is recorded in other comprehensive income.

The following roll forward reflects the amount related to possible credit losses recognized in earnings. The beginning balance represents possible credit losses on debt securities at the beginning of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

	Available for Sale
Beginning balance as of December 31, 2015	$ 3,318,569
Amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	150,550
Realized losses	–
Ending balance as of December 31, 2016	$ 3,469,119

Note 3. Loans

A summary of the balances of loans by segment follows:

	December 31, 2016	December 31, 2015
Commercial	$ 136,939,451	$ 126,411,797
Commercial - Real Estate	214,116,057	190,940,844
Consumer - Non Real Estate	9,806,510	8,763,383
Residential - Real Estate	92,565,619	86,776,627
	$ 453,427,637	$ 412,892,651
Less: Allowance for loan losses	5,009,817	5,488,068
Loans, net	$ 448,417,820	$ 407,404,583

Overdrafts totaling $595,875 and $96,903 at December 31, 2016 and 2015, respectively, were reclassified from deposits to loans and are classified in Consumer – Non Real Estate.

An analysis of the allowance for loan losses by segment follows:

	Commercial	Commercial - Real Estate	Consumer - Non Real Estate	Residential - Real Estate	Unallocated	Total
Year Ended December 31, 2016						
Balance beginning of year	$ 2,205,066	$ 2,319,509	$ 115,924	$ 847,569	$ –	$ 5,488,068
Provision for loan losses	380,845	358,821	123,291	(7,293)	94,332	949,996
Charge-offs	(1,443,382)	–	(147,473)	(145,170)	–	(1,736,025)
Recoveries	171,303	–	74,388	62,087	–	307,778
Total allowance for loan losses	$ 1,313,832	$ 2,678,330	$ 166,130	$ 757,193	$ 94,332	$ 5,009,817
Individually evaluated for impairment	$ 64,010	$ 1,428,935	$ 101,897	$ –	$ –	$ 1,594,842
Collectively evaluated for impairment	1,249,822	1,249,395	64,233	757,193	94,332	3,414,975
Total allowance for loan losses	$ 1,313,832	$ 2,678,330	$ 166,130	$ 757,193	$ 94,332	$ 5,009,817
Individually evaluated for impairment	$ 4,817,564	$ 5,896,122	$ 101,897	$ 743,746	$ –	$ 11,559,329
Collectively evaluated for impairment	132,121,887	208,219,935	9,704,613	91,821,873	–	441,868,308
Total loans	$ 136,939,451	$ 214,116,057	$ 9,806,510	$ 92,565,619	$ –	$ 453,427,637

During 2016, the Company elected to reclass $400,000 from the cash management reserve provision to the Company's loan loss provision. During 2013, the Company elected to move a large, non-performing cash management account to the loan portfolio based on modifications to the account and to aid in collections of the account. A portion of this cash management account was subsequently charged off in 2015 and 2016, with these charge-offs being applied to the Allowance for Loan Losses. Based on the nature of this account, the Company felt that these charge-offs were more applicable to the cash management reserve, and as a result, determined that the reclass of $400,000 was reasonable in order to properly reflect the level of risk within both the loan portfolio and the cash management portfolio.

	Commercial	Commercial - Real Estate	Consumer - Non Real Estate	Residential - Real Estate	Unallocated	Total
Year Ended December 31, 2015						
Balance beginning of year	$ 3,024,750	$ 1,676,206	$ 311,237	$ 1,353,693	$ –	$ 6,365,886
Provision for loan losses	(771,530)	1,293,325	(76,583)	(203,871)	–	241,341
Charge-offs	(262,996)	(661,171)	(185,918)	(302,253)	–	(1,412,338)
Recoveries	214,843	11,148	67,188	–	–	293,179
Total allowance for loan losses	$ 2,205,067	$ 2,319,508	$ 115,924	$ 847,569	$ –	$ 5,488,068
Individually evaluated for impairment	$ 776,143	$ 1,160,471	$ 77,345	$ 119,390	$ –	$ 2,133,349
Collectively evaluated for impairment	1,428,892	1,158,949	42,746	724,132	–	3,354,719
Total allowance for loan losses	$ 2,205,035	$ 2,319,420	$ 120,091	$ 843,522	$ –	$ 5,488,068
Individually evaluated for impairment	$ 3,026,279	$ 7,080,190	$ 168,157	$ 1,017,735	$ –	$ 11,292,361
Collectively evaluated for impairment	123,385,518	183,860,654	8,595,226	85,758,892	–	401,600,290
Total loans	$ 126,411,797	$ 190,940,844	$ 8,763,383	$ 86,776,627	$ –	$ 412,892,651

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016					
With no related allowance:					
Commercial					
Secured	$ 4,751,465	$ 4,751,465	$ –	$ 1,869,783	$ 225,783
Unsecured	–	–	–	–	–
Commercial - Real Estate					
Acquisition and development	–	–	–	217,009	–
Non-owner occupied	–	–	–	–	–
Owner occupied	960,572	960,572	–	877,795	54,517
Multifamily	–	–	–	–	–
Consumer - Non Real Estate					
Installment	–	–	–	20,487	–
Revolving	–	–	–	–	–
Other	–	–	–	–	–
Residential - Real Estate					
First Lien 1-4 Family	95,161	95,161	–	236,641	9,594
Junior Lien 1-4 Family	–	–	–	–	–
Construction	–	–	–	–	–
Land	346,664	346,664	–	288,298	11,668
Revolving	301,921	301,921	–	185,545	17,970
With an allowance recorded:					
Commercial					
Secured	$ 66,099	$ 66,099	$ 64,010	$ 613,417	$ 3,835
Unsecured	–	–	–	86,059	–
Commercial - Real Estate					
Acquisition and development	–	–	–	–	–
Non-owner occupied	4,935,550	4,935,550	1,428,935	5,016,222	101,164
Owner occupied	–	–	–	259,792	–
Multifamily	–	–	–	–	–
Consumer - Non Real Estate					
Installment	101,897	101,897	101,897	124,055	1,728
Revolving	–	–	–	640	–
Other	–	–	–	–	–
Residential - Real Estate					
First Lien 1-4 Family	–	–	–	56,618	–
Junior Lien 1-4 Family	–	–	–	–	–
Construction	–	–	–	–	–
Land	–	–	–	–	–
Revolving	–	–	–	291,910	–
Total:					
Commercial	$ 4,817,564	$ 4,817,564	$ 64,010	$ 2,569,259	$ 229,618
Commercial - Real Estate	5,896,122	5,896,122	1,428,935	6,370,818	155,681
Consumer - Non Real Estate	101,897	101,897	101,897	145,182	1,728
Residential - Real Estate	743,746	743,746	–	1,059,012	39,232
	$ 11,559,329	$ 11,559,329	$ 1,594,842	$ 10,144,271	$ 426,259

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015					
With no related allowance:					
Commercial					
Secured	$ 381,935	$ 381,935	$ –	$ 533,921	$ 25,800
Unsecured	–	–	–	–	–
Commercial - Real Estate					
Acquisition and development	398,610	398,610	–	420,529	30,583
Non-owner occupied	–	–	–	–	–
Owner occupied	651,643	651,643	–	1,415,895	29,131
Multifamily	–	–	–	–	–
Consumer - Non Real Estate					
Installment	70,411	70,411	–	65,551	4,137
Revolving	–	–	–	–	–
Other	–	–	–	–	–
Residential - Real Estate					
First Lien 1-4 Family	389,910	389,910	–	614,748	36,772
Junior Lien 1-4 Family	–	–	–	–	–
Construction	–	–	–	–	–
Land	228,325	228,325	–	183,015	6,725
Revolving	49,457	49,457	–	154,480	2,774
With an allowance recorded:					
Commercial					
Secured	$ 2,421,070	$ 3,040,994	$ 552,869	$ 4,674,237	$ 37,213
Unsecured	223,274	223,274	223,274	251,422	6,109
Commercial - Real Estate					
Acquisition and development	–	–	–	–	–
Non-owner occupied	5,204,025	5,204,025	1,131,226	5,377,550	135,067
Owner occupied	825,912	825,912	29,245	883,007	47,111
Multifamily	–	–	–	–	–
Consumer - Non Real Estate					
Installment	96,800	96,800	76,399	100,706	5,969
Revolving	946	946	946	1,883	230
Other	–	–	–	–	–
Residential - Real Estate					
First Lien 1-4 Family	–	–	–	31,048	–
Junior Lien 1-4 Family	–	–	–	10,900	–
Construction	–	–	–	–	–
Land	–	–	–	12,001	–
Revolving	350,043	350,043	119,390	250,070	7,334
Total:					
Commercial	$ 3,026,279	$ 3,646,203	$ 776,143	$ 5,459,580	$ 69,122
Commercial - Real Estate	7,080,190	7,080,190	1,160,471	8,096,981	241,892
Consumer - Non Real Estate	168,157	168,157	77,345	168,140	10,336
Residential - Real Estate	1,017,735	1,017,735	119,390	1,256,262	53,605
	$ 11,292,361	$ 11,912,285	$ 2,133,349	$ 14,980,963	$ 374,955

Included in impaired loans are troubled debt restructurings. At December 31, 2016 and 2015, $6,122,312 and $7,831,042 in loans were modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the loan's interest rate, payment extensions, or other actions intended to maximize collection.

Information regarding activity in troubled debt restructurings by class during 2016 follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential - Real Estate			
Land	1	$ 193,929	$ 193,929

There were no loans modified in a troubled debt restructuring during 2015.

There were no loans that subsequently defaulted (more than 90 days past due or charge-off) within the first year of modification during 2016 and 2015.

At December 31, 2016, no additional funds were committed to be advanced in connection with impaired loans.

Internal risk rating definitions are:

Pass/Watch: These include satisfactory loans which may have elements of risk that the Bank has chosen to monitor formally. The objective of monitoring is to assure that no weaknesses develop in these loans.

Special Mention: These loans have a potential weakness that requires 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. These credits do not expose the Bank to sufficient risk to warrant further adverse classification.

Substandard: A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as such must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified doubtful have all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be received in the future.

The Bank's credit quality information, which is based on internal risk grades, follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2016						
Commercial						
Secured	$ 112,509,181	$ 735,557	$ 3,943,134	$ 4,031,622	$ –	$ 121,219,494
Unsecured	15,695,148	–	24,809	–	–	15,719,957
Commercial - Real Estate						
Acquisition and development	19,906,463	721,340	13,208	–	–	20,641,011
Non-owner occupied	87,473,478	6,691,003	1,262,356	–	2,599,240	98,026,077
Owner occupied	77,094,794	196,266	2,092,238	960,572	–	80,343,870
Multifamily	12,575,233	–	2,529,866	–	–	15,105,099
Consumer - Non Real Estate						
Installment	6,968,910	–	282,641	149,444	117,945	7,518,940
Revolving	1,690,694	–	–	1,000	–	1,691,694
Other	595,876	–	–	–	–	595,876
Residential - Real Estate						
First Lien 1-4 Family	36,508,739	155,011	395,112	282,519	–	37,341,381
Junior Lien 1-4 Family	8,080,512	27,303	7,780	–	–	8,115,595
Construction	8,892,266	–	–	–	–	8,892,266
Land	6,455,232	28,560	22,598	370,962	–	6,877,352
Revolving	30,237,929	202,330	397,599	501,167	–	31,339,025
Total	$ 424,684,455	$ 8,757,370	$ 10,971,341	$ 6,297,286	$ 2,717,185	$ 453,427,637
December 31, 2015						
Commercial						
Secured	$ 110,673,219	$ 1,088,463	$ 5,794,925	$ 2,003,504	$ –	$ 119,560,111
Unsecured	6,602,566	–	28,373	220,747	–	6,851,686
Commercial - Real Estate						
Acquisition and development	23,233,717	1,700,000	–	398,611	–	25,332,328
Non-owner occupied	74,727,756	1,466,696	432,983	2,599,240	–	79,226,675
Owner occupied	70,629,987	563,750	6,268,717	1,274,134	–	78,736,588
Multifamily	5,232,977	–	2,412,277	–	–	7,645,254
Consumer - Non Real Estate						
Installment	6,364,978	5,461	324,099	162,126	5,084	6,861,748
Revolving	1,803,786	–	–	946	–	1,804,732
Other	96,903	–	–	–	–	96,903
Residential - Real Estate						
First Lien 1-4 Family	35,186,714	643,239	253,299	389,909	–	36,473,161
Junior Lien 1-4 Family	6,596,218	16,496	23,319	–	–	6,636,033
Construction	4,118,404	–	–	–	–	4,118,404
Land	7,140,885	46,353	15,537	228,324	–	7,431,099
Revolving	30,657,460	198,679	862,290	195,399	204,101	32,117,929
Total	$ 383,065,570	$ 5,729,137	$ 16,415,819	$ 7,472,940	$ 209,185	$ 412,892,651

The following is a summary of information pertaining to nonaccrual and past due loans by class:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Nonaccruals	Current	Total Loans
December 31, 2016							
Commercial							
Commercial Secured	$ –	$ 9,993	$ –	$ 9,993	$ 1,255,786	$ 119,953,715	$ 121,219,494
Commercial Unsecured	12,955	4,921	–	17,876	–	15,702,081	15,719,957
Commercial - Real Estate							
Commercial A&D	–	–	–	–	13,208	20,627,803	20,641,011
Commercial Non-Owner Occupied	–	–	–	–	2,599,240	95,426,837	98,026,077
Commercial Owner Occupied	53,898	–	–	53,898	958,499	79,331,473	80,343,870
Multifamily Commercial	–	–	–	–	–	15,105,099	15,105,099
Consumer - Non Real Estate							
Consumer Installment	9,009	14,544	–	23,553	62,453	7,432,934	7,518,940
Consumer Revolving	–	–	–	–	–	1,691,694	1,691,694
Consumer Other	9,390	–	–	9,390	–	586,486	595,876
Residential - Real Estate							
First Lien 1-4 Family	30,973	–	–	30,973	524,202	36,786,206	37,341,381
Junior Lien 1-4 Family	–	–	–	–	18,896	8,096,699	8,115,595
Construction	–	–	–	–	–	8,892,266	8,892,266
Land	–	–	–	–	408,151	6,469,201	6,877,352
Revolving	–	5,237	–	5,237	476,246	30,857,542	31,339,025
Total	$ 116,225	$ 34,695	$ –	$ 150,920	$ 6,316,681	$ 446,960,036	$ 453,427,637
December 31, 2015							
Commercial							
Commercial Secured	$ 24,977	$ –	$ –	$ 24,977	$ 2,223,504	$ 117,311,630	$ 119,560,111
Commercial Unsecured	–	–	–	–	222,722	6,628,964	6,851,686
Commercial - Real Estate							
Commercial A&D	–	–	–	–	398,611	24,933,717	25,332,328
Commercial Non-Owner Occupied	292,515	–	–	292,515	2,599,240	76,334,920	79,226,675
Commercial Owner Occupied	294,334	91,993	–	386,327	1,069,319	77,280,942	78,736,588
Multifamily Commercial	–	–	–	–	199,997	7,445,257	7,645,254
Consumer - Non Real Estate							
Consumer Installment	1,747	–	–	1,747	44,523	6,815,478	6,861,748
Consumer Revolving	–	–	–	–	–	1,804,732	1,804,732
Consumer Other	10,254	–	–	10,254	–	86,649	96,903
Residential - Real Estate							
First Lien 1-4 Family	140,085	113,237	–	253,322	390,572	35,829,267	36,473,161
Junior Lien 1-4 Family	–	–	–	–	–	6,636,033	6,636,033
Construction	10,103	16,496	–	26,599	13,216	4,078,589	4,118,404
Land	35,160	–	–	35,160	274,678	7,121,261	7,431,099
Revolving	150,441	41,083	–	191,524	583,928	31,342,477	32,117,929
Total	$ 959,616	$ 262,809	$ –	$ 1,222,425	$ 8,020,310	$ 403,649,916	$ 412,892,651

There were no loans 90+ days past due and still accruing at December 31, 2016 and 2015, respectively.

Note 4. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31, 2016	December 31, 2015
Land	$ 4,645,478	$ 4,790,653
Buildings	19,195,930	18,208,511
Furniture, fixtures and improvements	2,109,410	2,090,205
Mechanical equipment	6,853,652	6,485,020
Leasehold improvements	4,024,904	3,984,123
	$ 36,829,374	$ 35,558,512
Less accumulated depreciation	18,164,584	16,834,137
Total	$ 18,664,790	$ 18,724,375

For the years ended December 31, 2016 and 2015, depreciation expense was $1,477,530 and $1,452,290, respectively.

Note 5. Time Deposits

Remaining maturities on certificates of deposit are as follows:

2017	$ 108,710,606
2018	31,061,237
2019	9,049,614
2020	3,452,497
2021	10,404,170
Thereafter	24,170,999
Total	$ 186,849,123

The Bank obtains certain deposits through the efforts of third-party brokers. At December 31, 2016 and 2015, brokered deposits totaled $37,735,000 and $36,754,000, respectively, and were included in certificates of deposit on the consolidated balance sheets.

Note 6. Trust Preferred Capital Notes

On July 2, 2007, CFS Capital Trust II, a wholly-owned subsidiary of CFS, was formed for the purpose of issuing redeemable capital securities. On July 5, 2007, $15.465 million of trust preferred securities which have a LIBOR-indexed floating rate of interest were issued. The weighted-average interest rate for the year ended December 31, 2016 was 2.06%. The interest rate as of December 31, 2016 was 2.23%. The securities have a mandatory redemption date of October 1, 2037, and are subject to varying call provisions beginning September 6, 2012.

In August 2014, CFS was notified that $5.0 million of the $15.0 million in trust preferred securities of CFS Capital Trust II ("Trust II") would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. CFS placed a bid of $3.9 million for the securities which was accepted by the trustee and the transaction closed on September 5, 2014. Because the accepted bid of $3.9 million was less than the $5.0 million carrying value, CFS recognized a gain of $1.1 million related to this transaction, when these securities were redeemed.

In January 2015, CFS was notified that $5.0 million of the $10.0 million remaining in trust preferred securities of CFS Capital Trust II ("Trust II") would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. CFS placed bids totaling $3.9 million for the securities which were accepted by the trustee and the transactions closed on February 5, 2015 and February 13, 2015. Because the accepted bids of $3.9 million were less than the $5.0 million carrying value, CFS recognized a gain of $1.1 million related to the transactions, when these securities were redeemed.

As of December 31, 2016, $5.0 million in preferred stock and $155 thousand in common stock of Trust II was still outstanding.

The Trust Preferred Securities may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred not considered as Tier 1 capital may be included in Tier 2 capital.

The obligations of CFS with respect to the issuance of the capital securities constitute a full and unconditional guarantee by CFS of the Trust's obligations with respect to the capital securities.

Subject to certain exceptions and limitations, CFS may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities.

Note 7. Borrowings

The Company's line of credit with the FHLB can equal up to 3% of total assets of the Bank. As of December 31, 2016, loans with a carrying value of $24,426,947 and securities with an amortized cost of $20,307,648 were pledged to the FHLB as collateral for borrowings. The FHLB line of credit totaled $178.8 million with approximately $158.7 million available at December 31, 2016. Additional loans are available that can be pledged as collateral for future borrowings from the FHLB above the current lendable collateral value.

As of December 31, 2016, CFS had fixed-rate, short-term borrowings of $10,020,614 outstanding with the FHLB. The interest rates on short-term advances from the FHLB ranged from .68% to 1.00% with a weighted average interest rate of .681% as of December 31, 2016. Included in the short-term advances, CFS also borrowed $1,000,000 from an unrelated entity at 1% to fund a local non-profit project. The remaining balance at December 31, 2016 for this borrowing was $20,614. The note payable is secured by a deed of trust on property located in Lancaster County, Virginia with a carrying value of approximately $675,000. CFS also maintains an additional secured line of credit with another correspondent bank totaling $20,000,000, of which there was a balance outstanding of $852,000 as of December 31, 2016.

Long-term advances from the FHLB totaled $10,000,000 as of December 31, 2016. The interest rates on long-term advances from the FHLB ranged from 3.21% to 3.435% with a weighted average interest rate of 3.30% as of December 31, 2016.

Details of long-term debt outstanding as of December 31, 2016 are as follows:

	Rate	Maturity Date	Amount
FHLB fixed rate advance	3.435%	5/7/18	$ 5,000,000
FHLB fixed rate advance	3.210%	7/3/18	5,000,000
Note payable	5.500%	1/1/18	77,957
Total long-term debt			$ 10,077,957

Aggregate maturities of all outstanding long-term debt as of December 31, 2016 are: 2017: $71,796; 2018: $10,006,161.

In addition to the available credit from the FHLB, CFS also has unsecured lines of credit with correspondent banks totaling $55,000,000 available for overnight borrowings and a line of credit secured by 400,000 shares of CFS common stock with a correspondent bank totaling $5,000,000 available for borrowing as of December 31, 2016.

Note 8. Income Taxes

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Allowance for loan and cash management account losses	$ 2,190,901	$ 2,259,918
Other real estate	237,392	275,353
Deferred compensation	19,420	29,352
Premises and equipment	319,336	63,369
Restricted stock	104,010	139,529
AMT tax credit carryforward	647,302	388,058
Other	115,836	279,907
	$ 3,634,197	$ 3,435,486
Deferred tax liabilities:		
Securities available for sale	$ 1,326,956	$ 2,887,262
Net deferred tax assets	$ 2,307,241	$ 548,224

The provision for income taxes charged to operations for the years ended December 31, 2016 and 2015, consists of the following:

	2016	2015
Current tax expense	$ 1,354,746	$ 1,388,623
Deferred tax	(198,711)	92,086
	$ 1,156,035	$ 1,480,709

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2016 and 2015, due to the following:

	2016	2015
Income tax at federal statutory rate	$ 2,782,028	$ 3,020,917
(Decrease) increase in income taxes resulting from:		
Tax exempt income	(1,478,208)	(1,627,530)
Other	(147,785)	87,322
	$ 1,156,035	$ 1,480,709

CFS, on a consolidated basis, files income tax returns in the U.S. federal jurisdiction, the Commonwealth of Virginia and other states where income is generated. With few exceptions, CFS is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2013.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions.

Note 9. Employee Benefit Plans

Deferred Compensation Agreements

CFS has a deferred compensation agreement providing for monthly payments to an officer of the Company commencing at retirement. The liability under this agreement was accrued over the officer's period of employment such that the present value of the monthly payments was accrued by retirement date. The liability remaining is $57,117 and $86,328 for years ended December 31, 2016 and 2015, respectively.

CFS funded the deferred compensation commitment through life insurance policies on the officer. The officer is currently receiving benefits under this plan. CFS recorded income of $107,840 and $108,525 for years ended December 31, 2016 and 2015, respectively, for increasing cash value of these policies.

Employee Stock Ownership Plan

CFS sponsored a leveraged employee stock ownership plan (ESOP) that generally covers full-time employees who have completed one calendar year of service. CFS makes annual contributions to the ESOP equal to the ESOP's debt service and certain additional contributions at the discretion of the Board of Directors. The ESOP was internally leveraged through a loan from the Bank to the ESOP. Certain ESOP shares were pledged as collateral for its debt. As the debt was repaid, shares were released from collateral and allocated to active employees, based on the proportion of debt service paid in the year. Shares pledged as collateral were deducted from shareholders' equity as unearned ESOP shares in the accompanying consolidated balance sheets. At December 31, 2015, no shares remained as collateral securing the note payable.

The note payable referred to in the preceding paragraph required annual principal payments plus interest at the prime interest rate adjusted annually with a floor of 5.50%. There are no future payments due for this note as it was paid off in 2015.

As shares were released from collateral, CFS reported compensation expense equal to the current market price of the shares and the shares become outstanding. Dividends on allocated ESOP shares were recorded as a reduction of retained earnings. Dividends on unallocated ESOP shares were recorded as a reduction of debt and accrued interest. ESOP compensation expense was $300,000 and $766,526 for the years ended December 31, 2016 and 2015, respectively (including $196,068 for the year ended December 31, 2015 related to the release of ESOP shares).

401(k) Plan

CFS has adopted a contributory 401(k) plan that covers substantially all employees. Under the plan, employees may elect to defer up to 100% of their salary, subject to Internal Revenue Service limits. CFS will make a matching contribution of 100% of the first 3% and 50% of the second 3% of the employee’s salary deferred. CFS may also make a discretionary contribution to the plan. Total expense related to the plan was $501,073 and $449,945 for 2016 and 2015, respectively.

Note 10. Stock Option Plans

On April 1, 2005, CFS’s shareholders approved an incentive stock option plan under which options or restricted stock may be granted to certain key employees. The plan reserved 224,640 shares of voting common stock for issuance and expired on January 21, 2015. The compensation cost that has been charged against income for the plans related to stock options was $0 and $8,755 for the years ended December 31, 2016 and 2015, respectively. No income tax benefit was recognized in the income statement for stock option compensation for the years ended December 31, 2016 and 2015.

On April 4, 2014, CFS’s shareholders approved a stock incentive plan under which options or restricted stock may be granted to certain key employees. The plan originally reserved 420,000 shares of voting common stock for issuance and expires on January 16, 2024. There was no compensation cost charged to income for those plans related to stock options for 2016.

The stock option plans require that options be granted at an exercise price equal to at least 100% of the fair market value of the common stock on the date of the grant; however, for those individuals who own more than 10% of the stock of CFS, the option price must be at least 110% of the fair market value on the date of grant. Such options are generally not exercisable until three years from the date of issuance and require continuous employment during the period prior to exercise. The options will expire in no more than ten years after the date of grant. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. Expected volatility is based on the historic volatility of CFS’s stock price over the expected life of the options. The expected term is estimated as the average of the contractual life and vesting schedule for the respective options. The risk-free interest rate is the U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the options granted. The dividend yield is estimated as the ratio of CFS’s historical dividends paid per share of common stock to the stock price on the date of grant. There were no options granted during the years ended December 31, 2016 and 2015.

A summary of the option activity under the plans at December 31, 2016 and changes during the year then ended are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2015	237,864	$ 10.94		
Granted	–			
Exercised	(49,824)	11.14		
Expired	(1,728)	11.28		
Forfeited	(5,472)	10.89		
Outstanding at December 31, 2016	180,840	$ 10.88	3.3	$ 1,938,962
Options exercisable, end of year	180,840	$ 10.88	3.3	$ 1,938,962

Aggregate intrinsic value of stock options represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all the option holders exercised their options on December 31, 2016. This amount changes based on changes in the market value of CFS's stock.

The total intrinsic value of options exercised during the year ended December 31, 2016 and 2015, was $405,247 and $170,923, respectively. As of December 31, 2016 and December 31, 2015 there are no unrecognized compensation costs related to nonvested stock options granted under the plans.

Restricted Stock

The Company grants shares of restricted stock to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's common stock. The value of the stock awarded is established as the fair market value of the stock at the time of grant. The Company recognizes expense, equal to the total value of such awards, ratably over the vesting period of the stock grants. Restricted stock vests over 36 months based on the term of the award.

Nonvested restricted stock activity for the year ended December 31, 2016 is summarized in the following table:

	Shares	Weighted Average Grant Date Value
Nonvested at December 31, 2015	60,960	$ 15.81
Granted	21,783	18.18
Vested	(30,150)	15.70
Expired and Forfeited	–	–
Nonvested at December 31, 2016	52,593	$ 16.85

At December 31, 2016, there were no unrecognized compensation cost related to nonvested restricted stock granted under the 2005 Plan. At December 31, 2016, there was $618,163 in unrecognized compensation cost related to nonvested restricted stock granted under the 2014 Plan. This cost is expected to be recognized over the next 28 months. Share based compensation expense for nonvested restricted stock totaled $527,503 and $420,527 during 2016 and 2015, respectively.

Note 11. Shareholders' Equity

During 2016 and 2015, CFS issued 4,060 shares and 6,167 shares, respectively, of common stock to its directors for partial compensation.

Note 12. Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a third party to legal claims and disputes. At December 31, 2016, management and legal counsel are not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, that would be material to the consolidated financial statements.

CFS leases certain facilities and equipment under operating leases which expire at various dates through 2022. These leases generally contain renewal options and require CFS to pay taxes, insurance, maintenance and other expenses in addition to the minimum normal rentals.

Minimum rental payments under these operating lease agreements as of December 31, 2016 are as follows:

Year Ending December 31,	
2017	$ 133,743
2018	137,419
2019	121,928
2020	121,534
2021	36,796
Thereafter	32,315

Rent expense under operating leases aggregated $531,648 and $386,058 for the years ended December 31, 2016 and 2015, respectively.

Note 13. Related Party Transactions

Officers, directors and their affiliates had borrowings of $2,608,028 and $8,931,324 at December 31, 2016 and 2015, respectively, with the Bank.

Changes in borrowings during 2016 were as follows:

Balance, December 31, 2015	$ 8,931,324
Additions	238,201
Payments	(6,561,497)
Balance, December 31, 2016	$ 2,608,028

These transactions occurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated persons.

Related parties had deposits of $1,644,768 and $1,449,896 as of December 31, 2016 and 2015, respectively.

Note 14. Other Income and Expenses

The principal components of "Other Income" in the consolidated statements of income are:

	2016	2015
Cash management fees and discount	$ 3,165,219	$ 3,085,960
Merchant discount	9,668,166	7,207,155
ATM fee income	1,282,271	1,180,500
Asset management fees	1,153,732	1,044,769
Gain on redemption of trust preferred capital notes	–	1,100,000
Other	2,551,514	2,295,955
Total	$ 17,820,902	$ 15,914,339

The principal components of "Other Expenses" in the consolidated statements of income are:

	2016	2015
Advertising	$ 965,550	$ 815,140
Merchant card	6,364,847	4,652,863
Software	1,171,639	1,122,373
Provision for cash management account losses	99,996	225,000
Legal fees	443,729	862,777
FDIC assessments	353,884	483,666
Delivery and transportation	222,098	220,036
Stationery and supplies	360,436	377,955
Other	5,111,135	5,099,327
Total	$ 15,093,314	$ 13,859,137

Note 15. Earnings Per Common Share

The following data shows the amounts used in computing earnings per common share and the effect on the weighted average number of shares of dilutive potential common stock. The potential common stock did not have an impact on net income. Shares related to unvested restricted stock grants are included in the weighted average number of common shares outstanding because the holders participate in non-refundable dividends and have voting rights during the vesting period.

	2016	2015
Weighted average number of common shares, basic	4,022,143	3,994,157
Effect of dilutive stock options	88,883	81,993
Weighted average number of common shares and dilutive potential common stock used in diluted EPS	4,111,026	4,076,150

There were no antidilutive options for the years ended December 31, 2016 and 2015.

Note 16. Financial Instruments With Off-Balance-Sheet Risk

The Bank is a party to credit related financial instruments with off-balance-sheet risk 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 commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2016	2015
	(in thousands)	
Commitments to grant loans	$ 10,019	$ 4,881
Unfunded commitments under lines of credit	133,627	128,791
Commercial and standby letters of credit	3,093	3,714
Cash managment unfunded commitments	26,290	19,078

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary.

CFS maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks exceeds the federally insured limits is approximately $2,144,120 at December 31, 2016.

Note 17. Fair Value of Assets and Liabilities

Determination of Fair Value

CFS uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are not quoted market prices for CFS's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, CFS groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities and generally includes debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by CFS in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents and Interest-Bearing Deposits in Banks

The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Securities

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data (Level 2). If the inputs used to provide the evaluation for certain securities are unobservable and/or there is little, if any, market activity then the security would fall to the lowest level of the hierarchy (Level 3).

The Company's investment portfolio is primarily valued using fair value measurements that are considered to be Level 2. The Company has contracted with a third party portfolio accounting service vendor for valuation of its securities portfolio. The vendor's primary source for security valuation is Interactive Data Corporation ("IDC"), which evaluates securities based on market data. IDC utilizes evaluated pricing models that vary by asset class and include available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary modes, vast descriptive terms and conditions databases, as well as extensive quality control programs.

The vendor utilizes proprietary valuation matrices for valuing all municipal securities. The initial curves for determining the price, movement, and yield relationships within the municipal matrices are derived from industry benchmark curves or sourced from a municipal trading desk. The securities are further broken down according to issuer, credit support, state of issuance and rating to incorporate additional spreads to the industry benchmark curves.

The Company uses Bloomberg Valuation Service, an independent information source that draws on quantitative models and market data contributed from over 4,000 market participants, to validate third party valuations. Any material differences between valuation sources are researched by further analyzing the various inputs that are utilized by each pricing source.

Loans Held For Sale

Loans held for sale include mortgage loans and are carried at the lower of cost or market value. The fair values of mortgage loans held for sale are based on current market rates from investors within the secondary market for loans with similar characteristics. Carrying value approximates fair value.

Loans Receivable

Fair values for loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Cash Management Accounts

The carrying value of cash management accounts approximates their fair value. The future cash flows from these accounts are short-term in nature (less than 90 days) and the rate of return approximates current market rates.

Bank-Owned Life Insurance

The carrying value of bank-owned life insurance is based on cash surrender value and approximates fair value.

Deposits

The fair values disclosed for demand deposits (for example, interest and noninterest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit, if any, approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings

The carrying amounts of federal funds purchased and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on current market rates and similar types of borrowing arrangements.

Long-Term Borrowings

Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance-Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Assets Measured at Fair Value on a Recurring Basis

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

		Fair Value Measurements at December 31, 2016 Using		
Description	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets:				
Securities of state and political subdivisions	$ 129,005	$ –	$ 129,005	$ –
Mortgage-backed securities	56,011	–	48,937	7,074
Other Domestic Debt Securities	503	–	503	–

		Fair Value Measurements at December 31, 2015 Using		
Description	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets:				
Securities of state and political subdivisions	$ 121,700	$ –	$ 121,700	$ –
Mortgage-backed securities	64,672	–	56,751	7,921

The following tables present the changes in Level 3 assets that are measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
		Total Realized/Unrealized Gains (Losses) Included in				
	Balance as of January 1, 2016	Net Income	Other Comprehensive Income	Purchases, Sales, Issuances, and Settlements, Net	Transfers in and/or Out of Level 3	Balance as of December 31, 2016
			(in thousands)			
Mortgage-backed securities	$ 7,921	$ (151)	$ 670	$ (1,366)	$ –	$ 7,074

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
		Total Realized/Unrealized Gains (Losses) Included in				
	Balance as of January 1, 2015	Net Income	Other Comprehensive Income	Purchases, Sales, Issuances, and Settlements, Net	Transfers in and/or Out of Level 3	Balance as of December 31, 2015
			(in thousands)			
Mortgage-backed securities	$ 7,857	$ (536)	$ (30)	$ –	$ 630	$ 7,921

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, CFS makes adjustments to fair value for it's assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2016 and 2015, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at December 31, 2016 Using (in thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ –	$ –	$ 3,509
Other real estate owned	–	–	1,286

	Fair Value Measurements at December 31, 2015 Using (in thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ –	$ –	$ 6,987
Other real estate owned	–	–	2,078

Fair Value Measurements at December 31, 2016				
	Fair Value (in thousands)	Valuation Techniques	Unobservable Inputs	Weighted Average
Assets				
Commercial	$ 2	Market comparables	Discount applied to market comparables (1)	97.0%
Commercial - Real Estate	3,507	Market comparables	Discount applied to market comparables (1)	29.0%
Residential Real Estate	–	Market comparables	Discount applied to market comparables (1)	0.0%
Consumer - Non Real Estate	–	Market comparables	Discount applied to market comparables (1)	100.0%
Total Impaired Loans	$ 3,509			
Other Real Estate Owned	$ 1,286	Market comparables	Discount applied to market comparables (1)	13.0%
Total	$ 4,795			

(1) *A discount percentage is applied based on age of independent appraisals, selling costs, current market conditions, and experience within the local market.*

	Fair Value Measurements at December 31, 2015			
	Fair Value (in thousands)	Valuation Techniques	Unobservable Inputs	Weighted Average
Assets				
Commercial	$ 1,868	Market comparables	Discount applied to market comparables (1)	29.4%
Commercial - Real Estate	4,868	Market comparables	Discount applied to market comparables (1)	19.9%
Residential Real Estate	231	Market comparables	Discount applied to market comparables (1)	34.1%
Consumer - Non Real Estate	20	Market comparables	Discount applied to market comparables (1)	79.1%
Total Impaired Loans	$ 6,987			
Other Real Estate Owned	$ 2,078	Market comparables	Discount applied to market comparables (1)	17.2%
Total	$ 9,065			

(1) *A discount percentage is applied based on age of independent appraisals, selling costs, current market conditions, and experience within the local market.*

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate is determined utilizing an income or market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables, or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income.

Foreclosed Assets

Fair values of other real estate owned ("OREO") are carried at the lower of carrying value or fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as Level 2 valuation. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as Level 3 valuation. Any fair value adjustments are recorded in the period incurred as a foreclosed asset expense on the consolidated statements of income.

The estimated fair values, and related carrying or notional amounts, of CFS's financial instruments are as follows (dollars in thousands):

	Carrying Value	Fair Value Measurements at December 31, 2016 — Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Financial assets:					
Cash and short-term investments	$ 12,810	$ 12,810	$ –	$ –	$ 12,810
Securities available for sale	185,519	–	178,445	7,074	185,519
Other equity securities	2,690	–	–	2,690	2,690
Loans, net	448,418	–	453,423	3,509	456,932
Cash management accounts, net	26,151	–	26,151	–	26,151
Accrued interest receivable	3,059	–	3,059	–	3,059
Bank-owned life insurance	11,371	–	11,371	–	11,371
Financial liabilities:					
Deposits	$ 609,730	$ –	$ 608,478	$ –	$ 608,478
Trust preferred capital notes	5,155	–	4,055	–	4,055
Long-term debt	10,078	–	10,351	–	10,351
Short-term debt	10,873	–	10,866	–	10,866
Accrued interest payable	129	–	129	–	129

	Carrying Value	Fair Value Measurements at December 31, 2015 — Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Financial assets:					
Cash and short-term investments	$ 14,804	$ 14,804	$ –	$ –	$ 14,804
Securities available for sale	186,372	–	178,451	7,921	186,372
Other equity securities	2,677	–	–	2,677	2,677
Loans, net	407,405	–	410,267	6,987	417,254
Cash management accounts, net	24,338	–	24,338	–	24,338
Accrued interest receivable	2,738	–	2,738	–	2,738
Bank-owned life insurance	11,069	–	11,069	–	11,069
Financial liabilities:					
Deposits	$ 565,553	$ –	$ 564,909	$ –	$ 564,909
Trust preferred capital notes	5,155	–	4,060	–	4,060
Long-term debt	10,247	–	10,843	–	10,843
Short-term debt	15,803	–	15,803	–	15,803
Accrued interest payable	104	–	104	–	104

CFS assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of CFS's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to CFS. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate CFS's overall interest rate risk.

Note 18. Minimum Regulatory Capital Requirements

CFS and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on CFS's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, financial institutions must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. A financial institution's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Company and Bank meet all capital adequacy requirements to which they are subject.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets. The capital conservation buffer will be phased in beginning January 1, 2016 at .625% of risk-weighted assets and increase each subsequent year by an additional .625% until reaching its final level of 2.50% on January 1, 2019.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total Capital						
(to Risk-Weighted Assets):						
Consolidated	$ 86,526	15.3%	$ 45,245	8.0%	N/A	
Chesapeake Bank	$ 81,552	14.5%	$ 44,939	8.0%	$ 56,173	10.0%
Tier 1 Capital						
(to Risk-Weighted Assets):						
Consolidated	$ 80,082	14.2%	$ 33,933	6.0%	N/A	
Chesapeake Bank	$ 75,108	13.4%	$ 33,704	6.0%	$ 44,939	8.0%
Tier 1 Capital						
(to Average Assets):						
Consolidated	$ 80,082	11.1%	$ 28,731	4.0%	N/A	
Chesapeake Bank	$ 75,108	10.5%	$ 28,490	4.0%	$ 35,612	5.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 75,181	13.3%	$ 25,450	4.5%	N/A	
Chesapeake Bank	$ 75,108	13.4%	$ 25,278	4.5%	$ 36,513	6.5%
As of December 31, 2015:						
Total Capital						
(to Risk-Weighted Assets):						
Consolidated	$ 81,793	15.2%	$ 43,082	8.0%	N/A	
Chesapeake Bank	$ 75,886	14.2%	$ 42,728	8.0%	$ 53,410	10.0%
Tier 1 Capital						
(to Risk-Weighted Assets):						
Consolidated	$ 75,146	14.0%	$ 32,312	6.0%	N/A	
Chesapeake Bank	$ 69,239	13.0%	$ 32,046	6.0%	$ 42,728	8.0%
Tier 1 Capital						
(to Average Assets):						
Consolidated	$ 75,146	11.2%	$ 26,848	4.0%	N/A	
Chesapeake Bank	$ 69,239	10.4%	$ 26,563	4.0%	$ 33,204	5.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 70,270	13.1%	$ 24,234	4.5%	N/A	
Chesapeake Bank	$ 69,239	13.0%	$ 24,034	4.5%	$ 34,716	6.5%

As a member of the Federal Reserve System, the Bank is required to maintain certain average reserve balances. For the final weekly reporting period in the years ended December 31, 2016 and 2015, the aggregate amounts of daily average required balances were approximately $1,846,000 and $1,585,000, respectively. These reserve requirements were covered by internal holdings.

Note 19. Accumulated Other Comprehensive Income

Changes in each component of accumulated other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

	Net Unrealized Gains (Losses) on Securities, Net
Balance at December 31, 2015	$ 5,604,683
Unrealized gains on securities available for sale, net of tax of ($1,522,269)	(2,954,993)
Reclassification adjustment, net of tax of $38,035	(73,833)
Balance at December 31, 2016	$ 2,575,857
Balance at December 31, 2014	$ 6,207,410
Unrealized gains on securities available for sale, net of tax of ($89,181)	(173,115)
Reclassification adjustment, net of tax of $221,315	(429,612)
Balance at December 31, 2015	$ 5,604,683

Details regarding reclassifications out of accumulated other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

Reclassifications Out of Accumulated Other Comprehensive Income for the Year Ended December 31, 2016:

Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item in the Consolidated Income Statement
Realized gain on sale of securities	$ 262,418	Net gain on sales of securities available for sale
Other-than-temporary impairment on securities	(150,550)	Net other-than-temporary impairment losses on investments
Income tax expense	(38,035)	Income tax benefit
Total reclassifications	$ 73,833	Net of tax

Reclassifications Out of Accumulated Other Comprehensive Income for the Year Ended December 31, 2015:

Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item in the Consolidated Income Statement
Realized gain on sale of securities	$ 1,186,691	Net gain on sales of securities available for sale
Other-than-temporary impairment on securities	(535,764)	Net other-than-temporary impairment losses on investments
Income tax expense	(221,315)	Income tax expense
Total reclassifications	$ 429,612	Net of tax

Note 20. Condensed Parent Company Financial Statements

The following parent company accounting policies should be read in conjunction with the related condensed balance sheets, statements of income, and statements of cash flows.

Investments in subsidiaries are accounted for using the equity method of accounting. The parent company and its subsidiaries file a consolidated federal income tax return. The subsidiaries' individual tax provisions and liabilities are stated as if they filed separate returns and any benefits or detriments of filing the consolidated tax return are absorbed by the parent company.

The parent company's principal assets are its investments in its wholly-owned subsidiaries. Dividends from the Bank are the primary source of funds for the parent company. The payment of dividends by the Bank is restricted by various statutory limitations. Banking regulations also prohibit extensions of credit by the Bank to the parent company unless appropriately secured by assets. As of December 31, 2016, the amount available for payment of additional dividends without prior regulatory approval from the Bank to the parent company is $5,680,200 or 7.29% of consolidated net assets.

Balance Sheets (Condensed)

	December 31,	
	2016	2015
Assets		
Cash	$ 769,051	$ 1,522,343
Investment in subsidiaries	79,957,307	77,213,562
Premises and equipment, net	1,838,972	1,852,644
Other assets	1,090,270	1,134,728
Total assets	$ 83,655,600	$ 81,723,277
Liabilities and Shareholders' Equity		
Borrowings	$ 77,957	$ 145,919
Trust preferred capital notes	5,155,000	5,155,000
Other liabilities	516,740	465,199
Shareholders' equity	77,905,903	75,957,159
Total liabilities and shareholders' equity	$ 83,655,600	$ 81,723,277

Statements of Income (Condensed)

	2016	2015
Income: Dividends from subsidiaries	$ 1,703,058	$ 6,658,236
Other	709,307	1,508,629
Total income	$ 2,412,365	$ 8,166,865
Expenses: Interest expense	$ 114,153	$ 112,751
Other expenses	1,318,329	1,233,771
Total expenses	$ 1,432,482	$ 1,346,522
Income before income taxes and equity in undistributed earnings of subsidiaries	$ 979,883	$ 6,820,343
Allocated income tax benefit (expense)	273,762	(79,172)
Income before equity in undistributed earnings of subsidiaries	$ 1,253,645	$ 6,741,171
Equity in undistributed (distributed) earnings of subsidiaries	5,772,755	663,169
Net income	$ 7,026,400	$ 7,404,340

Statements of Cash Flows (Condensed)

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 7,026,400	$ 7,404,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	154,206	136,843
Equity in (undistributed) earnings of subsidiaries	(5,772,755)	(663,169)
Issuance of common stock for services	71,253	95,342
Gain on redemption of trust preferred capital note	–	(1,100,000)
Stock-based compensation	527,503	429,282
Release of ESOP shares	–	196,068
Changes in other assets and liabilities:		
Decrease in other assets	44,641	434,112
Increase (decrease) in other liabilities	51,541	(93,682)
Net cash provided by operating activities	$ 2,102,789	$ 6,839,136
Cash Flows from Investing Activities		
Purchases of premises and equipment	$ (140,533)	$ (29,657)
Net cash used in investing activities	$ (140,533)	$ (29,657)
Cash Flows from Financing Activities		
Dividends paid	$ (1,971,607)	$ (1,862,977)
Curtailment of borrowings	(67,962)	(202,734)
Repurchase of common stock	(1,230,795)	(724,083)
Redemption of trust preferred securities	–	(4,055,000)
Exercise of stock options	554,816	412,337
Net cash used in financing activities	$ (2,715,548)	$ (6,432,457)
Net (decrease) increase in cash	$ (753,292)	$ 377,022
Cash at beginning of year	1,522,343	1,145,321
Cash at end of year	$ 769,051	$ 1,522,343

elliott davis decosimo

To the Board of Directors and Shareholders
Chesapeake Financial Shares, Inc.
Kilmarnock, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chesapeake Financial Shares, Inc. and its Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statement of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Financial Shares, Inc. and its Subsidiaries as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Chesapeake Financial Shares, Inc. and its Subsidiaries as of and for the year ended December 31, 2015, were audited by other auditors whose report, dated February 19, 2016, expressed an unmodified opinion.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
February 13, 2017

Financial Overview: Chesapeake Financial Shares, Inc. posted earnings of $7,026,400 for 2016. The return on average equity in 2016 was 8.86% and return on average assets was 0.99% compared to 10.1% and 1.1%, respectively, in 2015. At the end of 2016, Chesapeake Financial Shares, Inc. (CFS or the Company) had total assets of $721 million which was up 6.1% when compared to December 31, 2015. The Company ended the year with total gross loans of $453.4 million, and total deposits of $609.7 million, up 9.8% and 7.8%, respectively.

The current economic environment continued to cause competitive pricing pressures on loans. Despite the pressures mentioned, loan volume was up $41 million for 2016 which brought the average annual loan growth rate for the last five years to 5.0%. Total past due and nonaccrual loans decreased by $2,392,827 from December 31, 2015 to December 31, 2016. The loan loss reserve to gross loans less unearned discounts remained at an adequate level at December 31, 2016 of 1.1%. The deposit increase of 7.8% for 2016 brought the average annual deposit growth rate for the last five years to 2.4%.

Summary of Results of Operations: Earnings for 2016 were $7,026,400 or $1.71 per share (fully diluted) compared to $7,404,340 or $1.82 per share in 2015, a decrease of $377,940. The 5% decrease in net income resulted primarily due to a $1.1 million gain (pre-tax) taken on the retirement of the Company's trust preferred debt in 2015. Net interest income before the provision for loan losses was up 4.4% from 2015. There was a 4.4% increase or $898,106 in noninterest income excluding other than temporary impairment (OTTI), and noninterest expense increased by 7.6% or $2,558,702 in 2016 over 2015. The loss for OTTI decreased by $385,214, or 72%. Merchant discount income and Cash Management fee income increased from the 2015 levels by $2,461,011 and $79,259 or 34.2% and 2.6%, respectively. Also, asset management fees increased $108,963 in 2016 over 2015 or 10.4%. In addition to these factors management also recognized gains on the sale of investment securities of $262,418.

Earnings for 2015 were $7,404,340 or $1.82 per share (fully diluted) compared to $6,533,867 or $1.62 per share in 2014, an increase of $870,473. The 13.3% increase in net income resulted largely from the recognition of gains on the sale of investment securities of $1.2 million. A portion of the state and political subdivisions securities portfolio was sold and repositioned during 2015.

Assets: Loan Portfolio: The loan portfolio is the largest component of earning assets for the Company and accounts for the greatest portion of total interest income. The gross loan portfolio totaled $453.4 million, $412.9 million, and $391.7 million as of December 31, 2016, 2015, and 2014, respectively, representing an increase of 9.8% for 2016 from 2015, 5.4% for 2015 from 2014, and 2.9% for 2014 from 2013. Commercial, (including real estate and non-real estate combined), residential real estate, and consumer loan balances were up 10.6% or $33.7 million, 6.7% or $5.8 million and 11.9% or $1.0 million, respectively.

On December 31, 2016, the loan portfolio consisted of 77.4% commercial loans, 20.4% single-family residential and residential construction loans, and 2.2% consumer and other loans. Commercial loans consisted primarily of business loans such as owner-occupied commercial development, retail, builders/contractors, medical, service and professional, hospitality, nonprofits, marine industry, and a small portion of agricultural and seafood loans.

Total nonperforming assets consisted of nonaccrual loans, performing restructured loans, repossessed and foreclosed properties, and other real estate owned. Nonperforming assets were $10,936,961 at December 31, 2016, which represented a 20.2% decrease from $13,709,038 at December 31, 2015. Past due loans over thirty days, excluding nonaccrual, totaled $150,920 at December 31, 2016. Nonaccrual loans were $6.3 million or 1.4% of total loans at December 31, 2016. A significant portion of the nonperforming asset total is attributable to a group of loans that are included as a result of a reclassification of these credits based on the identification of some weakness. Any potential loss related to these loans has been incorporated in the allowance for loan losses.

Investment Securities: All of CFS's securities are classified as securities available for sale. Securities may be classified as investment securities (held to maturity) when management has the intent and CFS has the ability at the time of purchase to hold the securities to maturity. Investment securities are carried at cost adjusted for amortization of premiums and accretion of discounts. Securities available for sale include securities that may be sold in response to changes in market interest rates, changes in the securities option or credit risk, increases in loan demand, general liquidity needs and other similar factors. Securities available for sale are carried at fair market value.

The fair market value of the portfolio was $2,575,857 more than amortized cost, net of the tax effect, at December 31, 2016, and was more than amortized cost by $5,604,683, net of the tax effect, at December 31, 2015. This is within risk limits established by the Board of Directors and the Asset/Liability Management Committee.

At yearend, total securities at fair market value were $185.5 million, down $853,307 from $186.4 million on December 31, 2015. Investments in securities of state and political subdivisions increased by $7.3 million or 6%. Investments in mortgage-backed securities decreased by $8.7 million or 13.4%.

Asset Quality-Provision/Allowance for Loan Losses: The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the credit quality and risk adverseness of the loan portfolio. The allowance for loan losses represents management's estimate of the amount adequate to provide for potential losses inherent in the loan portfolio. To achieve this goal, the loan loss provision must be sufficient to cover loans charged off plus any growth in the loan portfolio and recognition of specific loan impairments. In determining the adequacy of the allowance for loan losses, management uses a methodology which specifically identifies and reserves for higher risk loans. A general reserve is established for nonspecifically reserved loans. Loans in a nonaccrual status and over ninety days past due are considered in this evaluation as well as other loans, which may be a potential loss. The status of nonaccrual and past due loans varies from quarter to quarter based on seasonality, local economic conditions, and the cash flow of customers.

The allowance for loan losses was $5,009,817 or 1.1% of gross loans less unearned discounts at yearend. This ratio was 1.33% on December 31, 2015, and 1.63% at December 31, 2014. The table below represents the provision for loan losses taken in years 2014 through 2016 as well as loans charged off and subsequent recoveries.

	2016	2015	2014
Provision for loan losses	$ 949,997	$ 241,341	$ 600,000
Loans charged off	1,736,026	1,412,338	675,830
Recoveries	307,778	293,177	117,812

During 2016, the Company elected to reclass $400,000 from the cash management reserve provision to the Company's loan loss provision. During 2013, the Company elected to move a large, non-performing cash management account to the loan portfolio based on modifications to the account and to aid in collections of the account. A portion of this cash management account was subsequently charged off in 2015 and 2016, with these charge-offs being applied to the Allowance for Loan Losses. Based on the nature of this account, the Company felt that these charge-offs were more applicable to the cash management reserve, and as a result, determined that the reclass of $400,000 was reasonable in order to properly reflect the level of risk within both the loan portfolio and the cash management portfolio.

Management and the Board of Directors believe that the total allowance at yearend was adequate relative to current levels of risk in the portfolio. However, continued loan growth or increases in specific problem loans may warrant additional provisions in the future.

Liabilities: Deposits: CFS depends on deposits to fund most of its lending activities, generate fee income opportunities, and create a market for other financial service products. Deposits are also the largest component of CFS's liabilities and account for the greatest portion of interest expense.

Deposits totaled $609.7 million, $565.6 million, and $562.7, million for 2016, 2015, and 2014, respectively, and represented an increase of 7.8% for 2016 over 2015 and 0.5% for 2015 over 2014. The below table represents a breakdown of total deposits.

	2016	2015	Change	Percent Change
Demand deposits (noninterest bearing)	$ 144,458,129	$ 138,987,307	$ 5,470,822	3.9%
Savings & interest bearing deposits	278,422,884	253,318,726	25,104,158	9.9%
Certificates of deposit	186,849,123	173,246,698	13,602,425	7.9%
Total deposits	$ 609,730,136	$ 565,552,731	$ 44,177,405	7.81%

Net Interest Income: The principal source of earnings for CFS is net interest income. Net interest income is the difference between interest plus fees generated by earning assets and interest expense paid to fund those assets. As such, net interest income represents the gross profit from the Bank's lending, investment, and funding activities.

A large number of variables interact to affect net interest income. Included are variables such as changes in the mix and volume of earning assets and interest bearing liabilities, market interest rates, and the statutory federal tax rate. It is management's ongoing policy to maximize net interest income through the development of balance sheet and pricing strategies while maintaining appropriate risk levels as set by the Board of Directors.

Net interest income totaled $24.4 million, $23.4 million, and $23.1 million for 2016, 2015, and 2014, respectively, representing an increase of 4.4% for 2016 over 2015, 1.3% for 2015 over 2014, and a 0.8% decrease for 2014 over 2013. Loan balances increased this year with total gross loans up 9.8% or $40.5 million for 2016 from 2015. Total interest expense was $3.4 million, $3.4 million, and $3.5 million for 2016, 2015, and 2014, respectively. On a consolidated tax equivalent annualized basis, the 2016 net interest margin was 4.38%. Margins have been well above peer through numerous rate cycles and through the recent recession.

Noninterest Income: For the year ended December 31, 2016, noninterest income was $21.5 million excluding a charge of $150,550 for other than temporary impairment (OTTI) of investments. This represents an increase in noninterest income of $898,106 for the year. Most of this increase is attributable to merchant discount income. In 2015 the Company recognized a $1.1 million one-time gain on the retirement of its trust preferred debt. Changes in noninterest income categories are highlighted below.

	2016	2015	Change	Percent Change
Merchant discount income	$ 9,668,166	$ 7,207,155	$ 2,461,011	34.1%
Other income	2,551,514	2,295,955	255,559	11.1%
Asset management fees	1,153,732	1,044,769	108,963	10.4%
ATM fee income	1,282,271	1,180,500	101,771	8.6%
Cash management fees	3,165,219	3,085,960	79,259	2.6%
Trust income	2,273,869	2,223,701	50,168	2.3%
Service charge income	1,185,248	1,319,600	(134,352)	-10.2%
Gains on sale of securities	262,418	1,186,691	(924,273)	-77.9%
Gain on redemption of trust preferred	–	1,100,000	(1,100,000)	-100.0%
Total noninterest income	$ 21,542,437	$ 20,644,331	$ 898,106	4.4%

Noninterest income represented 43.4% of the total gross revenue for the Company. Sources of noninterest income include the Company's merchant processing services (Chesapeake Payment Systems), accounts receivable financing (Cash Flow), wealth management and trust services (Chesapeake Investment Group) and mortgage origination sold to a secondary market. Effective January 1, 2017 Chesapeake Investment Group changed its name to Chesapeake Wealth Management. In both 2014 and 2015 the Company was able to purchase and retire $5 million of its $15 million in outstanding trust preferred debt. Because the accepted bid of $3.9 million was less than the $5 million carrying value, the Company was able to recognize a gain of $1.1 million each year related to this transaction. These are considered to be one-time events. As of December 31, 2016, $5 million of trust preferred debt was still outstanding.

Noninterest Expenses: Total noninterest expenses increased 7.9% or $2.7 million in 2016 over 2015. In 2015, total noninterest expenses increased 10.8% or $3.4 million over 2014. Occupancy expenses increased $142,902 over 2015. 2016 represented the first full year of the Patterson Avenue branch in Richmond as well as the first full year of the Chester Loan Production Office. The Company opened a branch in the Lakewood retirement community also located in Richmond. The Lakewood branch is the fourth retirement community location for the Company. These communities have proven to be a good source of deposits and asset gathering for its wealth management company. Salary and benefit costs increased by $1.2 million or 7.3% as a result of new hires and normal salary increases. Also, the Company realized increased merchant card expense as a result of higher processing volume in 2016. Below is a breakdown of other expenses for 2016 over 2015.

	2016	2015	Change	Percent Change
Net loss on sale of foreclosed asset	$ 383,382	$ 127,339	$ 256,043	201.1%
Merchant card	6,364,847	4,652,863	1,711,984	36.8%
Advertising	965,550	815,140	150,410	18.5%
Software	1,171,639	1,122,373	49,266	4.4%
Delivery and transportation	222,098	220,036	2,062	0.9%
Miscellaneous other	4,727,753	4,832,156	(104,403)	-2.2%
Stationery and supplies	360,436	377,955	(17,519)	-4.6%
FDIC assessments	353,884	483,666	(129,782)	-26.8%
Legal fees	443,729	862,777	(419,048)	-48.6%
Provision for cash management account losses	99,996	225,000	(125,004)	-55.6%
Foreclosed asset expense	–	139,832	(139,832)	-100.0%
Total other noninterest expenses	$ 15,093,314	$ 13,859,137	$ 1,234,177	8.9%

Liquidity, Interest Rate Sensitivity, and Inflation: The objectives of CFS's liquidity management policy include providing adequate funds to meet the needs of depositors and borrowers at all times, as well as providing funds to meet the basic needs for ongoing operations of CFS, and to allow funding of longer-term investment opportunities and regulatory requirements. The objective of providing adequate funding should be accomplished at reasonable costs and on a timely basis. Management considers CFS's liquidity to be adequate.

The Bank's primary sources of asset liquidity continue to be federal funds purchased, time deposits with other banks, securities maturing within one year, loan curtailments, and short-term borrowings. On December 31, 2016, approximately 36.1% of total assets matured or were repricing within one year as compared to 35.8% on December 31, 2015.

Other sources of asset liquidity include the normal amortization and prepayment of loans, sale of loans, and proceeds from the sale of repossessed assets and other real estate owned. The sale of loans through the secondary market operation enhances the liquidity position by providing both fixed and adjustable rate long-term mortgage options to our client base. Mortgage loans held for resale are stated at the lower of cost or market (or contract value), however, due to the quick turning of these assets, seldom do these loans represent more than 1% of total assets.

Bank management maintains overnight borrowing relationships with correspondent banks for up to $114.1 million, secured and unsecured. CFS has access to additional secured borrowing of $5 million.

As of December 31, 2016, the Bank held $1,286,400 in other real estate owned. These assets are being actively marketed through real estate channels and represent near term secondary sources of liquidity. The Company was able to dispose of a number of other real estate owned properties during 2016.

Since the assets and liabilities of a bank are primarily monetary in nature (payable in fixed, determinable amounts), the performance of a bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same. Interest rate sensitivity refers to the difference between assets and liabilities subject to repricing, maturity, or volatility during a specified period. Management's objective in controlling interest rate sensitivity is to reprice loans and deposits and make investments that will maintain a profitable net interest margin (see "Net Interest Income").

While the effect of inflation is normally not as significant as its influence on those businesses that have large investments in plant and inventories, it does have an effect. There are normally corresponding increases in the money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the prices of goods and services will result in increased operating expenses.

Shareholders' Equity: Capital represents funds, earned or obtained, over which management can exercise greater control in comparison with deposits and borrowed funds. Future growth and expansion of CFS is dictated by the ability to produce capital. The adequacy of CFS's capital is reviewed by management on an ongoing basis with reference to the size, composition and quality of CFS's asset and liability levels and consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that assures an adequate level to support anticipated asset growth and absorb potential losses.

Regulators have adopted minimum capital standards. The table below represents CFS's capital ratios as of December 31, 2016 and December 31, 2015. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Company and Bank meet all capital adequacy requirements to which they are subject.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

	2016	2015
Total capital to risk-weighted assets	15.3%	15.2%
Tier 1 capital to risk-weighted assets	14.2%	14.0%
Tier 1 captial to average assets	11.1%	11.2%
Common equity tier 1 capital to risk-weighted assets	13.3%	13.1%

Dividend and Market Information: The Company's stock trades on the "OTC" (Over the Counter) market under the symbol "CPKF". The Company has increased its dividend payment annually for more than twenty years. The Company raised its dividend to $0.49 per share in 2016, an increase of $0.025 over 2015. Trades in the Company's common stock occurred infrequently and generally involved a relatively small number of shares. Based on information available, the selling price for the Company's common stock during 2016 ranged from $17.251 to $22.51, and during 2015, from $15.46 to $17.90. Such transactions may not be representative of all transactions during the indicated periods of the fair value of the stock at the time of such transactions due to the infrequency of trades and the limited market for the stock. Management attributes the Company's ability to maintain stable share prices, during hard economic times, to its earnings over the past several years. At December 31, 2016, there were 4,027,276 shares of the Company's common stock outstanding held by approximately 221 holders of record. The Board of Directors of CFS approved the purchase and retirement of up to 50,000 shares of CFS stock in 2016 of which 32,399 shares were executed upon.

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