Bank of Ocean City

Financial Statements

December 31, 2020

Bank of Ocean City

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ROWLES
& Company, LLP
Certified Public Accountants

The Board of Directors and Stockholders
Bank of Ocean City
Ocean City, Maryland

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Ocean City, which comprise the balance sheets as of December 31, 2020, 2019, and 2018, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Bank'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 Bank'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 Bank of Ocean City as of December 31, 2020, 2019, and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
February 26, 2021

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Bank of Ocean City

Balance Sheets

December 31,	**2020**	2019	2018
Assets			
Cash and due from banks	**$ 7,100,185**	$ 7,187,711	$ 6,852,781
Interest-bearing deposits	**116,031,227**	33,371,324	21,009,331
Federal funds sold	**12,132,881**	5,497,677	9,430,786
Cash and cash equivalents	**135,264,293**	46,056,712	37,292,898
Certificates of deposit in other financial institutions	**4,206,695**	4,190,000	5,437,253
Restricted stock at cost	**386,100**	362,800	345,700
Investment securities available for sale	**7,141,450**	22,834,939	22,815,446
Investment securities held to maturity (approximate fair value of **$49,585,094,** $24,584,088, and $30,942,781)	**48,732,500**	23,865,754	31,169,553
Loans, less allowance for loan losses of **$2,520,205,** $2,071,813, and $1,855,108	**288,617,243**	255,161,295	229,815,868
Premises and equipment	**7,621,072**	7,711,780	7,889,252
Accrued interest receivable	**1,149,671**	905,347	864,408
Deferred income taxes	**478,280**	244,225	409,585
Prepaid income taxes	**35,164**	18,399	-
Other assets	**926,602**	949,870	343,501
	$494,559,070	$362,301,121	$336,383,464
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	**$167,407,733**	$109,529,494	$101,649,101
Interest-bearing	**281,850,360**	211,378,542	198,117,852
Total deposits	**449,258,093**	320,908,036	299,766,953
Accrued interest payable	**49,033**	66,479	84,661
Dividend payable	**525,307**	500,360	446,364
Deferred compensation payable	**582,253**	629,559	674,423
Income taxes payable	**-**	-	57,054
Other liabilities	**427,751**	463,029	630,817
	450,842,437	322,567,463	301,660,272
Stockholders' equity			
Common stock, par value $1 per share; authorized 800,000 shares; issued and outstanding **552,955** shares at December 31, 2020, 555,955 shares at December 31, 2019, and 557,955 shares at December 31, 2018	**552,955**	555,955	557,955
Surplus	**9,489,755**	9,702,755	9,840,755
Undivided profits	**33,676,784**	29,119,480	24,395,229
Accumulated other comprehensive income (loss)	**(2,861)**	355,468	(70,747)
	43,716,633	39,733,658	34,723,192
	$494,559,070	$362,301,121	$336,383,464

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

Bank of Ocean City

Statements of Income

Years Ended December 31,	**2020**	2019	2018
Interest and dividend revenue			
Loans, including fees	**$13,798,410**	$12,632,819	$10,842,575
U.S. government agency securities	**390,990**	596,011	971,937
U.S. Treasury securities	**64,375**	52,653	54,609
State and municipal securities	**91,425**	56,899	60,681
Federal funds sold and interest-bearing deposits	**320,018**	831,152	564,635
Mortgage-backed securities	**137,585**	597,274	188,105
Equity securities	**15,737**	19,756	38,681
Total interest and dividend revenue	**14,818,540**	14,786,564	12,721,223
Interest expense			
Deposits	**1,881,795**	1,641,766	1,237,439
Borrowed funds	**-**	3,449	2
Total interest expense	**1,881,795**	1,645,215	1,237,441
Net interest income	**12,936,745**	13,141,349	11,483,782
Provision for loan losses	**394,635**	18,750	168,627
Net interest income after provision for loan losses	**12,542,110**	13,122,599	11,315,155
Noninterest revenue			
Service charges on deposit accounts	**320,211**	487,349	469,581
Card services	**344,700**	334,353	310,467
Gain (loss) on disposition of premises and equipment	**-**	(71,778)	-
Gain (loss) on sale of investment securities	**710,955**	-	(84,824)
Other-than-temporary impairment of restricted stock	**-**	-	(21,850)
Other revenue	**212,129**	240,057	192,250
Total noninterest revenue	**1,587,995**	989,981	865,624
Noninterest expenses			
Salaries	**3,218,154**	3,236,008	2,885,513
Employee benefits	**843,185**	741,040	685,661
Occupancy	**420,830**	434,532	432,706
Furniture and equipment	**214,430**	248,432	213,322
Data processing	**877,921**	799,998	753,522
Other operating	**1,368,058**	1,293,793	1,296,389
Total noninterest expenses	**6,942,578**	6,753,803	6,267,113
Income before income taxes	**7,187,527**	7,358,777	5,913,666
Income taxes	**1,883,734**	1,910,984	1,483,977
Net income	**$ 5,303,793**	$ 5,447,793	$ 4,429,689
Earnings per common share	**$ 9.59**	$ 9.77	$ 7.91

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

Bank of Ocean City

Statements of Comprehensive Income

Years Ended December 31,	**2020**	2019	2018
Net income	**$5,303,793**	$5,447,793	$4,429,689
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities available for sale	**59,764**	590,025	(1,654,445)
Reclassification of (gain) loss on sale of investment securities available for sale	**(554,130)**	-	84,824
Income tax relating to unrealized (gain) loss on investment securities available for sale	**136,037**	(163,810)	431,920
Other comprehensive income (loss)	**(358,329)**	426,215	(1,137,701)
Total comprehensive income	**$4,945,464**	$5,874,008	$3,291,988

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

Bank of Ocean City

Statements of Changes in Stockholders' Equity

	Common stock Shares	Common stock Par value	Surplus	Undivided profits	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance, December 31, 2017	**560,529**	**$560,529**	**$10,018,361**	**$20,585,668**	**$1,066,954**	**$32,231,512**
Net income	-	-	-	4,429,689	-	4,429,689
Unrealized loss on investment securities available for sale, net of income taxes of $431,920	-	-	-	-	(1,137,701)	(1,137,701)
Stock repurchase	(2,574)	(2,574)	(177,606)	-	-	(180,180)
Cash dividends, $1.11 per share	-	-	-	(620,128)	-	(620,128)
Balance, December 31, 2018	**557,955**	**557,955**	**9,840,755**	**24,395,229**	**(70,747)**	**34,723,192**
Net income	-	-	-	5,447,793	-	5,447,793
Unrealized gain on investment securities available for sale, net of income taxes of $163,810	-	-	-	-	426,215	426,215
Stock repurchase	(2,000)	(2,000)	(138,000)	-	-	(140,000)
Cash dividends, $1.30 per share	-	-	-	(723,542)	-	(723,542)
Balance, December 31, 2019	**555,955**	**555,955**	**9,702,755**	**29,119,480**	**355,468**	**39,733,658**
Net income	-	-	-	**5,303,793**	-	**5,303,793**
Unrealized loss on investment securities available for sale, net of income taxes of **$136,037**	-	-	-	-	**(358,329)**	**(358,329)**
Stock repurchase	**(3,000)**	**(3,000)**	**(213,000)**	-	-	**(216,000)**
Cash dividends, **$1.35** per share	-	-	-	**(746,489)**	-	**(746,489)**
Balance, December 31, 2020	**552,955**	**$552,955**	**$ 9,489,755**	**$33,676,784**	**$ (2,861)**	**$43,716,633**

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

Bank of Ocean City

Statements of Cash Flows

Years Ended December 31,	**2020**	2019	2018
Cash flows from operating activities			
Interest received	**$ 15,308,768**	$14,706,760	$12,681,872
Fees and commissions received	**877,040**	1,061,759	1,078,972
Interest paid	**(1,899,241)**	(1,663,397)	(1,185,115)
Cash paid to suppliers and employees	**(6,710,464)**	(7,254,578)	(5,443,272)
Income taxes paid	**(1,981,752)**	(1,964,488)	(1,509,767)
Cash provided by operating activities	**5,594,351**	4,886,056	5,622,690
Cash flows from investing activities			
(Purchases) redemptions of certificates of deposit, net	**(16,695)**	1,247,253	(866,748)
Proceeds from sale of investment securities held to maturity	**5,090,523**	-	-
Proceeds from sale of investment securities available for sale	**12,332,569**	-	41,901,278
Proceeds from matured investment securities held to maturity	**32,404,100**	7,341,985	15,301,517
Proceeds from matured investment securities available for sale	**10,608,626**	5,569,209	-
Purchase of investment securities held to maturity	**(62,228,189)**	-	(24,547,626)
Purchase of investment securities available for sale	**(7,190,757)**	(5,000,000)	(10,069,860)
Purchase of restricted stock, net	**(23,300)**	(17,100)	(14,900)
Loans made, net of principal repayments	**(34,558,674)**	(25,364,176)	(22,828,358)
Purchases of premises, equipment, and software	**(217,488)**	(230,950)	(136,732)
Cash used by investing activities	**(43,799,285)**	(16,453,779)	(1,261,429)
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	**6,074,281**	4,211,532	1,898,946
Other deposits	**122,275,776**	16,929,551	14,420,335
Repurchase of common stock	**(216,000)**	(140,000)	(180,180)
Dividends paid	**(721,542)**	(669,546)	(582,950)
Cash provided by financing activities	**127,412,515**	20,331,537	15,556,151
Net increase (decrease) in cash and cash equivalents	**89,207,581**	8,763,814	19,917,412
Cash and cash equivalents at beginning of year	**46,056,712**	37,292,898	17,375,486
Cash and cash equivalents at end of year	**$135,264,293**	$46,056,712	$37,292,898

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

Bank of Ocean City

Statements of Cash Flows
(Continued)

Years Ended December 31,	**2020**	2019	2018
Reconciliation of net income to net cash provided by operating activities			
Net income	**$5,303,793**	$5,447,793	$4,429,689
Adjustments to reconcile net income to net cash provided by operating activities			
(Accretion) amortization of investment premiums and discounts, net	**26,461**	(38,865)	(12,093)
Provision for loan losses	**394,635**	18,750	168,627
Depreciation and amortization	**308,195**	336,644	303,502
(Gain) loss on disposal of premises and equipment	**-**	71,778	-
(Gain) loss on sale of investment securities	**(710,955)**	-	84,824
Other-than-temporary impairment of restricted stock	**-**	-	21,850
Deferred income taxes	**(98,018)**	3,550	(46,973)
Decrease (increase) in			
Accrued interest receivable	**(244,324)**	(40,939)	(27,258)
Other assets and prepaid income taxes	**6,503**	(624,767)	447,041
Increase (decrease) in			
Accrued interest payable	**(17,446)**	(18,182)	52,326
Income taxes payable	**-**	(57,054)	21,183
Deferred fees	**708,091**	-	-
Other liabilities and deferred compensation payable	**(82,584)**	(212,652)	179,972
Cash provided by operating activities	**$5,594,351**	$4,886,056	$5,622,690

Bank of Ocean City

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Business

Bank of Ocean City provides a full range of banking services to customers located primarily in Worcester County, Maryland, Sussex County, Delaware, and the surrounding areas.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Certificates of deposit in other financial institutions

Certificates of deposit in other financial institutions are carried at cost. As of December 31, 2020, they mature as follows:

Year	Amount
2021	$ 1,504,695
2022	735,000
2023	1,967,000
2024	-
2025	-
	$ 4,206,695

Restricted stock

Restricted stock includes the Bank's investment in Federal Home Loan Bank of Atlanta stock, in the amount of **$326,100**, $302,800, and $285,700, as of December 31, 2020, 2019, and 2018, respectively. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. The stock is recorded at cost on the balance sheet. The remaining balance of restricted stock represents an investment in the common stock of a bankers' bank. During the year ended December 31, 2018, the Bank recognized an other-than-temporary impairment of $21,850 related to the restricted stock of another bankers' bank.

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Available for sale securities are recorded at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized and discounts are accreted using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through maturity.

Gains and losses on disposal are determined using the specific-identification method.

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

Loans and allowance for loan losses

Loans are stated at face value less the allowance for loan losses. Interest on loans is accrued based on the principal amounts outstanding. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full. If collection of principal is evaluated as doubtful, all payments are applied to principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Bank maintains an allowance that is adequate to provide for probable loan losses based on management's review and analysis of the loan portfolio as well as prevailing and anticipated economic conditions. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers pools of nonclassified loans and is based on historical loss experience adjusted for qualitative factors. There may be an unallocated component of the allowance, which reflects the margin of imprecision inherent in the underlying assumptions used in the methods for estimating specific and general losses in the portfolio. If the current economy or real estate market were to suffer a severe downturn, the estimate for uncollectible loans would need to be increased. Loan losses are charged to the allowance when management believes that collectability is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, or they have been classified as substandard. Loans that have been modified in a troubled debt restructuring are considered impaired, even if they are on accrual status.

Premises and equipment

Land is recorded at cost. Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs, and minor replacements are charged to operating expenses as incurred.

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided to account for temporary differences between financial and taxable income. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Reclassification

Certain amounts in the financial statements of prior years have been reclassified to conform with the current classifications.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2020 through February 26, 2021, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. **Cash and Due From Banks**

The Bank normally carries balances with other banks that exceed the federally insured limit. The average balance carried in excess of the limit, including unsecured federal funds sold to the same banks, was approximately **$18,002,819** for 2020, $9,772,828 for 2019, and $11,013,794 for 2018.

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

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

3. **Earnings Per Common Share**

Earnings per common share are determined by dividing net income by the average number of shares outstanding. There were **553,135**, 557,593, and 560,253 average shares outstanding during the years ended December 31, 2020, 2019, and 2018, respectively. There are no dilutive shares.

4. **Investment Securities**

Investment securities are summarized as follows:

December 31, 2020	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
Mortgage-backed securities	**$ 7,145,397**	**$ 2,056**	**$ 6,003**	**$ 7,141,450**
Held to maturity				
U.S. Treasury	**$13,986,230**	**$ 105,869**	**$ 947**	**$14,091,152**
U.S. government agency	**14,937,766**	**530,267**	**13,689**	**15,454,344**
State and municipal	**11,709,896**	**321,019**	**25,166**	**12,005,749**
Mortgage-backed securities	**8,098,608**	**-**	**64,759**	**8,033,849**
	$48,732,500	**$ 957,155**	**$ 104,561**	**$49,585,094**

Bank of Ocean City

Notes to Financial Statements (Continued)

4. **Investment Securities** (Continued)

December 31, 2019	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U.S. government agency	$ 9,999,487	$ 1,250	$ 15,947	$ 9,984,790
Mortgage-backed securities	12,345,034	505,115	-	12,850,149
	$ 22,344,521	$ 506,365	$ 15,947	$ 22,834,939
Held to maturity				
U.S. Treasury	$ 1,983,215	$ 61,945	$ -	$ 2,045,160
U.S. government agency	14,916,814	518,479	14,123	15,421,170
State and municipal	1,654,721	89,017	-	1,743,738
Mortgage-backed securities	5,311,004	63,016	-	5,374,020
	$ 23,865,754	$ 732,457	$ 14,123	$ 24,584,088
December 31, 2018				
Available for sale				
U.S. government agency	$ 7,999,244	$ -	$ 215,764	$ 7,783,480
Mortgage-backed securities	14,913,808	118,158	-	15,031,966
	$ 22,913,052	$ 118,158	$ 215,764	$ 22,815,446
Held to maturity				
U.S. Treasury	$ 1,978,062	$ 6,938	$ -	$ 1,985,000
U.S. government agency	20,879,592	91,089	135,621	20,835,060
State and municipal	1,854,690	1,255	71,504	1,784,441
Mortgage-backed securities	6,457,209	1,166	120,095	6,338,280
	$ 31,169,553	$ 100,448	$ 327,220	$ 30,942,781

4. **Investment Securities** (Continued)

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

	Less than 12 months		12 months or longer		Total	
December 31, 2020	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available for sale						
Mortgage-backed securities	**$ 5,123,484**	**$ 6,003**	**$ -**	**$ -**	**$ 5,123,484**	**$ 6,003**
Held to maturity						
U.S. Treasury	**$11,996,777**	**$ 947**	**$ -**	**$ -**	**$11,996,777**	**$ 947**
U.S. government agency	**6,981,860**	**13,689**	**-**	**-**	**6,981,860**	**13,689**
State and municipal	**1,152,000**	**25,166**	**-**	**-**	**1,152,000**	**25,166**
Mortgage-backed securities	**8,033,849**	**64,759**	**-**	**-**	**8,033,849**	**64,759**
	$28,164,486	**$104,561**	**$ -**	**$ -**	**$28,164,486**	**$104,561**
December 31, 2019						
Available for sale						
U.S. government agency	$ -	$ -	$1,983,540	$ 15,947	$ 1,983,540	$ 15,947
Held to maturity						
U.S. government agency	$ -	$ -	$3,983,240	$ 14,123	$ 3,983,240	$ 14,123
December 31, 2018						
Available for sale						
U.S. government agency	$ -	$ -	$7,783,480	$215,764	$ 7,783,480	$ 215,764
Held to maturity						
U.S. Treasury	$ -	$ -	$6,859,040	$135,621	$ 6,859,040	$ 135,621
U.S. government agency	1,582,789	71,504	-	-	1,582,789	71,504
Mortgage-backed securities	1,610,338	54,959	2,919,381	65,136	4,529,719	120,095
	$ 3,193,127	$ 126,463	$9,778,421	$200,757	$ 12,971,548	$ 327,220

Management has the ability and intent to hold these investments until maturity. The decline in fair value is the result of changes in interest rates, not a deterioration of the credit standing of the issuers.

4. **Investment Securities** (Continued)

Contractual maturities and the amount of pledged securities are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are due in monthly installments.

	Available for sale		Held to maturity	
December 31, 2020	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	$ -	$ -	**$14,996,667**	**$15,006,485**
Over one to five years	-	-	**15,186,592**	**15,802,423**
Over five to ten years	-	-	**377,903**	**380,700**
Over ten years	-	-	**10,072,730**	**10,361,637**
Mortgage-backed securities	**7,145,397**	**7,141,450**	**8,098,608**	**8,033,849**
	$ 7,145,397	**$ 7,141,450**	**$48,732,500**	**$49,585,094**
Pledged securities	**$ -**	**$ -**	**$16,926,272**	**$17,548,719**

	Available for sale		Held to maturity	
December 31, 2019	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	$ -	$ -	$ 1,999,648	$ 1,999,080
Over one to five years	9,999,487	9,984,790	14,900,381	15,467,250
Over five to ten years	-	-	-	-
Over ten years	-	-	1,654,721	1,743,738
Mortgage-backed securities	12,345,034	12,850,149	5,311,004	5,374,020
	$ 22,344,521	$ 22,834,939	$ 23,865,754	$ 24,584,088
Pledged securities	$ -	$ -	$ 16,900,029	$ 17,466,330

	Available for sale		Held to maturity	
December 31, 2018	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	$ 2,999,910	$ 2,965,480	$ 2,200,397	$ 2,199,752
Over one to five years	4,999,334	4,818,000	12,951,880	12,836,200
Over five to ten years	-	-	9,560,067	9,568,549
Mortgage-backed securities	14,913,808	15,031,966	6,457,209	6,338,280
	$ 22,913,052	$ 22,815,446	$ 31,169,553	$ 30,942,781
Pledged securities	$ 1,999,334	$ 1,917,540	$ 16,876,666	$ 16,837,260

Investments are pledged as of December 31, 2020, 2019, and 2018, as collateral for government deposits and Federal Reserve Bank borrowings.

4. **Investment Securities** (Continued)

In April 2020, management sold held to maturity securities in order to maximize liquidity due to the uncertainty created by the COVID-19 pandemic. The Bank received proceeds of **$5,090,523** and realized gross gains of **$156,825** and no losses upon the sale. In addition, the Bank received proceeds of **$12,332,569** from the sale available for sale securities during the year ended December 31, 2020, and realized gross gains of **$554,130** and no losses upon the sale.

During the year ended December 31, 2018, in an effort to restructure the investment portfolio, management elected to reclassify securities with a fair value of $50,217,784 and amortized cost of $51,984,157 from the held to maturity category to the available for sale category. This reclassification was elected under provisions of Financial Accounting Standards Board Accounting Standard Update 2017-12, which allows a one-time reclassification of securities without calling into question management's intent and ability to hold the remainder of the held to maturity securities portfolio to maturity. At the time of the transfer, the securities had unrealized losses of $1,766,373. Securities with a fair value of $40,573,284 were sold immediately upon transfer, resulting in gross losses of $1,411,662. Available for sale equity securities previously owned were also sold during the year ended December 31, 2018, resulting in proceeds of $1,327,994 and a gross gain of $1,326,838.

There were no sales of investment securities in 2019.

5. **Loans and Allowance for Loan Losses**

Major classifications of loans are as follows:

	2020	2019	2018
Real estate			
Residential	**$ 77,436,300**	$ 78,143,596	$ 63,900,530
Commercial	**155,520,107**	142,247,700	127,533,311
Construction, land development, and land	**17,984,426**	17,588,795	20,440,627
Commercial	**16,682,495**	17,459,417	17,962,470
Consumer	**1,249,030**	1,793,600	1,834,038
Paycheck Protection Program	**22,265,090**	-	-
	291,137,448	257,233,108	231,670,976
Allowance for loan losses	**2,520,205**	2,071,813	1,855,108
Loans, net	**$288,617,243**	$255,161,295	$229,815,868

The Paycheck Protection Program (PPP) loans are 100% guaranteed by the Small Business Administration (SBA). A substantial portion of the PPP loans in the Bank's portfolio as of December 31, 2020, are expected to be forgiven by the SBA. During the year ended December 31, 2020, the Bank collected approximately **$1,439,000** of fees from the SBA in connection with originations of PPP loans. The fees are being recognized as interest revenue over the term of the loans using the straight-line method, with accelerated recognition when the related loan pays off through SBA forgiveness.

5. **Loans and Allowance for Loan Losses** (Continued)

During the year ended December 31, 2020, the Bank provided short-term deferrals of loan principal and/or interest payments up to 90 days for borrowers who were affected by the COVID-19 pandemic. Borrowers receiving deferrals were required to meet certain criteria, such as being in good standing, and not more than 30 days past due prior to the pandemic. All borrowers who were provided a short-term deferral during the year had returned to paying their loans in accordance with their loan agreements as of December 31, 2020.

Transactions in the allowance for loan losses for the year ended December 31, 2020, 2019, and 2018, were as follows:

						Allowance for loan losses ending balance evaluated for impairment:		Outstanding loan balances evaluated for impairment:	
December 31, 2020	Beginning balance	Provision for loan losses	Charge offs	Recoveries	Ending balance	Individually	Collectively	Individually	Collectively
Real estate									
Residential	**$ 614,287**	**$ 18,494**	**$ -**	**$ 92,130**	**$ 724,911**	**$25,819**	**$ 699,092**	**$ 133,665**	**$ 77,302,635**
Commercial	**1,094,397**	**307,559**	**-**	**3,600**	**1,405,556**	**-**	**1,405,556**	**1,046,419**	**154,473,688**
Construction, land development, and land	**176,325**	**15,524**	**-**	**-**	**191,849**	**-**	**191,849**	**-**	**17,984,426**
Commercial	**155,772**	**48,811**	**(37,591)**	**844**	**167,836**	**-**	**167,836**	**-**	**16,682,495**
Consumer	**18,728**	**(3,949)**	**(6,965)**	**1,739**	**9,553**	**-**	**9,553**	**-**	**1,249,030**
Paycheck Protection Program	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,265,090**
Unallocated	**12,304**	**8,196**	**-**	**-**	**20,500**	**-**	**20,500**	**-**	**-**
	$2,071,813	**$394,635**	**$(44,556)**	**$ 98,313**	**$2,520,205**	**$25,819**	**$2,494,386**	**$1,180,084**	**$289,957,364**
December 31, 2019									
Real estate									
Residential	$ 473,751	$140,536	$ -	$ -	$ 614,287	$29,261	$ 585,026	$ 137,107	$ 78,006,489
Commercial	1,008,380	8,471	-	77,546	1,094,397	-	1,094,397	-	142,247,700
Construction, land development, and land	163,985	(123,424)	(17,956)	153,720	176,325	-	176,325	-	17,588,795
Commercial	152,811	2,961	-	-	155,772	-	155,772	-	17,459,417
Consumer	49,123	(15,040)	(16,490)	1,135	18,728	3,177	15,551	3,177	1,790,423
Unallocated	7,058	5,246	-	-	12,304	-	12,304	-	-
	$1,855,108	$ 18,750	$(34,446)	$232,401	$2,071,813	$32,438	$2,039,375	$ 140,284	$257,092,824
December 31, 2018									
Real estate									
Residential	$ 459,339	$ 14,412	$ -	$ -	$ 473,751	$35,101	$ 438,650	$ 142,947	$ 63,757,583
Commercial	920,105	76,108	-	12,167	1,008,380	-	1,008,380	-	127,533,311
Construction, land development, and land	153,367	10,618	-	-	163,985	-	163,985	-	20,440,627
Commercial	120,032	59,738	(29,409)	2,450	152,811	-	152,811	-	17,962,470
Consumer	52,440	2,719	(7,682)	1,646	49,123	8,293	40,830	8,293	1,825,745
Unallocated	2,026	5,032	-	-	7,058	-	7,058	-	-
	$1,707,309	$168,627	$(37,091)	$ 16,263	$1,855,108	$43,394	$1,811,714	$ 151,240	$231,519,736

5. **Loans and Allowance for Loan Losses** (Continued)

Past due loans, segregated by age and class of loans, as of December 31, 2020, 2019, and 2018, were as follows:

December 31, 2020	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Total loans	Accruing loans 90 or more days past due	Nonaccrual loans	Nonaccrual interest not accrued
Real estate									
Residential	**$1,202,611**	**$ 89,496**	**$ -**	**$1,292,107**	**$ 76,144,193**	**$ 77,436,300**	**$ -**	**$ -**	**$ -**
Commercial	**142,953**	**-**	**-**	**142,953**	**155,377,154**	**155,520,107**	**-**	**-**	**-**
Construction, land							**-**	**-**	**-**
development, and land	**-**	**-**	**-**	**-**	**17,984,426**	**17,984,426**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**16,682,495**	**16,682,495**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**1,249,030**	**1,249,030**	**-**	**-**	**-**
Paycheck Protection									
Program	**-**	**-**	**-**	**-**	**22,265,090**	**22,265,090**	**-**	**-**	**-**
	$1,345,564	**$ 89,496**	**$ -**	**$1,435,060**	**$289,702,388**	**$291,137,448**	**$ -**	**$ -**	**$ -**
December 31, 2019									
Real estate									
Residential	$2,328,914	$100,037	$ 92,169	$2,521,120	$ 75,622,476	$ 78,143,596	$92,169	$ -	$ -
Commercial	1,054,465	-	-	1,054,465	141,193,235	142,247,700	-	-	-
Construction, land	-	-	-					-	-
development, and land	-	-	-	-	17,588,795	17,588,795	-	-	-
Commercial	-	-	-	-	17,459,417	17,459,417	-	-	-
Consumer	184,373	-	-	184,373	1,609,227	1,793,600	-	-	-
	$3,567,752	$100,037	$ 92,169	$3,759,958	$253,473,150	$257,233,108	$92,169	$ -	$ -
December 31, 2018									
Real estate									
Residential	$ 150,616	$102,630	$ -	$ 253,246	$ 63,647,284	$ 63,900,530	$ -	$ -	$ -
Commercial	8,109	-	-	8,109	127,525,202	127,533,311	-	-	-
Construction, land									
development, and land	19,140	-	43,728	62,868	20,377,759	20,440,627	43,728	-	-
Commercial	7,832	-	-	7,832	17,954,638	17,962,470	-	2,990	240
Consumer	4,168	-	-	4,168	1,829,870	1,834,038	-	-	-
	$ 189,865	$102,630	$ 43,728	$ 336,223	$231,334,753	$231,670,976	$43,728	$ 2,990	$ 240

5. **Loans and Allowance for Loan Losses** (Continued)

Impaired loans as of December 31, 2020, 2019, and 2018, were as follows:

December 31, 2020	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Real estate							
Residential	**$ 133,665**	**$ 62,983**	**$70,682**	**$ 133,665**	**$25,819**	**$ 138,665**	**$ 4,362**
Commercial	**1,046,419**	**1,046,419**	**-**	**1,046,419**	**-**	**1,052,401**	**48,517**
Construction, land development, and land	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Paycheck Protection Program	-	-	-	-	-	-	-
	$1,180,084	**$1,109,402**	**$70,682**	**$1,180,084**	**$25,819**	**$1,191,066**	**$52,879**

December 31, 2019							
Real estate							
Residential	$ 137,107	$ 64,506	$ 72,601	$ 137,107	$ 29,261	$ 139,925	$ 4,570
Commercial	-	-	-	-	-	-	-
Construction, land development, and land	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Consumer	3,177	-	3,177	3,177	3,177	5,553	470
	$ 140,284	$ 64,506	$ 75,778	$ 140,284	$ 32,438	$ 145,478	$ 5,040

December 31, 2018							
Real estate							
Residential	$ 142,947	$ 67,086	$ 75,861	$ 142,947	$ 35,101	$ 178,498	$ 7,912
Commercial	-	-	-	-	-	-	-
Construction, land development, and land	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Consumer	8,293	-	8,293	8,293	8,293	10,487	863
	$ 151,240	$ 67,086	$ 84,154	$ 151,240	$ 43,394	$ 188,985	$ 8,775

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2020, 2019, or 2018.

5. **Loans and Allowance for Loan Losses** (Continued)

Credit quality indicators

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge-offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Pass/Watch

Loans graded as Pass/Watch are secured by generally acceptable assets which reflect above-average risk. The loans warrant closer scrutiny by management than is routine, due to circumstances affecting the borrower, the borrower's industry, or the overall economic environment. Borrowers may reflect weaknesses such as inconsistent or weak earnings, break even or moderately deficit cash flow, thin liquidity, minimal capacity to increase leverage, or volatile market fundamentals or other industry risks. Such loans are typically secured by acceptable collateral, at or near appropriate margins, with realizable liquidation values.

Special mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

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

Substandard

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

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

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

5. **Loans and Allowance for Loan Losses** (Continued)

The following tables present the December 31, 2020, 2019, and 2018, balances of loans by risk grade.

December 31, 2020	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Real estate					
Residential	**$181,429**	**$ -**	**$ 830,221**	**$ -**	**$1,011,650**
Commercial	**-**	**-**	**1,189,371**	**-**	**1,189,371**
Construction, land development, and land	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Paycheck Protection Program	**-**	**-**	**-**	**-**	**-**
	$181,429	**$ -**	**$2,019,592**	**$ -**	**$2,201,021**

December 31, 2019	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Real estate					
Residential	$ 512,327	$ -	$ 425,061	$ -	$ 937,388
Commercial	-	-	147,576	-	147,576
Construction, land development, and land	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	184,373	809	-	185,182
	$ 512,327	$ 184,373	$ 573,446	$ -	$ 1,270,146

December 31, 2018	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Real estate					
Residential	$ -	$ -	$ 392,898	$ -	$ 392,898
Commercial	-	-	155,877	-	155,877
Construction, land development, and land	-	-	43,728	-	43,728
Commercial	-	-	3,562	-	3,562
Consumer	-	189,352	2,554	-	191,906
	$ -	$ 189,352	$ 598,619	$ -	$ 787,971

Impaired loans also include certain loans that have been modified in troubled debt restructurings (TDRs) where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

5. **Loans and Allowance for Loan Losses** (Continued)

The status of TDRs as of December 31, 2020, 2019, and 2018, follows:

December 31, 2020	Number of contracts	Pre-modification recorded investment	December 31, 2020 recorded investment Performing	Nonperforming	Total
Real estate					
Residential	**2**	**$ 149,023**	**$ 133,665**	**$ -**	**$ 133,665**
Commercial	**1**	**1,054,417**	**1,046,419**	**-**	**1,046,419**
Construction, land development, and land	**-**	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Paycheck Protection Program	**-**	**-**	**-**	**-**	**-**
	3	**$1,203,440**	**$1,180,084**	**$ -**	**$ 1,180,084**

December 31, 2019	Number of contracts	Pre-modification recorded investment	December 31, 2019 recorded investment Performing	Nonperforming	Total
Real estate					
Residential	2	$ 149,023	$ 137,107	$ -	$ 137,107
Commercial	-	-	-	-	-
Construction, land development, and land	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	1	3,177	3,177	-	3,177
	3	$ 152,200	$ 140,284	$ -	$ 140,284

December 31, 2018	Number of contracts	Pre-modification recorded investment	December 31, 2018 recorded investment Performing	Nonperforming	Total
Real estate					
Residential	2	$ 161,432	$ 142,947	$ -	$ 142,947
Commercial	-	-	-	-	-
Construction, land development, and land	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	1	19,100	8,293	-	8,293
	3	$ 180,532	$ 151,240	$ -	$ 151,240

The Bank modified one commercial real estate loan considered a TDR during the year ended December 31, 2020. The Bank did not modify any loans considered TDRs during the years ended December 31, 2019 or 2018. There were no loans secured by 1-4 family residential properties in the process of foreclosure at December 31, 2020, 2019, or 2018.

The Bank lends to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

6. Credit Commitments

The following credit commitments are outstanding as of December 31:

	2020	2019	2018
Mortgage and other loan commitments	**$19,605,000**	$13,320,000	$ 6,581,738
Construction loans	**10,400,185**	5,416,930	4,454,100
Lines of credit	**25,829,617**	18,695,226	18,053,514
	$55,834,802	$37,432,156	$29,089,352
Standby letters of credit	**$ 820,944**	$ 613,950	$ 598,159

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have fixed interest at current market rates, fixed expiration dates, and may require payment of a fee. Construction loan commitments represent funding the Bank will provide to borrowers as the related project progresses. The construction loans generally have fixed rates. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

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

7. Premises and Equipment

A summary of premises and equipment and the related depreciation is as follows:

	Estimated useful lives	**2020**	2019	2018
Land		**$ 3,904,240**	$ 3,745,773	$ 3,789,459
Buildings and improvements	5 - 40 years	**5,429,876**	5,415,380	5,576,563
Furniture and equipment	3 - 20 years	**1,958,041**	1,913,517	2,159,859
		11,292,157	11,074,670	11,525,881
Accumulated depreciation		**3,671,085**	3,362,890	3,636,629
Net premises and equipment		**$ 7,621,072**	$ 7,711,780	$ 7,889,252
Depreciation expense		**$ 308,195**	$ 336,644	$ 303,502

8. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	2020	2019	2018
Money market	**$136,414,588**	$ 86,634,315	$ 79,007,020
Savings and NOW	**83,421,169**	68,803,905	67,382,042
Certificates of deposit, $250,000 or more	**15,216,364**	12,535,521	10,975,150
Other time deposits	**46,798,239**	43,404,801	40,753,640
	$281,850,360	$211,378,542	$ 198,117,852

Maturities of time deposits are as follows:

	2020	2019	2018
Within one year	**$ 36,801,105**	$ 37,838,182	$ 31,282,940
One year to within two years	**13,647,143**	6,882,223	6,984,008
Two years to within three years	**3,186,537**	5,810,018	5,640,765
Three years to within four years	**3,871,138**	1,850,429	5,768,851
Four years to within five years	**4,508,680**	3,559,470	2,052,226
Total	**$ 62,014,603**	$ 55,940,322	$ 51,728,790

9. Available Lines of Credit

The Bank has available lines of credit of $11,500,000 in overnight federal funds and $8,000,000 in secured federal funds facilities from other banks. The Bank also has access to certificate of deposit funding through a financial network. The funding is limited to 15% of the Bank's assets, or approximately **$74,183,861** as of December 31, 2020.

As of December 31, 2020, the Bank has pledged investment securities to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling approximately **$5,242,187** under its discount window program.

There were no outstanding advances under any of these facilities at December 31, 2020.

10. Related-Party Transactions

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

A summary of these loans is as follows:

	2020	2019	2018
Balance at beginning of year	**$ 3,858,767**	$3,860,359	$3,623,365
New loans	**775,000**	655,199	949,711
Principal payments	**(1,599,509)**	(656,791)	(712,717)
Balance at end of year	**$ 3,034,258**	$3,858,767	$3,860,359

Deposits from senior management and directors and their related interests were **$10,815,153** as of December 31, 2020, $9,497,934 as of December 31, 2019, and $7,069,730 as of December 31, 2018.

During the year ended December 31, 2019, a director's law firm provided professional services to the Bank. The Bank paid $360 for these services. The Bank did not make any payments to the director's law firm during the years ended December 31, 2020 and 2018.

11. Other Operating Expenses

Other operating expenses consist of the following:

	2020	2019	2018
Communications	**$ 187,131**	$ 185,573	$ 182,986
Professional fees	**185,603**	105,369	97,558
Director fees	**150,040**	151,580	164,400
FDIC insurance	**145,691**	63,651	138,946
Supplies	**93,413**	102,761	70,882
Insurance	**87,993**	64,370	33,340
Dues and subscriptions	**71,127**	54,498	52,572
Charitable contributions	**69,961**	98,519	110,058
Postage and freight	**63,057**	60,461	60,153
Software amortization and licenses	**61,906**	62,382	49,281
Correspondent bank fees	**45,839**	46,561	43,774
Advertising	**38,282**	66,695	61,692
Armored car and courier	**27,909**	39,469	37,032
Loan processing fees	**21,570**	21,169	17,132
Education	**19,164**	68,255	51,416
Other	**99,372**	102,480	125,167
	$ 1,368,058	$1,293,793	$1,296,389

12. Retirement Plans

The Bank has a nonqualified retirement plan for a retired executive. The plan specified an annual salary deferral of $70,099 through retirement, plus interest of 6% annually on the balance deferred. The Bank had a separate nonqualified retirement plan for another retired executive that was satisfied during the year ended December 31, 2018. The expense related to the two plans was **$35,692**, $38,138, and $41,638 for the years ended December 31, 2020, 2019, and 2018, respectively.

The Bank has a 401(k) plan, which covers essentially all employees. The Bank matches participant contributions up to 6%, plus contributes an additional 1% of compensation for contributing participants. The contributions to the Plan were **$192,392**, $148,720, and $153,403 for the years ended December 31, 2020, 2019, and 2018, respectively.

13. Income Taxes

The components of income tax expense are as follows:

	2020	2019	2018
Current			
Federal	**$1,430,207**	$1,392,714	$1,160,720
State	**551,545**	514,720	370,230
	1,981,752	1,907,434	1,530,950
Deferred	**(98,018)**	3,550	(46,973)
	$1,883,734	$1,910,984	$1,483,977

The components of the deferred tax expense (benefits) are as follows:

Provision for loan losses	**$ (108,593)**	$ (5,160)	$ (46,401)
Other-than-temporary impairment of restricted stock	**-**	8,741	(8,255)
Deferred casuality gain	**(10,268)**	-	-
Depreciation	**(11,440)**	(12,399)	(7,330)
Nonaccrual interest	**-**	23	(23)
Nonqualified retirement plans	**13,017**	12,345	15,036
Other	**19,266**	-	-
	$ (98,018)	$ 3,550	$ (46,973)

13. **Income Taxes** (Continued)

The components of the net deferred tax asset (liability) are as follows:

	2020	2019	2018
Deferred tax assets			
Allowance for loan losses	**$ 393,642**	$ 285,049	$ 279,889
Other-than-temporary impairment of restricted stock	**-**	-	8,255
Nonaccrual interest	**-**	-	23
Dorchester Street donation	**-**	19,752	-
Unrealized loss on investment securities available for sale	**1,086**	-	26,859
Nonqualified retirement plans	**160,222**	173,239	185,584
	554,950	478,040	500,610
Deferred tax liabilities			
Deferred casualty gain	**-**	10,268	10,268
Depreciation	**76,670**	88,110	80,757
Maryland carry back	**-**	486	-
Unrealized gain on investment securities available for sale	**-**	134,951	-
	76,670	233,815	91,025
Net deferred tax asset (liability)	**$ 478,280**	$ 244,225	$ 409,585

A reconciliation of the provision for income taxes from the statutory federal income tax rate to the effective income tax rates follows:

	2020	2019	2018
Tax at statutory federal income tax rate	**21.0 %**	21.0 %	21.0 %
Tax effect of			
Tax-exempt income	**(0.6)**	(0.5)	(0.7)
State income tax, net of federal benefit	**5.8**	5.5	4.8
Income tax expense	**26.2 %**	26.0 %	25.1 %

The Bank does not have material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2016.

14. Capital Standards

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

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

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

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

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

The following table presents actual and required capital ratios as of December 31, 2020, 2019, and 2018, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2020, 2019, and 2018, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2020, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

14. **Capital Standards** (Continued)

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

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio	**$43,720**	**8.86%**	**$19,731**	**4.00%**	**$24,663**	**5.00%**
Tier 1 capital (to risk-weighted assets)	**$43,720**	**14.13%**	**$26,298**	**8.50%**	**$24,751**	**8.00%**
Common equity tier 1 capital ratio (to risk-weighted assets)	**$43,720**	**14.13%**	**$21,658**	**7.00%**	**$20,111**	**6.50%**
Total capital ratio (to risk-weighted assets)	**$46,240**	**14.95%**	**$32,486**	**10.50%**	**$30,939**	**10.00%**
December 31, 2019						
Tier 1 leverage ratio	$ 39,378	10.62%	$ 14,828	4.00%	$ 18,535	5.00%
Tier 1 capital (to risk-weighted assets)	$ 39,378	14.44%	$ 23,180	8.50%	$ 21,816	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	$ 39,378	14.44%	$ 19,089	7.00%	$ 17,726	6.50%
Total capital ratio (to risk-weighted assets)	$ 41,450	15.20%	$ 28,634	10.50%	$ 27,270	10.00%
December 31, 2018						
Tier 1 leverage ratio	$ 34,794	9.98%	$ 13,943	4.00%	$ 17,428	5.00%
Tier 1 capital (to risk-weighted assets)	$ 34,794	13.71%	$ 20,298	8.00%	$ 19,981	7.88%
Common equity tier 1 capital ratio (to risk-weighted assets)	$ 34,794	13.71%	$ 16,492	6.50%	$ 16,175	6.38%
Total capital ratio (to risk-weighted assets)	$ 36,649	14.44%	$ 25,373	10.00%	$ 25,056	9.88%

15. **Fair Value Measurements**

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

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

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

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

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

Fair value measurements on a recurring basis

Securities available for sale are the only instruments that are measured at fair value on a recurring basis. The Bank has categorized its securities available for sale as follows as of December 31, 2020, 2019, and 2018:

December 31, 2020	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Mortgage-backed securities	**$ 7,141,450**	**$ -**	**$ 7,141,450**	**$ -**

December 31, 2019	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
U.S. government agency	$ 9,984,790	$ -	$ 9,984,790	$ -
Mortgage-backed securities	12,850,149	-	12,850,149	-
	$ 22,834,939	$ -	$ 22,834,939	$ -

December 31, 2018	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
U.S. government agency	$ 7,783,480	$ -	$ 7,783,480	$ -
Mortgage-backed securities	15,031,966	-	15,031,966	-
	$ 22,815,446	$ -	$ 22,815,446	$ -

Fair value measurements on a nonrecurring basis

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values since the market for impaired loans is not active. As of December 31, 2020, 2019, and 2018, the fair values of **$1,154,265**, $107,846, and $107,846 consist of recorded loan balances net of any specific valuation allowances.