BANK OF OCEAN CITY

Ocean City, Maryland

FINANCIAL STATEMENTS

December 31, 2021

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Bank of Ocean City, which comprise the balance sheet as of December 31, 2021, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bank of Ocean City as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bank of Ocean City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bank of Ocean City's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bank of Ocean City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bank of Ocean City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Prior Period Financial Statements

The financial statements of Bank of Ocean City as of and for the years ended December 31, 2020 and 2019, were audited by other auditors, whose report dated February 26, 2021, expressed an unmodified opinion on those statements.

Yount, Hyde & Barbour, P.C.

Baltimore, Maryland
April 4, 2022

BANK OF OCEAN CITY

Balance Sheets
December 31, 2021, 2020, and 2019

Assets

	2021	2020	2019
Cash and due from banks	$ 7,015,723	$ 7,100,185	$ 7,187,711
Interest-bearing deposits	158,573,700	116,031,227	33,371,324
Federal funds sold	17,120,365	12,132,881	5,497,677
Cash and cash equivalents	182,709,788	135,264,293	46,056,712
Certificates of deposit in other financial institutions	3,227,627	4,206,695	4,190,000
Restricted stock at cost	307,300	386,100	362,800
Investment securities available for sale	18,398,538	7,141,450	22,834,939
Investment securities held to maturity (approximate fair value of $101,830,939, $49,585,094, and $24,584,088)	102,647,809	48,732,500	23,865,754
Loans, less allowance for loan losses of $2,414,292 $2,520,205, and $2,071,813	299,807,280	288,617,243	255,161,295
Premises and equipment	8,588,639	7,621,072	7,711,780
Bank owned life insurance	7,039,201	- -	- -
Accrued interest receivable	1,155,334	1,149,671	905,347
Deferred income taxes	597,887	478,280	244,225
Prepaid income taxes	57,342	35,164	18,399
Other assets	1,028,790	926,602	949,870
	$625,565,535	$494,559,070	$362,301,121

Liabilities and Stockholders' Equity

	2021	2020	2019
Liabilities			
Deposits			
Noninterest-bearing	$206,230,798	$167,407,733	$109,529,494
Interest-bearing	369,010,622	281,850,360	211,378,542
Total deposits	575,241,420	449,258,093	320,908,036
Accrued interest payable	36,510	49,033	66,479
Dividend payable	530,837	525,307	500,360
Deferred compensation payable	531,649	582,253	629,559
Other liabilities	471,741	427,751	463,029
	576,812,157	450,842,437	322,567,463
Stockholders' equity			
Common stock, par value $1 per share; authorized 2,000,000 shares; issued and outstanding 552,955 shares at December 31, 2021 and 2020, and 555,955 shares at December 31, 2019	552,955	552,955	555,955
Surplus	9,489,755	9,489,755	9,702,755
Undivided profits	39,126,177	33,676,784	29,119,480
Accumulated other comprehensive income (loss)	(415,509)	(2,861)	355,468
	48,753,378	43,716,633	39,733,658
	$625,565,535	$494,559,070	$362,301,121

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Income
For the Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Interest and dividend revenue			
Loans, including fees	$ 14,772,882	$ 13,798,410	$ 12,632,819
U.S. government agency securities	543,811	390,990	596,011
U.S. Treasury securities	92,497	64,375	52,653
State and municipal securities	167,475	91,425	56,899
Federal funds sold and interest-bearing deposits	302,636	320,018	831,152
Mortgage-backed securities	304,852	137,585	597,274
Equity securities	10,782	15,737	19,756
Total interest and dividend revenue	16,194,935	14,818,540	14,786,564
Interest expense			
Deposits	1,671,588	1,881,795	1,641,766
Borrowed funds	- -	- -	3,449
Total interest expense	1,671,588	1,881,795	1,645,215
Net interest income	14,523,347	12,936,745	13,141,349
Provision for loan losses	(125,700)	394,635	18,750
Net interest income after provision for loan losses	14,649,047	12,542,110	13,122,599
Noninterest revenue			
Service charges on deposit accounts	288,040	320,211	487,349
Card services	437,896	344,700	334,353
Loss on disposition of premises and equipment	- -	- -	(71,778)
Gain on sale of investment securities	- -	710,955	- -
Other revenue	307,486	212,129	240,057
Total noninterest revenue	1,033,422	1,587,995	989,981
Noninterest expenses			
Salaries	3,277,038	3,218,154	3,236,008
Employee benefits	865,660	843,185	741,040
Occupancy	451,126	420,830	434,532
Furniture and equipment	208,961	214,430	248,432
Data processing	974,515	877,921	799,998
Other operating	1,578,854	1,368,058	1,293,793
Total noninterest expenses	7,356,154	6,942,578	6,753,803
Income before income taxes	8,326,315	7,187,527	7,358,777
Income taxes	2,124,903	1,883,734	1,910,984
Net income	$ 6,201,412	$ 5,303,793	$ 5,447,793
Earnings per common share	$ 3.74	$ 3.20	$ 3.26

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Comprehensive Income
For the Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Net income	$ 6,201,412	$ 5,303,793	$ 5,447,793
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities available for sale	(569,307)	59,764	590,025
Reclassification of (gain) loss on sale of investment securities available for sale	- -	(554,130)	- -
Income tax relating to unrealized (gain) loss on investment securities available for sale	156,659	136,037	(163,810)
Other comprehensive income (loss)	(412,648)	(358,329)	426,215
Total comprehensive income	$ 5,788,764	$ 4,945,464	$ 5,874,008

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021, 2020, and 2019

	Common Stock Shares	Common Stock Par Value	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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, $0.43 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, $0.45 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
Net income	- -	- -	- -	6,201,412	- -	6,201,412
Unrealized loss on investment securities available for sale, net of income taxes of $156,659	- -	- -	- -	- -	(412,648)	(412,648)
Cash dividends, $0.45 per share	- -	- -	- -	(752,019)	- -	(752,019)
Balance, December 31, 2021	552,955	$ 552,955	$ 9,489,755	$ 39,126,177	$ (415,509)	$ 48,753,378

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Cash Flows

For the Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Cash Flows from Operating Activities			
Interest received	$ 16,395,749	$ 15,308,768	$ 14,706,760
Fees and commissions received	994,221	877,040	1,061,759
Interest paid	(1,684,111)	(1,899,241)	(1,663,397)
Cash paid to suppliers and employees	(7,174,237)	(6,710,464)	(7,254,578)
Income taxes paid	(2,087,851)	(1,981,752)	(1,964,488)
Cash provided by operating activities	6,443,771	5,594,351	4,886,056
Cash Flows from Investing Activities			
(Purchases) redemptions of certificates of deposit, net	979,068	(16,695)	1,247,253
Proceeds from sale of investment securities held to maturity	- -	5,090,523	- -
Proceeds from sale of investment securities available for sale	- -	12,332,569	- -
Proceeds from matured investment securities held to maturity	17,011,508	32,404,100	7,341,985
Proceeds from matured investment securities available for sale	1,930,033	10,608,626	5,569,209
Purchase of investment securities held to maturity	(71,295,411)	(62,228,189)	- -
Purchase of investment securities available for sale	(13,815,108)	(7,190,757)	(5,000,000)
Purchase of restricted stock, net	78,800	(23,300)	(17,100)
Purchase of bank owned life insurance	(7,000,000)	- -	- -
Loans made, net of principal repayments	(10,843,540)	(34,558,674)	(25,364,176)
Purchases of premises, equipment, and software	(1,280,464)	(217,488)	(230,950)
Cash used by investing activities	(84,235,114)	(43,799,285)	(16,453,779)
Cash Flows from Financing Activities			
Net increase (decrease) in			
Time deposits	1,917,417	6,074,281	4,211,532
Other deposits	124,065,910	122,275,776	16,929,551
Repurchase of common stock	- -	(216,000)	(140,000)
Dividends paid	(746,489)	(721,542)	(669,546)
Cash provided by financing activities	125,236,838	127,412,515	20,331,537
Net increase in cash and cash equivalents	47,445,495	89,207,581	8,763,814
Cash and cash equivalents at beginning of year	135,264,293	46,056,712	37,292,898
Cash and cash equivalents at end of year	$182,709,788	$135,264,293	$ 46,056,712

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Reconciliation of Net Income to Net Cash Provided by Operating Activities			
Net income	$ 6,201,412	$ 5,303,793	$ 5,447,793
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Amortization (accretion) of investment premiums and discounts, net	427,274	26,461	(38,865)
Provision for loan losses	(125,700)	394,635	18,750
Depreciation and amortization	312,897	308,195	336,644
Loss on disposal of premises and equipment	- -	- -	71,778
Gain on sale of investment securities	- -	(710,955)	- -
Deferred income taxes	37,052	(98,018)	3,550
Decrease (increase) in			
Accrued interest receivable	(5,663)	(244,324)	(40,939)
Other assets and prepaid income taxes	(124,366)	6,503	(624,767)
Bank owned life insurance	(39,201)	- -	- -
Increase (decrease) in			
Accrued interest payable	(12,523)	(17,446)	(18,182)
Income taxes payable	- -	- -	(57,054)
Deferred fees	(220,797)	708,091	- -
Other liabilities and deferred compensation payable	(6,614)	(82,584)	(212,652)
Cash provided by operating activities	$ 6,443,771	$ 5,594,351	$ 4,886,056

See Notes to Financial Statements.

Note 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, 2021, they mature as follows:

Year	Amount
2022	$1,260,627
2023	1,967,000
	$3,227,627

Restricted Stock

Restricted stock includes the Bank's investment in Federal Home Loan Bank of Atlanta stock, in the amount of $247,300, $326,100, and $302,800, as of December 31, 2021, 2020, and 2019, 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.

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.

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.

Bank owned life insurance

The Bank owns life insurance policies through two carriers on officers of the Bank. The policies are recorded at their cash surrender values. Increases in cash surrender value are reported in noninterest revenue.

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. Reclassifications had no effect on prior year's net income or stockholders' equity.

Recent Accounting Pronouncements

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The ASU was initially effective for non-public business entities' financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. In June 2020, the FASB issued ASU 2020-05. Under ASU 2020-05, private companies may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted. The Bank is currently assessing the impact that ASU 2016-02 will have on its financial statements.

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application is permitted. The Bank is currently assessing the impact that ASU 2016-13 will have on its financial statements.

During December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Bank is currently assessing the impact that ASU 2019-12 will have on its financial statements.

In November 2021, the FASB issued ASU 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities." The ASU allows lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It also requires that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee uses that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. An entity that has not yet adopted Topic 842 as of November 11, 2021, should apply ASU No. 2021-09 to all new and existing leases when the entity first applies Topic 842. An entity that has adopted Topic 842 as of November 11, 2021, should apply ASU No. 2021-09 for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted as of the beginning of the fiscal year of adoption. The Bank does not expect the adoption of ASU 2021-09 to have a material impact on its financial statements.

Subsequent Events

The Bank has evaluated subsequent events through April 4, 2022, the date these financial statements were available to be issued.

On January 31, 2022, the Bank effected a three-for-one stock split of its common stock in the form of a 200% stock dividend to shareholders of record as of January 15, 2022. The earnings per share and dividend per share information in these financial statements have been adjusted to reflect the stock split. The incremental par value of the newly issued shares was recorded with an offset to surplus.

The Bank has received regulatory approval to open a new branch in Selbyville, Delaware. The Bank has not executed contracts to construct the new branch, but management intends to commence construction in 2022.

No other significant subsequent events were identified that would affect the presentation of the financial statements.

Note 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 $24,767,656 for 2021, $18,002,819 for 2020, and $9,772,828 for 2019.

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.

Note 3. Earnings Per Common Share

Earnings per common share are determined by dividing net income by the average number of shares outstanding. There were 1,658,865, 1,659,405, and 1,672,779 average shares outstanding during the years ended December 31, 2021, 2020, and 2019, respectively, after giving retroactive effect to the three-for-one stock split of the Bank's common stock effected in the form of a 200% stock dividend that was paid on January 31, 2022. There are no dilutive shares.

Note 4. Investment Securities

Investment securities are summarized as follows:

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities	$ 17,969,220	$ - -	$ 556,542	$ 17,412,678
State and municipal	1,002,572	- -	16,712	985,860
	$ 18,971,792	$ - -	$ 573,254	$ 18,398,538
Held to maturity				
U.S. Treasury	$ 7,929,809	$ 49,811	$ 90,870	$ 7,888,750
U.S. government agency	69,618,453	465,281	966,310	69,117,424
State and municipal	11,996,341	177,675	54,459	12,119,557
Mortgage-backed securities	13,103,206	- -	397,998	12,705,208
	$ 102,647,809	$ 692,767	$ 1,509,637	$ 101,830,939

	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

	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

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

	December 31, 2021					
	Continuous Periods of Unrealized Losses					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
Mortgage-backed securities	$12,933,930	$ 328,589	$4,478,748	$ 227,953	$17,412,678	$ 556,542
State and municipal	985,860	16,712	- -	- -	985,860	16,712
	$13,919,790	$ 345,301	$4,478,748	$ 227,953	$18,398,538	$ 573,254
Held to maturity						
U.S. Treasury	$ 5,845,000	$ 90,870	$ - -	$ - -	$ 5,845,000	$ 90,870
U.S. government agency	51,752,992	910,075	1,945,566	56,236	53,698,558	966,311
State and municipal	6,636,915	30,544	1,134,100	23,915	7,771,015	54,459
Mortgage-backed securities	6,332,697	201,452	6,372,511	196,545	12,705,208	397,997
	$70,567,604	$1,232,941	$9,452,177	$ 276,696	$80,019,781	$1,509,637

	December 31, 2020					
	Continuous Periods of Unrealized Losses					
	Less than 12 Months		12 Months or Longer		Total	
	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					
	Continuous Periods of Unrealized Losses					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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

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.

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.

	December 31, 2021			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing				
Within one year	$ 1,002,572	$ 985,860	$ 311,878	$ 312,426
Over one to five years	- -	- -	63,816,295	63,523,828
Over five to ten years	- -	- -	16,289,588	16,029,648
Over ten years	- -	- -	9,126,842	9,259,829
Mortgage-backed securities	17,969,220	17,412,678	13,103,206	12,705,208
	$18,971,792	$18,398,538	$102,647,809	$101,830,939
Pledged securities	$ - -	$ - -	$ 18,155,821	$ 18,198,188

	December 31, 2020			
	Available for Sale		Held to Maturity	
	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

	December 31, 2019			
	Available for Sale		Held to Maturity	
	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

Investments are pledged as of December 31, 2021, 2020, and 2019, as collateral for government deposits and Federal Reserve Bank borrowings.

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.

There were no sales of investment securities in 2021 or 2019.

Note 5. Loans and Allowance for Loan Losses

Major classifications of loans are as follows:

	2021	2020	2019
Real estate			
Residential	$ 79,704,410	$ 77,436,300	$ 78,143,596
Commercial	162,601,200	155,520,107	142,247,700
Construction, land development, and land	32,760,682	17,984,426	17,588,795
Commercial	15,025,342	16,682,495	17,459,417
Consumer	1,125,908	1,249,030	1,793,600
Paycheck Protection Program	11,004,030	22,265,090	- -
	302,221,572	291,137,448	257,233,108
Allowance for loan losses	2,414,292	2,520,205	2,071,813
Loans, net	$299,807,280	$288,617,243	$255,161,295

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 are expected to be forgiven by the SBA. During the years ended December 31, 2021 and 2020, the Bank collected fees of approximately $1,502,900 and $1,439,000, respectively, 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. The PPP balances in the table above are net of deferred origination fees of $487,294 and $708,091 as of December 31, 2021 and 2020, respectively.

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 years ended December 31, 2021, 2020, and 2019, were as follows:

	December 31, 2021								
						Allowance for Loan Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated for Impairment:	
	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Individually	Collectively	Individually	Collectively
Real estate									
Residential	$ 724,911	$ (82,614)	$ - -	$ - -	$ 642,297	$ - -	$ 642,297	$ 127,484	$ 79,576,926
Commercial	1,405,556	(89,695)	(2,750)	3,600	1,316,711	- -	1,316,711	- -	162,601,200
Construction, land development, and land	191,849	100,384	- -	159	292,392	- -	292,392	- -	32,760,682
Commercial	167,836	(51,669)	- -	21,929	138,096	- -	138,096	- -	15,025,342
Consumer	9,553	530	(7,349)	4,198	6,932	- -	6,932	- -	1,125,908
Paycheck Protection Program	- -	- -	- -	- -	- -	- -	- -	- -	11,004,030
Unallocated	20,500	(2,636)	- -	- -	17,864	- -	17,864	- -	- -
	$2,520,205	$(125,700)	$(10,099)	$ 29,886	$2,414,292	$ - -	$2,414,292	$ 127,484	$302,094,088

	December 31, 2020								
						Allowance for Loan Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated for Impairment:	
	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								
						Allowance for Loan Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated for Impairment:	
	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Individually	Collectively	Individually	Collectively
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

Past due loans, segregated by age and class of loans, as of December 31, 2021, 2020, and 2019, were as follows:

December 31, 2021

	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	$ 184,399	$ - -	$ - -	$ 184,399	$ 79,520,011	$ 79,704,410	$ - -	$ - -	$ - -
Commercial	- -	- -	- -	- -	162,601,200	162,601,200	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	32,760,682	32,760,682	- -	- -	- -
Commercial	- -	- -	- -	- -	15,025,342	15,025,342	- -	- -	- -
Consumer	- -	- -	- -	- -	1,125,908	1,125,908	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	11,004,030	11,004,030	- -	- -	- -
	$ 184,399	$ - -	$ - -	$ 184,399	$302,037,173	$302,221,572	$ - -	$ - -	$ - -

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

	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	$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	$ - -	$ - -

Impaired loans as of December 31, 2021, 2020, and 2019, were as follows:

	December 31, 2021						
	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	$ 127,484	$ 127,484	$ - -	$ 127,484	$ - -	$ 130,310	$ 4,278
Commercial	- -	- -	- -	- -	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -	- -	- -
	$ 127,484	$ 127,484	$ - -	$ 127,484	$ - -	$ 130,310	$ 4,278

	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						
	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	$ 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

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2021, 2020, or 2019.

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.

The following tables present the December 31, 2021, 2020, and 2019, balances of loans by risk grade.

	December 31, 2021				
	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Real estate					
Residential	$ 80,242	$ - -	$ 722,894	$ - -	$ 803,136
Commercial	- -	- -	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -
	$ 80,242	$ - -	$ 722,894	$ - -	$ 803,136

	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

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.

The status of TDRs as of December 31, 2021, 2020, and 2019, follows:

		Pre-modification	December 31, 2021		
	Number of	Recorded	Recorded Investment		
	Contracts	Investment	Performing	Nonperforming	Total
Real estate					
Residential	2	$ 149,023	$ 127,484	$ - -	$ 127,484
Commercial	- -	- -	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -
	2	$ 149,023	$ 127,484	$ - -	$ 127,484

		Pre-modification	December 31, 2020		
	Number of	Recorded	Recorded Investment		
	Contracts	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

		Pre-modification	December 31, 2019		
	Number of	Recorded	Recorded Investment		
	Contracts	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

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, 2021 or 2019. There were no loans secured by 1-4 family residential properties in the process of foreclosure at December 31, 2021, 2020, or 2019.

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.

Note 6. Credit Commitments

The following credit commitments are outstanding as of December 31:

	2021	2020	2019
Mortgage and other loan commitments	$ 15,914,600	$ 19,605,000	$ 13,320,000
Construction loans	15,329,376	10,400,185	5,416,930
Lines of credit	24,182,083	25,829,617	18,695,226
	$ 55,426,059	$ 55,834,802	$ 37,432,156
Standby letters of credit	$ 2,911,611	$ 820,944	$ 613,950

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.

Note 7. Premises and Equipment

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

	Estimated Useful Lives	2021	2020	2019
Land		$ 4,256,240	$ 3,904,240	$ 3,745,773
Buildings and improvements	5 - 40 years	6,239,056	5,429,876	5,415,380
Furniture and equipment	3 - 20 years	2,077,325	1,958,041	1,913,517
		12,572,621	11,292,157	11,074,670
Accumulated depreciation		3,983,982	3,671,085	3,362,890
Net premises and equipment		$ 8,588,639	$ 7,621,072	$ 7,711,780
Depreciation expense		$ 312,897	$ 308,195	$ 336,644

Note 8. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	2021	2020	2019
Money market	$196,946,879	$136,414,588	$ 86,634,315
Savings and interest checking	108,131,721	83,421,169	68,803,905
Certificates of deposit, $250,000 or more	18,610,061	15,216,364	12,535,521
Other time deposits	45,321,961	46,798,239	43,404,801
	$369,010,622	$281,850,360	$211,378,542

Maturities of time deposits are as follows:

	2021	2020	2019
Within one year	$ 45,533,978	$ 36,801,105	$ 37,838,182
One year to within two years	7,160,727	13,647,143	6,882,223
Two years to within three years	3,701,996	3,186,537	5,810,018
Three years to within four years	4,809,105	3,871,138	1,850,429
Four years to within five years	2,722,731	4,508,680	3,559,470
Greater than five years	3,485	- -	- -
Total	$ 63,932,022	$ 62,014,603	$ 55,940,322

Note 9. Available Lines of Credit

The Bank has available lines of credit of $19,500,000 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 $93,834,750 as of December 31, 2021.

As of December 31, 2021, the Bank has pledged investment securities to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling approximately $4,665,047 under its discount window program.

There were no outstanding advances under any of these facilities at December 31, 2021.

Note 10. Related-Party Transactions

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

A summary of these loans is as follows:

	2021	2020	2019
Balance at beginning of year	$ 3,034,258	$ 3,858,767	$ 3,860,359
New loans	893,413	775,000	655,199
Principal payments	(326,219)	(1,599,509)	(656,791)
Balance at end of year	$ 3,601,452	$ 3,034,258	$ 3,858,767

Deposits from executive officers and directors and their related interests were $15,998,204 as of December 31, 2021, $10,815,153 as of December 31, 2020, and $9,497,934 as of December 31, 2019.

During the years ended December 31, 2021 and 2019, a director's law firm provided professional services to the Bank. The Bank paid $553 and $360 for these services, respectively. The Bank did not make any payments to the director's law firm during the year ended December 31, 2020.

Note 11. Other Operating Expenses

Other operating expenses consist of the following:

	2021	2020	2019
FDIC insurance	$ 233,076	$ 145,691	$ 63,651
Professional fees	210,972	185,603	105,369
Director fees	189,000	150,040	151,580
Communications	187,236	187,131	185,573
Charitable contributions	111,562	69,961	98,519
Supplies	91,453	93,413	102,761
Software amortization and licenses	81,524	61,906	62,382
Insurance	75,718	87,993	64,370
Postage and freight	67,607	63,057	60,461
Dues and subscriptions	56,067	71,127	54,498
Correspondent bank fees	43,986	45,839	46,561
Advertising	41,221	38,282	66,695
Education	29,051	19,164	68,255
Armored car and courier	25,055	27,909	39,469
Loan processing fees	17,498	21,570	21,169
Other	117,828	99,372	102,480
	$ 1,578,854	$ 1,368,058	$ 1,293,793

Note 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 expense related to the plan was $32,396, $35,692, and $38,138 for the years ended December 31, 2021, 2020, and 2019, respectively.

The Bank has a 401(k) plan, which covers essentially all employees. The Bank matches participant contributions up to 6% of eligible compensation, plus an additional 1% of eligible compensation for contributing participants. The contributions to the Plan were $171,907, $192,392, and $148,720 for the years ended December 31, 2021, 2020, and 2019, respectively.

Note 13. Income Taxes

The components of income tax expense are as follows:

	2021	2020	2019
Current			
Federal	$ 1,542,220	$ 1,430,207	$ 1,392,714
State	545,631	551,545	514,720
	2,087,851	1,981,752	1,907,434
Deferred	37,052	(98,018)	3,550
	$ 2,124,903	$ 1,883,734	$ 1,910,984

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

	2021	2020	2019
Provision for loan losses	$ 34,590	$ (108,593)	$ (5,160)
Other-than-temporary impairment of restricted stock	- -	- -	8,741
Deferred casualty gain	- -	(10,268)	- -
Depreciation	(11,464)	(11,440)	(12,399)
Nonaccrual interest	- -	- -	23
Nonqualified retirement plans	13,925	13,017	12,345
Other	- -	19,266	- -
	$ 37,051	$ (98,018)	$ 3,550

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

	2021	2020	2019
Deferred tax assets			
Allowance for loan losses	$ 359,053	$ 393,642	$ 285,049
Dorchester Street building donation	- -	- -	19,752
Unrealized loss on investment securities available for sale	157,745	1,086	- -
Nonqualified retirement plans	146,296	160,222	173,239
	663,094	554,950	478,040
Deferred tax liabilities			
Deferred casualty gain	- -	- -	10,268
Depreciation	65,207	76,670	88,110
Maryland carry back	- -	- -	486
Unrealized gain on investment securities available for sale	- -	- -	134,951
	65,207	76,670	233,815
Net deferred tax asset	$ 597,887	$ 478,280	$ 244,225

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

	2021	2020	2019
Tax at statutory federal income tax rate	21.0%	21.0%	21.0%
Tax effect of			
Tax-exempt income	(0.9)%	(0.6)%	(0.5)%
State income tax, net of federal benefit	5.4%	5.8%	5.5%
Income tax expense	25.5%	26.2%	26.0%

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, 2017.

Note 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, 2021, 2020, and 2019, 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, 2021, 2020, and 2019, 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, 2021, 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.

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.

	December 31, 2021					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)					
Tier 1 leverage ratio	$49,169	7.72%	$25,472	4.00%	$31,840	5.00%
Tier 1 capital (to risk-weighted assets)	$49,169	15.25%	$27,404	8.50%	$25,792	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	$49,169	15.25%	$22,568	7.00%	$20,956	6.50%
Total capital ratio (to risk-weighted assets)	$51,583	16.00%	$33,852	10.50%	$32,240	10.00%

	December 31, 2020					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)					
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					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)					
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%

Note 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.

Fair Value Measurements on a Recurring Basis

Investment securities available for sale are the only instruments that are measured at fair value on a recurring basis. The Bank has categorized its investment securities available for sale as follows as of December 31, 2021, 2020, and 2019:

	December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mortgage-backed securities	$17,412,678	$ - -	$17,412,678	$ - -
State and municipal	985,860	- -	985,860	- -
	$18,398,538	$ - -	$18,398,538	$ - -

	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	$ - -

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 classified as Level 3 fair values since the market for impaired loans is not active. As of December 31, 2021, 2020, and 2019, the fair values of $127,484, $1,154,265, and $107,846 consist of recorded loan balances net of any specific valuation allowances.