COMMUNITY BANK DELAWARE

Lewes, Delaware

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
Community Bank Delaware
Lewes, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of Community Bank Delaware, 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 Community Bank Delaware 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 Community Bank Delaware and to meet our other ethical responsibilities, in accordance with 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.

Responsibility 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 Community Bank Delaware's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 Community Bank Delaware'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 Community Bank Delaware'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 Community Bank Delaware as of and for the year ended December 31, 2020 and 2019, were audited by other auditors, whose report dated March 30, 2021, expressed an unmodified opinion on those statements.

Yount, Hyde & Barbour, P.C.

Baltimore, Maryland
March 29, 2022

COMMUNITY BANK DELAWARE

Balance Sheets

December 31, 2021, 2020, and 2019

Assets

	2021	2020	2019
Cash and due from banks	$ 13,298,559	$ 14,755,332	$ 2,561,992
Interest bearing deposits in other financial institution	23,676,126	5,912,428	4,761,808
Cash and cash equivalents	36,974,685	20,667,760	7,323,800
Certificates of deposit at other financial institutions	996,000	996,000	996,000
Investment securities available for sale	16,114,603	8,970,890	9,223,774
Restricted equity securities at cost	814,800	1,051,300	1,043,300
Loans held for sale	420,000	907,400	- -
Loans, less allowance for loan losses of $2,337,624, $2,135,438, and $1,958,536	217,864,500	200,710,820	186,983,387
Premises and equipment	8,996,912	8,624,331	7,516,955
Foreclosed real estate	- -	- -	428,683
Bank owned life insurance	4,716,668	- -	- -
Accrued interest receivable	487,498	534,531	488,367
Deferred income taxes	325,350	334,900	260,846
Other assets	270,081	283,649	253,488
	$287,981,097	$243,081,581	$214,518,600

Liabilities and Stockholders' Equity

	2021	2020	2019
Deposits			
Noninterest-bearing	$ 52,302,649	$ 37,740,185	$ 27,534,636
Interest-bearing	197,650,114	160,802,043	146,797,168
Total deposits	249,952,763	198,542,228	174,331,804
Federal Home Loan Bank advances	12,500,000	20,200,000	19,200,000
Accrued interest payable	65,727	163,153	302,362
Other liabilities	190,263	390,823	291,783
	262,708,753	219,296,204	194,125,949
Stockholders' equity			
Preferred stock, par value $1 per share; authorized 100,000 shares, no shares issued or outstanding			
Common stock, par value $1 per share; authorized 4,000,000 shares; 1,882,736 issued and outstanding shares in 2021 and 2020 and 1,717,447 shares in 2019	1,882,736	1,882,736	1,717,447
Surplus	16,813,998	16,813,998	15,046,743
Retained earnings	6,733,499	4,929,333	3,602,019
Accumulated other comprehensive income (loss)	(157,889)	159,310	26,442
	25,272,344	23,785,377	20,392,651
	$287,981,097	$243,081,581	$214,518,600

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Income
Years ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Interest revenue			
Loans, including fees	$ 9,895,634	$ 9,437,541	$ 8,789,180
Investment securities	236,400	205,598	198,773
Interest bearing deposits in other financial institutions	62,014	88,669	174,481
Dividends	44,104	75,348	97,202
Total interest revenue	10,238,152	9,807,156	9,259,636
Interest expense			
Deposits	887,102	1,733,876	2,281,938
Borrowed funds	173,004	508,182	608,202
Total interest expense	1,060,106	2,242,058	2,890,140
Net interest income	9,178,046	7,565,098	6,369,496
Provision for loan losses	200,000	180,000	(32,000)
Net interest income after provision for loan losses	8,978,046	7,385,098	6,401,496
Noninterest revenue			
Service charges on deposit accounts	119,888	93,141	104,483
Gain on sale of loans held for sale	179,957	528,771	216,408
Bank owned life insurance income	16,668	- -	- -
Gains on sale of foreclosed real estate	- -	117,683	- -
Other fees and commissions	202,146	144,114	140,674
Total noninterest revenue	518,659	883,709	461,565
Noninterest expenses			
Salaries	2,713,133	2,392,357	2,213,903
Employee benefits	747,492	553,253	549,085
Data processing	714,278	600,885	548,786
Occupancy	616,428	837,882	740,407
Furniture and equipment	202,796	174,929	200,275
Other operating	1,072,718	1,028,167	940,103
Total noninterest expenses	6,066,845	5,587,473	5,192,559
Income before income taxes	3,429,860	2,681,334	1,670,502
Income tax expense	834,945	653,456	405,950
Net income	$ 2,594,915	$ 2,027,878	$ 1,264,552
Earnings per common share			
Basic	$ 1.38	$ 1.10	$ 0.74
Diluted	$ 1.38	$ 1.10	$ 0.74

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Comprehensive Income
Years ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Net income	$ 2,594,915	$ 2,027,878	$ 1,264,552
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities available for sale	(401,517)	168,187	148,218
Income tax expense (benefit) relating to investment securities available for sale	(84,318)	35,319	31,126
Other comprehensive income (loss)	(317,199)	132,868	117,092
Total comprehensive income	$ 2,277,716	$ 2,160,746	$ 1,381,644

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Changes in Stockholders' Equity

Years ended December 31, 2021, 2020, and 2019

	Common Stock Shares	Common Stock Par Value	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2018	1,717,447	$1,717,447	$15,046,743	$2,955,747	$ (90,650)	$19,629,287
Net income	- -	- -	- -	1,264,552	- -	1,264,552
Unrealized gain on investment securities available for sale, net of income taxes of $31,126	- -	- -	- -	- -	117,092	117,092
Common stock dividend, $0.36 per share	- -	- -	- -	(618,280)	- -	(618,280)
Balance, December 31, 2019	1,717,447	1,717,447	15,046,743	3,602,019	26,442	20,392,651
Net income	- -	- -	- -	2,027,878	- -	2,027,878
Unrealized gain on investment securities available for sale, net of income taxes of $35,319	- -	- -	- -	- -	132,868	132,868
Stock offering net proceeds	165,289	165,289	1,767,255	- -	- -	1,932,544
Common stock dividend, $0.38 per share	- -	- -	- -	(700,564)	- -	(700,564)
Balance, December 31, 2020	1,882,736	1,882,736	16,813,998	4,929,333	159,310	23,785,377
Net income	- -	- -	- -	2,594,915	- -	2,594,915
Unrealized loss on investment securities available for sale, net of income taxes of $84,318	- -	- -	- -	- -	(317,199)	(317,199)
Common stock dividend, $0.42 per share	- -	- -	- -	(790,749)	- -	(790,749)
Balance, December 31, 2021	1,882,736	$1,882,736	$16,813,998	$6,733,499	$ (157,889)	$25,272,344

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Cash Flows

Years ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Cash flows from operating activities			
Interest received	$ 10,092,949	$ 10,133,621	$ 9,265,693
Fees and commissions received	501,991	766,026	459,868
Interest paid	(1,157,532)	(2,381,267)	(2,853,802)
Cash paid to suppliers and employees	(5,632,555)	(5,107,471)	(4,672,740)
Origination of loans held for sale	(11,358,316)	(30,552,185)	(13,261,129)
Proceeds from sale of loans held for sale	11,845,716	29,644,785	13,605,129
Income taxes paid	(986,670)	(618,346)	(422,564)
Net cash provided by operating activities	3,305,583	1,885,163	2,120,455
Cash flows from investing activities			
Proceeds from maturity of investment securities available for sale	2,065,666	4,467,826	2,430,736
Proceeds from sale of foreclosed real estate	- -	546,366	- -
Purchase of securities available for sale	(9,645,987)	(4,080,064)	(5,127,868)
Redemption (purchase) of restricted equity securities	236,500	(8,000)	428,500
Loans made, net of principal collected	(17,126,352)	(14,246,754)	(11,627,576)
Purchase of bank owned life insurance	(4,700,000)	- -	- -
Purchase of premises, equipment, and software	(748,271)	(1,662,981)	(748,614)
Net cash provided (used) by investing activities	(29,918,444)	(14,983,607)	(14,644,822)
Cash flows from financing activities			
Net increase (decrease) in time deposits	45,602,362	(3,099,118)	19,771,207
Net increase in other deposits	5,808,173	27,309,542	4,711,752
Increase (decrease) in Federal Home Loan Bank borrowings	(7,700,000)	1,000,000	(13,000,000)
Stock offering net proceeds	- -	1,932,544	- -
Common stock dividends paid	(790,749)	(700,564)	(618,280)
Net cash provided by financing activities	42,919,786	26,442,404	10,864,679
Net increase (decrease) in cash and cash equivalents	16,306,925	13,343,960	(1,659,688)
Cash and cash equivalents at beginning of year	20,667,760	7,323,800	8,983,488
Cash and cash equivalents at end of year	$ 36,974,685	$ 20,667,760	$ 7,323,800

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Cash Flows (Continued)

Years ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 2,594,915	$ 2,027,878	$ 1,264,552
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	377,908	557,812	552,739
Provision for loan losses	200,000	180,000	(32,000)
Premium amortization net of discount accretion	35,092	33,308	26,848
Gain on sale of foreclosed real estate	- -	(117,683)	- -
Deferred income taxes	93,868	(109,374)	25,910
Increase (decrease) in			
Deferred loan origination costs	(227,328)	339,321	18,574
Accrued interest payable	(97,426)	(139,209)	36,338
Other liabilities	(200,559)	99,040	64,103
Decrease (increase) in			
Bank owned life insurance	(16,668)	- -	- -
Loans held for sale	487,400	(907,400)	344,000
Accrued interest receivable	47,033	(46,164)	(41,062)
Other assets	11,348	(32,366)	(139,547)
Net cash provided by operating activities	$ 3,305,583	$ 1,885,163	$ 2,120,455
Noncash investing activity			
Real estate acquired through foreclosure	$ - -	$ - -	$ 428,683

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 disclosures of commitments and contingent liabilities at the date of the financial statements and revenue and expenses during the year. Actual results could differ from those estimates.

Business

The Bank provides credit and deposit services to individuals and businesses located primarily in Sussex County, Delaware and surrounding areas.

Cash and Cash Equivalents

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

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. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized to the first call date and discounts are accreted through maturity using the interest method.

In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

Certificates of Deposit in Other Financial Institutions

Certificates of deposit in other financial institutions are carried at cost. As of December 31, 2021, the Bank held $996,000 in certificates of deposit that all mature during 2022.

Restricted Equity Securities

Restricted equity securities include the Bank's investment in Federal Home Loan Bank of Pittsburgh stock. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on the outstanding Federal Home Loan Bank advances to the Bank. The remaining balance of restricted equity securities represents an investment in the common stock of a bankers' bank. The restricted equity securities are carried at cost.

Loans Held for Sale

Mortgage loans originated and intended for sale are carried at the lower of aggregate cost or estimated fair value. Fair value is determined based on outstanding investor commitments, or in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined using the specific-identification method.

The Bank sells its mortgage loans to third-party investors servicing released. Upon sale and delivery, loans are legally isolated from the Bank and the Bank has no ability to restrict or constrain the ability of third-party investors to pledge or exchange the mortgage loans. The Bank does not have the entitlement or ability to repurchase the mortgage loans or unilaterally cause third-party investors to put the mortgage loans back to the Bank.

Loans and Allowance for Loan Losses

Loans are stated at the outstanding principal balance less the allowance for loan losses and deferred loan origination costs net of related deferred loan origination fees.

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 or collateral is insufficient to discharge the debt in full. Origination fees and costs are amortized to income over the terms of the loans using an approximate interest method.

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.

Loans are considered impaired when, based on current information, management considers it unlikely that the 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. If collection of principal is evaluated as doubtful, all payments are applied to principal.

The allowance for loan losses represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans and other extensions of credit that may become uncollectible. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value, if the loan is collateral dependent, or the discounted cash flows of the impaired loan is lower than the carrying value. The general component covers pools of nonclassified loans and is based on historical loss experience and other qualitative factors. There may be an unallocated component of the allowance, which reflects the margin of imprecision inherent in the underlying assumptions used in estimating specific and general losses in the portfolio. Actual loan performance may differ from management's estimates. 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.

Premises and Equipment

Land is recorded at cost. Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related property. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is less. Expenditures for maintenance, repairs, and minor replacements are charged to noninterest expenses as incurred.

Foreclosed Real Estate

Real estate acquired through foreclosure is recorded at the lower of cost or fair value less estimated selling costs on the date acquired. In general, cost equals the Bank's investment in the property at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated value of the property are included in other operating expense.

Computer Software

Computer software is recorded at cost and amortized over three to five years using the straight-line method. Computer software is recorded in other assets on the balance sheets.

Income Taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. 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. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on consideration of available evidence.

Comprehensive Income

Comprehensive income includes net income and the unrealized gain or loss, net of the related income taxes, on investment securities available for sale.

Reclassification

Certain amounts in the financial statements of prior years have been reclassified to conform with the current year presentation. The reclassifications had no effect on net income.

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 and will implement the standard during the year ending December 31, 2022.

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.

In May 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity – Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)." The ASU addresses how an issuer should account for modifications or an exchange of freestanding written call options classified as equity that is not within the scope of another Topic. The ASU is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Transition is prospective. Early adoption is permitted. The Bank does not expect the adoption of ASU 2021-04 to have a material impact on its (consolidated) financial statements.

In July 2021, the FASB issued ASU 2021-05, "Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments." The ASU amends the lease classification requirements for lessors to align them with practice under ASC Topic 840, requiring lessors to classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if certain criteria are met. An entity that has not yet adopted ASU No. 2016-02 as of July 19, 2021, should apply ASU No. 2021-05 when it first applies ASU No. 2016-02 and should apply the same transition method elected for ASU No. 2016-02. An entity within the scope of ASC paragraph 842-10-65-1(a) that has adopted ASU No. 2016-02 as of July 19, 2021, should apply ASU No. 2021-05 for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Earlier application is permitted. An entity within the scope of ASC paragraph 842-10-65-1(b) that has adopted ASU No. 2016-02 as of July 19, 2021, should apply ASU No. 2021-05 for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted. The Bank does not expect the adoption of ASU 2021-05 to have a material impact on its financial statements.

In October 2021, the FASB issued ASU 2021-07, "Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards." The ASU provides private companies the option to elect a practical expedient to determine the current price input of equity-classified share-based awards issued as compensation using the reasonable application of a reasonable valuation method. The characteristics of this method are the same as the characteristics used in the regulations of the U.S. Department of the Treasury related to Section 409A of the U.S. Internal Revenue Code (the Treasury Regulations) to describe the reasonable application of a reasonable valuation method for income tax purposes. The ASU is effective prospectively 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 does not expect the adoption of ASU 2021-07 to have a material impact 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 events and transactions subsequent to December 31, 2021 through March 29, 2022, 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.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding, adjusted for the dilutive effect of stock options and warrants using the treasury stock method. The number of shares used to compute basic and diluted earnings per share are reconciled as follows:

	2021	2020	2019
Average common shares outstanding	1,882,736	1,848,414	1,717,447
Dilutive common stock equivalents	1,750	1,508	1,439
Diluted shares	1,884,486	1,849,922	1,718,886

Stock Options

The Bank accounts for employee and director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. Compensation expense related to stock-based awards is recognized over the period during which an individual is required to provide service in exchange for such award. The Bank recorded no stock-based compensation expense for the years ended December 31, 2021, 2020, and 2019.

Note 2. Cash and Cash Equivalents

At times, the Bank carries balances with other banks that exceed the federally insured limit. The average balances carried in excess of the limit, including federal funds sold on an unsecured basis, were $33,102,576 for the year ended December 31, 2021, $20,800,761 for the year ended December 31, 2020, and $5,832,205 for the year ended December 31, 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. Investment Securities Available for Sale

Investment securities available for sale are summarized as follows:

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency	$ 435,000	$ - -	$ 10,240	$ 424,760
Municipal	6,267,271	100,210	137,826	6,229,655
Mortgage-backed	8,985,075	15,684	202,523	8,798,236
Asset-backed	627,117	34,835	- -	661,952
	$ 16,314,463	$ 150,729	$ 350,589	$ 16,114,603

	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency	$ 435,000	$ 1,501	$ - -	$ 436,501
Municipal	6,800,647	115,557	4,769	6,911,435
Mortgage-backed	740,043	30,972	- -	771,015
Asset-backed	793,543	58,396	- -	851,939
	$ 8,769,233	$ 206,426	$ 4,769	$ 8,970,890

	December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency	$ 3,139,711	$ 6,153	$ 17,634	$ 3,128,230
Municipal	3,511,123	29,503	25,175	3,515,451
Mortgage-backed	1,324,876	17,902	- -	1,342,778
Asset-backed	1,214,593	23,246	524	1,237,315
	$ 9,190,303	$ 76,804	$ 43,333	$ 9,223,774

The following table summarizes the gross unrealized losses on investment securities by category and length of time they have been in a continuous loss position:

	December 31, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency	$ 424,760	$ 10,240	$ - -	$ - -	$ 424,760	$ 10,240
Municipal	2,248,864	86,252	964,025	51,574	3,212,889	137,826
Mortgage-backed	8,375,821	202,523	- -	- -	8,375,821	202,523
	$ 11,049,445	$ 299,015	$ 964,025	$ 51,574	$ 12,013,470	$ 350,589

	December 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal	$ 1,012,600	$ 4,769	$ - -	$ - -	$ 1,012,600	$ 4,769

	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency	$ 1,692,366	$ 17,634	$ - -	$ - -	$ 1,692,366	$ 17,634
Municipal	859,825	25,175	- -	- -	859,825	25,175
Asset-backed	289,211	524	- -	- -	289,211	524
	$ 2,841,402	$ 43,333	$ - -	$ - -	$ 2,841,402	$ 43,333

The gross unrealized losses are not considered by management to be other-than-temporary impairments. Temporary impairment is caused by market rate fluctuations. Management has the ability and the intent to hold these investment securities until maturity or recovery of value.

Contractual maturities at December 31, 2021, 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 and asset-backed securities are due in monthly installments.

	Available for Sale	
	Amortized Cost	Fair Value
Maturing		
Within one year	$ - -	$ - -
Over one to five years	513,702	537,632
Over five to ten years	435,000	424,760
Over ten years	5,753,569	5,692,023
Mortgage-backed	8,985,075	8,798,236
Asset-backed	627,117	661,952
	$ 16,314,463	$ 16,114,603

There were no securities sales in 2021, 2020, or 2019.

There were no pledged securities at December 31, 2021, 2020, or 2019.

Note 4. Restricted Equity Securities

Restricted equity securities are summarized as follows:

	2021	2020	2019
Federal Home Loan Bank of Pittsburgh	$ 764,800	$ 1,001,300	$ 993,300
Atlantic Community Bankers Bank	50,000	50,000	50,000
	$ 814,800	$ 1,051,300	$ 1,043,300

Note 5. Loans

Major classifications of loans are as follows:

	2021	2020	2019
Real estate			
Commercial real estate	$ 76,432,890	$ 67,873,921	$ 70,272,872
Residential	109,135,743	96,746,115	94,335,118
Construction and land development	24,552,724	18,997,446	17,959,588
Commercial	9,429,077	18,706,047	5,421,686
Consumer	537,391	635,758	726,367
	220,087,825	202,959,287	188,715,631
Deferred origination costs (fees), net	114,299	(113,029)	226,292
Allowance for loan losses	(2,337,624)	(2,135,438)	(1,958,536)
	$217,864,500	$200,710,820	$186,983,387

Commercial loans in the table above include $2,689,727 and $12,782,412 of Paycheck Protection Program (PPP) loans as of December 31, 2021 and 2020, respectively. The PPP loans are 100% guaranteed by the Small Business Administration (SBA). A substantial portion of these loans are expected to be forgiven by the SBA.

The Bank makes loans to customers located primarily in Sussex County and surrounding areas of southern Delaware. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

A summary of transactions in the allowance for loan losses, by loan classification, during the years ended December 31, 2021, 2020, and 2019, follows:

December 31, 2021

	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Allowance for Loan Losses Ending Balance Evaluated for Impairment: Individually	Collectively	Outstanding Loan Balances Evaluated for Impairment: Individually	Collectively
Real estate									
Commercial	$ 816,860	$ 81,959	$ - -	$ - -	$ 898,819	$ - -	$ 898,819	$ - -	$ 76,432,890
Residential	1,045,242	75,503	- -	- -	1,120,745	57,701	1,063,044	553,331	108,582,412
Construction and land development	199,616	48,152	- -	- -	247,768	- -	247,768	- -	24,552,724
Commercial	67,347	(4,421)	- -	2,186	65,112	- -	65,112	- -	9,429,077
Consumer	6,373	(1,193)	- -	- -	5,180	- -	5,180	- -	537,391
	$2,135,438	$200,000	$ - -	$ 2,186	$2,337,624	$ 57,701	$ 2,279,923	$ 553,331	$219,534,494

December 31, 2020

	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Allowance for Loan Losses Ending Balance Evaluated for Impairment: Individually	Collectively	Outstanding Loan Balances Evaluated for Impairment: Individually	Collectively
Real estate									
Commercial	$ 791,652	$ 25,208	$ - -	$ - -	$ 816,860	$ - -	$ 816,860	$ 646,102	$ 67,227,819
Residential	923,642	121,600	- -	- -	1,045,242	74,379	970,863	1,213,173	95,532,942
Construction and land development	173,388	26,228	- -	- -	199,616	- -	199,616	- -	18,997,446
Commercial	63,383	6,150	(4,186)	2,000	67,347	- -	67,347	66,273	18,639,774
Consumer	6,471	814	(912)	- -	6,373	- -	6,373	- -	635,758
	$1,958,536	$180,000	$ (5,098)	$ 2,000	$2,135,438	$ 74,379	$ 2,061,059	$1,925,548	$201,033,739

December 31, 2019

	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Allowance for Loan Losses Ending Balance Evaluated for Impairment: Individually	Collectively	Outstanding Loan Balances Evaluated for Impairment: Individually	Collectively
Real estate									
Commercial	$ 694,767	$ 96,885	$ - -	$ - -	$ 791,652	$ - -	$ 791,652	$ - -	$ 70,272,872
Residential	961,719	(38,077)	- -	- -	923,642	81,230	842,412	703,420	93,631,698
Construction and land development	167,669	5,719	- -	- -	173,388	- -	173,388	- -	17,959,588
Commercial	153,253	(89,870)	- -	- -	63,383	6,998	56,385	89,657	5,332,029
Consumer	24,005	(6,657)	(10,877)	- -	6,471	- -	6,471	- -	726,367
	$2,001,413	$ (32,000)	$(10,877)	$ - -	$1,958,536	$ 88,228	$ 1,870,308	$ 793,077	$187,922,554

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 30-89 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								
Commercial	$ - -	$ - -	$ - -	$ 76,432,890	$ 76,432,890	$ - -	$ - -	$ - -
Residential	249,471	24,473	273,944	108,861,799	109,135,743	24,473	32,046	7,294
Construction and land development	- -	- -	- -	24,552,724	24,552,724	- -	- -	- -
Commercial	- -	- -	- -	9,429,077	9,429,077	- -	- -	- -
Consumer	- -	- -	- -	537,391	537,391	- -	- -	- -
	$ 249,471	$ 24,473	$ 273,944	$219,813,881	$220,087,825	$ 24,473	$ 32,046	$ 7,294

	December 31, 2020							
	Loans 30-89 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								
Commercial	$ - -	$ 646,102	$ 646,102	$ 67,227,819	$ 67,873,921	$ - -	$ 646,102	$ 37,168
Residential	678,205	- -	678,205	96,067,910	96,746,115	- -	35,864	8,454
Construction and land development	- -	- -	- -	18,997,446	18,997,446	- -	- -	- -
Commercial	- -	- -	- -	18,706,047	18,706,047	- -	- -	- -
Consumer	- -	- -	- -	635,758	635,758	- -	- -	- -
	$ 678,205	$ 646,102	$ 1,324,307	$ 201,634,980	$202,959,287	$ - -	$ 681,966	$ 45,622

	December 31, 2019							
	Loans 30-89 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								
Commercial	$ 646,102	$ - -	$ 646,102	$ 69,626,770	$ 70,272,872	$ - -	$ - -	$ - -
Residential	198,398	- -	198,398	94,136,720	94,335,118	- -	39,683	9,607
Construction and land development	- -	- -	- -	17,959,588	17,959,588	- -	- -	- -
Commercial	- -	6,998	6,998	5,414,688	5,421,686	6,998	- -	- -
Consumer	- -	- -	- -	726,367	726,367	- -	- -	- -
	$ 844,500	$ 6,998	$ 851,498	$ 187,864,133	$188,715,631	$ 6,998	$ 39,683	$ 9,607

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							
Commercial	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Residential	573,725	433,609	119,722	553,331	57,701	579,218	24,047
Construction and land development	- -	- -	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -	- -	- -
	$ 573,725	$ 433,609	$ 119,722	$ 553,331	$ 57,701	$ 579,218	$ 24,047

	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							
Commercial	$ 646,102	$ 646,102	$ - -	$ 646,102	$ - -	$ 646,102	$ - -
Residential	1,229,796	1,109,799	103,374	1,213,173	74,379	1,243,959	53,743
Construction and land development	- -	- -	- -	- -	- -	- -	- -
Commercial	66,273	66,273	- -	66,273	- -	73,902	4,136
Consumer	- -	- -	- -	- -	- -	- -	- -
	$1,942,171	$1,822,174	$ 103,374	$1,925,548	$ 74,379	$1,963,963	$ 57,879

	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							
Commercial	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Residential	716,177	592,680	110,740	703,420	81,230	1,100,980	60,486
Construction and land development	- -	- -	- -	- -	- -	- -	- -
Commercial	89,657	82,659	6,998	89,657	6,998	96,289	5,331
Consumer	- -	- -	- -	- -	- -	- -	- -
	$ 805,834	$ 675,339	$ 117,738	$ 793,077	$ 88,228	$1,197,269	$ 65,817

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 deficient 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 loan or in the Bank's credit position at some future date. 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 financial condition 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.

The following table represents the December 31, 2021, 2020, and 2019, balances of classified loans based on the risk grade. Classified loans include Pass/Watch, Special mention, and Substandard loans.

	December 31, 2021				
	Pass	Pass/ Watch	Special Mention	Substandard	Total
Real estate					
Commercial	$ 69,196,558	$ 7,236,332	$ - -	$ - -	$ 76,432,890
Residential	106,865,909	2,097,822	115,493	56,519	109,135,743
Construction and land development	24,454,583	98,141	- -	- -	24,552,724
Commercial	9,400,905	28,172	- -	- -	9,429,077
Consumer	534,571	2,820	- -	- -	537,391
	$210,452,526	$ 9,463,287	$ 115,493	$ 56,519	$ 220,087,825

	December 31, 2020				
	Pass	Pass/ Watch	Special Mention	Substandard	Total
Real estate					
Commercial	$ 62,823,853	$ 4,403,966	$ - -	$ 646,102	$ 67,873,921
Residential	94,223,658	2,358,104	39,763	124,590	96,746,115
Construction and land development	18,895,655	101,791	- -	- -	18,997,446
Commercial	18,530,210	175,837	- -	- -	18,706,047
Consumer	630,414	5,344	- -	- -	635,758
	$195,103,790	$ 7,045,042	$ 39,763	$ 770,692	$ 202,959,287

	December 31, 2019				
	Pass	Pass/ Watch	Special Mention	Substandard	Total
Real estate					
Commercial	$ 64,942,905	$5,329,967	$ - -	$ - -	$ 70,272,872
Residential	91,408,767	2,615,577	40,551	270,223	94,335,118
Construction and land development	17,959,588	- -	- -	- -	17,959,588
Commercial	5,242,914	171,774	- -	6,998	5,421,686
Consumer	726,367	- -	- -	- -	726,367
	$180,280,541	$8,117,318	$ 40,551	$ 277,221	$188,715,631

Impaired loans 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. The concessions typically result from the Bank's loss mitigation activities and may 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, is as follows (nonperforming TDRs are those that are 30 or more days past due):

		December 31, 2021		
	Number of	Recorded Investment		
	Contracts	Performing	Nonperforming	Total
Real estate				
Commercial	- -	$ - -	$ - -	$ - -
Residential	2	188,512	- -	188,512
Construction and land development	- -	- -	- -	- -
Commercial	- -	- -	- -	- -
Consumer	- -	- -	- -	- -
	2	$ 188,512	$ - -	$188,512

		December 31, 2020		
	Number of	Recorded Investment		
	Contracts	Performing	Nonperforming	Total
Real estate				
Commercial	- -	$ - -	$ - -	$ - -
Residential	3	514,217	39,762	553,979
Construction and land development	- -	- -	- -	- -
Commercial	1	66,273	- -	66,273
Consumer	- -	- -	- -	- -
	4	$ 580,490	$ 39,762	$620,252

	Number of Contracts	December 31, 2019 Recorded Investment Performing	Nonperforming	Total
Real estate				
Commercial	- -	$ - -	$ - -	$ - -
Residential	3	523,650	40,551	564,201
Construction and land development	- -	- -	- -	- -
Commercial	2	82,659	6,998	89,657
Consumer	- -	- -	- -	- -
	5	$ 606,309	$ 47,549	$ 653,858

During the year ended December 31, 2019, the Bank modified a residential real estate loan in the amount of $392,645 as a TDR.

No loans were modified as TDRs during the years ended December 31, 2021 or 2020.

Note 6. Credit Commitments

Outstanding loan commitments, unused lines of credit, and letters of credit were as follows:

	2021	2020	2019
Unused lines of credit			
Real estate			
Commercial	$ 8,404,875	$ 6,874,590	$ 4,696,448
Residential	22,769,349	15,966,173	15,202,243
Construction and land development	10,598,951	3,795,559	8,178,044
Commercial	6,793,780	5,920,201	5,751,929
Consumer	305,752	322,251	339,900
	$ 48,872,707	$ 32,878,774	$ 34,168,564
Loan commitments	$ 13,924,878	$ 15,674,402	$ 4,377,175
Letters of credit	$ 1,709,867	$ 1,714,872	$ 1,661,525

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 variable interest rates, fixed expiration dates, and may require payment of a fee. 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.

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

Note 7. Related-Party Transactions

The Executive Officers and Directors of the Bank enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers.

Activity in related-party loans during 2021, 2020, and 2019, is as follows:

	2021	2020	2019
Balance at beginning of year	$ 11,602,617	$ 10,621,126	$ 11,423,979
Advances	2,559,211	3,567,208	2,681,319
Repayments	(2,265,509)	(2,585,717)	(3,484,172)
Balance at end of year	$ 11,896,319	$ 11,602,617	$ 10,621,126

Deposits from Executive Officers and Directors, including their related interests, were $20,096,993, $11,874,267, and $9,860,366 as of December 31, 2021, 2020, and 2019, respectively.

A director of the Bank is a partner in a law firm that provides legal services to the Bank. During the years ended December 31, 2021, 2020, and 2019, the Bank paid $69,085, $126,590, and $44,966, respectively, to the law firm in connection with those services.

The Bank pays companies owned by two additional directors for services provided to the Bank. Payments to these companies were $6,414, $1,485, and $28,880 during the years ended December 31, 2021, 2020, and 2019, respectively.

Note 8. Premises and Equipment

A summary of premises and equipment and the related depreciation and amortization follows:

	Useful Lives	2021	2020	2019
Land		$2,145,247	$2,145,247	$2,145,247
Land improvements	15 years	282,028	369,055	369,055
Building and improvements	7 - 40 years	7,283,903	5,940,882	5,940,882
Furniture and equipment	3 - 10 years	1,879,882	1,821,869	1,791,314
Construction in progress		- -	1,631,970	- -
		11,591,060	11,909,023	10,246,498
Accumulated depreciation and amortization		2,594,148	3,284,692	2,729,543
Net premises and equipment		$8,996,912	$8,624,331	$7,516,955
Depreciation expense		$ 375,689	$ 555,148	$ 550,765

Included in other assets at December 31, 2021, 2020, and 2019, is computer software carried at an amortized cost of $902, $3,121, and $5,327, respectively. Software amortization expense was $2,219, $2,664, and $1,974 in 2021, 2020, and 2019, respectively.

Lease Commitments

In 2019, the Board of Directors approved relocating the Rehoboth branch from the former location, where the Bank leased the land, to a location with better visibility and access. The Bank accelerated the amortization of the leasehold improvements at the former location so that they were fully amortized by December 31, 2020.

The Bank entered into a lease for the land at its new Rehoboth branch location, which opened in February 2021. The lease, which commenced in 2020, has a term of ten years, with options to renew for four additional five-year terms.

The future minimum lease commitments under the remaining operating lease are as follows:

Year	Amount
2022	$ 140,000
2023	140,000
2024	140,000
2025	144,833
2026	198,000
After 2026	775,500
	$1,538,333

Rent expense was $185,803, $234,478, and $142,040 during 2021, 2020, and 2019, respectively.

Note 9. Deposits

Major classifications of interest-bearing deposits are as follows:

	2021	2020	2019
Checking	$ 19,181,490	$ 14,984,499	$ 10,957,259
Money market	53,130,658	29,739,646	17,470,440
Savings	8,627,453	6,893,517	4,368,011
Certificates of deposit, $250,000 or more	22,958,215	25,938,322	21,375,053
Other time deposits	93,752,298	83,246,059	92,626,405
	$197,650,114	$160,802,043	$146,797,168

Interest on deposits for the years ended December 31, 2021, 2020, and 2019, consisted of the following:

	2021	2020	2019
Checking	$ 18,005	$ 14,024	$ 9,607
Money market	100,211	65,549	53,985
Savings	8,605	5,623	4,023
Certificates of deposit	760,281	1,648,680	2,214,323
	$ 887,102	$ 1,733,876	$ 2,281,938

Certificates of deposit mature as follows:

	2021	2020	2019
Maturing within one year	$ 60,131,090	$ 76,030,661	$ 97,147,556
Maturing over one to two years	13,897,531	11,690,225	13,245,277
Maturing over two to three years	11,981,529	3,503,548	2,691,938
Maturing over three to four years	7,586,601	10,711,643	825,384
Maturing over four to five years	23,113,762	7,248,304	91,303
	$116,710,513	$109,184,381	$114,001,458

Note 10. Borrowed Funds and Lines of Credit

Borrowed funds consist of notes payable to the Federal Home Loan Bank of Pittsburgh as follows:

Date of Note	Maturity Date	Interest Rate	December 31, 2021	2020	2019
December 31, 2021	January 6, 2022	0.26600%	$10,000,000	$ - -	$ - -
March 6, 2020	March 6, 2023	0.90875%	2,500,000	2,500,000	- -
December 31, 2020	January 4, 2021	0.45000%	- -	2,000,000	- -
December 31, 2020	January 4, 2021	0.45000%	- -	1,000,000	- -
February 27, 2020	March 2, 2021	1.52800%	- -	2,200,000	- -
February 28, 2020	March 3, 2022	1.22243%	- -	3,000,000	- -
March 3, 2020	March 4, 2022	1.11809%	- -	2,000,000	- -
March 6, 2020	March 7, 2022	0.84277%	- -	7,500,000	- -
February 1, 2018	February 3, 2020	2.41875%	- -	- -	5,000,000
August 31, 2017	June 1, 2020	1.72305%	- -	- -	2,500,000
June 27, 2018	June 29, 2020	2.80265%	- -	- -	1,500,000
September 5, 2017	September 8, 2020	1.72370%	- -	- -	2,000,000
December 17, 2018	December 17, 2020	2.95624%	- -	- -	3,200,000
March 1, 2019	March 1, 2021	2.77933%	- -	- -	3,500,000
June 27, 2018	June 28, 2021	2.90670%	- -	- -	1,500,000
			$12,500,000	$20,200,000	$19,200,000

During the year ended December 31, 2021, the Bank repaid four advances totaling $14,700,000 prior to their maturity date. The Bank paid penalties totaling $25,856 related to these prepayments, which is recorded in interest expense.

The Bank has pledged loans in its portfolio as collateral for advances from the Federal Home Loan Bank of Pittsburgh as of December 31, 2021, which provided a total borrowing capacity of $118,797,700. The amount the Bank could borrow was limited to $86,855,911 as of December 31, 2021, based on assets it had pledged and credit outstanding. In addition to the advances above, the Federal Home Loan Bank of Pittsburgh has issued letters of credit on behalf of the Bank in the amount of $19,440,000 as of December 31, 2021, to secure municipal deposits.

The Bank has available unsecured lines of credit of $12,500,000 from other financial institutions. The Bank did not have any borrowings under these lines of credit at December 31, 2021, 2020, and 2019.

Note 11. Preferred Stock

The Board of Directors has the authority to issue up to 100,000 shares of preferred stock with a par value of $1 per share. The shares may be issued from time to time as shares of one or more series. The description of each series, including the designation, preferences, conversion and other rights, voting powers, restrictions and other terms will be determined prior to issuance of any shares.

Note 12. Income Taxes

The components of income tax expense (benefit) are as follows:

	2021	2020	2019
Current			
Federal	$ 569,032	$ 624,635	$ 299,558
State	172,045	138,195	80,482
	741,077	762,830	380,040
Deferred	93,868	(109,374)	25,910
	$ 834,945	$ 653,456	$ 405,950

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

	2021	2020	2019
Allowance for loan losses	$ (41,999)	$ (37,800)	$ 6,720
Nonaccrual interest	(559)	(560)	(558)
Foreclosed real estate write-downs	- -	- -	- -
Other-than-temporary impairment of restricted equity security	1,415	1,084	- -
Capital loss carryover	- -	- -	9,417
Organization and start-up costs	- -	3,396	3,396
Accumulated depreciation	135,011	(75,494)	6,935
	$ 93,868	$ (109,374)	$ 25,910

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

	2021	2020	2019
Deferred tax assets			
Allowance for loan losses	$ 417,607	$ 375,608	$ 337,808
Nonaccrual interest	5,815	5,256	4,696
Capital loss carryover	9,416	9,416	10,500
Organization and start-up costs	- -	1,415	4,811
Unrealized loss on investment securities available for sale	41,970	- -	- -
	474,808	391,695	357,815
Deferred tax liabilities			
Unrealized gain on investment securities available for sale	- -	42,348	7,029
Accumulated depreciation	140,042	5,031	80,524
	140,042	47,379	87,553
Net deferred tax asset before valuation allowance	334,766	344,316	270,262
Valuation allowance on capital loss carryover	(9,416)	(9,416)	(9,416)
Net deferred tax asset	$ 325,350	$ 334,900	$ 260,846

The differences between the federal income tax rate and the effective tax rate for the Bank for 2021, 2020, and 2019, follows:

	2021	2020	2019
Statutory federal income tax rate	21.0%	21.0%	21.0%
Increase (decrease) resulting from			
State income tax, net of federal income tax benefit	4.1%	4.0%	3.8%
Tax-exempt income	-0.8%	-0.8%	-1.3%
Nondeductible expenses	0.1%	0.2%	0.2%
Valuation allowance on capital loss carryover	-0.1%	0.0%	0.6%
	24.3%	24.4%	24.3%

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 of income tax returns for the years ending after December 31, 2017.

The Bank realized a capital loss on the disposition of Maryland Financial Bank stock in 2019. The Bank has recorded a valuation allowance related to the capital loss carryforward due to the unlikelihood of the Bank generating a capital gain to offset the loss before 2025.

Note 13. Other Noninterest Expenses

A summary of other noninterest expenses follows:

	2021	2020	2019
Professional services	$ 211,472	$ 237,739	$ 245,617
Advertising and promotion	181,743	133,545	125,547
Director fees	142,000	140,300	129,300
FDIC insurance	108,580	111,183	40,933
Telephone	103,065	103,161	108,434
Liability insurance	62,163	38,128	32,740
Stationery, printing, and supplies	55,319	56,905	49,975
Correspondent bank charges	45,367	38,276	33,693
Credit reports and other loan fees	35,080	39,989	14,066
Dues and memberships	28,405	24,986	21,813
Meals and entertainment	23,277	19,249	45,713
Regulatory examination fees	21,600	23,166	21,600
Postage	8,598	9,651	7,062
Foreclosed property holding costs	- -	8,155	16,936
Amortization and maintenance of software	2,219	2,664	1,974
Other	43,830	41,070	44,700
	$ 1,072,718	$ 1,028,167	$ 940,103

Note 14. Retirement Plan

The Bank has a retirement plan qualifying under Section 401(k) of the Internal Revenue Code. The plan covers all employees with six months of service who work at least 1,060 hours during the plan year. The Bank made contributions of $63,196, $56,409, and $50,732 to the plan in 2021, 2020, and 2019.

Note 15. 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, 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.

	December 31, 2021					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
Tier 1 leverage ratio	$25,430	8.90%	$11,429	4.00%	$14,287	5.00%
Tier 1 capital (to risk-weighted assets)	25,430	12.91%	16,740	8.50%	15,756	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	25,430	12.91%	13,786	7.00%	12,802	6.50%
Total capital ratio (to risk-weighted assets)	27,768	14.10%	20,679	10.50%	19,695	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	$23,626	9.74%	$ 9,705	4.00%	$12,131	5.00%
Tier 1 capital (to risk-weighted assets)	23,626	13.95%	14,396	8.50%	13,550	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	23,626	13.95%	11,856	7.00%	11,009	6.50%
Total capital ratio (to risk-weighted assets)	25,743	15.20%	17,784	10.50%	16,937	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	$20,366	9.89%	$ 8,237	4.00%	$10,297	5.00%
Tier 1 capital (to risk-weighted assets)	20,366	12.54%	13,806	8.50%	12,994	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	20,366	12.54%	11,370	7.00%	10,558	6.50%
Total capital ratio (to risk-weighted assets)	22,325	13.74%	17,055	10.50%	16,243	10.00%

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.

Note 16. Stock Options

In 2006, the stockholders approved setting aside 107,000 shares for stock options for key employees and 26,750 shares to be used as director options.

The options granted to employees are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code. Option prices are equal to or greater than the estimated fair value of the common stock at the date of grant. Options granted in 2012 vested over a three-year period, whereby 33% of the options became exercisable on each anniversary of the grant date. The options are exercisable up to ten years from the grant date.

Information with respect to employee options outstanding during the years ended December 31, 2021, 2020, and 2019, is as follows:

	2021		2020		2019	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	5,000	$8.45	5,000	$8.45	5,000	$8.45
Granted	- -	- -	- -	- -	- -	- -
Exercised	- -	- -	- -	- -	- -	- -
Expired/cancelled/forfeited	- -	- -	- -	- -	- -	- -
Outstanding at end of year	5,000	$8.45	5,000	$8.45	5,000	$8.45
Exercisable at end of year	5,000	$8.45	5,000	$8.45	5,000	$8.45

A summary of information about stock options outstanding is as follows at December 31, 2021:

	Weighted Average Exercise Price	Outstanding Shares	Average Remaining Life (Years)	Exercisable Shares
	$ 8.45	5,000	-	5,000
		5,000		5,000
Intrinsic value on December 31, 2021		$ 22,750		$ 22,750

The aggregate intrinsic value as presented in the preceding table is calculated as the difference between the estimated fair value of the stock as of December 31, 2021, and the exercise price of the option and multiplying by the number of options outstanding. Stock options with exercise prices greater than the estimated fair value of the stock are not included in this calculation.

At December 31, 2021, there was no remaining unrecognized compensation expense related to nonvested stock options.

Note 17. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, recommend 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

The Bank measures investment securities available for sale at fair value on a recurring basis. If quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 includes securities that have quoted prices in an active market for identical assets. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The Bank has categorized its investment securities available for sale as follows:

	December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government agency	$ 424,760	$ - -	$ 424,760	$ - -
Municipal	6,229,655	- -	6,229,655	- -
Mortgage-backed	8,798,236	- -	8,798,236	- -
Asset-backed	661,952	- -	661,952	- -
	$ 16,114,603	$ - -	$ 16,114,603	$ - -

	December 31, 2020			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government agency	$ 436,501	$ - -	$ 436,501	$ - -
Municipal	6,911,435	- -	6,911,435	- -
Mortgage-backed	771,015	- -	771,015	- -
Asset-backed	851,939	- -	851,939	- -
	$ 8,970,890	$ - -	$ 8,970,890	$ - -

	December 31, 2019			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government agency	$ 3,128,230	$ - -	$ 3,128,230	$ - -
Municipal	3,515,451	- -	3,515,451	- -
Mortgage-backed	1,342,778	- -	1,342,778	- -
Asset-backed	1,237,315	- -	1,237,315	- -
	$ 9,223,774	$ - -	$ 9,223,774	$ - -

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 within Level 3 of the hierarchy. As of December 31, 2021, 2020, and 2019, the fair values consist of loan balances net of valuation allowances.

Foreclosed real estate is measured at fair value less cost to sell. The fair value of foreclosed real estate is based on offers and/or appraisals. Cost to sell the real estate is based on standard market factors. The Bank has categorized its foreclosed real estate and repossessed assets as Level 3.

Transactions in foreclosed real estate were as follows:

	2020	2019
Beginning of year balance	$ 428,683	$ - -
Additions	- -	428,683
Write-downs	- -	- -
Proceeds from sale	(546,366)	- -
Gain on sale	117,683	- -
End of year balance	$ - -	$ 428,683

There was no foreclosed real estate activity in 2021.

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

	December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Impaired loans	$ 495,630	$ --	$ --	$ 495,630

	December 31, 2020			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Impaired loans	$ 1,851,169	$ --	$ --	$ 1,851,169

	December 31, 2019			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Impaired loans	$ 704,849	$ --	$ --	$ 704,849
Foreclosed real estate	428,683	--	--	428,683