JEFFERSON SECURITY BANK

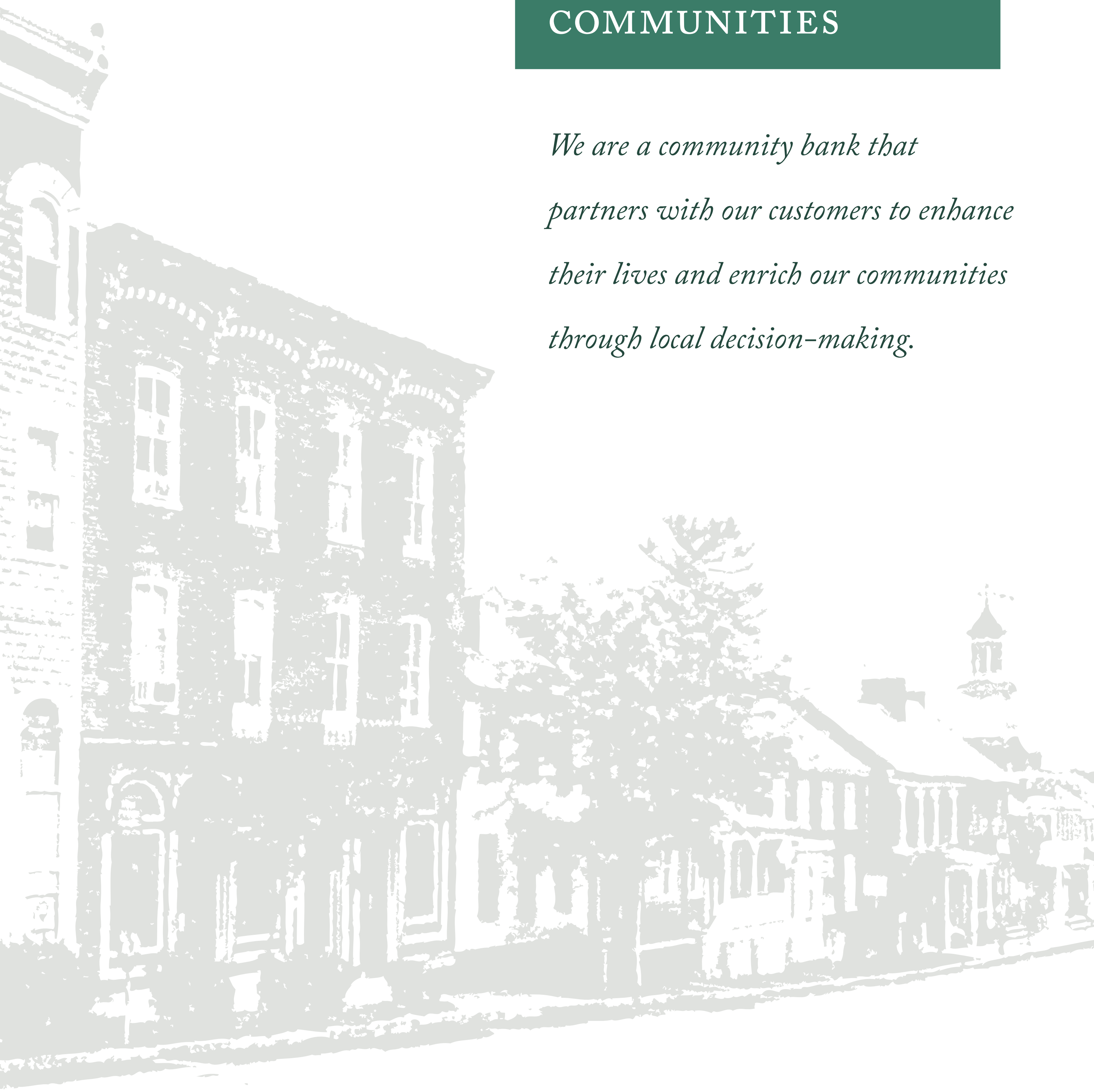
JSB

BUILDING COMMUNITY

2021 Annual Report

BUILDING STRONGER COMMUNITIES

We are a community bank that partners with our customers to enhance their lives and enrich our communities through local decision-making.



Jefferson Security Bank continues to consistently meet and deliver on the needs of our customers and the communities we serve. Our steadfast commitment to our mission and vision led us to another impressive year. This is reflected in our financial performance and the value created for you, our shareholders. We attribute this continued success to your investment in JSB and to our remarkable team, who have a shared commitment and dedication to serving our customers. I want to take this opportunity to thank you for your unwavering support, which for many of you, dates back over decades and multiple generations. All of us understand the importance of supporting the communities in which we live and recognize the benefits this provides our friends and neighbors. This dedication to our community is what makes this such a special place, regardless of whether we call it home or continue to provide support even when life takes us elsewhere. While much has changed since JSB first opened its doors, our ability to play a significant supporting role with the individuals, businesses and organizations locally remains constant. With the tremendous efforts of our team during times of challenge and adversity, it is clear that their resilience and shared mindset will continue to drive our community success for years to come.

I am proud to deliver record earnings for the fourth consecutive year, with net income of $3.6 million for the year ended December 31, 2021. This represents an increase of 24% from net income of $2.9 million in 2020. Basic and diluted earnings per share increased to $12.93 for the year ended 2021 from $10.30 for the year ended 2020. Return on average assets and return on average equity improved to 0.87% and 11.43%, respectively, in 2021 compared to 0.82% and 9.67%, respectively, in 2020. Our strong performance led to an improved book value per share of $119.52 at December 31, 2021 from $111.02 at December 31, 2020. Additionally, for the second consecutive year, Jefferson Security Bank was named one of *American Banker* magazine's Top 200 Community Banks in 2021.

Along with record earnings, we also reached a record high of $426.8 million in total assets as of December 31, 2021, an increase of 12.1% when compared to December 31, 2020. The continued expansion of our balance sheet was driven by increased funding through deposits which totaled $390.7 million at year end 2021, representing an increase of nearly 13% when compared to 2020. Since the onset of the pandemic, total customer deposits have been elevated and the number of core deposit accounts have continued to grow. It remains uncertain if or when these elevated balances will decline. In the meantime, we will continue to drive our relationship-based approach of providing value added products and services.

While our asset growth was primarily driven by an increase in cash and investments, total loans, net of the reserve and Paycheck Protection Program (PPP) loans, increased by $9.4 million or 4.2%. 2021 brought a higher level of loan prepayments resulting from increased consumer liquidity and the persistent low interest rate environment. This limited the overall growth of our loan portfolio, even with our lenders outperforming total loan originations when compared to prior years. At December 31, 2021, the amount of PPP loans outstanding was $9.9 million compared to $14.3 million at December 31, 2020. Overall, JSB originated $25.4 million in PPP loans during the pandemic. These loans will continue to decline as forgiveness is requested and repayment is received from the Small Business Administration (SBA). Upon the repayment of the PPP loans, the Bank recognized capitalized fees and costs related to the loans which contributed to an increase in net interest income for the year.

As of year end, our credit quality was strong with low net charge-offs and nonperforming loans. In particular, nonperforming loans decreased to $892 thousand, a decline of $2.3 million or 72% at December 31, 2021, representing 0.21% of total assets compared to 0.93% of total assets at December 31, 2020. The reserve for loan losses totaled $2.8 million or 1.2% of total loans excluding PPP loans. Improved economic conditions and stable credit quality metrics led to a significant reduction in provision for loan losses expense in 2021 which totaled $80 thousand compared to $800 thousand for 2020. While we have had consistent years of historically low credit losses, we continue to closely monitor and manage our credit risk, which remains an integral part of our risk management practices.

As previously highlighted, the Bank's balance sheet has continued to expand with significant asset growth over the last two years. For the years 2020 and 2021, our total assets grew in excess of $102 million or 31.5%. For comparison purposes, prior to the pandemic, the Bank's balance sheet grew by approximately the same amount over a 15 year period. Our recent financial performance, with notable record earnings, has been beneficial in augmenting capital through retained earnings; however, it has not been sufficient to fully support the rapid asset growth. The level of asset growth in relation to capital growth has placed downward pressure on our capital ratios with the Tier 1 capital ratio declining from 9.51% at December 31, 2019 to 8.68% and 8.24% at December 31, 2020 and 2021, respectively. While our capital level remains adequate and the Bank is considered "well-capitalized" as defined by the Federal Deposit Insurance Corporation (FDIC), our management team and the Board of Directors will maintain a strategic focus on building capital and maintaining a proactive approach to governance and capital planning. Balance sheet management, including enhancing the mix of assets and balancing organic growth, will remain a top priority to further alleviate potential constraints on future growth.

Throughout 2021, we continued to focus on the needs of our customers and have seen an increase in the adoption of our digital banking services, which we consider an invaluable part of continuing to deepen our customer relationships. Understanding the importance of technology, we focused our strategic initiatives and efforts on enhancing our customer's digital experience. This led to the launch of new digital platforms that provide our customers with technology solutions to better serve and meet their financial needs. Our digital tools now provide easier ways for our customers to send and receive money, allow for the holistic management of finances across multiple platforms and institutions and also enhance the communication channels available to our customers. Our team is committed to remaining flexible, innovative and strategic in our evaluation of how to best serve our customers. Our strategic priorities will continue to emphasize new capabilities and technology initiatives to help support and positively impact our digital and physical products and services, streamline our processes and improve efficiencies, while maintaining a strong emphasis on data security and privacy.

I am encouraged by and proud of our accomplishments. However, we remain focused on the work ahead of us which includes the continuation of the momentum we have generated to drive long-term, sustainable value for our shareholders. The Board of Directors, along with the entire JSB team, will continue to do everything within our control to support our customers, provide strength to our communities, ensure the growth and well-being of our employees, and bring success to Jefferson Security Bank for years to come. On behalf of the Board of Directors, management and staff, I thank you for your continued support of Jefferson Security Bank's mission and direction.

Cindy A. Kitner

Cindy A. Kitner, CPA
President and CEO

Frederick K. Parsons
Chair

Eric J. Lewis, CPA
Vice Chair

Cindy A. Kitner, CPA
President and CEO

Monica W. Lingenfelter
Corporate Secretary

Christian E. Asam

Dennis L. Barron

Brant M. Lowe

R. Andrew McMillan, Jr., PhD

Suellen D. Myers

Executive Vice Presidents

Jenna L. Kesecker, CPA
Executive Vice President and Chief Financial Officer

Karl J. "Jeff" Keller
Executive Vice President and Chief Credit Executive

Honoring William E. "Bill" Knode, Jr.

Mr. William E. "Bill" Knode, Jr. (October 11, 1936 – December 13, 2021) was a beloved member of our community and a committed leader of Jefferson Security Bank. Mr. Knode was a prominent figure in Shepherdstown with strong family ties to Jefferson Security Bank (JSB). With over 50 years of distinguished service, Mr. Knode served in various leadership roles that contributed greatly to the growth and success of JSB. Starting in 1962, Mr. Knode joined the Board of Directors and subsequently served as Secretary of the Board from 1966 to 1980. In 1981, he was elected President of the Bank, a role that exemplified his dedication to the community-driven mission and values of Jefferson Security Bank. During this time, Mr. Knode simultaneously served as Chairman of the Board from 1991 to 2002. After serving as President until 2003, he remained a vital part of the Bank as Chairman of the Board from 2003 until 2014. Mr. Knode had a reputation for quality, fairness and a distinct sense of humor.

For decades, Mr. Knode advocated for JSB's employees, customers and shareholders and took great pride in his role on the Board, always striving to ensure that JSB remained an independent community bank. It was during his tenure that Jefferson Security Bank grew total assets from less than $3 million to over $280 million and opened five bank office locations, including Charles Town, WV, in 1988, Martinsburg, WV, in 1997, Inwood, WV, in 2000, Shepherdstown – Barron Office, WV, in 2006 and Sharpsburg, MD, in 2006. Mr. Knode was a longtime shareholder and integral part of the history and success of Jefferson Security Bank. His leadership, dedication and commitment are truly immeasurable.

In addition to his commitment to JSB, Mr. Knode dedicated himself to serving his community through his deep connection to Shepherd University. Mr. Knode was a member of Shepherd's class of 1958 and earned a Bachelor of Science degree in business administration with an accounting concentration and a minor in economics. He was also a cornet player in the Shepherd Band. Shepherd was also the place where he met his wife, Jo Ann, who was also a member of the class of 1958. The time he spent at Shepherd led to an enduring commitment of service, which included being a longstanding member of the Board of Directors of the Shepherd University Foundation, a member of the Shepherd College Alumni Association and trustee of McMurran Hall. Mr. Knode was also instrumental in facilitating the gift of the Conrad Shindler House from Mary Tyler Moore to the Shepherd University Foundation. The Shindler House now serves as the George Tyler Moore Center for the Study of the Civil War. Mr. Knode was recognized for his exemplary service to Shepherd and the community in 2002 when he received the Alumni Service Award and again in 2013 when he and wife, Jo Ann, received the President's Award.

Mr. Knode was also a part of our community through his ownership and operation of the fifth generation family business W. H. Knode's Sons, a farm and home retail business located in Shepherdstown. He worked at the family-owned business from 1942 until its closing in 2010. Mr. Knode was a veteran and served his country in the United States Army and the United States Army Reserve.

Mr. Knode's contributions to Jefferson Security Bank and our community will leave a tremendous legacy for which he will always be remembered. The Board of Directors and staff of Jefferson Security Bank celebrate and honor the memory of Mr. William E. "Bill" Knode, Jr. We will be forever grateful for his leadership, friendship, guidance and wisdom and are especially appreciative for the passion he carried in his heart for our community.

Honoring James M. Davis

Mr. James M. Davis (September 10, 1937 – July 26, 2021) was a beloved and respected member of our community and our Board of Directors. He served on the Board of Jefferson Security Bank from 2003 to 2016. Mr. Davis served as Corporate Secretary from 2003 to 2015 and Chair of the Board from 2015 to 2016. Throughout his tenure with the Bank, Mr. Davis embraced the vision of Jefferson Security Bank. His professional experience in leadership brought valuable insight and guidance to management and the Board.

Mr. Davis earned a Bachelor of Science degree in business administration from Shepherd in 1959 and later pursued graduate studies at the University of Rhode Island in accounting in 1961 and at The George Washington University in finance in 1964. Mr. Davis maintained a commitment to Shepherd through the Shepherd University Foundation, where he served in various capacities including director, Vice President and President. He was a member of the McMurran Society, the Scarborough Society, and was named the Alumni Association's Outstanding Alumnus in 2006. Mr. Davis also served directorships with Peoples Bank of Charles Town, Key Centurion Bankshares, BancOne West Virginia and the National LP Gas Association. He was a member of the Jefferson County Chamber of Commerce and the Jefferson County Development Authority. Mr. Davis was a veteran and honorably served his country from 1959 to 1964 as a Supply Corp Officer with the U.S. Navy. Following his time with the U.S. Navy, Mr. Davis led a distinguished career in the propane industry where he served as General Manager, Secretary and Treasurer during his employment with Supertane Gas Corporation from 1964 to 1997.

The Board of Directors and staff of Jefferson Security Bank celebrate and honor the memory of Mr. James M. Davis. He was a true public servant – selfless and kind. We are grateful for the many contributions Mr. Davis made to Jefferson Security Bank and thankful for his service, leadership, and guidance.

Vision Statement

Be the bank of choice in the communities we serve.

Building stronger communities

CINDY KITNER, CPA, *President & CEO*

In 2021, Cindy Kitner, President & CEO, was named to the FDIC Advisory Committee on Community Banking. This committee was established twelve years ago by the FDIC Board of Directors to provide the FDIC with advice and guidance on a broad range of important policy issues impacting small community banks throughout the country, as well as the local communities they serve. The 17 community bank leaders meet with the FDIC to discuss topics such as economic and banking conditions, innovation and technology, regulation and examinations to provide valuable insights and best practices. Kitner brings over 20 years of community bank experience to the committee. She also supports the local community in various other ways, including serving as a member of the Board of Directors for CASA of the Eastern Panhandle, a nonprofit with a mission to recruit, train, and empower community volunteers to advocate for children who have experienced abuse or neglect in Berkeley, Jefferson, and Morgan counties.

Renee (left) and Jessica (right)

JESSICA LEONARD, *Office Manager – Charles Town*

Jessica Leonard currently sits on the board for the United Way and is a committee member for *Puttin for the Panhandle* through Panhandle Home Health. *Puttin for the Panhandle* raises money to support home care costs for those that may experience a gap in funding. These efforts help ensure that no one is turned away from receiving the health care they need.

RENEE PIFER, *Office Manager – Martinsburg*

Renee Pifer currently serves as board President for Community Alternatives to Violence (CAV) and is on the fundraising committee. She is a board member for Berkeley Senior Service and is on the fundraising and personnel committees. Pifer is also an active member of the Rotary Club of Martinsburg, and she is a committee member for *Puttin for the Panhandle*.

JONATHAN AGEE, *Loan Operations Specialist*

Jonathan has been on the United Way Board of Directors for four years and serves on the executive committee as the treasurer for the past two years. Jonathan is passionate about meeting the needs of underprivileged children and joyfully serves the Berkeley County BackPack Program that feeds students throughout Berkeley County.

MARY BUTLER, *Community Impact Coordinator*

Mary teaches a career readiness class for seniors at Shepherd University. The class provides students the opportunity to strengthen their resume, practice their interviewing skills, improve their networking, and increase their job search and decision-making skills. Mary is also a member of the Board of Directors, co-chair of the Program Development Committee and a member of the Finance Committee for CASA of the Eastern Panhandle.

ANDY HORNBEAK, *IT Assistant*

Andy Hornbeak is the Musselman HS boys soccer head coach. Andy has been the head coach since the fall of 2020. He and the Applemen earned a winning season last year with a record of 9-4 and placed second in the Eastern Panhandle.

Employee jeans days raised over

$3,000

for 24 charities

DONATIONS

Kidz Power Pacs

$5,000

Scarborough Society

$5,000

FOOD DRIVE

927 POUNDS

DONATED TO CCAP LOAVES & FISHES

56

HOLIDAY GIFTS DONATED

to children at The Bethany House

AWARDED $2,000 IN SCHOLARSHIPS

TO HIGH SCHOOL SENIORS

DONATED

$3,000

to Shepherdstown Volunteer Fire Department

DONATED OVER $35,000

in sponsorships and donations to various local nonprofits and organizations

2021

TOP200

COMMUNITY BANKS

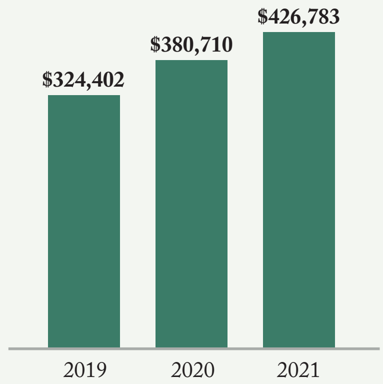
BY

AMERICAN BANKER.

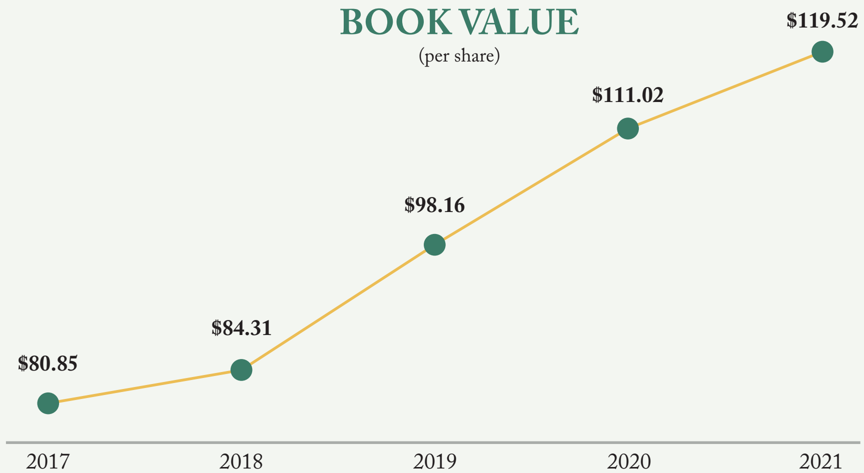
SECOND YEAR IN A ROW

NET INCOME
(in thousands)

TOTAL ASSETS
(in thousands)



BOOK VALUE
(per share)

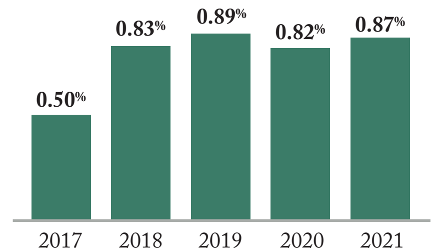


GROWTH RATIOS
(compared to 2020)

4.16%	12.10%	12.78%	6.31%
Loans (net & excluding PPP)	Assets	Deposits	Capital

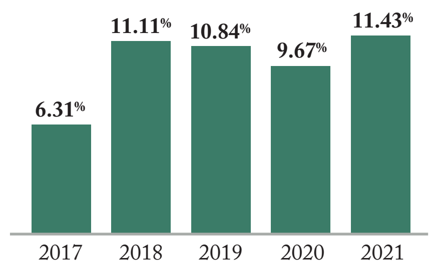
SELECT RATIOS
(2017–2021)

0.87%



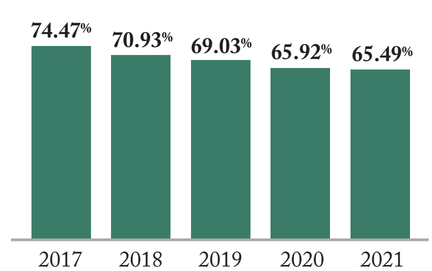
Return on Average Assets

11.43%



Return on Average Equity

65.49%



Efficiency Ratio

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Jefferson Security Bank
Shepherdstown, West Virginia

Opinion
We have audited the consolidated financial statements of Jefferson Security Bank and its subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits 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 the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 the Bank's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment 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 the Bank'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank'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.

Other Information Included in the Annual Report
Management is responsible for the other information included in the annual report. The other information comprises the president's letter but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 16, 2022

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and due from financial institutions	$ 2,604,542	$ 4,335,234
Interest bearing deposits with depository institutions	13,347,690	8,225,805
Cash and cash equivalents	15,952,232	12,561,039
Securities available for sale, at fair value	147,000,252	110,265,761
Securities held to maturity, at amortized cost (fair value of $1,372,706 - 2021; $1,846,857 - 2020)	1,305,286	1,732,550
Restricted securities, at cost	279,500	269,800
Loans, net of allowance for loan losses of $2,826,549 - 2021; $2,781,292 - 2020	244,808,343	239,866,545
Accrued interest receivable	1,096,969	1,095,915
Premises and equipment, net	5,197,389	5,490,213
Bank owned life insurance	7,295,233	7,114,559
Other real estate owned	- -	345,526
Other assets	3,848,175	1,968,084
Total assets	$ 426,783,379	$ 380,709,992
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 275,837,545	$ 243,095,307
Noninterest bearing	114,843,869	103,301,055
Total deposits	390,681,414	346,396,362
Securities sold under an agreement to repurchase	- -	338,628
Accrued interest payable	68,281	73,619
Other accrued expenses and other liabilities	3,077,106	2,900,154
Total liabilities	393,826,801	349,708,763
Shareholders' Equity		
Common stock, $10 par value; 300,000 shares authorized; issued and outstanding, 275,746 shares at December 31, 2021 and 279,246 shares at December 31, 2020	2,757,460	2,792,460
Additional paid-in capital	2,757,460	2,792,460
Retained earnings	29,728,121	26,948,282
Accumulated other comprehensive (loss), net	(2,286,463)	(1,531,973)
Total shareholders' equity	32,956,578	31,001,229
Total liabilities and shareholders' equity	$ 426,783,379	$ 380,709,992

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2021 and 2020

	2021	2020
Interest and dividend income		
Loans, including fees	$ 10,659,189	$ 10,541,742
Securities:		
Taxable	1,316,677	1,399,989
Nontaxable	837,515	408,950
Dividends and other interest	38,070	37,172
Total interest and dividend income	12,851,451	12,387,853
Interest expense		
Deposits	1,562,260	1,756,164
Borrowings	1,981	26,054
Total interest expense	1,564,241	1,782,218
Net interest income	11,287,210	10,605,635
Provision for loan losses	80,000	800,000
Net interest income after provision for loan losses	11,207,210	9,805,635
Noninterest income		
Service charges on deposit accounts	466,459	503,321
ATM and debit card fees and other service charges	1,348,621	1,086,136
Realized gain on securities, net	335	217,738
Income from bank owned life insurance	180,674	183,005
Other	110,111	107,195
Total noninterest income	2,106,200	2,097,395
Noninterest expense		
Salaries and employee benefits	4,322,467	4,217,040
Occupancy	1,248,422	1,271,445
Advertising and marketing	191,691	138,129
ATM and debit card expense	461,828	412,796
Data processing	1,098,453	961,931
Postage and stationery supplies	196,569	167,175
Professional services	362,385	298,783
FDIC and state assessments	201,746	153,750
Other real estate owned (income) expense, net	(4,186)	4,355
Director fees	132,500	127,600
Other	727,759	571,521
Total noninterest expense	8,939,634	8,324,525
Income before income tax expense	4,373,776	3,578,505
Income tax expense	797,658	702,748
Net income	$ 3,576,118	$ 2,875,757
Basic and diluted earnings per common share	$ 12.93	$ 10.30

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020

	2021	2020
Net income	$ 3,576,118	$ 2,875,757
Other comprehensive (loss) income, net of tax:		
Unrealized holding (losses) gains on securities available for sale arising during period	(1,771,030)	1,715,497
Reclassification adjustment for securities gains included in net income	(251)	(142,193)
Change in pension benefits	897,260	(305,853)
Reclassification adjustment for change in pension benefits included in net income	108,279	95,717
Change in supplemental executive retirement benefits	(58,250)	(174,914)
Reclassification adjustment for change in supplemental executive retirement benefits included in net income	69,502	57,144
Total other comprehensive (loss) income	(754,490)	1,245,398
Comprehensive income	$ 2,821,628	$ 4,121,155

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at December 31, 2019	$ 2,792,460	$ 2,792,460	$ 24,603,092	$ (2,777,371)	$ 27,410,641
Net income	- -	- -	2,875,757	- -	2,875,757
Other comprehensive income	- -	- -	- -	1,245,398	1,245,398
Cash dividends - $1.90 per share	- -	- -	(530,567)	- -	(530,567)
Balance at December 31, 2020	$ 2,792,460	$ 2,792,460	$ 26,948,282	$ (1,531,973)	$ 31,001,229
Net income	- -	- -	3,576,118	- -	3,576,118
Other comprehensive loss	- -	- -	- -	(754,490)	(754,490)
Repurchase of common stock (3,500 shares)	(35,000)	(35,000)	(227,500)	- -	(297,500)
Cash dividends - $2.05 per share	- -	- -	(568,779)	- -	(568,779)
Balance at December 31, 2021	$ 2,757,460	$ 2,757,460	$ 29,728,121	$ (2,286,463)	$ 32,956,578

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 3,576,118	$ 2,875,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	482,577	513,206
Provision for loan losses	80,000	800,000
Deferred income tax benefit	(110,879)	(370,265)
Net amortization of securities	855,416	662,160
Net gain on sale of securities available for sale	(198)	(189,356)
Net gain on call of securities available for sale	(137)	(235)
Net gain on call of securities held to maturity	- -	(28,147)
Net gain on sale of other real estate owned	(6,825)	(8,466)
Net loss on disposition of fixed assets	- -	4,237
Income from bank owned life insurance	(180,674)	(183,005)
Net change in:		
Accrued interest receivable	(1,054)	(163,397)
Accrued interest payable	(5,338)	(43,170)
Other assets	(1,178,784)	52,227
Other accrued expenses and other liabilities	1,193,743	299,353
Net cash provided by operating activities	4,703,965	4,220,899
Cash flows from investing activities		
Net increase in loans	(5,021,798)	(23,451,490)
Purchase of securities available for sale	(69,529,663)	(59,325,699)
Proceeds from the sale of securities available for sale	4,732,530	13,709,925
Proceeds from calls, maturities and principal paydowns of securities available for sale	24,842,237	20,745,901
Proceeds from calls, maturities and principal paydowns of securities held to maturity	430,879	1,270,918
Proceeds from sale of other real estate owned	352,351	- -
Net (increase) decrease in Federal Home Loan Bank stock	(9,700)	405,600
Property and equipment expenditures, net	(189,753)	(371,766)
Net cash used in investing activities	(44,392,917)	(47,016,611)
Cash flows from financing activities		
Net increase in interest bearing deposits	32,742,238	35,769,978
Net increase in noninterest bearing deposits	11,542,814	27,652,228
Net decrease in securities sold under an agreement to repurchase	(338,628)	(1,504,317)
Net decrease in federal funds purchased	- -	(11,000)
Net decrease in Federal Home Loan Bank advances	- -	(9,773,400)
Repurchase of common stock	(297,500)	- -
Dividends paid	(568,779)	(530,567)
Net cash provided by financing activities	43,080,145	51,602,922
Net change in cash and cash equivalents	3,391,193	8,807,210
Cash and cash equivalents at beginning of year	12,561,039	3,753,829
Cash and cash equivalents at end of year	$ 15,952,232	$ 12,561,039

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(Continued)

	2021	2020
Supplemental disclosures:		
Interest paid	$ 1,569,579	$ 1,825,388
Income taxes paid	1,070,372	856,916
Change in unrealized holding (losses) gains on available for sale securities	(2,361,709)	2,097,739
Transfers from loans to other real estate owned	- -	345,526
Loans provided for sales of other real estate owned	- -	286,566
Change in pension benefits	1,340,719	(280,181)
Change in supplemental executive retirement benefits	15,003	(157,027)

See accompanying notes to consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Jefferson Security Bank and subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Basis of Presentation: The consolidated financial statements include the accounts of Jefferson Security Bank and its wholly-owned limited liability company, JSB Financial, LLC. JSB Financial, LLC is an inactive subsidiary previously used for offering financial services; therefore, no elimination entries were needed for consolidation.

Nature of Operations, Business Segments: Jefferson Security Bank (the Bank) is headquartered in Shepherdstown, West Virginia. The principal markets for the Bank's financial services are the eastern panhandle region of West Virginia in Jefferson and Berkeley Counties and in adjacent Washington County, Maryland including the areas immediately surrounding these communities.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses, local government entities and non-profit organizations through its main office and four full-service retail banking offices and one drive-thru banking office located throughout its market area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion.

The Bank offers a variety of deposit products, including checking, savings, money market, individual retirement accounts and certificates of deposit. While the Bank’s management monitors the revenue stream of various products and services, operations are managed and financial performance is evaluated on a Bank wide basis. Accordingly, all of the Bank’s operations are considered by management to be aggregated into one operating segment.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of the pension and supplemental executive retirement plan benefits and obligations.

Cash and Cash Equivalents: For purposes of the consolidated balance sheets and the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, cash items, amounts due from financial institutions with original maturities less than 90 days, interest bearing deposits with depository institutions with maturities within 90 days and federal funds sold. Amounts due from financial institutions may, at times, exceed federally insured limits and are carried at cost.

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

The Bank follows relevant accounting guidance related to recognition and presentation of other than temporary impairment. This accounting guidance specifies that (*a*) if a company does not have the intent to sell the debt security prior to recovery and (*b*) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss. When the Bank does not intend to sell the security, and it is more likely than not the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Securities: The Bank, as a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. The redemption of FHLB stock is subject to certain limitations and conditions. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until payoff or maturity are reported at the principal balance outstanding less the allowance for loan losses and any deferred fees or costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using either the interest method or straight-line method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the estimated loan term. Interest income is not recorded when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days, unless the loan is both well secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

When a loan is not fully collateralized and is in the process of collection, the Bank may charge off the account balance or some portion thereof as a loss. Generally, a delinquency over 120 days past due will be charged off unless the loan is well secured and an acceptable collection plan is in place with the exception of personal residential property which may be charged off at 150 days. All charge offs are approved by the Loan Committee and reported to the Board of Directors.

Risk characteristics associated with specific segments of the loan portfolio are detailed below:

Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Borrowers may be subject to changes in industry conditions including decreasing demand and increasing material and production costs that cannot be immediately recaptured. Interest rate increases could have an adverse impact on the profitability of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise. As of December 31, 2021, the commercial portfolio included Paycheck Protection Program (PPP) loans administered by the Small Business Administration (SBA) totaling $9,471,317, net of deferred fees and costs. The loans carry an interest rate of 1% and have a two-year or five-year maturity. The Bank believes the majority of these loans will ultimately be forgiven and repaid by the SBA in accordance with the terms of the program. Loans funded through this program are fully guaranteed by the U.S. government which significantly reduces the risk of default. As a result, no reserves have been applied to the balance of PPP loans as part of the allowance for loan losses.

Commercial loans secured by real estate carry risks associated with the profitability of the business and the ability to generate positive cash flows sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the collateral. Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be a loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.

Residential real estate loans carry risks associated with the continued credit worthiness of the borrower and changes in the value of collateral. These loans are subject to adverse employment conditions in the local economy leading to an increase in default rates. Residential real estate loans are mainly comprised of adjustable rate mortgages. In the event of incremental rate increases, the borrowers' ability to maintain payments may be impacted.

Consumer loans carry risks associated with the continued credit worthiness of the borrower and the value of the underlying collateral. In addition, these loans may be unsecured. Consumer loans are more likely to be immediately affected adversely by unemployment, divorce, illness or personal bankruptcy. Consumer loans are further segmented into credit cards and all other consumer loans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is an estimate of probable incurred losses inherent in the loan portfolio. The allowance for loan losses is increased by the provision for loan losses and decreased by charged off loans less recoveries. Management's evaluation of the adequacy of the allowance for loan losses is based on a quarterly evaluation of the loan portfolio. Management estimates the allowance balance required using historical experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that in management's judgment should be charged off. Loan losses are charged against the allowance when management believes the loan to be uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment history, and the amount of the shortfall in relation to the principal and interest owed. The recorded investment in impaired loans is defined as the unpaid principal balance less any partial charge offs and/or net of any interest payments made by the borrower during the nonaccrual period.

For purposes of computing the specific loss component of the allowance, impairment is evaluated in total for smaller balance loans of similar nature such as consumer loans using historical experience and on an individual loan basis for other loans. For impaired loans individually evaluated, specific allocations are based on the present value of expected future cash flows from the loan discounted at the loan's original effective interest rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent.

The general component covers non-classified loans and is based on historical loss experience adjusted for nine qualitative factors. The historical loss experience is calculated based on losses in the portfolio over the previous five years. For the qualitative factors, the first factor is comprised of delinquent loans, accruing substandard loans, nonaccrual loans and net charge offs. The factor is applied to each loan segment. The second factor is assigned by management based on economic and industry conditions that impact the underlying collateral value. The assigned factor values are then applied to the loan segment balances. The other seven factors are based on economic and business conditions, lending policy and procedures, the experience of management and lending staff, quality of the loan review system, the composition of the loan portfolio, concentrations of credit and external factors such as competition, legal issues and regulatory requirements. These factors are subjective and the Bank's management provides input on these factors to determine the factor value to be equally applied to each loan segment.

Troubled Debt Restructurings: In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted previously for impaired loans. TDRs are individually evaluated for impairment.

In response to the coronavirus (COVID-19) pandemic and its economic impact on customers, the Bank implemented a short-term modification program that complied with the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide temporary payment relief to those borrowers directly impacted by COVID-19. With the enactment of the Consolidated Appropriations Act (CAA) in December 2020, congress extended or modified many of the relief programs first created by the CARES Act, including the Paycheck Protection Program and treatment of certain loan modifications related to the COVID-19 pandemic.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank started its modification program in the first quarter of 2020 and provided individual and business customers the opportunity for relief tailored to the customer needs, including three months interest only deferral for those minimally impacted up to full principal and interest deferral for six months for those significantly impacted. Guidance issued by bank regulatory agencies, with concurrence of the Financial Accounting Standards Board, and provisions of the CARES Act allowed modifications made on a good faith basis in response to COVID-19 to borrowers who were generally current with their payments prior to any relief, to not be treated as TDRs nor be reported as past due.

Under this program, modifications included payment deferrals (including maturity extensions), fee waivers and covenant waivers. During 2020, the balance of loans on payment deferral or extension, under this program, reached approximately 11.8% of the total loan portfolio, excluding PPP loans. As of December 31, 2020, loans on deferral or extension totaled \$8.0 million or 3.6% of totals loans, excluding PPP loans. All loans subsequently returned to normal payment terms. As of December 31, 2021, the Bank had no loans remaining on deferral or extension under the program.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Concentrations of Credit Risk: Most of the Bank's activities are with customers located within Berkeley and Jefferson counties of West Virginia and in areas of Washington County, Maryland. Note 4, Loans, details the types of lending in which the Bank engages. The Bank does not have any significant concentrations in any one industry or customer.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method with useful lives ranging from 5 to 40 years for buildings and improvements and 3 to 35 years for furniture and equipment. Maintenance, repairs and minor alterations are charged to current operations as expenditures are incurred. Major improvements are capitalized.

Employee Benefits: As of December 31, 2013, the Bank froze the defined benefit pension plan. A 401(k) benefit plan is available to employees age 21 and over who have worked at least one year with 1,000 hours of service. The plan allows employee contributions, with matching contributions, to be allocated based on a percentage of the employee salary deferral. The Bank contributed a percentage of each eligible employees' salary to their 401(k) plan account during 2021 and 2020 and intends to continue this practice. The Bank provides a supplemental executive retirement plan to members of senior management.

Income Taxes: When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the consolidated statements of income. As of December 31, 2021 and 2020, there was no liability for unrecognized tax benefits.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized holding gains and losses on securities available for sale and pension and postretirement benefits.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions (exit price notion). Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Stock Repurchase Plan: In June 2020, the Federal Deposit Insurance Corporation (FDIC) approved the open market repurchase of up to 15,000 shares of the issued and outstanding shares of Jefferson Security Bank's common stock. In 2021, under this approval, the Bank repurchased 3,500 shares of common stock as part of a publicly announced plan. In July 2021, the FDIC approved the purchase of up to 15,000 shares under similar terms. The approval will expire in 12 months unless a request for an extension is approved. The timing and quantity of purchases under this stock repurchase program will be at the discretion of the Board of Directors, and the program may be discontinued, or suspended and reinitiated, at any time. Under this approval, there were no additional purchases of the Bank's common stock, either as part of a publicly announced plan or otherwise.

Dividend Restriction: Bank regulatory agencies restrict, without prior approval, the total dividend payments of a bank in any calendar year to the bank's retained net income of that year to date, as defined, combined with its retained net income of the preceding two years, less any required transfers to surplus. At December 31, 2021, retained net income, which was free of such restriction, amounted to approximately $7,493,973.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Such reclassifications had no material effect on prior year net income or shareholders' equity.

Financial Instruments with Off-Balance Sheet Risk: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss before considering customer collateral or repayment ability. Such financial instruments are recorded when they are funded.

Advertising Costs: The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2021 and 2020 was $20,613 and $16,721, respectively.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

COVID-19 and Possible Impacts on Significant Estimates: During 2020, the coronavirus (COVID-19) pandemic significantly disrupted local, national and global economies and adversely impacted a broad range of industries. The Bank implemented various plans, strategies and protective measures and policies to ensure the safety of employees, customers and communities and to maintain continuity of operations and delivery of essential financial services. These services included the Bank's participation in the Paycheck Protection Program (PPP) and implementation of a modification program to offer customer's financial relief as needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020 authorized the Small Business Administration (SBA) to guarantee loans under the Paycheck Protection Program (PPP) for small businesses that meet eligibility requirements in order to provide funding for payroll costs and certain other expenses. The Paycheck Protection Program Flexibility Act of 2020 extended PPP lending through August 8, 2020. In December 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was passed as part of the Consolidated Appropriations Act (CAA) to provide additional PPP funding through March 31, 2021 and was followed by the PPP Extension Act of 2021, which provided funding through June 30, 2021 for applications received prior to June 1, 2021.

In 2020, the Bank's participation in Paycheck Protection Program resulted in the origination of 327 PPP loans with a gross outstanding balance of $14.3 million as of December 31, 2020. Through June 30, 2021, the bank originated 182 PPP loans totaling $9.6 million in additional funding to small businesses along with $479 thousand in increases to existing round one PPP loans. As of December 31, 2021, the gross outstanding balance of PPP loans was $9.9 million. Through 2021, loans with a balance of $14.6 million were fully forgiven by the SBA. As of December 31, 2021, the Bank recognized $585 thousand in net fees on PPP loans compared to $234 thousand as of December 31, 2020. The remaining net fees due from the SBA will be amortized and recognized over the life of the outstanding PPP loans. It is the Bank's understanding that loans funded through the program are fully guaranteed by the U.S. government. Should those circumstances change, the Bank could be required to establish additional allowance for loan losses through additional provision for loan loss expense charged to earnings.

The nature of the ongoing pandemic remains dynamic and there are many uncertainties related to COVID-19 including, but not limited to, the extent and severity of the impact on the Bank's customers and employees; the impact on economic activity; and any additional government or governmental authority action, or inaction, including legislative or regulatory changes to contain and mitigate the impact of COVID-19 outbreaks. The Bank is unable to fully assess or predict the extent of the effects of the COVID-19 pandemic on its operations in the future as the ultimate impact will depend on factors that are currently unknown and/or beyond the Bank's control. Management continues to monitor the status of the pandemic and COVID-19 variants and relative guidance to ensure the health and safety of the Bank's employees and customers remains of utmost importance and will adjust operations, as necessary.

The determination of an appropriate allowance for loan losses requires management to make estimates that are highly uncertain and require a high degree of judgement. With uncertainties related to the COVID-19 pandemic, credit markets and the economy, the Bank's allowance for loan losses may require an increase in the provision for loan loss expense or the recognition of loan charge-offs based on changes in qualitative factors underlying management's judgements, adverse developments in the economy, changes in accounting standards, or changes in the circumstances of particular borrowers. An increase in the allowance for loan loss will result in a decrease in net income, capital and may have an adverse effect on the Bank's financial condition and results of operations. For more information about the Bank's process for determining an appropriate level of the allowance for loan losses, see the section captioned "Allowance for Loan Losses."

Recent Accounting Pronouncements

Recently Adopted Accounting Developments

In 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. ASU 2019-12 was effective for the Bank on January 1, 2021. The adoption of this standard did not have a material effect on the Bank's consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In October 2020, the FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs." This ASU clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. ASU 2020-08 was effective for the Bank on January 1, 2021. The adoption of this standard did not have a material effect on the Bank's consolidated financial statements.

In December 2020, the Consolidated Appropriations Act of 2021 ("CAA") was passed. Under Section 541 of the CAA, Congress extended or modified many of the relief programs first created by the CARES Act, including the PPP loan program and treatment of certain loan modifications related to the COVID-19 pandemic. The enactment of Section 541 of the CAA did not have a material impact on the Bank.

<u>Accounting Developments Pending Adoption</u>

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC) and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Bank is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Bank has a committee to address the requirements of the ASU, including selection of defined loan segments and methodologies for application of the ASU. The Bank has selected a model provider and is preparing to run concurrent models to perform testing and validation of the model, documentation of procedures and analysis of the Bank's capital plan prior to the effective date for implementation.

NOTE 2 – EARNINGS PER SHARE

Basic and diluted earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effects of additional potential common shares, if present. No such items exist as of December 31, 2021 and 2020. Therefore, diluted earnings per share equals basic earnings per share for both years. Basic and diluted earnings per share are calculated based on weighted average common shares outstanding of 276,481 and 279,246 for 2021 and 2020, respectively. Basic and diluted earnings per common share was $12.93 and $10.30 for the years ended December 31, 2021 and 2020, respectively.

NOTE 3 – SECURITIES

The primary purposes of the securities portfolio are to generate income, supply collateral for public funds on deposit and meet liquidity needs of the Bank through readily saleable financial instruments. The portfolio is made up of fixed rate bonds, whose prices move inversely with interest rates, as well as variable rate bonds, whose prices correspond directly with interest rates. At the end of any accounting period, the securities portfolio may have both unrealized gains and losses. The Bank monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to determine if adjustments are needed.

NOTE 3 – SECURITIES (Continued)

The amortized cost and fair value of securities, with unrealized gains and losses, for the available for sale portfolio is shown in the following table.

Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. Government and agency	$ 79,530,866	$ 854,047	$ (616,177)	$ 79,768,736
State and municipal	67,144,944	701,100	(614,528)	67,231,516
	$ 146,675,810	$ 1,555,147	$ (1,230,705)	$ 147,000,252
December 31, 2020				
U.S. Government and agency	$ 64,801,244	$ 1,677,387	$ (84,255)	$ 66,394,376
State and municipal	42,778,366	1,122,178	(29,159)	43,871,385
	$ 107,579,610	$ 2,799,565	$ (113,414)	$ 110,265,761

The amortized cost and fair value of securities, with unrealized gains and losses, for the held to maturity portfolio is shown in the following table.

Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. Government and agency	$ 238,357	$ 5,577	$ - -	$ 243,934
State and municipal	1,066,929	61,843	- -	1,128,772
	$ 1,305,286	$ 67,420	$ - -	$ 1,372,706
December 31, 2020				
U.S. Government and agency	$ 662,324	$ 32,745	$ - -	$ 695,069
State and municipal	1,070,226	81,562	- -	1,151,788
	$ 1,732,550	$ 114,307	$ - -	$ 1,846,857

At December 31, 2021 and 2020, securities were pledged to secure public deposits and for other purposes required or permitted by law. These securities had a fair value of $66,765,258 and $56,425,458, and an amortized cost of $65,972,333 and $54,566,573, at December 31, 2021 and 2020, respectively. At December 31, 2021, the Bank had no securities sold under an agreement to repurchase with no collateral requirements for pledged securities. At December 31, 2020, the fair value of securities pledged to secure securities sold under an agreement to repurchase was $2,252,009, and the amortized cost of these securities was $2,143,733.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2021 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 85,885	$ 86,090	$ - -	$ - -
Due from one to five years	2,128,493	2,169,702	- -	- -
Due from five to ten years	10,323,951	10,564,000	1,066,929	1,128,772
Due after ten years	134,137,481	134,180,460	238,357	243,934
	$ 146,675,810	$ 147,000,252	$ 1,305,286	$ 1,372,706

NOTE 3 – SECURITIES (Continued)

For the years ended December 31, 2021 and 2020, proceeds from sales and calls of securities available for sale were $6,477,530 and $14,854,925, respectively. Gross realized gains on sales and calls on available for sale securities amounted to $72,274 and $201,567, while gross realized losses amounted to $71,939 and $11,976 for the years ended December 31, 2021 and 2020, respectively. The tax provision applicable to these net realized gains was $84 and $47,398 in 2021 and 2020, respectively.

For the year ended December 31 2021, there were no proceeds from the sale or call of securities held to maturity. For the year ended December 31, 2020, there were no proceeds from the sale of securities held to maturity and proceeds from the call of securities held to maturity were $890,000. Gross realized gains on the call of held to maturity securities amounted to $28,147, with no gross realized losses for the year ended December 31, 2020. The tax provision applicable to the gross realized gains was $7,037 in 2020.

An impairment is considered "other than temporary" if any of the following conditions are met: the Bank intends to sell the security, it is more likely than not that the Bank will be required to sell the security before the recovery of its cost basis, or the Bank does not expect to recover the security's entire cost basis, even if the Bank does not intend to sell. On at least a quarterly basis, the Bank reviews available for sale and held to maturity securities for other than temporary impairment based on the severity and duration to which the cost basis exceeds the market value, changes related to credit quality factors of the issuer including economic and financial conditions, the present value of cash flows expected to be collected on the securities and the Bank's ability and intent to hold the security until maturity.

The Bank does not have any securities that are considered "other than temporarily impaired" at December 31, 2021 and 2020. Based on market prices at the respective dates, the Bank had eighty-seven securities at December 31, 2021 and sixteen securities at December 31, 2020 with unrealized losses. These unrealized losses were caused by interest rate fluctuations and not due to credit deterioration of the issuers. The following tables detail securities with unrealized losses at December 31, 2021 and 2020.

	Duration of Unrealized Losses at 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 and agency	$ 43,882,201	$ (553,569)	$ 2,250,369	$ (62,608)	$ 46,132,570	$ (616,177)
State and municipal	25,012,991	(539,788)	3,256,298	(74,740)	28,269,289	(614,528)
	$ 68,895,192	$ (1,093,357)	$ 5,506,667	$ (137,348)	$ 74,401,859	$ (1,230,705)

	Duration of Unrealized Losses at December 31, 2020					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency	$ 5,074,684	$ (76,338)	$ 1,934,399	$ (7,917)	$ 7,009,083	$ (84,255)
State and municipal	4,070,452	(29,159)	- -	- -	4,070,452	(29,159)
	$ 9,145,136	$ (105,497)	$ 1,934,399	$ (7,917)	$ 11,079,535	$ (113,414)

NOTE 4 – LOANS

Loans are shown on the consolidated balance sheets net of the allowance for loan losses and deferred loan fees and costs. Interest is computed by methods that result in level rates of return on principal. Loans are charged off when, in the opinion of management, they are deemed to be uncollectible after taking into consideration such factors as the current financial condition of the customer and the underlying collateral and guarantees.

The following table presents a summary of the balances of loans at December 31, 2021 and 2020.

	2021	2020
Loans secured by real estate:		
Commercial real estate:		
Construction	$ 8,633,366	$ 9,237,593
Owner occupied	10,605,819	14,304,962
Non-owner occupied	31,822,645	37,779,307
Residential real estate:		
Construction	14,901,117	13,633,837
Home equity	11,647,077	11,608,796
Other	149,877,193	133,205,844
Total loans secured by real estate	227,487,217	219,770,339
Commercial	17,672,046	20,052,503
Consumer:		
Credit cards	345,561	341,729
Revolving credit plans	200,255	223,003
Other	3,000,342	3,310,341
	248,705,421	243,697,915
Net deferred loan fees and costs	(1,070,529)	(1,050,078)
Allowance for loan losses	(2,826,549)	(2,781,292)
Loans, net	$ 244,808,343	$ 239,866,545

Overdrafts totaling $33,535 and $201,990 at December 31, 2021 and 2020, respectively, were reclassified from deposits to loans.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Management's evaluation of the adequacy of the allowance for loan losses is based on many factors including historical experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

An analysis of the allowance for loan losses follows for the years ended December 31, 2021 and 2020:

	2021	2020
Beginning balance	$ 2,781,292	$ 2,036,051
Loans charged off	(67,619)	(91,325)
Recoveries	32,876	36,566
Provision for loan losses	80,000	800,000
Ending balance	$ 2,826,549	$ 2,781,292

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2021	**Commercial Real Estate**	**Residential Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:					
Beginning balance	$ 702,875	$ 1,810,459	$ 226,130	$ 41,828	$ 2,781,292
Loans charged off	(41,000)	(773)	(13,870)	(11,976)	(67,619)
Recoveries	2,396	18,953	4,600	6,927	32,876
Provision for (recovery of) loan losses	(91,325)	189,404	(20,790)	2,711	80,000
Ending balance	$ 572,946	$ 2,018,043	$ 196,070	$ 39,490	$ 2,826,549
Ending balance: individually evaluated for impairment	$ 6,000	$ 59,000	$ - -	$ - -	$ 65,000
Ending balance: collectively evaluated for impairment	$ 566,946	$ 1,959,043	$ 196,070	$ 39,490	$ 2,761,549
Loans:					
Ending balance	$ 51,061,830	$ 176,425,387	$ 17,672,046	$ 3,546,158	$ 248,705,421
Ending balance: individually evaluated for impairment	$ 3,406,125	$ 696,393	$ - -	$ - -	$ 4,102,518
Ending balance: collectively evaluated for impairment	$ 47,655,705	$ 175,728,994	$ 17,672,046	$ 3,546,158	$ 244,602,903

December 31, 2020	**Commercial Real Estate**	**Residential Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:					
Beginning balance	$ 542,338	$ 1,403,605	$ 54,735	$ 35,373	$ 2,036,051
Loans charged off	- -	(63,578)	(1,097)	(26,650)	(91,325)
Recoveries	7,599	13,309	- -	15,658	36,566
Provision for loan losses	152,938	457,123	172,492	17,447	800,000
Ending balance	$ 702,875	$ 1,810,459	$ 226,130	$ 41,828	$ 2,781,292
Ending balance: individually evaluated for impairment	$ 76,000	$ 65,000	$ 9,626	$ - -	$ 150,626
Ending balance: collectively evaluated for impairment	$ 626,875	$ 1,745,459	$ 216,504	$ 41,828	$ 2,630,666
Loans:					
Ending balance	$ 61,321,862	$ 158,448,477	$ 20,052,503	$ 3,875,073	$ 243,697,915
Ending balance: individually evaluated for impairment	$ 7,160,387	$ 608,943	$ 9,626	$ 7,357	$ 7,786,313
Ending balance: collectively evaluated for impairment	$ 54,161,475	$ 157,839,534	$ 20,042,877	$ 3,867,716	$ 235,911,602

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

For the impaired loans in the tables below, the recorded investment represents the outstanding principal balance for each loan. The unpaid principal balance represents the outstanding principal balance plus any amount that has been charged off and/or any payments that have been applied towards principal on nonaccrual loans.

Impaired loans at December 31, 2021 were as follows:

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 681,196	$ 681,196	$ - -	$ 1,493,505	$ 87,936
Owner occupied	836,820	910,245	- -	956,079	40,018
Non-owner occupied	323,224	730,664	- -	2,176,843	1,644
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	190,879	210,991	- -	150,296	3,194
Commercial	- -	- -	- -	3,925	129
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	3,941	272
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	1,564,885	1,605,885	6,000	1,570,219	49,595
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	505,514	526,281	59,000	511,471	25,976
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
Total	$ 4,102,518	$ 4,665,262	$ 65,000	$ 6,866,279	$ 208,764

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans at December 31, 2020 were as follows:

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 2,290,245	$ 2,290,245	$ - -	$ 1,658,556	$ 123,802
Owner occupied	630,919	630,919	- -	697,117	35,739
Non-owner occupied	2,375,594	2,690,679	- -	2,395,702	- -
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	90,927	107,603	- -	97,428	1,732
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	7,357	7,357	- -	9,287	588
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	263,743	313,223	35,000	276,252	- -
Non-owner occupied	1,599,886	1,599,886	41,000	1,800,571	13,577
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	518,016	518,016	65,000	523,079	29,710
Commercial	9,626	9,626	9,626	9,744	661
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
Total	$ 7,786,313	$ 8,167,554	$ 150,626	$ 7,467,736	$ 205,809

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the aging of past due loans including nonaccrual loans as of December 31, 2021 and 2020 by class of loans:

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ - -	$ - -	$ - -	$ - -	$ 8,633,366	$ 8,633,366	$ - -
Owner occupied	- -	- -	- -	- -	10,605,819	10,605,819	- -
Non-owner occupied	- -	- -	- -	- -	31,822,645	31,822,645	- -
Residential real estate:							
Construction	- -	- -	- -	- -	14,901,117	14,901,117	- -
Home equity	- -	- -	- -	- -	11,647,077	11,647,077	- -
Other	12,351	68,424	273,735	354,510	149,522,683	149,877,193	273,735
Commercial	- -	- -	- -	- -	17,672,046	17,672,046	- -
Consumer:							
Credit cards	- -	- -	- -	- -	345,561	345,561	- -
Revolving credit plans	- -	- -	- -	- -	200,255	200,255	- -
Other	10,009	- -	- -	10,009	2,990,333	3,000,342	- -
Total	$ 22,360	$ 68,424	$ 273,735	$ 364,519	$ 248,340,902	$ 248,705,421	$ 273,735

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ - -	$ - -	$ - -	$ - -	$ 9,237,593	$ 9,237,593	$ - -
Owner occupied	263,743	- -	106,917	370,660	13,934,302	14,304,962	106,917
Non-owner occupied	- -	- -	- -	- -	37,779,307	37,779,307	- -
Residential real estate:							
Construction	- -	- -	- -	- -	13,633,837	13,633,837	- -
Home equity	- -	- -	- -	- -	11,608,796	11,608,796	- -
Other	13,798	272,412	387,186	673,396	132,532,448	133,205,844	387,186
Commercial	- -	- -	- -	- -	20,052,503	20,052,503	- -
Consumer:							
Credit cards	- -	- -	- -	- -	341,729	341,729	- -
Revolving credit plans	- -	- -	- -	- -	223,003	223,003	- -
Other	- -	- -	- -	- -	3,310,341	3,310,341	- -
Total	$ 277,541	$ 272,412	$ 494,103	$ 1,044,056	$ 242,653,859	$ 243,697,915	$ 494,103

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following table displays the types of loans that comprised nonaccruals at December 31, 2021 and 2020:

	2021	2020
Commercial real estate:		
Construction	$ - -	$ - -
Owner occupied	233,937	263,743
Non-owner occupied	323,224	2,375,594
Residential real estate:		
Construction	- -	- -
Home equity	- -	- -
Other	61,186	66,686
Commercial	- -	- -
Consumer:		
Credit cards	- -	- -
Revolving credit plans	- -	- -
Other	- -	- -
Total	$ 618,347	$ 2,706,023

Credit Quality Indicators

The Bank monitors credit quality indicators including risk ratings on loans to determine trends in credit quality of the loan portfolio. Every loan is assessed and assigned a risk rating by the loan officer prior to approval of the credit and monitored on an ongoing basis. The loan review policy dictates which portions of the loan portfolio will be periodically reassessed, which includes a review of the accuracy of the assigned risk ratings.

Loans are rated on a scale from pass to doubtful. The grade considers and reflects the credit worthiness, documentation and credit file completeness as well as legal and policy compliance. Each grade is described below.

Pass: Loans graded as pass are strong borrowers. The Bank will likely not incur a loss on loans graded as pass. Any inadequacies evident in financial performance and/or management sufficiency are offset by other features such as adequate collateral, good guarantors with liquid assets and/or cash flow capacity to repay the debt. Generally, loans classified as pass meet the terms of repayment but may be susceptible to deterioration if adverse factors are encountered.

Special Mention: Loans are graded as special mention when the borrower's character, credit, capacity or collateral is questionable. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. Circumstances warrant more than normal monitoring, as these borrowers reflect the risks described in the following categories. These loans should be placed on the Bank's watch list, and are considered adversely classified. These credits are considered bankable assets with no apparent loss of principal or interest envisioned but may require a higher level of management attention. Assets are currently protected but potentially weak. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. Credits subject to economic, industry, or management factors having an adverse impact upon the credit's prospects for timely payment may also be classified as special mention.

Substandard: Loans graded as substandard are inadequately protected by the net worth and/or cash flow capacity of the borrower or of the collateral pledged. Loans graded as substandard have a borrower whose character has become suspect. The source of repayment is considered conditional, problematic or marginal. Substandard loans would include unsecured or partially secured loans to financially weak borrowers with a strong guarantor or endorser who did not benefit from the loan and without a curtailment in over one year. Some of the loans are workout loans with potential loss consideration. The credit risk in this situation relates to the possibility of some loss of principal and/or interest if the deficiencies are not corrected.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Doubtful: Loans graded as doubtful are inadequately protected by the net worth of the borrower or by the collateral pledged and repayment in full is improbable on the basis of existing facts, values and conditions. These loans may include those over two months past due that are not adequately secured or are in the process of collection. The probability of some loss is high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is deferred until a more exact status may be determined.

Loss: Loans graded as loss are considered uncollectible and continuance as an acceptable asset is not warranted. A loan classified as a loss is generally charged off.

The following tables display loans by credit quality indicators at December 31, 2021 and 2020:

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 7,623,720	$ 328,450	$ 681,196	$ - -	$ 8,633,366
Owner occupied	9,266,714	502,285	836,820	- -	10,605,819
Non-owner occupied	29,062,253	872,283	1,888,109	- -	31,822,645
Residential real estate:					
Construction	14,901,117	- -	- -	- -	14,901,117
Home equity	11,299,964	347,113	- -	- -	11,647,077
Other	145,610,000	3,683,982	583,211	- -	149,877,193
Commercial	15,194,359	2,477,687	- -	- -	17,672,046
Consumer:					
Credit cards	345,561	- -	- -	- -	345,561
Revolving credit plans	154,873	- -	45,382	- -	200,255
Other	2,998,165	2,177	- -	- -	3,000,342
Total	$ 236,456,726	$ 8,213,977	$ 4,034,718	$ - -	$ 248,705,421

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 7,074,508	$ 1,417,872	$ 745,213	$ - -	$ 9,237,593
Owner occupied	12,722,887	687,416	894,659	- -	14,304,962
Non-owner occupied	31,048,523	2,810,159	3,920,625	- -	37,779,307
Residential real estate:					
Construction	13,633,837	- -	- -	- -	13,633,837
Home equity	11,241,139	367,657	- -	- -	11,608,796
Other	129,451,374	2,908,502	845,968	- -	133,205,844
Commercial	20,017,105	25,772	9,626	- -	20,052,503
Consumer:					
Credit cards	341,729	- -	- -	- -	341,729
Revolving credit plans	223,003	- -	- -	- -	223,003
Other	3,293,636	16,705	- -	- -	3,310,341
Total	$ 229,047,741	$ 8,234,083	$ 6,416,091	$ - -	$ 243,697,915

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Loans are classified as troubled debt restructurings (TDR) when, for economic or legal reasons related to the borrower's financial position, management grants a concession to the borrower that would not have otherwise been considered. At December 31, 2021 and 2020, the Bank had a total of $3,079,259 and $5,088,670, respectively, in loans classified as TDRs.

TDRs are considered subsequently defaulted once the loan is past due greater than 90 days and/or the foreclosure or repossession of collateral with a subsequent charge off of the loan. During the year ended December 31, 2021 and 2020, the Bank had no loans that subsequently defaulted during the period within twelve months of modification.

The table below details the additions to TDRs during the year ended December 31, 2021.

December 31, 2021	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate:			
Owner Occupied	1	$ 106,916	$ 106,916
Residential real estate:			
Other	1	114,674	114,674
Total	2	$ 221,590	$ 221,590

The commercial real estate owner occupied loan was classified as TDR because of extended terms. The loan was subsequently paid off after modification resulting in no impact to the allowance for loan losses. The residential real estate loan was classified as a TDR because the loan had modified payments with extended terms. The residential real estate loan was individually evaluated for impairment for the allowance for loan losses with no specific reserve allocation.

The table below details the additions to TDRs during the year ended December 31, 2020.

December 31, 2020	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate:			
Construction	2	$ 496,891	$ 496,891
Total	2	$ 496,891	$ 496,891

The loans were classified as TDRs because the loans had modified payments with extended terms and below market rates based on the credit worthiness of the borrower. The loans were individually evaluated for impairment for the allowance for loan losses with no specific reserve allocation.

NOTE 6 – OTHER REAL ESTATE OWNED

The table below reflects changes in other real estate owned (OREO) for the years ended December 31, 2021 and 2020.

	2021	2020
Balance, beginning of year	$ 345,526	$ 278,100
Properties acquired at foreclosure	- -	345,526
Sale of foreclosed properties	(352,351)	(286,566)
Gain on disposition	6,825	8,466
Valuation adjustments	- -	- -
Balance, end of year	$ - -	$ 345,526

At December 31, 2020, the balance in OREO consisted of a residential real estate property acquired in foreclosure. Net expense applicable to OREO, other than valuation adjustments, was $2,639 and $12,821 for the years ended December 31, 2021 and 2020, respectively. The Bank did not have any consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2021.

NOTE 7 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment for December 31, 2021 and 2020 follows:

	2021	2020
Land	$ 1,580,761	$ 1,580,761
Buildings and improvements	8,635,662	8,637,447
Furniture and equipment	4,170,404	3,984,673
Total cost	14,386,827	14,202,881
Less accumulated depreciation	(9,189,438)	(8,712,668)
Premises and equipment, net	$ 5,197,389	$ 5,490,213

Depreciation expense for the years ended December 31, 2021 and 2020 totaled $482,577 and $513,206, respectively.

NOTE 8 – DEPOSITS

The Bank makes every effort to obtain deposits to fund loan growth or the growth of the securities portfolio. The Bank had two deposit relationships that, collectively, represented 20.46% and 19.92% of total deposits at December 31, 2021 and 2020, respectively.

The aggregate amount of time deposit accounts in denominations of $250,000 or more at December 31, 2021 and 2020 was $7,119,579 and $6,256,249, respectively. There were no brokered deposits as of December 31, 2021 and 2020.

At December 31, 2021, the scheduled maturities of time deposits were as follows:

2022	$ 29,385,645
2023	7,416,976
2024	2,032,661
2025	2,100,832
2026	2,998,601
	$ 43,934,715

NOTE 9 – BORROWINGS

Securities Sold Under an Agreement to Repurchase

Securities sold under an agreement to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under an agreement to repurchase are reflected as the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Pledged securities related to securities sold under an agreement to repurchase are discussed in Note 3, Securities. At December 31, 2021, there were no securities sold under an agreement to repurchase. At December 31, 2020, securities sold under an agreement to repurchase amounted to $338,628.

Federal Home Loan Bank Advances

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) which allows for participation in FHLB borrowing programs. At December 31, 2021, the Bank had a maximum borrowing capacity with the FHLB of $119,468,150 which is unrestricted. Under the terms of the blanket lien agreement, advances from the FHLB are collateralized by real estate loans totaling approximately $157,564,000 and $139,566,000 at December 31, 2021 and 2020, respectively, and Federal Home Loan Bank stock with a book value of $199,000 and $189,300, respectively. The FHLB borrowing capacity has no scheduled maturity date, and there were no outstanding advances from the FHLB at December 31, 2021 and 2020.

Available Lines of Credit

At December 31, 2021, the Bank had lines of credit available with various financial institutions totaling $12,000,000 for the purchase of federal funds. The Bank had no outstanding borrowings against these lines at December 31, 2021 and 2020. The Bank has an agreement with the Federal Reserve Bank to borrow from the discount window, which is classified as a short term borrowing. In order to borrow funds under this agreement, the Bank must pledge securities to the Federal Reserve Bank. As of December 31, 2021 and 2020, the Bank had no borrowings from the discount window.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Pension Plan

As of December 31, 2013, the defined benefit pension plan was frozen. The pension plan's funded status as of December 31, 2021 and 2020 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2021 and 2020.

	2021	2020
Change in benefit obligation:		
Beginning benefit obligation	$ 10,715,981	$ 10,148,119
Interest cost	277,039	328,138
Actuarial (gain) loss	(292,130)	739,114
Benefits paid	(507,084)	(499,390)
Ending benefit obligation	$ 10,193,806	$ 10,715,981
Change in plan assets, at fair value:		
Beginning plan assets	$ 11,572,917	$ 11,153,026
Actual return on plan assets	1,437,645	919,281
Employer contribution	- -	- -
Benefits paid	(507,084)	(499,390)
Ending plan assets	$ 12,503,478	$ 11,572,917
Funded status	$ 2,309,672	$ 856,936
Accrued benefit asset recognized on the consolidated balance sheets at December 31	$ 2,309,672	$ 856,936
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 2,482,357	$ 3,823,076
Deferred tax asset	(620,589)	(955,769)
Net amount recognized	$ 1,861,768	$ 2,867,307

The accumulated benefit obligation for the defined benefit plan was $10,193,806 and $10,715,981 at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the assumptions used to determine the benefit obligation are as follows:

	2021	2020
Discount rate	2.96%	2.65%
Expected rate of return on plan assets	5.09%	4.99%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit (income) cost, other amounts recognized in other comprehensive (loss) income and the assumptions used to determine net periodic pension benefit cost are as follows:

	2021	2020
Components of net periodic benefit (income) cost:		
Interest cost	$ 277,039	$ 328,138
Expected return on plan assets	(533,428)	(587,971)
Net amortization and deferral	144,372	127,623
Net periodic benefit income	(112,017)	(132,210)
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss) income:		
Net actuarial (gain) loss at December 31	(1,196,347)	407,804
Amortization of net loss	(144,372)	(127,623)
Total recognized in other comprehensive (loss) income	(1,340,719)	280,181
Total recognized in net periodic benefit (income) cost and other comprehensive (loss) income	$ (1,452,736)	$ 147,971
Discount rate	2.65%	3.32%
Expected rate of return on plan assets	4.99%	5.62%

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the below categories, weighted based on the median of the target allocation for each class.

The Bank's pension plan weighted average asset allocations at December 31, 2021 and 2020 are as follows:

	Percentage of Plan Assets at December 31,	
Asset Category	**2021**	**2020**
Equity Securities	59%	61%
Debt Securities	35%	35%
Cash	6%	4%
Total	100%	100%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The following tables present the balance of plan assets measured at fair value on a recurring basis as of December 31, 2021 and 2020:

		Fair Value Measurements at Report Date Using		
Description	Balance as of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 791,073	$ 791,073	$ - -	$ - -
Equity Securities				
U.S. Large cap	3,811,634	3,811,634	- -	- -
U.S. Mid cap	1,655,621	1,655,621	- -	- -
U.S. Small cap	925,892	925,892	- -	- -
International	1,026,171	1,026,171	- -	- -
Fixed Income Securities				
Core fixed income	3,950,522	- -	3,950,522	- -
International	342,565	- -	342,565	- -
Total	$ 12,503,478	$ 8,210,391	$ 4,293,087	$ - -

		Fair Value Measurements at Report Date Using		
Description	Balance as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 444,964	$ 444,964	$ - -	$ - -
Equity Securities				
U.S. Large cap	3,538,857	3,538,857	- -	- -
U.S. Mid cap	1,709,173	1,709,173	- -	- -
U.S. Small cap	794,910	794,910	- -	- -
International	1,030,139	1,030,139	- -	- -
Fixed Income Securities				
Core fixed income	3,797,629	- -	3,797,629	- -
International	257,245	- -	257,245	- -
Total	$ 11,572,917	$ 7,518,043	$ 4,054,874	$ - -

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Investment Policy and Strategy

The policy, as established by the Pension Committee, is to invest assets in a diversified portfolio per target allocations. The assets will be reallocated periodically to meet the target allocations of 60% equity securities and 40% debt securities. The investment policy will be reviewed periodically, under the advisement of a registered investment advisor.

The overall investment objective is to provide for long-term growth of capital through participation in the equity markets with a moderate level of income. The investment time horizon is estimated at five to ten years. The investment return objective is to achieve a return greater than a blended mix of stated indices tailored to the same asset mix of the plan assets by 0.5% after fees over a rolling five-year moving average basis.

Allowable assets include cash equivalents, taxable bonds, U.S. equity securities, international equity securities, institutional mutual funds and guaranteed investment contracts (GICs).

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of the total plan assets, and no more than 25% of total plan assets should be invested in any one industry (other than securities of the U.S. Government or Agencies). Additionally, no more than 20% of the plan assets shall be invested in foreign securities (both equity and fixed).

The Bank does not expect to make any contributions to the plan in 2022.

Estimated future benefit payments are as follows:

2022	$ 531,000
2023	547,000
2024	552,000
2025	549,000
2026	556,000
2027 to 2031	2,749,000

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Supplemental Executive Retirement Plan

In 2014, the Bank provided a supplemental executive retirement plan for senior management. The plan was expanded in 2018. The plan's funded status as of December 31, 2021 and 2020 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2021 and 2020.

	2021	2020
Change in benefit obligation:		
Beginning benefit obligation	$ 1,822,874	$ 1,443,726
Service cost	124,530	105,932
Interest cost	58,129	52,753
Actuarial loss	77,667	233,219
Benefits paid	(12,756)	(12,756)
Ending benefit obligation	$ 2,070,444	$ 1,822,874
Change in plan assets, at fair value:		
Beginning plan assets	$ - -	$ - -
Employer contributions	12,756	12,756
Actual benefits paid	(12,756)	(12,756)
Ending plan assets	$ - -	$ - -
Funded status	$ (2,070,444)	$ (1,822,874)
Accrued benefit liability recognized on the consolidated balance sheets at December 31	$ (2,070,444)	$ (1,822,874)
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 664,182	$ 627,100
Prior service cost	226,521	278,606
Deferred tax asset	(222,676)	(226,427)
Net amount recognized	$ 668,027	$ 679,279

The accumulated benefit obligation for the supplemental executive retirement plan was $2,070,444 and $1,822,874 at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the assumptions used to determine the benefit obligation are as follows:

	2021	2020
Discount rate	3.35%	3.20%
Rate of compensation increase	3.00%	3.00%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit cost, other amounts recognized in other comprehensive (loss) income and the assumptions used to determine net periodic benefit cost are as follows:

	2021	2020
Components of net periodic benefit cost:		
Service cost	$ 124,530	$ 105,932
Interest cost	58,129	52,753
Amortization of prior service cost	52,085	52,085
Amortization of net loss	40,585	24,107
Net periodic benefit cost	275,329	234,877
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss) income:		
Net actuarial loss at December 31	77,667	233,219
Amortization of prior service cost	(52,085)	(52,085)
Amortization of net loss	(40,585)	(24,107)
Total recognized in other comprehensive (loss) income	(15,003)	157,027
Total recognized in net periodic benefit cost and other comprehensive (loss) income	$ 260,326	$ 391,904
Discount rate	3.20%	3.67%
Rate of compensation increase	3.00%	3.00%

The Bank will make a contribution to the plan of $12,756 in 2022.

Estimated future benefit payments are as follows:

2022	$ 12,756
2023	15,454
2024	15,320
2025	15,408
2026	53,504
2027 to 2031	270,694

401(k) Plan

The Bank has a 401(k) Plan whereby employees age 21 and over who have worked at least one year with 1,000 hours of service may participate in the Plan. The Bank makes matching contributions equal to 25 percent of the first five percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee over a five-year period based on a tiered schedule. Starting on January 1, 2014, the Bank contributed a percentage of each eligible employees' salary to their 401(k) Plan account in addition to matching contributions. For the years ended December 31, 2021 and 2020, the matching contribution expense attributable to the Plan amounted to $24,296 and $25,730, respectively.

NOTE 11 – INCOME TAXES

The Bank files income tax returns in the U.S. federal jurisdiction and the states of West Virginia and Maryland. With few exceptions, the Bank is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2018.

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Federal		
Current	$ 766,034	$ 919,695
Deferred	(93,219)	(311,022)
	672,815	608,673
State		
Current	142,503	153,318
Deferred	(17,660)	(59,243)
	124,843	94,075
Income tax expense	$ 797,658	$ 702,748

Effective tax rates differ from the statutory federal income tax rate due to the following:

	2021	2020
Federal statutory rate	21.0%	21.0%
Increase (decrease) resulting from:		
Tax-exempt income	(4.6)	(3.4)
State taxes, net of federal income tax effect	0.6	0.6
Nondeductible expenses and other, net	1.2	1.4
	18.2%	19.6%

The components of the net deferred tax asset, included in other assets for December 31, 2021 and 2020, are as follows:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 514,251	$ 494,250
Deferred loan fees	267,632	262,520
Nonaccrual loan income	436,503	387,914
Supplemental executive retirement benefits, net	603,738	547,986
Home equity expenses	579	1,707
	1,822,703	1,694,377
Deferred tax liabilities:		
Fixed assets, net	(73,064)	(79,936)
Pension benefits, net	(577,418)	(214,234)
Net unrealized gain on available for sale securities	(81,110)	(671,537)
Accretion on investment securities	(7,071)	(6,500)
	(738,663)	(972,207)
Net deferred tax asset	$ 1,084,040	$ 722,170

NOTE 12 – RELATED PARTY TRANSACTIONS

The Bank had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to these parties totaled $5,049,832 and $5,071,569 at December 31, 2021 and 2020, respectively. During 2021, total principal additions were $3,299,937 and total principal payments were $3,321,674. Deposits from related parties held by the Bank at December 31, 2021 and 2020 amounted to $9,319,739 and $5,880,798, respectively.

NOTE 13 – COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Bank.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

Exposure to credit loss, if the other party does not perform, is represented by the contractual amount of these commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at year end follows:

	December 31,	
	2021	**2020**
Commitments to extend credit	$ 12,684,000	$ 5,846,000
Unfunded commitments	52,438,000	41,731,000
Standby letters of credit	1,298,000	27,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized as deemed necessary and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting these commitments. The amount of collateral obtained, if deemed necessary, is based upon management's credit evaluation of the customer.

The Bank is typically required to maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. At December 31, 2021 and 2020, there was no minimum reserve requirement as a result of a rule adopted by the Federal Reserve in March 2020 eliminating the reserve requirement.

NOTE 14 – FAIR VALUE MEASUREMENTS

The Bank follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. ASC 820 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under ASC 820 based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on prices, inputs and model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

In accordance with ASC 820, the following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a recurring basis in the consolidated financial statements.

Securities Available for Sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Using a market approach valuation methodology, third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2021:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2021**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities Available for Sale				
U.S. Government and agency	$ 79,768,736	$ - -	$ 79,768,736	$ - -
State and municipal	67,231,516	- -	67,231,516	- -
	$ 147,000,252	$ - -	$ 147,000,252	$ - -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2020:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2020**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities Available for Sale				
U.S. Government and agency	$ 66,394,376	$ - -	$ 66,394,376	$ - -
State and municipal	43,871,385	- -	43,871,385	- -
	$ 110,265,761	$ - -	$ 110,265,761	$ - -

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the consolidated financial statements.

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

Other Real Estate Owned: Loans are transferred to other real estate owned when the collateral securing them is foreclosed upon. The measurement of loss associated with other real estate owned is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property and initial losses are charged against the allowance for loan losses at the time of the transfer. Subsequent to transfer, fair values are determined in a similar manner to impaired loans secured by real estate previously discussed. Any additional fair value adjustments to other real estate owned are recorded in the period incurred and expensed against current earnings through a valuation allowance for other real estate owned.

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following tables present the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020:

Description	Balance as of December 31, 2021	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans, net	$ 2,005,399	$ - -	$ 1,558,886	$ 446,513

Description	Balance as of December 31, 2020	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans, net	$ 2,240,645	$ - -	$ 1,558,886	$ 681,759
Other Real Estate Owned, net	$ 345,526	$ - -	$ - -	$ 345,526

The following tables present quantitative information about Level 3 Fair Value Measurements for December 31, 2021 and 2020 (dollars in thousands):

Assets	Fair Value as of December 31, 2021	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 150	Discount appraised value	Selling cost	6% (6%)
	297	Present value of future cash flows	Discount rate	6 - 7% (7%)

Assets	Fair Value as of December 31, 2020	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 378	Discount appraised value	Selling cost	6% (6%)
	304	Present value of future cash flows	Discount rate	6 - 7% (7%)
Other Real Estate Owned, net	$ 346	Discount appraised value	Selling cost	10% (10%)
			Discount for lack of marketability	13% (13%)

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following methods and assumptions were used to estimate fair values for other financial instruments:

Loans: Fair values of loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. The carrying amount was considered to estimate fair value for certain variable rate loans that reprice frequently. Fair values of fixed rate loans and variable rate loans with infrequent repricing or repricing limits, were estimated using discounted cash flow analyses, using market interest rates being offered at that time for loans with similar terms to borrowers of similar creditworthiness, which included adjustments for liquidity concerns or underlying collateral values, where applicable.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if the Bank had disposed of such items at December 31, 2021 and 2020, the estimated fair values would have been achieved. Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2021 and 2020 should not necessarily be considered to apply at subsequent dates.

The carrying amounts and estimated fair values of the Bank's financial instruments are presented in the following tables. Fair values for December 31, 2021 and 2020 were estimated using an exit price notion.

	December 31, 2021		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 2,605	$ 2,605	$ 2,605	$ - -	$ - -
Interest bearing deposits with depository institutions	13,348	13,348	13,348	- -	- -
Securities available for sale	147,000	147,000	- -	147,000	- -
Securities held to maturity	1,305	1,373	- -	1,373	- -
Restricted securities	280	280	- -	280	- -
Loans, net	244,808	243,688	- -	- -	243,688
Accrued interest receivable	1,097	1,097	- -	1,097	- -
Bank owned life insurance	7,295	7,295	- -	7,295	- -
Financial liabilities:					
Deposits	$ 390,681	$ 391,080	$ - -	$ 346,747	$ 44,333
Accrued interest payable	68	68	- -	68	- -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2020		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 4,335	$ 4,335	$ 4,335	$ - -	$ - -
Interest bearing deposits with depository institutions	8,226	8,226	8,226	- -	- -
Securities available for sale	110,266	110,266	- -	110,266	- -
Securities held to maturity	1,733	1,847	- -	1,847	- -
Restricted securities	270	270	- -	270	- -
Loans, net	239,867	239,423	- -	- -	239,423
Accrued interest receivable	1,096	1,096	- -	1,096	- -
Bank owned life insurance	7,115	7,115	- -	7,115	- -
Financial liabilities:					
Deposits	$ 346,396	$ 347,031	$ - -	$ 301,932	$ 45,099
Securities sold under an agreement to repurchase	339	339	- -	339	- -
Accrued interest payable	74	74	- -	74	- -

Interest Rate Risk

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

NOTE 15 – REVENUE RECOGNITION

The Bank recognizes revenue in accordance with ASC Topic 606. The standard does not apply to revenue associated with financial instruments, net interest income, gains and losses from securities and income from bank owned life insurance (BOLI). With the exception of gains or losses on sales of foreclosed properties, all of the revenue from contracts with customers in the scope of ASC Topic 606 is recognized within noninterest income in the Consolidated Statements of Income. Gains or losses on sales of foreclosed properties are recognized within noninterest expense in the Consolidated Statements of Income. Impacts from certain recurring revenue related to noninterest revenue streams such as service charges on deposit accounts, ATM and debit card fees and other service charges and fees did not change significantly upon adoption of ASC Topic 606.

NOTE 15 – REVENUE RECOGNITION (Continued)

A description of the Bank's significant sources of revenue accounted for under ASC Topic 606 follows:

Service charges on deposit accounts

Revenue from service charges on deposit accounts is comprised of transactional based fees, account maintenance and processing fees, overdraft and nonsufficient funds fees and other deposit account related fees. Transactional based fees, overdraft and nonsufficient funds fees and other deposit account related fees are earned based on specific transactions or activity within a customer's deposit account. These fees are recognized at the time the related transaction or activity occurs and the Bank's performance obligation is complete. Revenue for account maintenance and processing fees is recognized monthly upon completion of the Bank's performance obligation. Service charges on deposit accounts are paid through a direct charge to the customer's account.

ATM and debit card fees and other service charges

Revenue from ATM and debit card fees and other service charges is primarily comprised of interchange revenue and ATM fees, safe deposit box rental fees and collection and research fees. Interchange fees are earned when the Bank's debit and credit cardholders conduct transactions that are processed through card payment networks. Interchange fees are recognized daily, concurrent with the transaction processing services provided to the cardholder. ATM fees are earned when a non-Bank cardholder uses the Bank's ATM or when a customer uses a non-Bank ATM. These fees are transactional based with revenue recognized daily as the ATM transactions are settled. Safe deposit box rental fees are charged to the customer on an annual basis and recognized on a monthly basis through the contract period of twelve months. The revenue is recognized on a basis consistent with the duration of the performance obligation and the assessment that the Bank acts as a principal for the services provided. Collection and research fees are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction.

Other noninterest income

Other noninterest income consists primarily of check ordering charges and merchant services income. Check ordering charges are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction. Merchant services income represents fees charged to merchants to process debit and credit card transactions. The Bank's performance obligation for merchant services income is satisfied and the related revenue recognized when the services are rendered or upon completion.

The following table presents noninterest income, segregated by revenue streams within the scope of ASC Topic 606 and those which are within the scope of other ASC Topics for the years ended December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Noninterest Income		
Service charges on deposit accounts	$ 466,459	$ 503,321
ATM and debit card fees and other service charges	1,348,621	1,086,136
Other	58,299	59,230
Net revenue from contracts with customers	1,873,379	1,648,687
Noninterest income within the scope of other ASC topics	232,821	448,708
Total noninterest income	$ 2,106,200	$ 2,097,395

NOTE 16 – REGULATORY MATTERS

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 possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Pursuant to 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 capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital level requirements under the Basel III final rules require the Bank to maintain minimum capital amounts and ratios as presented in the table below to include total capital, Tier 1 capital and common equity Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Bank met all capital adequacy requirements to which it is subject.

Under the Basel III rules, the capital conservation buffer was established to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. The capital conservation buffer was fully phased in on January 1, 2019 and requires a buffer of 2.5% above the regulatory minimum capital requirements for Tier 1 capital, common equity Tier 1 and total capital ratios. Failure to maintain the buffer will result in restrictions on capital distributions and payment of discretionary bonuses. The Bank's capital conservation buffer was 9.26% and 8.72% as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. The Bank met the requirement to qualify as well capitalized as of December 31, 2021 and 2020. There are no conditions or events since the notification that management believes would impact the Bank's well-capitalized status. The Bank's capital amounts (dollars in thousands) and ratios as of December 31, 2021 and 2020 are presented in the following table:

	Actual		Minimum For Capital Adequacy Purposes		Minimum For Capital Adequacy with Capital Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021								
Total capital (to risk weighted assets)	$ 37,995	17.26%	$ 17,613	8.00%	$ 23,117	10.50%	$ 22,016	10.00%
Tier 1 capital (to risk weighted assets)	$ 35,243	16.01%	$ 13,210	6.00%	$ 18,714	8.50%	$ 17,613	8.00%
Common equity Tier 1 (to risk weighted assets)	$ 35,243	16.01%	$ 9,907	4.50%	$ 15,411	7.00%	$ 14,310	6.50%
Tier 1 capital (to average assets)	$ 35,243	8.24%	$ 17,112	4.00%	N/A	N/A	$ 21,390	5.00%
2020								
Total capital (to risk weighted assets)	$ 35,164	16.72%	$ 16,827	8.00%	$ 22,085	10.50%	$ 21,034	10.00%
Tier 1 capital (to risk weighted assets)	$ 32,533	15.47%	$ 12,620	6.00%	$ 17,878	8.50%	$ 16,827	8.00%
Common equity Tier 1 (to risk weighted assets)	$ 32,533	15.47%	$ 9,465	4.50%	$ 14,723	7.00%	$ 13,672	6.50%
Tier 1 capital (to average assets)	$ 32,533	8.68%	$ 14,990	4.00%	N/A	N/A	$ 18,737	5.00%

NOTE 16 – REGULATORY MATTERS (Continued)

In November 2019, the FDIC issued a final rule, effective on January 1, 2020, for the establishment of a community bank leverage ratio (CBLR) framework providing a simple measure of capital adequacy for community banking organizations that meet certain qualifying criteria, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). A qualifying community banking organization is any depository institution with less than $10 billion in consolidated assets and limited off balance sheet exposures and trading assets and liabilities. To qualify for the CBLR framework, a community banking organization must maintain a Tier 1 leverage ratio of greater than 9% and elect to use the CBLR framework. A qualifying community banking organization who elects to utilize and meets all the requirements of the CBLR framework will be considered to have met the generally applicable capital ratio requirements and will be considered well capitalized. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided temporarily relief by lowering the community bank leverage ratio requirement to 8% in 2020 with a gradual transition to 8.5% in 2021 and back to the 9% as required by the final rule following December 31, 2021. The Bank did not elect to utilize the CBLR framework at December 31, 2021 and 2020. This election may be considered by the Bank in any future quarter.

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in each component of accumulated other comprehensive loss were as follows:

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension Benefits	Adjustments Related to Supplemental Executive Retirement Benefits	Accumulated Other Comprehensive (Loss)
Balance at December 31, 2019	$ 441,310	$ (2,657,172)	$ (561,509)	$ (2,777,371)
Unrealized holding gains on available for sale securities, net of tax $571,833	1,715,497	- -	- -	1,715,497
Reclassification adjustment, net of tax ($47,398)	(142,193)	- -	- -	(142,193)
Change in pension benefits, net of tax ($101,951)	- -	(305,853)	- -	(305,853)
Reclassification adjustment, net of tax $31,906	- -	95,717	- -	95,717
Change in supplemental executive retirement benefits, net of tax ($58,305)	- -	- -	(174,914)	(174,914)
Reclassification adjustment, net of tax $19,048	- -	- -	57,144	57,144
Balance at December 31, 2020	$ 2,014,614	$ (2,867,308)	$ (679,279)	$ (1,531,973)
Unrealized holding losses on available for sale securities, net of tax ($590,344)	(1,771,030)	- -	- -	(1,771,030)
Reclassification adjustment, net of tax ($84)	(251)	- -	- -	(251)
Change in pension benefits, net of tax $299,087	- -	897,260	- -	897,260
Reclassification adjustment, net of tax $36,093	- -	108,279	- -	108,279
Change in supplemental executive retirement benefits, net of tax ($19,417)	- -	- -	(58,250)	(58,250)
Reclassification adjustment, net of tax $23,168	- -	- -	69,502	69,502
Balance at December 31, 2021	$ 243,333	$ (1,861,769)	$ (668,027)	$ (2,286,463)

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

Reclassification out of accumulated other comprehensive loss for December 2021 and 2020 is as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Consolidated Statements of Income
December 31, 2021			
Amortization of defined benefit pension items			
Net actuarial loss	$	(144,372)	Other expense
Amortization of supplemental executive retirement benefit items			
Prior service cost		(52,085)	Salaries and employee benefits
Net actuarial loss		(40,585)	Other expense
Reclassification adjustment for net gains on available for sale securities		335	Realized gain on securities, net
		59,177	Income tax expense
	$	(177,530)	Net of tax

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Consolidated Statements of Income
December 31, 2020			
Amortization of defined benefit pension items			
Net actuarial loss	$	(127,623)	Other expense
Amortization of supplemental executive retirement benefit items			
Prior service cost		(52,085)	Salaries and employee benefits
Net actuarial loss		(24,107)	Other expense
Reclassification adjustment for net gains on available for sale securities		189,591	Realized gain on securities, net
		3,556	Income tax expense
	$	(10,668)	Net of tax

NOTE 18 – CONCENTRATION RISK

The Bank maintains its cash accounts in several correspondent banks. As of December 31, 2021, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $25,320. Most of the Bank's activities are with customers located within its local market areas. As of December 31, 2021, the Bank had two deposit relationships totaling $79,948,887 with each relationship holding more than 5% of total deposits. Significant changes in these accounts are monitored on an ongoing basis. As of December 31, 2021, real estate loans represented 91.5% of the loan portfolio. A detailed schedule is provided in Note 4, Loans. The Bank does not have any significant concentrations to any one customer or industry.

NOTE 19 – SUBSEQUENT EVENTS

The Bank evaluated subsequent events that have occurred after the balance sheet date, but before the consolidated financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 16, 2022, the date the financial statements were available to be issued. Based on the evaluation, the Bank did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the consolidated financial statements.

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